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Re: Lufthansa Group response on CAA's "Heathrow capacity expansion – update on the approach to the regulatory framework" (CAP3286)

Dear Stewart,

Thank you for the opportunity to respond to the CAA's consultation, *Heathrow capacity expansion – update on the approach to the regulatory framework* (CAP3286), published on 16 July 2026. This letter summarises our key points. We also endorse the Heathrow LACC/AOC submission and reserve the right to provide further comments and evidence, given the compressed timetable and the overlap with other significant Heathrow consultations.

Lufthansa Group welcomes the CAA's recognition that reform of Heathrow's regulatory framework is necessary, and that the process is moving towards an integrated package of reforms. However, the final framework must be sufficiently ambitious, enforceable and timely to address the consumer harm already evident at today's two-runway Heathrow, as well as supporting any future expansion on an affordable and efficient basis.

Our central position is that affordability, efficient risk allocation, meaningful accountability for capital expenditure and the widest practicable use of competitive discipline should underpin the CAA's next stage of work.

Key points

Affordability must be a core constraint. Expansion will only deliver the intended benefits if Heathrow remains affordable for airlines and passengers. The CAA should treat affordability as central to its decisions on capital governance, risk allocation, cost recovery, procurement and competition, including through a credible overall cap on expansion costs.

Reform should apply across Heathrow, not only to expansion. The harms identified by the CAA already exist at the current two-runway airport, including high charges, weak value for money and capital inefficiency. A single, unified capex governance regime should therefore be implemented rapidly for expansion, H8 business-as-usual expenditure, early expansion costs and rolled-forward projects.

Capital governance must have practical force. Users should be involved before strategic decisions are taken and expenditure is committed. The governance committee should have meaningful approval powers over RAB recovery, or at minimum a fast, effective and enforceable escalation route to the CAA, with clear consequences where expenditure is inefficient or benefits are not delivered.

Independent assurance must be genuinely independent. Assurance bodies or experts should be appointed by airline members of the governance committee or by the CAA, not by HAL. Their remit should cover the full capital lifecycle, supported by stakeholder engagement on scope, appointment and findings.

Risk should sit with those best placed to manage it. Current users should not be required to fund development risk for future infrastructure before that infrastructure is available for use. Any departure from competitive market principles should be justified by clear, demonstrable consumer benefits.

Long-term frameworks must not transfer project risk to consumers. Any longer-term framework should deliver demonstrable consumer benefits and should not lock in returns, risk-sharing arrangements or financing protections that could become detached from market conditions. If Model 3 remains under consideration, robust reopeners and anti-gaming protections will be essential.

Competitive discipline should remain a core objective. The CAA should continue to develop competitive procurement and direct competition as separate but complementary workstreams. Models 4b and 5b should be developed with clear criteria, while Model 7b should be broadened to enable direct terminal competition through contractual separation where practicable. If the CAA does not pursue that broader approach, Model 8 should remain under active consideration.

Operational and wholesale interfaces can be governed. Safety, resilience and effective coordination are essential, but they do not justify preserving monopoly terminal operation. The CAA should develop practical interface principles and effective regulation of wholesale services and third-party operators so that competition can be implemented safely and effectively.

Priorities for the CAA's next steps

The September 2026 publication should set out a clear, detailed and ambitious work programme, moving from high-level principles to enforceable rules, governance structures and implementation milestones. In particular, the CAA should prioritise:

- A single unified capex governance regime covering expansion, H8 business-as-usual expenditure, early costs and rolled-forward projects.

- A governance committee with meaningful approval powers over RAB recovery, or a fast and enforceable escalation route to the CAA as a minimum safeguard.
- A genuine overhaul of independent assurance, with experts appointed independently of HAL and with stakeholder engagement on scope, appointment and findings.
- Robust mechanisms for baseline setting, asymmetric incentives, delivery obligations and targeted ex post reviews that protect consumers from inefficient expenditure.
- A well-designed overall expansion cost cap that supports affordability, avoids circumvention and remains compatible with direct competition.
- Separate and detailed workstreams for Models 4b and 5b, including clear criteria for when each form of competitive procurement should apply.
- A broadened approach to Model 7b that enables direct terminal competition through contractual separation, with Model 8 retained as an alternative route. The CAA must develop this work on Model 7b ahead of, and alongside, any relevant DCO process to ensure that the regulatory framework does not create barriers to competition or foreclose alternative promoters.
- Detailed work on wholesale services, third-party regulation and operational interface principles to ensure competition can be implemented safely and effectively.

The CAA should also establish mechanisms for efficient ongoing stakeholder engagement, including regular bilateral workshops across the main reform workstreams. The detailed design of these reforms will determine whether they succeed. Stakeholders with first-hand experience of Heathrow's current regime must therefore have meaningful opportunities to feed into the process before key decisions are finalised.

Conclusion

Lufthansa Group welcomes the direction of travel set out in CAP3286, but the next phase will be decisive. The CAA has recognised the need for reform and has identified the right broad categories of remedy. It must now follow that reasoning through to structural reforms that are ambitious, enforceable and implemented quickly enough to protect consumers from harm that already exists today.

The strongest opportunities for consumer benefit lie in broader direct competition, enhanced capital governance, stronger procurement disciplines, and more effective

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allocation of risk. These reforms should be implemented across Heathrow as rapidly as practicable, and should ensure that investors, rather than consumers, bear development and delivery risks that they are best placed to manage.

Heathrow expansion presents an opportunity to modernise not only airport infrastructure, but also the framework through which that infrastructure is planned, financed, delivered and operated. That opportunity should be used to create a more affordable, efficient, accountable and competitive Heathrow for passengers, airlines and the wider UK economy.

Yours sincerely



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