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easyJet Submission on CAP3195 – Working Paper on Regulatory Models

Background

easyJet welcomes the opportunity to submit a response to the Civil Aviation Authority's (CAA) Working Paper on Regulatory Models (CAP3195). Since our first flight in 1995, easyJet has transformed travel by making flying accessible to millions. We remain true to our missions of democratising air travel and connecting people, and have grown to become one of Europe's most important airlines and the UK's largest airline, carrying nearly 100m people last year and delivering group-wide revenues of £9.3bn. easyJet operates across Europe, but we maintain strong UK roots; we were founded here, are headquartered in Luton and are listed on the FTSE100.

Given our scale in the UK and as the operator of the largest fleet at key regulated airports, including London Gatwick where we carry 46% of all traffic, easyJet has a clear interest and brings a valuable perspective in trying to ensure that the UK's regulatory framework for airports is fit for purpose. While easyJet does not currently operate at Heathrow, as our CEO has publicly stated the airport could represent a significant opportunity for the airline, subject to it being made commercially attractive from a cost perspective, in a context where the airport's catchment area is not currently well served by a low-cost carrier. Our primary objective is to ensure the framework at Heathrow best supports the interests of consumers and enables a competitive and resilient aviation market, including facilitating viable competitive entry at the airport.

The Case for Change at Heathrow

easyJet recognises the problems with Heathrow's existing regulatory model, as reflected in the CAA's working paper and the concerns raised by a range of interested stakeholders, including incumbent carriers at Heathrow, and the extent to which it is delivering suboptimal outcomes for passengers and UK consumers. We support the arguments advanced by the Heathrow Reimagined campaign and others that the fundamental issue is the nature of Heathrow's regulatory model.

We therefore commend the CAA for undertaking this timely review, particularly in the wider context of major capacity expansions at airports in the South-East, including Heathrow and Gatwick's Northern Runway. The future regulatory model will have significant and long-lasting implications for the national economy, airlines and, most importantly, passengers and UK consumers. It is imperative that the new framework delivers affordability, efficiency and promotes innovation, while ensuring that airport operators are accountable for their investment decisions and service quality.

Heathrow's Current Regulatory Model

The Regulatory Asset Base (RAB) model has demonstrated material weaknesses during earlier control periods. Cost governance opacity, financing uncertainty, and weak real-time cost controls have created inefficiency, driven litigation, and undermined outcomes for consumers and airlines alike. These deficiencies are now particularly acute in the context of Heathrow's proposed once-in-a-generation expansion programme, facilitated by a third runway, underpinned by government policy and representing an infrastructure project of unprecedented scale and complexity.

Objectives of Reforming Heathrow's Regulatory Model

Heathrow Airport Limited's (HAL) monopoly position must be actively constrained through a regulatory model that prevents the abuse of market power. In parallel with the Airports National Policy Statement (ANPS) review and the content of an updated ANPS, it is important that any revised framework considers whether the regulatory model enables the conditions necessary for viable competitive entry, a core determinant of long-term consumer benefit. Without such a test, the framework risks consolidating HAL's monopolistic power within the system, reducing airline competition and passenger choice, and risking upward pressure on fares.

Additionally, the CAA is yet to articulate how the regulatory model adopted for Heathrow will inform future regulatory decisions at Gatwick (Q7) or other major UK airports. Without consistency, a cross-airport approach to regulation risks creating an incoherent patchwork of bespoke regulatory models, increasing uncertainty for operators and investors, with adverse consequences for long-term resilience, service quality and consumer outcomes.

Noting the CAA's enhanced capacity and additional resource to review the regulatory regime at Heathrow, **we believe the CAA should use this opportunity to establish a single, principled national framework**, applied proportionately in a manner consistent with its duty of consistency, while tailoring oversight to the specific market power of each airport.

This submission sets out easyJet's perspective on the core principles that should guide the CAA's review of Heathrow's regulatory regime and our position on the specific regulatory models under consideration. Our central argument is that airport frameworks must always ensure that charges are proportionate and support the efficient delivery of infrastructure and prevent the abuse of market power by monopoly airports. Where 'Significant Market Power' (SMP) is found, the regulatory framework must introduce a consistent and proportional remedy.

To support this objective, the document is structured into three main sections:

1. Core Principles and the CAA's Evaluation Criteria

- Outlines the fundamental principles that should underpin the regulatory framework, including: the central role of the SMP test; the need for strong market power discipline; and the importance of maintaining airport charges at levels consistent with consumer interests.

2. Assessment of Proposed Regulatory Models

- Provides detailed analysis and evaluation of the alternative regulatory models presented in CAP3195.

3. Service Quality and Operational Resilience

- Considers the importance of maintaining and improving service quality and resilience for existing passengers, particularly during periods of major capital development, and consider how the regulatory model should incentivise strong operational performance.

1. Core Principles and the CAA's Evaluation Criteria

The Civil Aviation Act 2012 correctly establishes the CAA's primary duty to further the interests of users of air transport services regarding the range, availability, continuity, cost, and quality of those services. We believe this duty is best discharged by ensuring that the regulatory framework delivers

outcomes that replicate, as closely as possible, those of a competitive market. In a competitive environment, consumers benefit from low prices, high-quality service and innovation.

A foundational element of this must be the robust application SMP test. Historically, easyJet has maintained that airports serving London possess substantial market power that requires robust economic regulation to protect passengers. Where SMP is found, the regulatory framework must impose what we term **'Market Power Discipline'**: a set of measures that constrain an airport from abusing its dominant position through excessive pricing, poor service, or inefficient investment.

For our passengers, the most significant component of the cost of flying, beyond the airline fare, is the airport charge. These charges are directly influenced by the "building blocks" of the regulatory model, such as the return on the RAB and depreciation. High airport charges inevitably lead to higher fares, which can suppress demand and make air travel less accessible for millions of UK consumers. Therefore, a key objective for the CAA should be to implement a regulatory model that keeps airport charges as low as possible while enabling necessary and efficient investment.

2. Assessment of Proposed Regulatory Models

easyJet has assessed the long-list of nine alternative models presented in Chapter 4 of CAP3195. Our position on these models is detailed below.

2.1 Changes to How Airport Charges Are Set

easyJet strongly advocates for the retention and reinforcement of the 'single till' approach as the default model for all regulated airports in the UK. This model, where all airport revenues (aeronautical and non-aeronautical) are considered when setting charges, is the most appropriate for several reasons:

- Reflects the symbiotic relationship: it correctly recognises that an airport's commercial revenues are a direct result of the passengers that airlines like easyJet bring to the airport. It is therefore fair and economically rational that these revenues are used to offset the costs of the aeronautical infrastructure that is essential to the entire airport enterprise;
- Promotes economic efficiency: the single till model, as used in Heathrow's RAB-based price cap regulation, reflects the pricing mechanism that would exist in a competitive market, leading to more economically efficient outcomes. By offsetting aeronautical costs with commercial profits, it lowers charges for airlines, enabling lower fares for passengers while stimulating traffic and network growth; and

- Eliminates allocation disruption: a single till avoids the complex and often contentious process of allocating costs and assets between aeronautical and commercial activities, a process inherent in 'dual till' or 'hybrid till' models. This simplifies the regulatory process and reduces the potential for disputes, aligning with the CAA's 'practicality' criterion.

We are strongly opposed to a move towards a 'dual till' system (or as the CAA refers to it: "*the transfer of ownership and operation of an existing asset*"). This model's primary effect is to allow an airport with significant market power to charge airlines the full cost of aeronautical services while retaining all profits from its commercial ventures. This would not serve consumer interests, as higher airport charges would ultimately pass through into fares, limiting access to flying and weakening demand.

2.2 Promoting Competition

easyJet supports regulatory models that introduce genuine competition, as this is the most effective way to drive efficiency and innovation.

- Third-Party Delivery: we are supportive of introducing competition "for the market" by tendering for third parties to design, build, finance, and operate major projects like new terminals or baggage systems. This has the potential to deliver significant cost savings and innovation. However, the CAA must ensure that robust mechanisms are in place to manage the integration of such assets into the existing airport operations.
- Terminal Competition & 'Systems Operator' Role (Model 6): we are conceptually in favour of competition "in the market" between terminal operators and the idea of the airport operator taking on a strategic 'systems operator' role. However, we recognise that the scope for genuine competition at a congested hub airport may be limited. Any such model must be carefully designed in away that avoids inefficiencies and promotes genuine competition, including supporting the conditions for viable competitive entry;
- Commercial Agreements: we support the use of commercial agreements between airports and airlines as a preferable alternative to intensive regulation where possible. The 'commitments-based' framework at Gatwick, introduced in 2014, is an example of this, designed to encourage commercial negotiations through bilateral contracts. However, for this to be effective, there must be a genuine balance of power and strong regulatory backstops (which should be subject to CAA oversight, through effective monitoring and substantive periodic reviews).

- Deregulation: we are unequivocally opposed to deregulation. Given the significant market power of airports like Heathrow and Gatwick, removing economic regulation would almost certainly lead to a substantial increase in charges for airlines and passengers. We agree with the broad consensus that robust economic regulation is necessary where SMP exists.

2.3 Capital Expenditure, Investment, and Incentives

The regulatory framework must impose strong financial discipline on airports undertaking major investment. The current RAB model has demonstrated significant failings, as it incentivises airports to inflate capital expenditure (so-called "gold-plating") and transfers a disproportionate amount of financial risk onto consumers.

- Opposition to 'Pre-funding': easyJet is fundamentally opposed to any model that permits the pre-funding of assets. The practice of allowing an airport to include the cost of assets in its RAB before they are operational means today's passengers are forced to pay for a service they are not receiving. This is a "significant distortion of the market". It reduces the financial risk for the airport operator, creating perverse incentives to "gold-plate" investments and reducing accountability, a concern we raised specifically regarding Gatwick's Northern Runway project;
- Enhanced capex governance and oversight: We strongly support proposals to refine the existing processes for scrutinising capital expenditure (**Model 1**) and to give the CAA a more direct role in overseeing procurement (**Model 4**). The current 'gateway' process for project approval requires strengthening. While formal consultation processes exist, such as the annual review of Gatwick's Capital Investment Programme with the Airline Consultative Committee (ACC), our experience is that the level of detail provided by the airport can be inadequate for meaningful engagement. Airlines require greater transparency and access to independent expert support to meaningfully scrutinise complex proposals and promote efficient investment;
- Incentive regimes and risk allocation: the current RAB model unfairly shifts financial risk from airport investors to consumers. This is exemplified by the widely-cited issue of "gold-plating" at Heathrow. The RAB model incentivises the airport to overspend, as it can then earn a return on a larger asset base, driving up charges for passengers. For example, in the case of HAL baggage system overspending, despite airline arguments that such spending was inefficient, the CAA approved the project, citing

passenger benefits and resilience. The subsequent appeals to the Competition and Markets Authority (CMA) by both the airport and airlines underscore the deep divisions this model creates. This is precisely the outcome a new framework must avoid; and

- Long-term frameworks: A bespoke, long-term regulatory agreement for expansion could provide certainty. We support a regulatory approach that provides a long-term view on the price path of a project.

However, **Model 3** has more risks than advantages. While presented as a mechanism to provide financing certainty, this model is dangerously premature and would constitute an unacceptable transfer of risk from the airport's investors onto consumers for decades to come. It fundamentally prioritises certainty for project financiers over the protection of passengers. If costs prove lower than forecast, or if demand falters, consumers will be permanently locked into paying for an overpriced and underutilised asset. Conversely, investors are shielded from these downside risks. This model would severely curtail the CAA's ability to adapt and intervene in the public interest. The framework would likely be positioned as a binding "regulatory contract," making it exceptionally difficult for the CAA to respond to unforeseen events or to rectify poor performance by the airport operator without facing legal challenge.

3. Service Quality and Operational Resilience

While discussions around new capacity are important, it is critical that the regulatory framework ensures that service quality and operational resilience for existing passengers are not compromised. We have previously expressed concerns that major capital projects can divert management focus and investment away from the current passenger experience. This is a concern we have consistently raised regarding Gatwick's Northern Runway project. The regulatory model must include robust service quality metrics and incentives. The 'commitments-based' framework at Gatwick provides a useful precedent.

In summary, easyJet's position on the future regulatory model for UK airports is guided by the principle of putting the consumer first. We believe this is achieved through a framework that promotes efficiency, affordability, and accountability.

Summary of easyJet's Position

Our key recommendations to the CAA are:

1. Prioritise consumers: the primary duty to consumers is best served by a regulatory framework that delivers the lowest sustainable airport charges, thereby enabling lower fares

and boosting connectivity. This requires the application of robust 'Market Power Discipline' where SMP exists;

2. Mandate the 'Single Till' model: adopt the single till as the standard for regulated airports. It is the fairest and most economically efficient model, correctly acknowledging the role airlines and their passengers play in generating an airport's total revenue;
3. Reject deregulation and 'Dual Till': reject the concepts of deregulation (**Model 9**) and a 'dual till' charging system, as both would harm consumers by allowing monopoly airports to increase charges unfairly;
4. Embrace competition and rigorous cost control: actively pursue models that introduce competition, such as third-party delivery of major projects, and enhance CAA oversight of capital expenditure. This must include strengthening airline scrutiny within the governance process by mandating greater transparency from airports, addressing our experience of receiving inadequate detail in consultations;
5. Prohibit pre-funding and reform capital incentives: the new framework must ensure that passengers only pay for assets once they are in use. The risk of financing new infrastructure should lie with the airport operator and its shareholders, not with current passengers. The inherent flaws of the RAB model, which incentivise "gold-plating" must be addressed; and
6. Strengthen service and resilience standards: mandate a robust service quality regime. This should include comprehensive Core Service Standards covering security, baggage, and facilities, backed by a meaningful financial rebate system for non-performance.

easyJet is committed to working constructively with the CAA and all stakeholders to develop a single, principled national framework that is fit for the future, supports a vibrant and competitive UK aviation sector, which will ultimately be for the benefit of consumers.

We thank you for your consideration of our views and welcome further engagement on this critical matter.

Yours faithfully,

Javier Gándara

Director of Public Policy

Annex

Detailed Responses to Consultation Questions 1–4

Question 1: Our Broad Approach to Assessing Alternative Regulatory Models

easyJet's response:

easyJet supports the CAA's structured framework of evaluating alternative models against a clear set of criteria. We believe that cost discipline and financeability are the critical factors. For this reason, we would recommend the CAA adopts the following assessment hierarchy for short-listing models:

- Gating criterion: *Does the model provide absolute clarity on capex governance and certainty?*
- Cost discipline: *For models that pass Tier 1, does the framework introduce effective, real-time cost controls? Does it have appropriate mechanisms (e.g., robust governance oversight, competitive incentives) to prevent a repeat of the cost escalation seen between H7 and H8?*
- Market and consumer outcomes: *does the model foster a competitive market that enables the entry and growth of carriers at commercially viable charges?*

Question 2: Is the Proposed Framework Complete and Does It Appropriately Reflect the CAA's Statutory Duties?

easyJet's response:

While largely sound, the framework is incomplete. To fully align with the CAA's statutory duties to protect consumers and promote competition, we believe that three critical elements must be explicitly integrated:

A. *The Need for Proactive Market Power Discipline*

The framework focuses on reactive cost controls (e.g. benchmarking) but fails to address the root cause of consumer detriment; HAL's enduring market power. Given this monopoly position, the regulatory model must embed proactive market power governance, not just post-hoc cost reviews.

B. *The Imperative of Competitive Entry Viability*

A regulatory model is only pro-consumer if it facilitates a competitive and contestable market. The framework's references to "consumer outcomes" currently lack any tangible measure of success. The risk is that the model delivers expansion at charges that preclude new entry, to the detriment of consumers.

Therefore, we recommend the framework incorporates an explicit Competitive Viability Test, such as:

- *"Can an efficient low-cost carrier operate sustainably with a 2% operating margin at the aeronautical charges produced by this model?"*

A model that yields charges consistently above a certain limit (e.g. £15/pax) would likely fail this test, signalling that it would actively weaken competition, limit consumer choice, and ultimately harm the market it is intended to serve.

C. The Requirement for Regulatory Precedent and Consistency

The framework currently evaluates Heathrow in isolation. We believe it is important for the CAA to clarify how the Heathrow precedent will inform a coherent national policy for other airports, particularly Gatwick for its upcoming Q7 review.

A failure to do so risks creating a fragmented and unpredictable regulatory landscape, which is detrimental to long-term planning for airlines, investors, and regulators alike. We would urge the CAA to use this review to establish a single, principled framework that can be applied proportionately based on the degree of market power at each UK airport.

Question 3: Do you agree with our description of the regulatory models we have identified?

easyJet's response:

We broadly agree with the characterisation of the models presented. The descriptions accurately capture their high-level features regarding competitive scope and incentive mechanisms.

However, the descriptions omit the most critical factor: the underlying capex governance architecture. This architecture is the primary determinant of whether a model can control costs or will simply permit continued escalation. We strongly recommend that this capex governance dimension is made explicit in the model descriptions and that our proposed three-tier hierarchy is used to screen the initial long-list.

Question 4: Are there additional alternative regulatory models that we should consider?

easyJet's Response:

Our primary assessment is that none of the nine models, in their current form, adequately address the gating requirements for successful expansion, in the absence of a robust, proactive capex governance framework.

