15 June 2026

Civil Aviation Authority

Sent via email to: economicregulation@caa.co.uk

Dear Sir/Madam,

The Qantas Group welcomes the opportunity to respond to the CAA's consultation on regulatory models for Heathrow expansion.

London Heathrow is Qantas' primary gateway to the United Kingdom and Europe where we have operated services for over 50 years, Qantas is directly exposed to Heathrow Airport Limited (HAL)'s pricing decisions. As set out in our previous submissions, the trajectory of charges under HAL's proposed expansion programme presents a material risk to our services, to UK regional connectivity, and to consumers. The case for structural reform is significant and well evidenced.

The models in CAP3251 are organised by type of intervention rather than by regulatory objective, making it difficult to assess their interdependencies. Qantas has structured its response around the outcomes the models are intended to deliver.

The CAA's own findings confirm that capital expenditure has been the primary driver of HAL's high charges and that inefficiency may have occurred. Most of the consumer impact arises from capital and pricing decisions made during infrastructure design and delivery. The framework should prioritise reforms that influence these cost outcomes directly.

Qantas' response is framed around three outcomes that should guide the framework for expansion:

- **Competition and cost efficiency:** The primary source of discipline over how costs are incurred. The current cost-recovery model has not delivered efficient outcomes. **Models 5b and 7b** embed discipline at the point of greatest impact- design, delivery and operations.
- **Financing certainty:** Competition requires a framework that attracts capital at an efficient price. **Model 3** addresses the cost and stability of financing, not how charges are set or how efficiently costs are incurred. It must be designed to match the entity bearing the investment risk, which under pro-competition models should not always necessarily be HAL.

Governance and transparency: For assets HAL retains under monopoly control, regulatory oversight is the only source of discipline. **Models 1a, 2 and 4a** serve this function. Governance can mitigate inefficiency but cannot replicate market discipline. It is a necessary foundation where competition is absent, not a substitute for it.

Competition and financing certainty are mutually dependent, competition cannot attract capital without a stable financing framework, and that framework must be designed around the competition model chosen. Governance addresses a separate need notably regulatory oversight for the assets and functions HAL retains without effective competition. Without competition, the framework manages inefficient outcomes rather than preventing them.

1. Competition and Cost Efficiency (Models 5b and 7b)

Cost discipline must be embedded when costs are incurred, not managed after the fact. Most consumer impact arises from decisions made during infrastructure design and delivery. Competition is the most effective mechanism to address this.

Heathrow is a portfolio of assets with different characteristics and separability. The framework should apply the right competitive model to the right asset:

- **Model 5b** for discrete, contractable infrastructure where HAL retains ownership.
- **Model 7b** for major new capacity where independent operation is viable.

1.1: Model 5b: Design, Build and Operate

Under the current cost-recovery model, HAL retains an incentive to maximise its capital base rather than optimise cost or design. Model 5b addresses this directly by integrating design, build and operational responsibilities under a single third-party arrangement. The party that designs the asset must also operate it, eliminating the incentive to over-specify. Design decisions can determine 70 to 80%[1] of lifetime costs, accountability at the design stage is.

[redacted]

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[1] The principle that the majority of an asset's lifetime costs are determined at the early design stage is recognised in professional quantity surveying practice.RICS, *Life Cycle Costing*, 1st edition, April 2016, available at https://www.rics.org/content/dam/ricsglobal/documents/standards/Life-cycle-costing_1st-edition.pdf; and HM Treasury, *Infrastructure Carbon Review*, November 2013, available at https://assets.publishing.service.gov.uk/media/5a7c9803ed915d12ab4bbd33/infrastructure_carbon_review_251113.pdf

[redacted] These are the incentives Model 5b embeds structurally.

Model 5b introduces interface considerations, but comparable models are well established internationally. [redacted]. Co-ordination is a matter of implementation design, not a structural barrier.

Governance under Model 5b is embedded in the competitive structure. The tender provides procurement discipline. The contract provides cost and performance incentives. Separate regulatory oversight of competed assets may be less intensive, given that procurement discipline and performance incentives are embedded in the competitive structure.

By contrast, model 4b addresses procurement process only. HAL retains design control and does not operate what it procures, so the lifecycle alignment that makes Model 5b effective is absent. Qantas does not support Model 4b as a standalone model.

Qantas acknowledges that competition models may interact with HAL's existing financing arrangements, including its whole Business Securitisation structure. This is a matter of implementation design and should not be treated as a barrier to structural reform.

1.2 :Model 7b: Direct Competition for Airport Operation Services

Where Model 5b provides discipline at the point of delivery, Model 7b introduces sustained discipline into ongoing operations. It does this through three mechanisms:

- **Contractual Cost Discipline:** A third-party operator under model 7b recovers costs within the bounds of a fixed or incentivised contract, embedding a binding constraint on cost recovery that the current framework does not provide.
- **Benchmarking: Where** a third-party operator and HAL operate at the same airport creates a direct, visible comparison of cost and service quality, strengthening the CAA's ability to regulate HAL on retained assets.
- **Future framework:** Establishing an alternative operator creates a pathway for future expansion to follow the same model.

This does not depend on fluid terminal switching, which is limited at a slot-constrained hub. The value lies in price discovery at the point of commitment, sustained benchmarking, and a credible alternative that changes the information environment in which HAL is regulated.

[redacted]. This provides insight into the feasibility of separate operator models, the importance of well-defined terminal and airfield interfaces, and the conditions under which airlines are willing to invest in facilities. There is strong international precedent, including in the United States and Japan, where multi-operator models have functioned at scale.

Qantas recognises that implementation of Model 7b is likely to be dependent on an alternative developer obtaining development consent and the revised ANPS accommodating this pathway. The CAA should ensure that the regulatory framework is designed to enable this outcome, rather than treating the planning dependency as a reason to defer development of the model.

As with Model 5b, governance under Model 7b is inherent in the competitive structure.

2. Financing Certainty (Model 3)

Model 3 does not change how charges are set. The existing single-till, price-cap framework is retained. What Model 3 addresses is the cost and stability of financing - the return investors require to commit capital, and the certainty they have over that return.

Expansion is a multi-decade programme. Resetting the cost of capital every five years creates a mismatch between the investment horizon and the regulatory period. Investors price this uncertainty into required returns. A longer-term commitment, aligned to the construction and early operational period, reduces this risk premium and benefits airlines and consumers through lower charges.

This involves a trade-off. Investors require a term premium for extended duration. However, where returns are indexed to inflation and fixed for the construction period, investors benefit from real return certainty comparable to long-dated inflation-linked instruments. The regulatory risk premium, which compensates for periodic repricing uncertainty, is significantly reduced. This reduction should more than offset the term premium, resulting in a net lower cost of capital.

A cap and collar mechanism protects both sides investors from extreme downside and consumers from windfall gains. Depreciation profiles and revenue smoothing should be calibrated to achieve efficient financing without excessive near-term costs to users or windfall returns to investors.

For airlines, a long-term framework provides charge path visibility that supports fleet, network and capacity planning over the timeframes relevant to expansion.

Model 3 does not address how efficiently costs are incurred. Without competition, financing certainty risks locking in inefficient expenditure. Long-term commitments to the cost of capital are only appropriate alongside meaningful incentives for cost efficiency. Model 3 is an enabler of competition, not a substitute for it.

2.1:Matching the framework to the risk bearer

As currently framed, Model 3 addresses HAL's cost of capital within the existing RAB. This is appropriate for HAL's retained assets but does not address the financing requirements created by competition models.

If Models 5b and 7b are implemented, different entities bear different risks and require different financing structures:

- **HAL (retained assets):** A longer-term cost of capital for expansion, separate from the five-year business-as-usual cycle, can reduce unnecessary uncertainty without disrupting the established framework for ongoing operations. Qantas supports the CAA's preferred approach (Option 3.1b) combined with a cap and collar on returns.
- **5b contractor:** Financing certainty comes from the contract itself long-term availability-based payments, indexed to inflation, with duration matched to the useful life of the asset. This is well-established project finance structure with strong investor familiarity. The regulatory framework must ensure that contract terms provide sufficient certainty to attract competitive bids at an efficient price.
- **7b independent operator**: This entity bears demand and operational risk directly. It requires its own regulatory or concession framework, potentially including long-term airline commitments and revenue certainty mechanisms, distinct from HAL's RAB. This framework should be developed in parallel with the competition model, not retrospectively.

Model 3 as described by the CAA addresses only the first of these. If competition models proceed, the financing framework must be developed in conjunction with them, not in isolation.

3. Governance and Transparency (Models 1a, 2, 4a)

For assets HAL retains under monopoly control, including runways, core airfield infrastructure, shared systems and the coordination function, not subject to competition, regulatory governance is the only source of discipline.

Qantas supports:

- enhanced independent scrutiny of HAL's capital plans (Model 1a);

- targeted incentives reflecting the risk profile of individual programmes (Model 2); and
- regulatory oversight of HAL's procurement on retained assets (Model 4a).

These measures improve transparency and accountability for HAL's retained functions. They do not replicate market discipline and should not be relied upon as a primary reform mechanism for expansion. For competed assets under Models 5b and 7b, governance is embedded in the competitive structure, and separate regulatory oversight can be streamlined, with the CAA's role focused on monitoring comparative performance and ensuring contract terms deliver the intended consumer outcomes.

Conclusion

The regulatory framework for Heathrow expansion should apply the right mechanism to the right asset:

- Competition to ensure costs are incurred efficiently, through Model 5b for contractable infrastructure and Model 7b for major new capacity.
- Financing certainty to attract capital at an efficient price, through a Model 3 framework matched to the entity bearing the investment risk.
- Governance to ensure accountability for HAL's retained monopoly functions.

Competition and financing certainty are mutually dependent. Qantas supports the CAA in taking the necessary steps to ensure its powers are sufficient to implement the competition models shortlisted in this consultation and encourages coordination with the Government's consultation on the revised ANPS. Governance covers what competition cannot reach. Without competition, the framework manages inefficient outcomes rather than preventing them.

Qantas appreciates the opportunity to contribute to this consultation and welcomes further engagement with the CAA as it develops its approach.

Yours faithfully,

[redacted]

Appendix: Views on remaining shortlisted models

Regulatory Model	Qantas Position
Model 1b – Separating HAL's system planning function	Qantas supports exploring the separation of HAL's system planning function from its operational functions. Integrated planning and delivery under a single monopoly operator creates a structural bias toward solutions that maximise the capital base. Separating these functions would improve transparency and create a more neutral basis for design decisions, complementing the pro-competition reforms Qantas is prioritising.
Model 5a – Operation (management contract)	Qantas does not support Model 5a as a primary mechanism. A management contract introduces some operational accountability but does not transfer meaningful financial risk to the operator, leaving the underlying cost-recovery incentive largely intact. It is preferable to the status quo but materially weaker than Model 5b, which aligns design, delivery, and operational incentives under a single arrangement.
Model 6 – Third party builds, transfers ownership to HAL	Qantas does not support Model 6 as a standalone measure. Whilst third-party delivery may introduce some competitive discipline at the build stage, transferring ownership back to HAL ultimately restores the cost-plus incentive structure. The efficiency gains achievable throughout delivery risk being eroded through HAL's ongoing operation and future capital decisions.
Model 7a – Wholesale supplier model	Qantas sees merit in exploring Model 7a as a complementary measure to Model 7b. An upstream supplier model could introduce competitive tension in the provision of specific airport services or infrastructure components and may be

	more immediately implementable than full operational separation. It should be developed alongside rather than as a substitute for Model 7b.
Model 8 – Transfer of ownership and operation of an existing asset	Qantas does not take a strong position on Model 8 at this stage, noting that its relevance is primarily to the existing asset base rather than expansion. However, Qantas notes that ownership transfer could, if structured appropriately, introduce longer-term competitive and efficiency disciplines that complement the expansion framework.
Models 9a, 9b, 9c – New frameworks for setting airport charges	As set out in Qantas' CAP3195 response, Qantas does not support price benchmarking (9a) or lighter-touch regulation (9c) given Heathrow's significant market power. Qantas has not formed a detailed view on LRIC (9b) but notes that any new charging framework must be applied alongside, not as a substitute for, the structural reforms outlined above.