

Dear Civil Aviation Authority

Sent via email to: [economicregulation@caa.co.uk](mailto:economicregulation@caa.co.uk)

Subject: Response to CAP3195 Consultation – Working Paper on Regulatory Models for Heathrow

Dear Sir/Madam,

We welcome the opportunity to provide input on the CAP3195 consultation regarding the Regulatory model for Heathrow Airport. As a key stakeholder, we share the CAA's concern about the rising level of airport charges and the risks posed by major capital expenditure projects and as such welcome the CAA undertaking this review.

### **Case for Change**

Given the: (i) high-level of charges already experiencing; (ii) the significant level of investment being proposed by Heathrow; and (iii) levels of service currently received, there is a clear case for change. The evidence presented by the CAA and other parties, as set out within the Consultation, clearly demonstrates that the existing regulatory framework is not fit for purpose. It lacks effective incentives to control costs and ensure efficient delivery. Without reform, expansion will exacerbate these failings, leading to even higher charges, reduced competitiveness for UK aviation, and ultimately, poor outcomes for our customers. The costs being proposed for an expanded Heathrow are deeply concerning and it is clear, if left unchecked, risks being prohibitively expensive.

As such, we strongly support the need to change the current framework.

### **Our Key Positions**

- **We reject light-touch regulation and price benchmarking:** These approaches are inappropriate for Heathrow given its significant market power.
- **Introduce competitive pressure:** While competition cannot necessarily be introduced at Heathrow for all aspects of airport services, maintaining all decisions and delivery in the hands of a single entity and assuming it will work in the consumer interest is not acceptable or working. The CAA should identify specific scopes, functions, or infrastructure elements that could be delivered or operated by other parties to improve efficiency and innovation. Competition may include design and build of infrastructure, as well as the delivery of terminal services and other on airport activities currently operated by Heathrow.
- **Strengthening regulatory oversight and targeted incentives:** The CAA must implement a step-change in capex scrutiny and governance with mechanisms to prevent cost overruns, excessive profits and service failings. Incentives must be sought to align cost recovery with the delivery of benefits, reward genuine outperformance and penalize failings. Incentives must also create the appropriate behaviors for cost efficiency in Heathrow, rather than

incentivizing the growth of the Regulated Asset Base (RAB) and therefore the growth in charges.

- **Ensure cost-relatedness and discipline:** Costs must be transparent, demonstrably required and charges must remain aligned with actual costs, consistent with ICAO principles.
- **Stronger emphasis on affordability:** Whilst the CAA must have regard for finance ability, the framework must ensure a stronger emphasis on containing the level of charges.
- **Protect consumers and airlines:** Expediency must not override the CAA's statutory duties to further the interest of consumers. Government policy cannot be allowed to compromise affordability, transparency or the implementation of the appropriate changes required.

### **Additional Considerations**

Whilst recognising the CAA is responding to Government policy, in its role as an independent regulator it should not rule out exploring alternative financing mechanisms, including government-backed options, to ensure expansion is feasible and continues in the consumers' interest.

### **Next Steps**

We are convinced that, building on the above key positions, a tailored, hybrid option of encouraging and inserting competition combined with enhanced and effective economic regulation is required.

We support the CAA's efforts to engage with users and urge the ongoing, continued consultation post submission as the long list of options is refined. We stand ready to contribute ideas and expertise to ensure Heathrow develops in a way that is efficient, affordable, and sustainable, which in turn will ensure Heathrow can be an attractive hub for aviation to grow and connect trade and people with the UK.

Thank you for considering our views. We look forward to continued dialogue on this critical issue.

Yours faithfully,

Christopher Kasseean  
Area Operations Manager  
KM Malta Airlines