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Vueling response to UK CAA consultation on Proposals on the regulatory treatment of early costs of capacity expansion at Heathrow airport (CAP3201)

1. Introduction and summary position

We thank you for the opportunity to respond to the Civil Aviation Authority's ("CAA") consultation on proposals concerning the recovery of early costs associated with capacity expansion at Heathrow Airport.

Vueling supports the responses submitted by British Airways, Aer Lingus and Iberia, and by our parent company, International Airlines Group ("IAG"). This submission complements those responses by setting out Vueling's perspective as a low-fare airline serving short-haul, point-to-point routes, for which airport charges are a critical determinant of route viability, frequency and affordability.

Vueling supports airport expansion where it is efficient, affordable and demonstrably in the interests of consumers. However, expansion pursued at any cost risks undermining those same consumer benefits. Decisions taken at this critical juncture on the regulatory treatment of early expansion costs will shape the trajectory of airport charges, risk allocation and incentives at Heathrow for many years to come. It is therefore vital that the regulatory framework is proportionate, evidence-based and fully aligned with the CAA's statutory duties towards consumers.

In this context, Vueling does not support the CAA's proposals to allow Heathrow Airport Limited ("HAL") or other promoters to recover early expansion costs from consumers prior to the granting of development consent. The safeguards proposed are insufficient and do not provide adequate protection for consumers. We therefore urge the CAA to withdraw its current proposals and reconsider its approach.

Notwithstanding our overall position, should the CAA decide to proceed with licence modifications to enable the recovery of early expansion costs, the framework would require substantial revision and strengthening.

2. Unfair transfer of risk to consumers prior to development consent

Costs incurred prior to the granting of a Development Consent Order (“DCO”) are inherently speculative. Allowing these costs to be recovered through regulated airport charges transfers development risk away from the promoter and onto today’s passengers, who receive no guarantee of any benefit in return.

In competitive markets, companies are expected to bear the risk of speculative development activity themselves. By contrast, the CAA’s proposal would shield HAL from downside risk at the most uncertain stage of the project, reinforcing HAL’s monopoly position and weakening incentives for efficiency and cost control.

This approach is not aligned with the CAA’s stated objective of protecting consumers from inefficiency and unnecessary costs. Permitting the recovery of speculative pre-consent expenditure exposes consumers prematurely to higher charges and is therefore inconsistent with the CAA’s primary statutory duty to further the interests of consumers.

3. Undue weight on timetable considerations and lack of independent assessment

The Proposals appear to prioritise maintaining the Government’s preferred expansion timetable over the CAA’s statutory duties. This comes at the expense of a robust, independent assessment of the costs, benefits and affordability of early expansion expenditure, with the CAA relying predominantly on analysis commissioned by HAL, an interested party.

Faster delivery is not inherently beneficial to consumers. Expansion delivers consumer benefits only where it is undertaken efficiently and results in additional capacity and service quality at charges that remain affordable.

Without a detailed, independent assessment of the costs and benefits of early expenditure and its impact on airport charges, it is not credible to assume that accelerating spend is in consumers’ interests.

4. Risks to contestability and pre-empting the wider regulatory review

Given HAL’s significant market power, effective economic regulation is essential to protect consumers. In this context, contestability - the credible possibility that alternative promoters could develop expansion, plays a vital role in disciplining costs and encouraging efficiency.

By underwriting early expansion costs, the Proposals risk entrenching HAL as the default developer and raising barriers to entry for alternative promoters. This significantly weakens contestability and undermines one of the few mechanisms available to constrain monopoly behaviour at Heathrow.

These risks are exacerbated where consumer-funded early works generate design, technical or preparatory outputs that remain under HAL’s control. Without clear safeguards, HAL could

leverage this position to shape expansion in its own interests, disadvantaging alternative delivery models.

These concerns are heightened by the CAA's parallel review of the regulatory framework for capacity expansion. Proceeding with early cost recovery ahead of the outcome of that review risks pre-empting fundamental questions about how expansion should be regulated, financed and delivered, undermining the credibility and integrity of the review process.

5. Risk of duplication of costs and activities

The CAA has not demonstrated that the £320 million of early costs proposed for 2025–26 are additional to the approximately £500 million of pre-COVID expansion costs already included in HAL's Regulatory Asset Base and paid for by consumers. Nor has it provided assurance that existing studies, design work or preparatory activity funded previously are not being repeated. There is therefore a significant risk that the Proposals would allow duplicative and inefficient expenditure to be recovered from consumers.

We therefore urge the CAA to undertake a full and transparent review of what is included within the proposed £320 million allowance to ensure that it excludes duplicative activity.

Reliance on ex-post review to address duplication is not a credible way forward. Once costs are incurred and sunk, regulatory leverage is significantly reduced, particularly given HAL's information advantage. If early cost recovery is contemplated at all, the burden of proof must rest firmly with HAL on an ex-ante basis.

We are also concerned that shortly after HAL's submission of 10 September 2025, seeking recovery of up to £320 million (in 2024 prices), HAL subsequently requested an increase to £400 million together with additional flexibility. A cap that is readily reopenable does not operate as a binding constraint and weakens incentives for cost control. The cap should therefore be binding, with any costs above it recoverable only following a fresh ex-ante CAA determination after consultation, with the burden of proof resting entirely on HAL.

6. Land acquisition and risks to the integrity of the single till

Land and property acquisition raise particular concerns in the context of early cost recovery, as such expenditure is largely irreversible and risks foreclosing alternative development options if funded by consumers prior to development consent.

The CAA has not explained how it would prevent consumer-funded land acquisition from influencing future decisions on the boundary of the single till, particularly in light of HAL's current proposals under the H8 consultation process to remove certain property assets from the single till. Allowing early recovery of land acquisition costs while permitting HAL to retain any subsequent upside outside the single till would transfer downside risk to consumers while weakening core single-till principles.

Without explicit safeguards, early consumer-funded land acquisition risks predetermining future regulatory outcomes, undermining contestability and exposing consumers to irreversible costs without adequate protection.

7. Insufficient guardrails proposed

The safeguards proposed by the CAA do not provide meaningful protection for consumers.

An ex-post review framework, combined with a high threshold for disallowance, sets an unreasonably high bar for regulatory intervention and provides weak incentives for efficiency. The CAA has itself recognised the limitations of ex-post approaches in previous determinations, which are even more pronounced in the context of speculative early expansion costs.

Similarly, a flexible cap that can be revisited under timetable pressure does not constitute a genuine safeguard. The absence of clear, enforceable rules governing true-up, disallowance and clawback further undermines the effectiveness of the framework.

8. Cumulative impact on charges and affordability for point-to-point airlines

The CAA has failed to assess the cumulative impact of early expansion costs on airport charges, particularly when combined with other significant upward pressures, including those proposed under H8 for Heathrow's upcoming regulatory period process (amounting to increases of at least 47% in real terms, in 2024 prices). The scale of expansion costs being advanced by HAL as promoter, estimated to be at least £49 billion (in 2024 prices), adds further to these concerns.

For Vueling as a low-cost, point-to-point carrier, airport charges are a critical input cost. Heathrow is already the most expensive airport in our network and any further increases in charges risk undermining the viability of short-haul leisure routes that are highly price-sensitive. If such routes are priced out, consumer choice will be reduced to the detriment of passengers. Affordability must therefore be central to the CAA's assessment of early cost recovery.

9. Recommendations

For the reasons set out above, Vueling does not support the CAA proceeding with the recovery of early expansion costs from consumers prior to the granting of development consent, and urges the CAA to withdraw its current proposals.

Strictly without prejudice to our overall position, if the CAA nevertheless decides to proceed with a form of early cost recovery, the regulatory framework must be significantly strengthened to ensure that consumer interests are adequately protected, and at a minimum, should include:

- **Ex-ante approval as the default**

Any early cost recovery should be conditional on prior CAA approval against clear criteria, including necessity, timing, preservation of optionality and a quantified value case. Expenditure that creates irreversible commitments (such as land or property acquisition) should be subject to heightened scrutiny.

- **Clear demonstration of non-duplication**
A review needs to take place on the proposed £320m early cost recovery to ensure no duplication with the c.£500 million of pre-COVID expansion costs already recovered from consumers, to demonstrate that costs are genuinely incremental.
- **A binding cap**
Any cap must operate as a hard limit. Costs above the cap should not be recoverable without a fresh ex-ante CAA determination following consultation, with the burden of proof resting entirely on HAL.
- **Protection of the single till**
Any land or property acquired through early cost recovery must remain within the single till.
- **Effective clawback mechanisms**
There must be a clear and enforceable clawback if the expansion scheme does not proceed, to ensure consumers are not left footing the bill.
- **Alignment with the CAA's wider review**
Any treatment of early costs must remain fully capable of being aligned with the outcome of the CAA's ongoing review of the regulatory framework for capacity expansion, without constraining future regulatory choices.

10. Conclusion

Vueling urges the CAA to withdraw the current proposals and reconsider its approach to early cost recovery. If the CAA nevertheless proceeds, the framework must be substantially strengthened to ensure that consumer affordability, competition and efficiency remain at the centre of regulatory decision-making, consistent with the CAA's statutory duties.



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