

CAA CONSULTATION ON REGULATORY MODELS FOR HEATHROW EXPANSION

CONSULTATION RESPONSE

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Date submitted: 16 January 2026

INTRODUCTION

1. BusinessLDN welcomes the opportunity to respond to the Civil Aviation Authority's (CAA) Working Paper on Regulatory Models for Heathrow.
2. We are a business membership organisation with a mission to make London the best city in the world in which to do business, working with and for the whole UK. Our 170 members, of which Heathrow is one, span a wide range of sectors and represent some of the capital's largest employers and investors. Our members depend on strong global connectivity to grow, trade, attract talent, and compete internationally. Heathrow Airport is critical to this connectivity: it supports jobs, facilitates trade, enables inward investment, and underpins the UK's position as a global economic hub.
3. We strongly support Heathrow's expansion, including the proposed third runway, because of the significant economic, connectivity, and competitiveness benefits it would deliver for the UK. Major infrastructure projects of this scale require careful planning and investment, but the opportunities which will be unlocked by expansion are substantial.
4. A larger Heathrow will increase global connectivity, opening new direct links to underserved markets such as South America and secondary cities in India and China. It will support UK businesses of all sizes by enhancing passenger and cargo capacity, strengthening supply chains, and connecting companies to global markets. Crucially, around 60% of the economic benefits from Heathrow's expansion are expected outside of London and the South East, supporting jobs and growth across the UK.
5. Expansion will also mobilise private investment. The planned third runway and related terminal infrastructure involve an estimated £33 billion of private capital with no direct taxpayer funding, demonstrating confidence in the UK's aviation sector. This private finance, alongside the operational performance of Heathrow over many years, highlights the importance of a regulatory framework that is stable, predictable, and capable of supporting long-term investment.
6. In the context of this response, our primary focus is that the regulatory framework enables Heathrow to attract the long-term private investment required to deliver expansion and unlock additional capacity. Any regulatory reform should therefore be assessed first and foremost against its impact on investor confidence and the timely delivery of new infrastructure.

SUPPORTING COMMENTS

The need for timely delivery to maximise economic opportunities

7. Heathrow has operated at or near capacity for more than 15 years. This constraint has limited the UK's ability to capture the full benefits of international connectivity and risks ceding market share to competing hubs in Europe and the Middle East that have spare capacity.
8. Delays to Heathrow's expansion would mean missed opportunities for businesses, for regions across the UK, and for international trade. The Government's aspiration for an operational third runway within the next decade reflects the urgency of this national priority.
9. A regulatory framework that provides clarity and certainty is essential to achieving timely delivery. Stable regulation encourages private investment at the necessary scale and pace while also enabling robust planning and risk management. Conversely, uncertainty around regulatory arrangements, or reliance on untested models, could delay projects, increase costs, and jeopardise the UK's ability to meet its expansion timeline.
10. We therefore emphasise that regulatory reform should be approached in a way that supports efficient delivery rather than adding unnecessary complexity or risk.

The performance of the current regulatory model

11. The CAA's assessment correctly recognises that the existing Regulated Asset Base (RAB) framework has generally worked well in protecting consumer interests to date. Under this model, Heathrow has been able to finance significant investment in infrastructure while maintaining operational resilience. Price controls have limited airport charges, and service quality incentives have strengthened outcomes for passengers and airlines.
12. Heathrow's performance under the current model demonstrates many of these strengths. For example, Terminals 5 and 2 were delivered on time and on budget, the airport has maintained strong operational performance, and Heathrow is one of the most connected global hubs.
13. Charges at Heathrow have also fallen in real terms since 2019, showing that price controls within a RAB framework can balance investment with affordability for users. This transparent and predictable approach has helped secure capital at competitive rates and provided clear signals to investors, airlines, and consumers alike.

Future performance of the RAB model in the context of expansion

14. The CAA is right to test whether the current regulatory model would perform effectively in the context of major expansion. Expansion projects like the third runway involve long durations, significant capital expenditure, and complex risk profiles. The regulatory regime must therefore be capable of aligning incentives for efficient delivery, managing risk effectively, and maintaining confidence for passengers, airlines, and investors.
15. There is scope to enhance certain aspects of the RAB regime, but these enhancements should build on the strengths of the existing framework rather than replace it wholesale. For example, multi-period regulatory commitments, extended beyond the standard five-year price control periods, could provide the stability needed for long-term programmes.

Strengthened governance and performance incentives will help ensure that expansion projects proceed on time and to budget, while robust risk-sharing frameworks will protect consumers from bearing disproportionate costs.

16. Importantly, any regulatory model must maintain confidence among investors. Heathrow's ability to attract private finance at competitive rates has been central to its success. Models that introduce greater uncertainty or unfamiliar risk allocations could raise the cost of capital and slow investment, which would be detrimental to timely delivery of expansion and to long-term economic outcomes.
17. We therefore support a regulatory framework that evolves to address the challenges of expansion but retains the core benefits of predictability and transparency that the RAB model provides.

Initial views on the regulatory models identified

18. In considering future regulatory models, the CAA should primarily focus on the impact that any proposed changes to the current model have on investor confidence, cost of capital, and the timely delivery of the third runway.
19. An enhanced version of the existing RAB model remains, in our view, the most effective foundation for meeting the objectives set out above. The current framework is well understood by investors, airlines and regulators, and has supported substantial long-term investment at Heathrow to date. With appropriate evolution, it can continue to do so at the scale required for expansion.
20. Targeted enhancements to the RAB model - such as strengthened governance, clearer long-term regulatory commitments aligned to the expansion programme, and refinements to incentives around delivery and performance - offer a pragmatic route to addressing the points raised in this consultation. These adjustments would preserve regulatory stability and continuity while improving confidence that expansion can be delivered efficiently and on time.
21. Alternative regulatory approaches, including models involving greater competition or more fundamental changes to the structure of economic regulation, may theoretically offer potential benefits in some circumstances. However, in considering these alternative approaches the CAA must be confident that any such benefits are sufficiently large and certain to outweigh the downside risks to investor confidence, financing costs, and delivery timelines that a change of regulatory approach could have. Even modest increases in perceived regulatory risk could have a disproportionate impact on the cost and availability of capital for a project of this scale.
22. In our view, evolutionary reform of the existing RAB framework is the most credible way to balance consumer protection, regulatory objectives, and the need to mobilise private investment at pace. More fundamental changes should only be pursued where there is clear evidence that the "size of the prize" justifies the risk, and that investment confidence - and the delivery of additional capacity - would not be compromised.