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Aer Lingus Response to CAP3195 Working paper on regulatory models

Thank you for the opportunity to respond to CAP3195. Aer Lingus welcomes the CAA's forward-looking examination of regulatory reform in the context of Heathrow's expansion and is strongly supportive of the direction set out in the working paper. We offer our perspective in the same spirit—endorsing the core principles while emphasising our commitment to ensuring that any expansion is affordable, consumer-focused, and underpinned by disciplined, competitive regulatory oversight.

We fully support and endorse the responses to CAP3195 made by our parent, International Airlines Group (IAG), and that of the Heathrow Reimagined campaign. Specifically, we direct you to Section C of the response submitted to CAP3195 by IAG. We agree with and support the solutions as defined herein.

In summary, we urge the CAA to consider and make appropriate decisions on the following:

Actions for CAA

1. **Set a [CONFIDENTIAL] budget with a hard cap for expansion** and masterplan renewal which would replace the £49 billion estimate and cannot be exceeded; and
2. **Establish a far stronger regulatory regime** that resets Heathrow's incentives, manages capital spend closely and introduces competition.

Actions for Government

1. **Set a [CONFIDENTIAL] budget with a hard cap for expansion** and masterplan renewal which would replace the £49 billion estimate and cannot be exceeded; and
2. **Set within the ANPS a criterion to value engineer the scheme and include affordability as a policy aim.** The ANPS should explicitly require economic feasibility as a core test of expansion and empower the CAA to enforce strict capital budgets aligned with demonstrable investment headroom. It should also require operators to phase terminal

capacity investment in line with actual demand growth and to deliver expansion at broadly flat real charges;

- 3. Establish a cross government-team with commercial expertise to oversee the DCO process and leverage competition and cost saving opportunities.** Government should establish a dedicated cross-government expansion planning team to shape and maintain an economically deliverable budget over both the short and long term. This body would provide a structured interface with a Capital Investment Committee (the Capital Investment Committee being a core element of the regulatory reform we propose to the CAA) and ensure that scope, phasing and cost performance discipline are maintained throughout the programme;
- 4. Ensure the DCO process and other processes within the Government's remit enable a true level playing field between potential promoters to encourage competition and efficiency.** Consistent with a reformed and fit for purpose regulatory regime that promotes competition, Government need to avoid pre-judging HAL as the sole promoter of all elements of the scheme and instead ensure that a wider range of competitors are consulted and invited to bid. Promoters should be selected based on demonstrable and evidenced innovation and efficiency. Given the attractiveness of RAB-based investments to long-dated capital, competition to earn the right to invest can drive innovation and materially reduce costs. In this vein, Government should also support proposals that introduce competition into the regulatory framework for Heathrow (including to reduce and improve design scope, for example, through a shorter runway) since this is essential to keeping costs affordable; and
- 5. Provide an explicit affordability backstop for aeronautical charges, potentially including the reallocation of Air Passenger Duty (APD) revenues.** Airlines need a guarantee that charges will not exceed a given threshold. Airline capacity deployment is essential for expansion to succeed; Government support should therefore be structured to underwrite the risk associated with delivering the required airline capacity and to ensure expansion remains affordable for airlines and consumers. One way to do this would be to allocate part of APD revenues, which alongside airport charges make up part of the ticket price to consumers, to construction. If a strict, affordable budget is in place, we anticipate that such backstop would be required only during the transition period when capital expenditure (capex) is high, but capacity is not fully released. Government would earn back its APD backstop provision post transition – through increased passenger volumes that would not be realised without an increase in capacity. In other words, the APD amount the government may need to divert to ensure charges are kept affordable for airlines will be vastly offset by the APD increase achieved once the transition period is past (period during which there will be the most pressure on charges due to high capex without the necessary increased traffic level).

In conclusion, Aer Lingus fully supports the direction of CAP3195 and remains committed, together with IAG and its airlines, to work with the CAA, Government, HAL and other promoters to ensure expansion is delivered affordably, sustainably and in consumers' long-term interests. We stand ready to provide continued data, expert insight and collaboration as the framework develops, confident that - through disciplined regulation and a shared focus on affordability and

outcomes - we can help shape an expansion model that strengthens Heathrow's role as a world-class, consumer focused global hub.

Thank you for your attention to our submission.

Yours sincerely,



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Aer Lingus