Selina Chadha
Group Director Consumer and Markets
Civil Aviation Authority
Westferry Circus
Canary Wharf
London EH14 4HD

By email: economicregulation@caa.co.uk

15 June 2026

British Airways response to CAP3251
Consultation on a shortlist of regulatory models for Heathrow

Dear Selina,

This letter sets out British Airways' response to the Civil Aviation Authority's (CAA) consultation on a shortlist of regulatory models for Heathrow Airport Limited (HAL) (CAP3251). BA endorses in full the responses submitted to this consultation by our parent company International Airlines Group (IAG) and by Heathrow Reimagined, together with their responses to the CAA's November 2025 Working Paper (CAP3195), and this letter should be read alongside those submissions. We do not restate their analysis here. Instead, we highlight the issues of greatest consequence for our customers and our business, drawing also on our experience of successive price controls, as the largest operator at Heathrow.

In summary, BA supports the direction of the CAA's shortlist. However, we consider that the reform package must be strengthened in the areas set out below if it is to deliver efficient costs and protect consumers' interests in line with the CAA's statutory duties.

1. The case for change is settled and reform cannot wait

We agree with the CAA's conclusion that the case for change is settled. The CAA bases its decision on the following grounds:

- airport charges that are high relative to comparator airports and, indeed, the highest in the world with the gap expected to widen further as expansion capital expenditure is incurred;
- service quality that has yet to return to pre-pandemic levels and lags the recovery of peer airports; and
- capital expenditure as the principal driver of charges, driven by capex inefficiencies.

While we agree with the CAA's overall conclusion and findings, the case for reform is, in our view, even stronger than the CAA has set out. On service quality, the issue is not simply that Heathrow has failed to recover to pre-pandemic levels. Our extensive experience shows that Heathrow's overall service proposition continues to lag materially behind leading international hub airports, resulting in poor value for money for consumers.

[redacted]

[redacted]

There are major shortcomings that remain insufficiently addressed under the current framework. In particular, operational resilience at Heathrow remains a serious concern. Recurrent large-scale system outages have exposed a fundamental lack of resilience in Heathrow's critical infrastructure and contingency arrangements. These failings point to deeper structural weaknesses in the way the airport is governed, scrutinised and incentivised.

As we set out in our response to CAP3232, the H8 control period already involves capital expenditure on an unprecedented scale, increasing charges that would remain the highest in the world, and a regulatory package that risks overcompensating HAL while providing several layers of protection to HAL against multiple sources of risk. The weaknesses underlying the case for change identified in CAP3251 are therefore already evident in H8.

H8 is the critical gateway for reform and must be the point at which change is both anchored and delivered. The current governance framework is not fit for purpose and has consistently failed to ensure efficient spend, robust scrutiny, or accountability to consumers.

Heathrow's low-risk monopoly position – a risk profile the CAA's proposals consistently overstate – must be reflected in materially lower returns; and affordability, capital discipline, investment efficiency and independent assurance must be enforced through hard constraints, not process alone. We have set out clear areas of concern and a practical, implementable set of remedies in our CAP3232 response, referred to above, which provide a credible pathway to embed these reforms within H8 and avoid perpetuating the structural deficiencies of the current regime.

The need for reform is therefore immediate. We remind the CAA that our calls for reform preceded the revival of Heathrow expansion, and we encourage a holistic perspective, one where reform is applied to the whole airport business and not limited to expansion alone.

2. Affordability must sit at the centre of the CAA's assessment

IAG estimates that charges at the level implied by HAL's £49 billion-plus estimate would require approximately £3 billion per year of additional aeronautical charges in real terms, and that at such levels airlines would be unable to deploy the circa £65 billion of new and replacement aircraft capital required to fill expansion capacity over the 2026-2045 period.

There is limited evidence that the cumulative impact of charges on affordability, connectivity and consumer choice has been assessed, despite clear evidence that higher charges weaken connectivity.

While the CAA generally recognises the importance of affordability, it has excluded it from the evaluation framework for the shortlisted models on the basis that the choice of model will not in itself determine the overall economics of a scheme and that any incremental benefits are captured through its proposed criteria on costs and financeability. We disagree with this assertion. The regulatory models should be assessed on their ability to deliver an affordable capacity expansion, and affordability should be included explicitly in the evaluation framework.

[redacted]

[redacted]

3. BA endorses IAG's proposed solution

BA fully supports the integrated package of reforms set out in IAG's responses to CAP3195 and CAP3251, comprising:

- a Capital Investment Committee (CIC) with genuine decision-making authority over capital planning (including a hard budget), approval and delivery performance across the Heathrow campus;
- the use of competition wherever practicable across the Design-Build-Finance-Operate-Maintain-Own (DBFOMO) value chain; and
- a multi-RAB architecture underpinned by a single, cross-campus Maximum Allowable Yield (MAY).

The CAA's shortlist provides an appropriate foundation for this package, subject to the adjustments set out below.

4. Capital governance

Models 1a, 2 and 4a together provide an appropriate basis for the CIC. However, the proposed governance framework does not sufficiently address longstanding structural weaknesses.

The CIC must have the authority to approve or reject material capital plans that are not consistent with consumers' interests, including long-term capital plans, major project approvals, significant changes to project scope, delivery and procurement approaches. The Committee's role must extend beyond consultation and scrutiny and must include meaningful decision-making powers, supported by appropriate risk allocation and penalties.

Without decision-making powers, full transparency, independent assurance and robust challenge mechanisms, the CIC risks being reduced to being merely another consultative forum. This current framework has not provided an effective constraint on HAL's inefficient capital spending to date and needs to be materially strengthened.

5. Competition across the value chain

Capital regulation can mitigate, but cannot remove, the incentives created by a monopoly RAB-based regime. Competition, where practicable, would address those perverse incentives at source. The right to invest, to own and to earn a regulated return, in our view, must be won rather than be granted by default. If HAL offers the best value-for-money solution, it can still prevail and deliver the project but it must compete for that right.

We offer the following views on the short-listed models:

- **Model 7b** *(direct competition for airport operation services, under which an independent third-party designs, builds, finances, operates, maintains and owns a discrete asset on the campus)* should sit at the centre of the competition package and should apply to new and existing assets alike.

[redacted]

[redacted]

In our view, it can be implemented for existing terminals through contractual arrangements introduced by way of licence modification under the Civil Aviation Act 2012.

- **Model 8** *(the transfer of ownership of an existing asset)* should be retained as a parallel route alongside Model 7b rather than ruled out.

- **Model 5b** *(competitive tendering of major projects that would otherwise be delivered by HAL, analogous to direct procurement models in other regulated sectors)* is essential where Model 7b is not feasible; however, tender specification and selection must be subject to CAA and/or the relevant designated body's oversight rather than controlled by the incumbent, and all bidders should be evaluated against common, realistic assumption frameworks with appropriate risk allocation for non-delivery.

These models are fully compatible with safe and resilient operations. BA has operated for decades at New York JFK in a multi-operator environment, operating our own lounges, gates and handling arrangements and coordinating daily with the Port Authority as airfield operator. Heathrow is already a multi-operator environment with hundreds of service providers on the campus, and the evidence from comparator airports, including Munich and Atlanta, demonstrates that independently operated facilities are consistent with strong operational performance.

6. Model 3 should not proceed

We do not support Model 3 *(longer-term price control commitments, including a long-term expansion cost of capital or cap-and-collar arrangements)*. Its premise, that HAL requires locked-in or premium returns for expansion to be financeable, is not supported by the evidence.

As we set out in our response to CAP3232, the regulatory package already provides several layers of protection to HAL against multiple sources of risk which are not adequately reflected in the cost of capital, resulting in overcompensation risk at the consumer's expense. Longer-term commitments would compound that imbalance, would not resolve the underlying problems, and risk embedding consumer harm for decades, including for expansion.

7. A single cross-campus Maximum Allowable Yield

A single MAY (a single maximum average charge per passenger applied across all facilities, however many operators provide them) is, in our view, the fairest method of setting charges in a multi-operator campus and is consistent with, and the natural extension of, the single-till principle which we fully support.

The consumer benefit of competition lies in the discipline it applies to design, build, financing and operating efficiency, not in differential pricing between facilities.

[redacted]

[redacted]

A single MAY ensures that new capacity is funded fairly across the campus and importantly, that efficiency gains and pooled commercial revenues benefit all passengers rather than being retained within particular facilities.

8. Capital governance in practice

Our experience under successive price controls exposes the limitations of the current framework. Throughout Q6 and H7, the airline community approved every project HAL brought forward, notwithstanding significant concerns over capital efficiency and delivery. The ex-post mechanisms have regrettably not provided an effective backstop as only £12.7 million of capital expenditure (approximately 0.3% of capex in the period) was disallowed in the Q6 review, and Arcadis identified "potential inefficiencies" in the T3 Integrated Baggage and T5 Western Baggage projects, in the two terminals from which we operate, but concluded that there was insufficient evidence to make a determination. These findings reflect the information asymmetry between HAL, the CAA and airlines, rather than the efficiency of the expenditure.

The T2 Baggage Programme, the subject of the case study annexed to IAG's response which we endorse, demonstrates that these weaknesses persist. HAL executed its supplier contracts on 4 September 2025, ahead of the G3 approval decision on 18 September, and the independent governance review conducted by the IFS concluded that the late declaration of that commitment effectively curtailed the airline community's ability to reject the project.

Strong safeguards, including a requirement that approval precedes financial commitment, are therefore required to prevent these outcomes recurring in future.

<u>Our key asks</u>

We therefore urge the CAA, in its July 2026 update, to:

- confirm Model 7b at the centre of the competition package, applied to new and existing assets alike;
- confirm that Model 5b tenders will be run under CAA and/or CIC oversight rather than left wholly with the incumbent;
- establish the CIC with genuine authority to approve or reject capital plans, supported by appropriate risk allocation and penalties; and
- add Model 8 to its shortlist, with consideration of implementation routes via legislative change or a CMA market investigation reference.

The CAA can implement these reforms through targeted modifications to HAL's licence under sections 18, 21 and 22 of the Civil Aviation Act 2012 and, in our view, is required by its statutory duties to act accordingly.

We welcome further engagement with the CAA as this process moves towards the July 2026 update and remain committed to working constructively with the CAA, the DfT and HM Government to ensure that regulatory reform and capacity expansion deliver for consumers and the wider UK economy.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]