

CAA Consultation on Regulatory Models for Heathrow Expansion

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Summary

- Logistics UK supports the enhanced RAB model due to a proven delivery record, cost discipline and the importance of integrated operations essential for freight coordination.
- We oppose terminal competition models. Fragmented operations deliver poorer outcomes while cargo requires seamless coordination between interdependent systems that asset separation would disrupt.
- Delivering Heathrow expansion as quickly as possible is important for economic growth. Alternative models introduce delays incompatible with Government's timeline.

About Logistics UK

Logistics UK is one of the country's largest business groups, and the only trade association which represents all of logistics. Our mission is to support, shape and stand up for a safe, sustainable and efficient logistics sector. Our membership of more than 22,000 includes global, national and regional businesses and SMEs spanning road, rail, inland waterways, sea and air as well as the customers of freight services, such as retailers and manufacturers. We deliver services, representation and thought leadership, helping members and policymakers to seize new opportunities for the sector and the economy as a whole, right across the country.

The logistics sector

Nothing moves without logistics. The sector employs 8% of the UK workforce in good jobs with strong career progression, contributes £170 billion in GVA each year, and underpins the resilience of the everyday economy.

Logistics plans and coordinates the movement and storage of the goods that businesses, public services and households rely on – using ports, airports, roads, railways, waterways, warehouses and smart digital systems to tie it all together.

With the right policies, logistics can drive up UK growth by £8 billion a year.¹ However, rising costs, red tape and poor infrastructure are holding the sector back – putting firms out of business, fuelling inflation, and undermining productivity and supply chain resilience. As a result, the UK has fallen from 4th to 19th in the World Bank Logistics Performance Index over the decade to 2023.

Consultation response

Heathrow is the UK's largest port by value, handling air cargo worth over £200 billion annually - approximately 30 per cent of UK international trade. The airport's hub connectivity provides irreplaceable capacity for time-sensitive, high-value freight including over half of UK pharmaceutical exports.

We support Heathrow expansion as essential to relieve capacity constraints limiting UK trade. The regulatory framework must enable timely delivery whilst ensuring cost efficiency and operational integration essential for freight movements.

¹ Logistics Delivering a solution to the UK's productivity puzzle, Oxford Economics, 2023

Why expansion matters for freight

Heathrow has operated at capacity for over 15 years, directly constraining UK trade whilst competitors including Amsterdam, Frankfurt and Paris have added capacity. Expansion would increase cargo capacity by 50 per cent, unlock £33 billion private investment across UK supply chains, and deliver new route connectivity to underserved markets critical for UK trade.

The Government's target for an operational third runway within a decade is critical to unlock economic growth. Further delays perpetuate this competitive disadvantage for UK freight operators.

The Regulatory Asset Base model

The RAB framework offers significant advantages for freight operations:

- **Proven delivery record:** Terminals 5 and 2 were completed on time and on budget. Heathrow has been Europe's most punctual major hub in 2025 with world-leading connectivity. For freight operators who depend on predictable airport operations, this reliability is fundamental.
- **Cost discipline:** Airport charges at Heathrow have fallen 19 per cent in real terms since 2014, demonstrating that the model accommodates infrastructure investment whilst controlling costs.
- **Delivery timeline compatibility:** The framework is well-understood by investors and regulators. Alternative models would require substantial development and legal frameworks before implementation. This would introduce delays incompatible with the Government's timeline for expansion.
- **Integrated operations:** International analysis shows 93 of the world's top 100 airports operate under single management. Airports with split terminal operations, such as New York JFK, ranked 93rd globally compared to Heathrow's 21st, demonstrate weaker performance. For freight, integrated management is operationally essential. Cargo facilities depend on coordinated access to airside infrastructure, ground handling, customs and surface transport. Fragmented ownership would create unacceptable coordination risks for time-critical shipments.

The RAB model can be enhanced through strengthened governance and multi-period commitments without wholesale replacement.

Alternative models - freight sector concerns

Terminal competition models (4-8): The JFK case study demonstrates service quality risks under fragmented operations. For freight, coordination challenges would be more acute. Cargo requires integrated systems spanning multiple facilities such as ground handling, customs, storage and distribution all depend on seamless handoffs. Competitive pressures or separate ownership would create substantial operational risks without clear benefits.

Alternative charging frameworks (9): Price benchmarking relies on government funding backstops (as at Changi), incompatible with UK private financing policy. Long-run incremental cost methodologies face practical challenges for an expansion programme of this scale. Light-touch regulation is inappropriate given Heathrow's unique market position as the UK's only hub airport.

Responses to consultation questions

Case for reviewing the regulatory model? Yes. Unprecedented expansion scale warrants examination of whether enhancements are needed. The review should strengthen the proven RAB approach rather than pursue untested alternatives incompatible with delivery timelines.

Evaluation framework? Yes. The framework appropriately emphasises timely delivery, cost efficiency and service quality. It should explicitly consider how models affect freight operations, which have distinct requirements and depend on integrated systems.

Views on regulatory models? We support evolutionary RAB improvements (Models 1-3) including enhanced governance, targeted incentives and longer-term commitments.

Recommendations

The RAB model should be retained and enhanced. Proven frameworks that have successfully delivered major infrastructure should not be discarded for untested alternatives introducing delay and operational risk. Enhancements to governance should improve cost scrutiny whilst ensuring freight perspectives inform investment decisions. Multi-period commitments should provide investor certainty with appropriate flexibility.

Models involving asset separation or alternative charging frameworks should be rejected as incompatible with freight operational requirements, delivery timelines and private financing at efficient cost.

Heathrow expansion represents critical national infrastructure. The regulatory framework must enable, not obstruct, timely delivery of the £33 billion private investment required to deliver 50 per cent cargo capacity increase and maintain UK competitiveness as a global logistics hub.

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