

IATA Response to UK CAA Consultation on Heathrow Capacity Expansion - CAP3286

Update on the Approach to the Regulatory Framework

13 August 2026

Introduction

The International Air Transport Association (IATA) welcomes the publication of CAP3286 and the Civil Aviation Authority's continued engagement with stakeholders regarding Heathrow's future regulatory framework. We are encouraged that the CAA continues to recognise the strong case for reform and is advancing measures focused on enhanced governance, efficiency, competitive discipline and consumer protection.

Affordability Must Remain the Central Objective

As we set out in our response to CAP3251, affordability must remain at the heart of the future regulatory framework.

While we note the CAA's decision to retain its current evaluation framework, we continue to believe that affordability deserves greater prominence as a core regulatory outcome. The ultimate purpose of economic regulation is to ensure that consumers receive the infrastructure and services they require at the lowest efficient cost. Success should be measured by whether passengers and airlines receive appropriate infrastructure, efficient services and value for money consistent with established principles of economic regulation, ICAO guidance and the CAA's duties to promote economy and efficiency in the provision of airport services.

We therefore welcome the CAA's acknowledgement that expansion must remain affordable if it is to deliver the increased demand, connectivity and wider economic benefits anticipated by Government. Affordability should remain a central consideration across all aspects of the CAA's work, including capital governance, risk allocation, financing arrangements and project delivery incentives.

Affordability also requires the CAA to maintain pressure on the incumbent operator, or on any future operators, through efficiency incentives, cost benchmarking and measures that introduce effective competitive pressure. IATA supports reforms that reduce monopoly incentives and improve outcomes for users and consumers, provided such measures preserve effective economic regulation, transparency and user protection. While terminal-level competition may be one possible mechanism within a broader package of reforms, it should not be treated as a substitute for robust regulatory oversight. Even if multiple operators were to operate parts of

Heathrow, competition would remain imperfect in a constrained hub environment and the CAA would retain a central role in ensuring adequate competitive pressure.

Importantly, the affordability challenge is not limited to expansion. The case for reform arises not solely from future development, but also from concerns regarding the performance of the current framework at today's two-runway airport. The benefits of reform should therefore ultimately extend across Heathrow as a whole.

Enhanced Capital Governance Should Be Prioritised

IATA strongly supports the CAA's decision to work with the airline community on the enhanced capital governance arrangements.

Our longstanding concern has been that users are frequently consulted after key strategic decisions have already been made. Consultation then becomes focused on implementation rather than on whether a project is required, appropriately scoped or the most efficient solution to the identified need. This limits the ability of users to influence outcomes and can contribute to unnecessarily expensive infrastructure solutions.

We therefore support reforms that strengthen user involvement at the earliest stages of project planning, improve transparency, enhance independent assurance and introduce greater accountability for project outcomes. Better governance at the front end of the process is considerably more effective than attempting to correct inefficiencies after expenditure has already been committed.

We are particularly pleased that the CAA is taking forward options that strengthen capital governance and regulatory scrutiny. Effective challenge is not an obstacle to investment. On the contrary, it is one of the most effective means of ensuring that infrastructure is affordable, appropriately scoped and delivers genuine value for consumers.

While the design and implementation of the new governance arrangements will require careful development, we encourage the CAA to proceed with urgency. Significant capital expenditure will continue to be incurred in the coming years irrespective of the timing of expansion, and consumers should benefit from improved governance arrangements as soon as reasonably practicable.

The future framework should also ensure that meaningful consequences exist where governance processes are not followed or where projects fail to deliver promised benefits. Airlines and other users face commercial consequences when investment decisions prove inefficient. Similar incentives should apply to regulated airport operators.

Risk Allocation Must Reflect Competitive Market Principles

Regulation should seek to replicate competitive market outcomes, including the allocation of risk. Investors should bear development and delivery risk, while consumers should pay for infrastructure once it has been delivered and is available for use.

IATA therefore strongly opposes the recovery from today's users of costs associated with studies, option development and preparatory work relating to future infrastructure. This is a clear global industry position: users should pay for infrastructure once it has been delivered and is available for use, not for options that may never proceed or assets they may never use. Experience from projects such as Notre-Dame-des-Landes demonstrates the risks of transferring development risk to consumers before planning and delivery uncertainties have been resolved.

We therefore strongly object to any continued assumption that Heathrow's current passengers should fund studies and analysis relating to future expansion. Such an approach socialises development risk onto consumers before any infrastructure has been delivered and departs from principles that would ordinarily apply in competitive markets. Given the magnitude of proposed expenditure, the CAA cannot continue to separate regulatory reform and its ongoing consultations with regards to early expansion costs.

We encourage the CAA to ensure that development costs are appropriately capitalised and that risks are assigned to the parties best placed to manage them. Efficient risk allocation will be fundamental to the long-term affordability of Heathrow expansion.

Long-Term Frameworks Require Stability of Rules, Not Stability of Returns

IATA notes the CAA's recognition that major infrastructure projects require regulatory certainty. This however neither addresses the underlying issues on why airlines having been calling for reform, nor have the CAA clearly evidenced how this will benefit consumers.

As previously stated, certainty of framework should not be confused with certainty of outcome. Longer-term frameworks can provide valuable stability. Investors can benefit from understanding the regulatory principles, methodologies and governance arrangements that will apply throughout an investment cycle.

What we do not support however is the locking in of key economic parameters, including the cost of capital, for periods of ten years or more.

Providing stability does not require fixing a specific cost of capital, return allowance or regulatory settlement over extended periods. Economic conditions can change materially over the course of a decade. Interest rates, financing conditions, inflation, construction risks and demand assumptions may evolve substantially. A framework that fixes key parameters for long periods risks becoming detached from market realities and may prevent consumers from benefiting from future reductions in risk or efficiency gains.

Investors should have confidence regarding how decisions will be made, not guarantees regarding the results of those decisions. Stable methodologies support investment while preserving flexibility to respond to changing circumstances. Fixed outcomes, by contrast, risk shifting excessive risk from investors onto airlines and consumers.

We also note that a longer-term framework should not become a mechanism for addressing issues arising from the financing/corporate structure or balance sheet characteristics of any individual operator. Any departure from established regulatory practice should be justified by demonstrable consumer benefits through lower overall project costs, improved efficiency or better investment outcomes. Long-term frameworks should not become a vehicle for transferring risks that would ordinarily be borne by investors onto airlines and consumers.

Competitive Pressure Must Remain a Core Policy Objective

We welcome the CAA's intention to further develop competitive procurement arrangements and to explore mechanisms that introduce greater competitive discipline into the delivery of airport infrastructure. Heathrow's enduring market power means that regulation will remain necessary, but competition and regulation should be viewed as complementary tools rather than alternatives.

We are particularly encouraged by the CAA's willingness to explore mechanisms that would require Heathrow Airport Limited to demonstrate that infrastructure is being designed, procured and delivered through genuinely competitive processes. This is one of the most practical means available of introducing competitive disciplines into a constrained airport environment.

Opportunities for credible challenge to incumbent assumptions, delivery models and costs should remain actively under consideration wherever they can improve consumer outcomes. We do not believe implementation complexity alone should justify excluding otherwise beneficial reforms, and indeed given precedence elsewhere are concerned these have been overplayed. The relevant question is whether the benefits to consumers justify the complexity involved.

This discussion also highlights a wider issue regarding Heathrow's licensing and ownership framework. The current arrangements provide an exceptionally broad and enduring licence to a single operator and differ from many international models where governments retain opportunities periodically to review operating responsibilities, concession arrangements or market-entry opportunities. In contrast to concession models where the State retains ownership and can intervene if the regime fails to deliver, the UK's model makes any subsequent change in ownership or regulation extremely difficult for a costly airport such as Heathrow. IATA does not advocate any specific ownership structure, but international experience shows that ownership choices and regulatory design cannot be considered in isolation. Where a framework hands significant discretion to a monopolist while limiting the ability of government and the regulator to intervene, it can contribute to the affordability and delivery challenges visible today. The CAA should therefore retain flexibility regarding alternative ownership structures, operating arrangements, licensing approaches and future market-entry opportunities where these could benefit consumers.

Comments on the Proposed Next Steps

IATA welcomes the CAA's decision to move from assessment of individual regulatory models towards implementation of an integrated regulatory framework. The various workstreams should be viewed as components of a single programme focused on affordability, efficiency, accountability and consumer protection.

Enhanced Capital Governance and Incentives

We support the CAA's focus on earlier stakeholder engagement, greater transparency, genuinely independent assurance and stronger accountability for delivery outcomes. These reforms should be implemented across Heathrow as rapidly as practical so that consumers begin to benefit from improved governance at the earliest opportunity.

The CAA should continue to draw on international best practice. The experience of robust regulatory scrutiny in Ireland demonstrates the value of independent challenge and close user involvement in ensuring that infrastructure remains proportionate, affordable and responsive to customer needs.

IATA also supports work on establishing an overall cap on expansion.

Competitive Tendering and Procurement

IATA strongly supports the development of mandatory competitive procurement arrangements. Competitive challenge should extend beyond construction activities and include opportunities within design, programme management, asset delivery and, where appropriate, operational activities. The objective should be to ensure that investment decisions are tested against the market wherever possible.

Long-Term Framework

Without prejudice to our earlier comments, any framework should focus on providing stability of methodology rather than locking in individual regulatory parameters or returns. Departures from established regulatory practice should be justified by demonstrable consumer benefits and should not become a vehicle for transferring investor risk to airport users.

Risk Allocation

As the CAA develops its policy on expansion financing and ongoing capital expenditure, risk allocation should remain a central consideration. Current consumers should not bear the risks associated with future infrastructure that may be delayed, altered or never ultimately delivered. To act as a true incentive, the framework should ensure that risks sit with those best placed to manage them.

Ongoing Engagement

IATA encourages the CAA to maintain structured engagement with airlines and their representatives as the framework is developed. Regular workshops or bilateral sessions would help ensure that the design of capital governance, competitive procurement, risk allocation and any market-opening measures is informed by user experience and tested against practical implementation issues. This would also provide continuity with previous consultations, including CAP3251, and help ensure that the final framework reflects a consistent and evidence-based regulatory approach.

Conclusion

IATA welcomes the direction of travel set out in CAP3286 and the constructive engagement demonstrated by the CAA throughout this process.

As the framework develops, we encourage the CAA to remain focused on four principles:

- affordability for consumers;
- efficient allocation of risk;
- meaningful accountability for investment decisions; and
- competitive introduction and discipline.

The strongest opportunities for consumer benefit lie in enhanced capital governance, stronger procurement disciplines and reforms that promote efficient delivery of infrastructure and insert competition. These reforms should not be limited to expansion and be implemented across Heathrow as rapidly as practical while ensuring that investors, rather than consumers, bear the risks associated with future development.