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Stewart Carter,

Civil Aviation Authority

Sent by email to: economicregulation@caa.co.uk & stewart.carter@caa.co.uk

12th September 2025

Dear Stewart

Re: Airline community response on CAA CAP3149 Heathrow Capacity Expansion – Early Costs

Thank you for the opportunity to submit views on the regulatory policy for the recovery of early costs incurred by Heathrow Airport Limited and other promoters in developing proposals for capacity expansion at Heathrow (the “Consultation”).

This submission is made jointly by the London (Heathrow) Airline Consultative Committee (“LACC”), Heathrow Airline Operators Committee (“AOC”), and the International Air Transport Association (“IATA”) and should be read alongside individual airlines, groups and alliances’ own submissions.

1. Executive Summary

The airline community strongly oppose any policy that means airlines and ultimately consumers are paying for costs incurred by any promoter in preparing their proposals for Heathrow expansion. Consumers have already been burdened by circa £500m of expansion costs to date and the cost estimates being proposed, particularly by HAL, for obtaining consent alone are staggering. But the landscape this time is different given Government have invited proposals, and multiple promoters have responded creating an opportunity and environment on which the CAA must reflect in its policy decision.

This response sets out key principles the CAA must take forward in order to protect airlines and ultimately consumers, including:

- **Our strong support for Option 4: Do not allow recovery of costs**, as the most consumer-focused and efficient approach. This option avoids the risk of consumers funding speculative or failed proposals, maintains a level playing field among promoters, and should inherently drive stronger cost control. This response disputes concerns that Option 4 would discourage participation or slow progress, citing the precedent of the Airports Commission¹ where promoters bore their own costs.
- **Ensuring appropriate safeguards are put in place to assure and minimise costs**, including consideration of the treatment of cost capitalisation, spending caps, and independent assurance. Should the CAA permit cost recovery by multiple promoters, the response urges the implementation of further safeguards to prevent duplication and inefficiency, including

¹ <https://www.gov.uk/government/organisations/airports-commission/about#:~:text=The%20Airports%20Commission%20completed%20work,Who%20we%20are>



non-recovery of duplicated costs by unsuccessful promoters and ensuring clear definitions and high thresholds for promoter eligibility and cost recovery.

- **Addressing the deep concerns on the scale and lack of cost detail provided, particularly in relation to those submitted by HAL.** Not only do they differ substantially from those put forward by Arora Group, but it is also unclear as to how they relate to costs previously incurred, align with the forward look costs shared with the airline community recently, as well as those consenting costs being proposed under the “Modernising Heathrow” programme.

2. Views Invited: Key Issues (Chapter 2)

2.1 Initial cost estimates provided by HAL and Arora Group

- 2.1.1 The CAA has asked for views on the initial cost estimates; however, we consider there is insufficient information to meaningfully comment. Indeed, if this is all the information the CAA has received, it raises serious concerns about how it can reasonably assure itself (and others) of the efficiency and value for money we are now being asked to comment upon.
- 2.1.2 The stark difference in the proposed costs put forward by HAL (£320m² for 2025 and 2026) and Arora Group (£3.5m - £4m) is also troubling, particularly in light of the lack of detail and requires further investigating. Given Arora Group lacks the same regulatory protections for cost recovery HAL has, it raises serious concerns on the extent to which HAL in particular have inflated their proposed costs, noting as well the comment within the Consultation that *“HAL said that it did not consider that a detailed review and consultation on these early costs are necessary given the compressed timeline....³”*. This is wholly inappropriate and, given HAL’s monopoly position, illustrative of a disregard for a proper and due process.
- 2.1.3 With regards to HAL’s proposed costs we are particularly concerned that:
- 2.1.3.1 At the “Expanding Heathrow Scheme and Cost Engagement session” on 10th July 2025, HAL presented to the airline community a cost estimate of [REDACTED] which does not reconcile with the figures shared in the Consultation.
- 2.1.3.2 At the same engagement session HAL also presented the [REDACTED] as an opportunity for cost reduction based on re-using previous materials⁵ yet provided no further details. Given HAL have submitted proposed figures for consent to the CAA, the lack of understanding at this stage is deeply troubling. Without full transparency, identifying the extent to which – and discounting for – previously incurred activities and costs being sought here is critical. HAL have already received circa £500m of expansion costs related to the scheme they are proposing, and it is imperative that consumers are not paying twice. It is critical that the CAA undertakes a full review of this issue.
- 2.1.3.3 The CAA were clear in their expectations under CAP3083C that the H8 Method Statement was on the *“assumption that large investment programmes related to the significant expansion of the airport should be considered in the round as part of our wider work on capacity expansion, to make sure there is a coherent regulatory package for both terminal*

² 2024 prices. £71m in 2025 and £249m in 2026

³ Para 2.10 Consultation document

⁴ 2023 prices. Slide 22 of the presentation

⁵ Slide 26 of the presentation



and runway expansion". We note however that within HAL's H8 Business Plan, HAL have forecasted [REDACTED] during H8 under the "Modernising Heathrow" programme. We will be following this up further through the H8 Constructive Engagement process but strongly encourage the CAA to address this issue by undertaking a detailed review of ALL costs being proposed by HAL associated with capacity to ensure: (i) the appropriate categorisation of such costs; and (ii) there is no duplication of costs within those being proposed by HAL for expansion and those under "Modernising Heathrow".

- 2.1.3.4 It appears that nearly half of the costs proposed are for works that would be considered "early enabling"⁶. Whilst noting a desire to meet Government timetable, it seems wholly inappropriate to: (i) commit to any costs which could materially benefit a particular scheme being promoted; and (ii) doing so in advance of the outcome of the DCO process.
- 2.1.3.5 These issues highlight the deep challenges in information asymmetry between HAL and the airline community and is an issue the CAA must seek to address going forward, including support required by airlines to fully engage in the process which has not been considered within the Consultation despite being a significant input and potential cost.
- 2.1.4 In light of the points raised above, it is critical that the CAA ensures any promoter that wishes its costs to be considered provides in a timely manner the appropriate level of detail for a full and thorough assessment of the costs being proposed.
- 2.1.5 In undertaking any review of costs, we would also highlight the Government's "Planning and Infrastructure Bill (2025)"; the first objective of which is to deliver "*a faster and more certain consenting process for critical infrastructure*"⁷. Whilst recognising the Bill is still to be enacted, should it do so as expected, it is reasonable to assume this streamlined process will have a cost benefit which should be taken into account.

2.2 Elements of the previous arrangement to retain

Without prejudice to previously submitted views on the approach submitted to the CAA at the time, the following principles should be considered here:

- 2.2.1 Any cost recovery upon the successful outcome of the DCO: This should not only act as an incentive for only incurring necessary and efficient costs; and therefore mitigate the risk of speculative costs being incurred, but it would also closer align with a key principle of consumers not pre-funding such costs.
- 2.2.2 An overall recovery cap: This would not only set clear expectations but would provide greater certainty for all parties and should encourage rigorous cost control from promoters. Such a cap should not however be seen as a 'target' nor negate the need for the full assessment and evidencing of costs being efficiently incurred.
- 2.2.3 Independent assurance and enhanced reporting requirements: Whilst noting having multiple proposals will allow for a greater degree of comparison and assessment, it should not be left

⁶ Pre-mobilisation £10m; Property £84m; and Deliver the Capacity £46m (Total £140m)

⁷ <https://www.gov.uk/government/publications/the-planning-and-infrastructure-bill/guide-to-the-planning-and-infrastructure-bill>



solely to the promoters. Any costs consumers might bear must be fully transparent, necessary and appropriately assured.

2.3 Suitability of existing capex incentives and uncertainty mechanism

- 2.3.1 The airline community agree that the current arrangements were established for H7 in the context of a “two runway” airport and as such should not just rollover without further review, particularly in light of wider comments set out within this response. Such a review should also take account of developments and comments received through the H8 Constructive Engagement process as well as the CAA’s review of the regulation of Heathrow⁸.
- 2.3.2 Notwithstanding the above, the principle of the airline community having a key role in the assessment and governance of capital costs must continue to be applied to any costs that ultimately may be passed onto airlines and consumers.

2.4 Licence modification to allow recovery by other promoters

- 2.4.1 Given the view that costs should only be recovered by the successful promoter, we do not envisage this requirement as necessary.
- 2.4.2 Without prejudice to the above, should the CAA allow recovery from multiple promoters, any such scheme should ensure appropriate safeguards are in place as set out within this response.

3. Views Invited: Options for Recovery (Chapter 3)

3.1 Views on the four options presented

- 3.1.1 As set out earlier, the airline community are firmly of the view that the CAA should develop and adopt “Option 4: Do not allow recovery of costs” on the basis that is the strongest approach in meeting the CAA’s statutory duties of furthering the interests of consumers as well as promoting competition⁹.
- 3.1.2 Given its nature, not only does Option 4 drive true cost efficiency; but it does so through a level playing field whilst avoiding consumers being burdened (again) with abortive costs of failed schemes. Furthermore, it also avoids the challenges, including time, of setting appropriate definitions and defining mechanisms around who and what costs could be recovered.
- 3.1.3 The CAA has highlighted in the Consultation several concerns with Option 4 in that: (i) it may not be consistent with established economic practice within the UK as it does not allow HAL a “fair bet” incentive; (ii) it could discourage promoters or encourage poor submissions; and (iii) may encourage a slowing down of the process. We disagree that is the case:

⁸ CAA CAP3144 “Statement on scope and process for CAA’s review of the regulatory approach to capacity expansion at Heathrow airport”

⁹ Civil Aviation Act 2012, Section 1 (1) and (2)



- 3.1.3.1 When the CAA last set its policy for early costs for expansion it was done in the context of HAL being the only promoter fully recognised by the CAA¹⁰. Given the context here in that: (i) Government have explicitly invited proposals from any promoter; and (ii) multiple promoters have made submissions, the situation is more akin to – and therefore precedence for – the work undertaken as part of the Airport’s Commission where parties were responsible for their own costs.
- 3.1.3.2 Rather than acting as a disincentive, the other Options risk a higher degree of potentially speculative and / or unnecessary costs being incurred – and ultimately paid for – by consumers by providing a level of guarantee whatever the outcome.
- 3.1.3.3 With regards to the risk of adding delays, the Government have set out a timetable for the DCO process which promoters would be expected to adhere to; as such there is already a strong incentive to avoid delays or slowing down.
- 3.1.4 Without prejudice to our position, should the CAA allow recovery from multiple promoters, then the CAA must consider further protections to minimise consumers’ unduly paying for multiple – and failed – submissions. Such considerations must consider a well-defined, high bar to be considered a “promoter”; only allowing for cost of debt interest (as opposed to the full WACC), and a significant downside risk sharing mechanism which does not allow the full recovery of costs if not successful¹¹.
- 3.1.4.1 For the avoidance of doubt, given the environment this time with multiple promoters we do not believe the risk sharing mechanism requires any “reward” as was previous CAA policy for Category B costs¹².

3.2 Avoidance of duplication of costs

- 3.2.1 Without prejudice to our position, should the CAA allow recovery from multiple promoters, this significantly increases the chances of duplicated costs. As such, alongside the wider points raised within this response we would encourage the CAA to consider:
- 3.2.1.1 the non-recovery of duplicated costs by unsuccessful promoters. Whilst not going as far as Option 4 it would at least offer a degree of protection for consumers;
- 3.2.1.2 a mechanism that would allow common work e.g. environmental studies etc to be undertaken and paid for once. Such an approach should not however act as a disincentive to cost efficiency nor absolve promoters responsibilities or limit the development of their independent proposals; and
- 3.2.1.3 minimising the time duplication of costs may be incurred.

¹⁰ We note that the CAA were reviewing Arora Group’s proposals but, as set out in Paragraph 1.8 of the Consultation, at the time of the policy being established the CAA had not fully assessed, nor set any position, in relation to the treatment of these costs.

¹¹ The previous policy for Category B costs was limited to 85% recovery in the event of an unsuccessful Development Consent Order

¹² HAL would have been awarded 105% of costs on the outcome of a successful Development Consent Order



4. Other Matters for Consideration

- 4.1 As set out in Paragraph 1.4 of the Consultation, the proposed policy is primarily focused on costs associated with supporting a DCO application. As per our comments under 2.1.3.4 above, we are concerned on the extent to which, and how the CAA will consider, early enabling / construction costs being incurred. We welcome clarity from the CAA on this point.
- 4.2 We concur that, given the current uncertainty with the process, the wider review on regulatory reform of Heathrow, and our concern as per 4.1 above, the policy should focus on the near term.

With thanks for consideration on these matters. Should you have any queries in relation to any of the points raised above we remain available to discuss further.

Yours sincerely

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