



CAA CAP3195: Working Paper on Regulatory Models

Economic Regulation and Ownership of Heathrow Airport

1. Executive Summary

IATA welcomes the opportunity to provide input on the regulatory model applicable at Heathrow Airport.¹ IATA shares the concerns raised in the consultation, including the unacceptably-high level of charges at Heathrow, the significant rise in charges that have occurred over time,² and the risk of further increases with significant levels of capital expenditure being proposed³. IATA believes that the case for change has already clearly been made by the CAA and other parties including the Heathrow Reimagined campaign, as detailed further within the consultation and agree with the CAA's assessment that "*there is sufficient evidence to warrant revisiting the current regulatory model to determine whether it can be improved or whether an alternative model can better serve the interests of consumers*".⁴

Whilst IATA believes the current framework has multiple qualities including a strong mandate for the CAA to protect the consumer, Single Till, and established consultation processes – these alone have not been enough, or executed to their fullest extent, to prevent the abuse of market power. Furthermore, the framework contains flaws and elements which go against IATA's established positions and, in our assessment, does not provide sufficient incentive to cut the costs of expansion and manage outturn costs which ultimately translate into higher charges.

As such, IATA does not believe the current model is sufficiently robust to handle the multi-billion-pound expansion. **IATA therefore welcomes the CAA undertaking this review. We support the finding that the current model and its incentives are not working and encourage the CAA to look deeper at the underlying causes of this failure. As described in this response, the CAA must implement reforms to the model to fulfil its statutory duties.**

Rather than only focusing on regulation, the CAA is de facto consulting on the Ownership, Operating and Regulatory model applicable to Heathrow Airport. IATA agrees with this approach and encourages the CAA to also challenge the UK Government's role in ensuring affordable delivery of aviation infrastructure. IATA has no firm position for or against private or public operation of airports, however Heathrow Airport clearly is a piece of critical infrastructure, and it is in the UK Government's interest to ensure that it is developed appropriately. The current level of costs being proposed, coupled with HAL's past performance on major programs⁵, raise

¹ In this document, Heathrow Airport refers to the physical airport and infrastructure. Heathrow Airport Limited refers to the company that currently holds the license to operate that airport.

² Paragraph 2.28, CAA CAP3195

³ IATA assess that on a 'like for like' basis, HAL's H8 Business Plan would increase charges by 47% against current levels, even before taking into account the proposed billions of pounds expenditure proposed to expand Heathrow.

⁴ Paragraph 1.13, CAA CAP3195

⁵ As per the assessment set out in consultation in relation to Terminal 2 and Terminal 5, as well as previous airline community submissions to the CAA in relation to the Q6 ex-post review

significant questions as to whether it will deliver the full benefits espoused and, if left unchecked, risk being prohibitively expensive.

IATA agrees with the CAA's findings on the flaws and challenges of simplistic approaches such as price benchmarking to set charges or light touch regulation; these should be rapidly excluded given the significant market power of a fully privatized and highly capacity-constrained airport. IATA also believes that the remaining options are not mutually exclusive. **IATA believes the CAA must promote economy, efficiency and competition by developing one or more packages of reforms focusing on encouraging and inserting competition where feasible combined with, and underpinned by, enhanced and effective economic regulation.**

Likewise, **in its assessment of options the CAA's statutory duties as the independent regulator to further the interest of consumers must take priority.** The stakes for a major European hub mean that **expediency cannot override the CAA's responsibilities to consumers and airlines in this process.** In so far as it might, Government policy cannot be allowed to compromise affordability, transparency or the implementation of the appropriate changes required to the future regulation of Heathrow.

The notion of removing the default approach of handing control of the entire airport and its operations to a single operator merits deeper assessment. The potential benefits for introducing competition are clear and airlines, as customers, should have a right to request alternatives to current options when it is possible. It is, however, essential to recognize that, within such a highly constrained environment, genuine competition for all airport services remains improbable. If demand continues to outstrip supply and there is neither sufficient land for further expansion nor adequate space within existing terminals for airlines to relocate, robust regulation by the CAA will remain indispensable to ensure fair and effective oversight.

Heathrow Airport possesses, and will continue to possess, considerable market power. While expansion will provide much-needed additional capacity, the prevailing and projected levels of demand mean that Heathrow's market dominance will endure. Therefore, **there is a clear and pressing need for a step-change in regulatory scrutiny, particularly regarding capital expenditure, the creation of sharper incentives, and the introduction of more competitive delivery and operating options.**

IATA supports the CAA's efforts to engage with users and urges ongoing, continued consultation post submission as the long list of options is refined. IATA stands ready to contribute ideas and expertise to ensure Heathrow develops in a way that is efficient, affordable, and sustainable, which in turn will ensure Heathrow can be an attractive hub for aviation to grow and connect trade and people with the UK.



2. The case for change

2.1. IATA Evaluation of regulatory frameworks

IATA bases its positions on ICAO policies and guidelines as well as a series of established positions which can be found on our website www.iata.org/airport-charges. Our association is mandated by our members to advocate for these positions in all markets, to achieve our objective of having the appropriate infrastructure and services from airports in exchange for the lowest possible costs to airlines and, ultimately, consumers. Airlines pay approximately \$100 billion in airport charges annually globally and unwarranted increases or high levels of charges at airports ultimately limit our members' ability to compete and serve the global market. As airlines are in direct competition, ultimately in the longer-term higher input prices from airports do affect consumer prices. Airlines make significant efforts to optimize costs such as fuel burn and aircraft costs; however airport and ATC charges continue to represent around 15% of global air transport costs (excluding taxes.)

2.2. IATA supports the CAA assessment

Considering our established positions, **IATA agrees that the CAA must review how Heathrow airport is managed, developed and regulated.**

Heathrow Airport is one of the largest hub airports in the world, serving a major urban area, and is one of the rare cases of complete divestiture of such strategic assets from government control. As such, it presents a significant risk of market power abuse. Market power abuse manifests itself at airports in the form of:

- Inappropriate pricing (inefficiency in underlying costs, excessive profits, price discrimination)
- Inappropriate investment (Too high, too low, inefficient design/delivery or unnecessary)
- Inappropriate quality of service (Too high or too low)
- A lack of transparency and consideration of user perspectives in decision making (which harms consumers as they cannot react to inappropriate decisions by moving to alternative providers)

The CAA have already performed market power assessment tests and identified that HAL has significant market power⁶ and this principle of operator(s) having such must form the basis of the CAA's consideration of future models.

In the sections below, you will find additional points for your consideration. IATA notes that the CAA has not specifically identified that the ownership and licensing model may be a contributing factor to the current situation. IATA, with Deloitte, published [guidance material on Ownership and Regulation of airports](#), aiming to provide guidance to governments and regulators on the interactions between these aspects. IATA touches on the need for the CAA to consider this both as a contributing factor to the current situation and when considering how to implement a new economic regulation framework.

2.2.1 Pricing

Charges at Heathrow have increased over time and with the current investment volumes risk significantly further increasing. In the regulatory framework in France, there is a requirement for increases to be "moderate"

⁶ As determined under CAA CAP1133: Notice of Determination, and further reaffirmed in various CAA publications related to the H7 Economic Price Control Period

in line with ICAO's policies on airport charges requiring any changes in charges to be gradually introduced. As such, ADP recently presented at an [Investor Teach-In](#) a chart comparing the relative increases of different airports. According to their calculations, Heathrow has increased charges by 61% relative to 2009, confirming the trend published by the CAA in Figure 1 of the consultation document. There are grounds, as the CAA exposes, to be concerned about further increases. The tipping point at which ultimately the business case for continuing to fly to Heathrow will no longer be viable is very challenging to calculate. The CAA obviously must consider that high prices will inevitably impact airline competition, choice for consumers and the UK economy as a whole.

Beyond the trend on prices, **IATA also notes that HAL may be practicing unfair pricing**, as international passengers are charged significantly more for the use of facilities than domestic passengers. In other European airports, the ratio between domestic and international passengers has a significantly lower multiplier. Price discrimination is a hallmark of monopoly power, and the CAA must both address this point as well as respect the United Kingdom's commitments in various air services agreements and ICAO policy whereby international traffic should not be treated differently and subsidize domestic traffic. A framework which allows significant differences in pricing of this nature indeed requires some adjustments.

Pre-funding of future costs is limited by ICAO to a very narrow set of circumstances and only possible if you have significant market power. The recent launch of the "early costs" consultation process⁷ illustrates that the CAA is willing to entertain prefunding mechanisms for expansion. A single developer that can fund studies and development of infrastructure by overcharging users as opposed to financing is not the characteristic of a competitive business. Airlines often start operations reporting losses due to initial investments. There is no reason HAL – nor any other promotor – should be treated differently as opposed to re-investing their return on capital in early development costs.

Given the persistence of these pricing practices and the general trend to increase already high prices, we agree the current model needs reform to address these issues.

2.2.2 Investment

The evolution of charges at Heathrow has been driven notably by significant increases in the asset base. In 2009, the Regulated Asset Base (RAB) was around GBP 10.4 billion, rising to GBP 20.4 billion by the end of 2024⁸.

The Heathrow Reimagined campaign and others through the H8 process, including IATA, have pointed to specific points in the existing regulatory model and incentives it creates, notably regarding the growth of the RAB, including through indexation and management of outturn costs for development projects. We agree that these points need to be reviewed and reformed to avoid further escalation of charges.

In contrast to other European operators, the order of magnitude of the projects presented at Heathrow is staggering. Whilst not to be taken as any sign of endorsement, we note other airports are presenting capex plans for major redevelopment works of up to EUR 10 billion⁹, and even these seem overpriced considering the final outputs. HAL's H8 Business Plan alone is proposing c.a. £10bn capital expenditure, which does not include the additional c £49bn for delivering a fully expanded Heathrow, However, and linked to our later recommendations – the arrival of alternative proposals for expansion has contributed to questioning the

⁷ CAA CAP3201

⁸ Heathrow (SP) Limited Financial Accounts

⁹ AENA recently announced a c.a. EUR 10 billion investment plan for the next DORA agreement. Groupe ADP plans to invest around EUR 1 billion per year over the 2027-2034 ERA. Schiphol has proposed a EUR 10 billion investment plan until 2035

costing and the value of the HAL proposals. Without endorsing any proposal, IATA supports competitive challenges to designing, building and operating the infrastructure at Heathrow.

The current framework is insufficient to address future investments at Heathrow. Several capital incentives for H7 such as Delivery Obligations and ex-ante efficiency assessment were introduced for existing capital expenses in a two runway, "business as usual" context. The CAA's own assessment is that *"the current regulatory framework may be less effective in delivering outcomes further the interests of consumers compared with business as usual expenditurethere is a case for examination of amendments or alternatives to the current regulatory model...¹⁰"*; we would go further and view that **current incentives alone are not sufficient and a step change in the regulatory incentives – particularly aligning allowance of returns aligned to delivery and benefits, capital governance and cost control will be required.**

2.2.3 Quality of Service

IATA notes the various assessments made in relation to quality of service at Heathrow, as set out in the consultation, and **reiterate the importance of ensuring appropriate, binding incentives on HAL that reflects, and are commensurate to, the levels of investment and cost of provision** – all ultimately borne by airlines and consumers. It is also imperative that such measures reflect airline and consumer priorities¹¹ and, given the length of construction time and potential disruption to operations, such incentives remain in place throughout periods of development.

Further information on IATA's views on [Airport Service Quality frameworks](#) are available in our published position paper on our website.

2.2.4 Transparency and Consultation

ICAO's policies on airport charges in DOC 9082 clearly outline transparency, consultation, cost-relatedness and non-discrimination as key principles. Consultation needs to include the topics of performance, capacity development and investment plans – and ICAO clearly outlines that "... the views of users should be given proper consideration during the process." Globally, IATA recognizes that Heathrow has, on paper, one of the most established governance and consultation structures of major privately owned and operated airports. While the structure exists – the effectiveness of consultation remains inadequate.

Quantity is not a substitute for quality. The current ownership and operating model bestow, via a broad license, the right to own and operate the airport to a single entity without the possibility for alternative solutions or players to materialize. This negatively impacts the consultation process as **significant imbalance of power still exists and strategic decisions made in isolation by HAL frame any such engagement.** The CAA needs to change the model to ensure that effective consultation is in place.

For example, in the development and timing of a particular program, airlines have very limited opportunity, and HAL has little real incentive, to ensure their own priorities are delivered. Escalations require an extremely high bar with the risk of further costs to airlines in any delays. The current model fails to address the asymmetry of information and encourages the promotion and engagement on solutions with capital expenditure which ultimately go onto and earn a return via the RAB and pushes up charges. This is a persistent feature in many major European hubs where there is some form of discussion and engagement, but this does not meet the requirement for consultation to be effective whereby users can provide real input early enough that the airport operator can seriously consider in the fundamental concept and its development.

¹⁰ Paragraph 2.74, CAA CAP3195

¹¹ Further details on which have been shared through the H8 Constructive Engagement process

Issues relating to the current consultation process, particularly on capital are already being explored as part of the H8 Constructive Engagement and this should act as an input in the CAA's assessment of future models.

2.2.5 Ownership, Operations and Regulation (OOR)

The ownership and regulation model have contributed to allowing the current situation to exist and will require varying degrees of effort to reform. IATA's understanding of the current license for Heathrow is that the right to operate the airport is legally distinct from the ownership of the land and assets. We should point out that it is rare for the assets and land of a major airport to be entirely privately owned with no "step-in" rights. In many cases, ownership or operation is granted under a form of lease, concession or specific framework due to the national strategic importance of airports. IATA details this in our publication on Ownership and Regulation, as well as on Balanced Concessions for Airports.

The CAA has, in our view, insufficiently explored how the ownership and operating framework, in addition to economic regulation models, has caused the current situation due to the incentives it creates. Deeper analysis of the underlying causes is necessary. The CAA is already indirectly considering ownership and operating models but can go further. Some of these options might require the Government to take steps to enable changes.

IATA has no firm position in favor of private or public operation of airport infrastructure. However, both IATA and ICAO caution that the ownership (and operation) model has an impact on operator incentives and impacts regulation. The models presented by the CAA at times include solutions which reference these aspects, however there is a risk that under the current ownership regime the CAA would discard them too quickly as the CAA may not be able to, on its own, implement changes. To achieve the objectives of protecting consumers, the CAA should review the ownership, operation and regulatory framework including incentives that may have been created by choices made to date. This means recommending changes to the Government, if required, in line with the CAA's statutory duties. IATA can provide further assistance to the CAA in understanding what ownership and operation frameworks exist in other countries.

The CAA should address these aspects more explicitly as part of the decision-making process.

2.2.6 A need for strong regulation – and an independent regulator

Airports are challenging to regulate, notably because of the irregular cyclical nature of capex investments and the evolving and varied needs of airlines and consumers. This means frameworks from utilities and other similar markets cannot be directly transposed. While airports have a clearly identified user community with specific needs and requests, these users also cannot be expected to regulate the airport on their own.

On the one hand, there will always be persistent information asymmetry issues, and on the other hand – the community will always have a wide range of players with competing interests and various levels of expertise which means that user involvement is necessary but alone not sufficient. **This means that for Heathrow, a strong CAA role is necessary not only for ensuring transparency and consultation – but setting appropriate incentives and directly intervening with regulatory measures to prevent the abuse of market power.**

The CAA must retain its independence and respect boundaries but provide clear recommendations and as needed, challenges to government policy in line with its duties. **If the Government's choices of ownership regime, timelines for expansion or expansion options have an impact on consumers and users, the CAA has a duty to comment and enable stakeholders to share their views.** At several points in the document, the CAA refers to elements of government policy. The CAA must, as part of their assessment, provide their views on government policy using their mandate which prioritizes the interests of consumers.

Ultimately, under the auspices of air services agreements and international obligations – the responsibility for providing safe and efficient facilities falls with the government. HAL indicates that their independence from government is important for them and while IATA has no preference on public or private ownership, total government disengagement from airport infrastructure and regulation matters is not an option. Heathrow will always be impacted by State policy, and it is the Government's responsibility in the global air transport system to ensure that the airports provide safe, efficient and affordable services. To that end, the CAA should point out to the Government if and when choices made are not, ultimately, in the best interest of airport users, consumers, and the United Kingdom's international obligations.

2.3. Summary

Given the reasons set out above, **IATA considers there is a clear case for change as set out further within the consultation, particularly, although not exclusively, in the context of expansion.**

The consultation must seek to fully understand and address the underlying root causes of the issues that have led to the poor consumer outcomes in relation to significant rise in airport charges and service standards that are not commensurate with the charge or reasonable expectations.

3. The framework for assessing regulatory models

The framework with the six elements intended to assess the regulatory model appears to be a solid base. The CAA must add a criterion related to affordability, and putting greater weight on that aspect, reflecting the CAA's primary duties, as opposed to the financial model on the airport side. Futureproofing and risk allocation are also discussed below.

In the long list, there are currently multiple options which include changes to ownership and operation frameworks. IATA encourages the CAA to develop these options further which may in turn imply changes to the criteria. This is an opportunity to put all options on the table.

While the matrix in Figure 8 may be illustrative, several of the models that the CAA is proposing are not mutually exclusive or operate on different levels of an OOR framework. For example, it is possible to maintain regulatory scrutiny including price controls and capex scrutiny while introducing some competition in the ownership or operation areas. Likewise, those changes can be implemented while changing the regulatory approach (price cap, rate of return.) Detailed documentation comparing all 15 models will not be able to reflect where some OOR aspects can be combined as they are not mutually exclusive. The models presented operate at different levels and in some cases cannot be easily compared. The CAA would need to identify which characteristics of the "models" are compatible with each other, and which ones are not and involve trade-offs.

As part of the assessment of OOR models, there does need to be clarity provided on the governance and roles/responsibilities of different parties. By way of example, if specific assets or services were to be operated by parties other than HAL, who makes the decision to make the change? Who selects the provider and negotiates/discusses terms? These topics and different options need to be explored as part of the next phase of consultation.

Practically speaking, it may be useful to isolate the common features of the current model list and to review their characteristics and compatibilities as "ownership, operation or regulatory measures" rather than models.

3.1. Additional criteria or features for consideration

IATA considers that three aspects must be added to bring out differences between models:

Affordability: The framework must ensure a stronger emphasis on containing the level of charges than seen to date. As raised by IATA and airlines during the setting of the H7 price control process¹², there are concerns that overall “ability to finance” and shielding operators from potential insolvency has been given too much priority when compared to overall affordability, including the outturn of airport charges. Given the concerns raised on both level of capital costs and impact on charges, this imbalance must be addressed for both H8, and any future model for expansion. The CAA must assess the impact of the ultimate level of charges on the market for air transport, competition, and connectivity.

The CAA may also wish to consider recent shifts in taxation policy in other countries in contrast to the UK’s position. Any specific policy never exists in isolation, and in this context, it seems necessary to include the costs borne by industry in terms of UK aviation taxes when considering overall affordability. The UK already has one of Europe’s most elevated ticket taxes, increasing by some 15% in April 2026¹³. Taking a holistic view of the overall cost burden on airlines operating at Heathrow when considering affordability would demonstrate that increased costs to airlines could push the total level to a point where the increase diminishes air travel demand and impacts airlines appetite to grow and/or enter an expanded, more expensive Heathrow. In contrast, other European countries have reduced or removed their equivalent aviation taxes, understanding high taxation and regulatory complexity risk deterring airline investment and constraining connectivity. This criterion is important, and should be a standalone item or at very least the first order consideration behind the “cost” assessment criteria.

Futureproofing: In countries where the OOR model has been changed, there has often been a poor evaluation of alternatives at the time of model selection – but also what to do if the selected model does not achieve the intended outcome. The assessment should evaluate complexities or consequences of further adjustments to the model in the future. By way of example, the choice of full privatization by the UK government for airports means that due to current cost levels, a re-nationalization as was performed in the rail sector would be nearly impossible. In some cases, irreversible choices must be made – but they should be made consciously. The regulatory framework, once reformed can and must deliver stability and predictability (features captured under the Finance criteria) but will have to be retain some aspects of flexibility to be further adapted in the future.

Risk Allocation: In some cases, the proposed models either make choices or limit options regarding risk allocation between different parties. A clear and structured presentation of how risks are allocated in the different models can help understand their characteristics, flexibility, and interdependencies. As, for example, an airport’s return should be linked to the risk it takes – frameworks which modify this allocation would have implication on return, and therefore on affordability and financial aspects. Risks should be allocated to the party who are best placed to manage them.

3.2. Assessment criteria

IATA looks forward to a more detailed discussion of the assessment criteria and share the CAA’s views that much of this will be qualitative assessment. Quantitative inputs should be sought when needed, particularly insofar as the expansion is concerned. Insofar as the current criteria are concerned:

- **A. Appropriate support for capacity expansion :** IATA supports demand-led capacity development that is cost-efficient and aligned with ICAO principles. The future model must indeed provide support for meeting the needs of the market and linking allowed returns to delivered benefits. The delivery of capacity is critical, and IATA supports the delivery of capacity in the UK, however not at any cost. The design capacity of facilities and the associated phasing strategy should result in economically

¹² Airline Community response to CAA H7 Initial (CAP265) and Final (CAP2365) Proposals

¹³ [Air Passenger Duty: rates from 1 April 2026 to 31 March 2027 - GOV.UK](#)

sustainable outcomes given cost impacts, in addition to focusing on scope and quality deliverables. The criteria should focus on assessing not simply whether the capacity can be delivered, but how it is best delivered. The airlines need capacity to operate, but given the persistent increases in costs and high additional costs imposed by the UK Air Passenger Duty, expansion must be done while taking care not to make the market prohibitively expensive.

The evaluation should consider how models ensure that the features of the expansion, the functionality, and services provided correspond to both the current and future market needs. There should be mechanisms to incentivize delivery and outcomes that correspond to market needs.

Finally, some airlines have indicated that the current framework does not place sufficient emphasis on the management of risk, contingencies and different levels of development/design maturities for various investments. There should be more explicit evaluation of how the frameworks manage such aspects.

B. Costs: The CAA must emphasize that cost-relatedness, a core ICAO principle embedded in good regulatory practice and in various air services agreements – must never be abandoned. Consequently, the cost criteria needs to recognize that the ultimate beneficiary of efficient low costs are consumers and users, linking with our comment above on affordability. Expansion costs must be evaluated, but the criteria as proposed does not address optimization of existing costs including addressing the current RAB inefficiency.

The assessment should also consider:

- How prices are set between existing and new infrastructure
 - If competition were sought in some aspects of the build, ownership or operation model, what pricing principles might apply and the potential impacts on the airline market and ultimately consumers
 - How to ensure adequate emphasis on reviewing scope and business cases at early stages to control costs, but also effective monitoring of delivery beyond annual reviews
- **C. Finance:** This section explicitly references that HAL will need to ensure ongoing provision of airport services. If the current debt levels and financing costs are excessive, the regulatory model has likely contributed but the choices are, ultimately, HAL's. If a model were to make HAL's specific financing costs unsustainable, it should not be excluded that alternative owner/operator(s) could do better. All competitive businesses face the risk of insolvency or the loss of a market. The introduction of other operators into the market could mean alternative modes of financing. Furthermore, there should be consideration of alternative financial mechanisms as present in other jurisdictions to support expansion, including Government support. By way of example, in other countries municipal bonds or government guarantees ensure financing at lower cost than would be possible in general equity or debt markets.

IATA considers consider that the CAA has insufficiently explored the financing of both the current infrastructure and future development including the role of the State. At multiple points in the consultation document, the CAA considers the impact of choices on securing equity or debt financing. Airports – which are public infrastructure critical to governments – often have some form of State financial support. This can include subsidies, State shareholding, and State financing or guarantees. Depending on the country, this can come from national, regional or local governments. Given options and case studies considered by the CAA, this aspect should be further examined as it could make some initially unacceptable regulatory/ownership options more feasible.

Our point on ownership/operation frameworks is relevant here as there are also implications for the State. Some of the models proposed for Heathrow would require government intervention, at least in the form of legislative changes but could go as far as financial support or intervention. These should at least be presented for consideration, notwithstanding the current public statements from the government about financial commitments to Heathrow Airport or its expansion. If the current estimations for the cost of Heathrow expansion end up being close to reality, the timing of such intervention would have a material difference on the outcome. Changes to the current RAB at current levels (including State actions) as opposed to after expansion will have dramatically different financial implications. There is also the example of Thames Water, where inadequate consideration of the OOR framework can create a systemic risk for national infrastructure with excessive investment and indebtedness at some point becoming unsustainable and requiring State intervention. In the case of Heathrow, there is a non-null risk that financial engineering and poor control of costs could affect a key international airport, challenges which will ultimately lie with the Government to fix if risks materialize.

- **D. Practicality:** There are obvious considerations on how practical it is to implement a model, notably if the Government must make changes to enable it. This criterion should be treated with caution. While airlines are the first to ask for additional capacity at Heathrow Airport – this is not an endorsement to secure it at any cost and conditions. Airlines may be inclined to accept a change in the delivery timetable than a model rushed to meet Government policy, and which results in an unaffordable airport that hurts the industry or misses this opportunity for ensuring the most appropriate regulatory safeguards are in place. While constant reform and revision of the framework is not desirable, if the ultimate model is a hybrid with several different measures, these may be implemented in different timelines both for practical reasons but also linked to expansion timelines. The CAA should look outside the UK for experience in changes in models and how to manage their introduction.

This criterion can be broadened to cover the effectiveness and practicality of enforcing the model. In some countries, a regulatory model may encourage airlines and the airport operator to seek a negotiated agreement. If no agreement is reached, the regulator intervenes. The premise is that the threat of regulation may suffice to solve some issues. In practice, IATA does not always find this model works well – notably because of a lack of “credible threat” of regulatory intervention. In the case of Heathrow, the ultimate threat (a revocation of the license) and other consequences or enforcement actions should be evaluated on how practical they are to implement and therefore how realistic it is they will have an effect. The CAA must be more actively involved in capital expenditure, quality and cost discussions.

- **E. Competition:** IATA supports the promotion of competition and believe its promotion and insertion, in line with the CAA's own statutory duties, can provide significant benefits.
- **F. Service Quality:** An airport provides services to airlines and their customers, consequently evaluating this aspect is critical. The review should consider how service quality targets are set and the incentives the current model creates. This will need to be approached differently if there are several different operators. The evaluation should consider factors around collecting data to provide relevant comparison points, both at UK airports and abroad.

4. Long list of Models

IATA regularly engages States who have no real form of economic regulation in place, and both ICAO and IATA have extensive publications on what good regulatory models look like. In section 0, you will find the narrative of what IATA expects from airports when it comes to how charges are set and infrastructure and services are provided.

As IATA sets its positions globally, there is no single recommended economic regulation model which IATA sees as relevant to all airports. However Heathrow is an airport with a very high degree of market power and under full private ownership which should eliminate certain models from the start. The section below presents our view on the long list of models presented by the CAA, however as indicated the ultimate solution lies not in picking one from the list, but implementing a reform in ownership, operation and regulation which combines salient features of the different models presented.

4.1. Model categorization

The table below presents a categorization of the different models presented by the CAA

Enhancing existing RAB Model	Promoting Greater Competition	Alternative Frameworks
1a) Enhanced capex governance and scrutiny	4) Enhanced scrutiny or mandated procurement processes	9a) Price benchmarking against other airports
1b) Separation of planning and delivery	5) 3 rd Party Delivery under contract to HAL	9b) Long Run Incremental Costs based charging
2) Targeted Capex Incentives	6) 3 rd Party Build – Transfer to HAL	9c) “Lighter touch” models (e.g. LGW Contract & Commitments)
3) Long Term Commitments	7) 3 rd Party Owns & Operates	
	8) Transfer of current Terminal / Facilities to 3 rd Party	

NB: Numbering as per the consultation.

The current list of models is not clear or structured enough when looking at it as an “ownership, operation and regulation” perspective. In many of the models presented, the models work because of changes not just in regulation – but also because of ownership and operation decisions. By way of example, in the United States, some airport infrastructure has separation between ownership and operation. Additionally, in some cases private entities including airlines can undertake capex projects at an airport where the assets are ultimately owned by the local airport authority and financed through municipal bonds.

Changes in ownership and operation do happen. In France, Aéroports de Paris was given the full ownership of the land and assets as part of a general reform of the airport sector. In 2017-2019, the French State was considering selling part or all of its current shares in the airport. The State deemed that the model (similar to Heathrow) under which critical infrastructure was completely privately owned could be detrimental to the national interest and consequently implemented a process whereby the airport would return the assets to the State in parallel with the granting of a concession to those assets for a long duration. Consequently, the transition from private ownership to a concession model would not involve significant financial outlays for the State. We refer to our publication on Airport Ownership and Operation for additional forms of ownership/operations and our guidance on Airport Concessions. IATA looks forward to being able to explore options in this area with the CAA and the UK Government.

In the range of ownership and operating options, there are options for airline community ownership or operation of certain assets and services, respecting competitive neutrality. In some airports, particularly small ones, the airport authority is often singular and provides all infrastructure and services. This is sometimes also the case for ground handling. However, in larger airports, multiple providers can be present, and those

providers could include individual airlines or consortia of airlines. This model will have different incentives to a “monopolistic fully private” or “monopolistic fully public” ownership model, and the CAA may wish to review how such models operate. These models do bring their own complexity, notably to ensure competitive neutrality and clear governance structure but do work in some markets.

4.2. Broad evaluation of the long list

Perhaps the simplest to evaluate are the “Alternative frameworks” which seem very inappropriate for use at Heathrow.

4.2.1 Alternative frameworks as proposed are not an option

Price Benchmarking and Light Touch regimes do not fundamentally use costs to set charges. This goes against the ICAO principles and the accepted regulatory practice of cost-relatedness, which should not be up for discussion. IATA firmly believes that charges must be cost related, and the UK’s obligations in various air services agreements are that this must be the case. In Portugal, Hungary and Austria, charges are set using a non-cost-based price cap, and in those three cases the charges are significantly higher than costs due to inappropriate setting of the cap. IATA fully support cost benchmarking of airport operators’ underlying costs as a tool to support regulation.

IATA agrees with the CAA’s assessment of Heathrow Airport having significant market power and sees that continuing and as such any future model(s) will need to sufficiently seek to address this. In our work on Airport Ownership and Regulation, IATA presents a scale of options and consider that price benchmarking and light touch or “price monitoring” regulation are inappropriate. We fully support cost benchmarking, i.e. the benchmarking of airport operating efficiency and expenses as well as capital projects, as part of the consultation process and the regulator’s toolbox.

IATA sees no inherent advantage for Heathrow to look at any of these schemes, which can only lead to a reduction in cost control to the detriment of the consumer or an inappropriate cap which completely blocks investment. The differences between HAL-proposed price control rates and final regulatory decisions are a good illustration of why this cannot work. **The CAA should consequently exclude models 9A/B/C from consideration.**

For the sake of clarity, IATA also views the unlisted “do nothing” option, or small changes to the capex governance processes or targeted adjustments to the existing regime as being insufficient to address the current issues. IATA also does not support “extensions” of regulatory frameworks as outlined in regulatory model 3. The CAA rightly points out that in Paris, ADP successfully lobbied parliamentarians to pass an amendment to allow for a framework that can span ten years. However as visible already in the public discussions, the ability of parties to accurately foresee most elements feeding into charges beyond five years gets increasingly limited with additional years. Additional caveats must be added which in turn mean the sought-after stability and predictability are threatened. At this stage, IATA sees little value in an eight-year regulatory contract in France for airlines and sees significant risk of market power abuse, which is why IATA advocated with parliamentarians not to change the law. This is without prejudice for the absolute need for long term capital planning with user involvement from the very early stages.

Greenfield airports often have long lead times beyond five years and are broadly unable to benefit from pre-funding of their investments. It is not immediately clear why the CAA would need to guarantee specific parameters such as returns. The framework, however, must be clear. Investors appreciate stable long-term returns from airports based on stable regulatory frameworks and after this reform the CAA should avoid significant changes during the next phase of expansion. IATA agrees that the current framework needs to be reviewed before major expansion occurs, but this framework must serve the interests of users and consumers first and then provide investors with confidence and stability.

4.2.2 New actors / Competition

As our members operate in a competitive environment, IATA welcomes any initiative which introduces true competition or competitive pressure in airport services when such initiatives lower the cost to airlines for airport infrastructure and create room for airlines to compete. Competition must lower costs but needs to be implemented in such a way as to safeguard competitive neutrality and avoid duplication or inefficiency, which the CAA has already highlighted.

On the range of options described in regulatory models 3-8, IATA considers that it would be in the user interest to introduce true competition wherever possible, introducing competitive pressure via greater CAA oversight and sharper regulatory incentives and governance when true competition is not possible.

In markets such as electricity and telecommunications, separation of different functions (e.g. generation, transmission, distribution, retail) have provided benefits to the market and are possible because of clear demarcation between activities. In these markets, the vertical separation may not have competition at each layer. In airports, the demarcation points are not always as natural, however the CAA has identified a few areas where a discussion is warranted on whether a single airport operator needs to handle all aspects. By way of example, even within Heathrow not all services are ultimately provided by HAL. In some cases, services may be contracted to third parties. In other markets, there is a more fundamental separation – operation of some services or infrastructure is not subordinated to control by the airport operator.

In the case of airports, as there is an established community of users the CAA may give some thought on how the introduction of new actors in the ecosystem is triggered. While often vertical separation of activities in other markets is the result of government policy, the CAA must be able to review the ownership/operation of some parts of the airport based on a community request. If the community is particularly dissatisfied with some aspects of the current situation, this could trigger an investigation into whether another party could do a better job. In some cases, that possibility alone may encourage the incumbent operator to avoid abusing its power.

Without endorsing any model at this stage, we would recommend considering the following types of separation for the purpose of introducing competition. It is likely that for some of these items, there will be a need to issue separate licenses for the provision of different services/infrastructure. This brings us back to the previously identified challenge where it is unclear on how assets or resources required to provide such services would be transferred from the current operator to a new one – but this should not prevent the option from being evaluated.

- By physical infrastructure elements, in terms of their design, build, operation or ownership
 - Runways
 - Terminals
 - Surface access in all forms
- By role
 - Design
 - Build
 - Operate
 - Coordinate (which could also include the system design concept from model 1B)
- By activity or function
 - Handling of aircraft movement, handling of passenger processing
 - Specific functions such as cleaning, security screening...

Introducing these splits and providing the opportunity for multiple parties to provide them would likely involve a form of tender/bidding process. Airlines must be involved in these processes. A significant number of failures of concession agreements in IATA's view are due to the lack of early involvement of the community to identify what is really required from the future provider.

In that optic, our guidance on concession agreements may be useful in identifying possible issues even if the ultimate model is not a concession. Principles could include, for example:

- The requirements for the entrant or incumbent must be designed with user involvement from the start. Early involvement will mean fewer issues later in the process.
- Bidding processes should be designed to support lower, efficient costs and not seek the highest returns
- The duration of attributions of ownership/operation rights should be reasonable. Excessive durations (75- or 99-year leases) tend to be excessively rigid and non-responsive to market needs. Even 30–40-year durations are inappropriate in some areas
- Providing the opportunity for competitive challenges to design, build and operate parts of the airport assets or services. The opportunity for parties, including airlines, to participate in this process should be awarded via a balanced scorecard approach weighing technical capability, innovation, efficiency, service quality and financial aspects with input from customers and industry experts.
- Including mechanisms to shield against excess profits
- Embed structured consultation frameworks based on transparency, non-discrimination, and subject to CAA oversight to ensure an airport-level monopoly is not simply broken down into a smaller set of monopolies.

As the CAA indicates, true competition between actors at Heathrow for all airport services is unlikely given how an airport operates and the constrained environment which is Heathrow. Expansion may offer an opportunity for some competitive pressure, but it is likely to be different than competition for the current infrastructure and services. IATA strongly supports competition where feasible and the introduction of competitive pressure by the CAA elsewhere. Concessions or the like need to be granted in conditions that encourage efficiency and not simply transfer market power and potential abuse thereof from one player to another. The aforementioned points based on our guidance on Balanced Airport Concessions can help prevent this from occurring.

On the practicalities, the CAA would need to consider whether the current legislative framework is sufficient to allow it to issue separate licenses for different activities with varying scopes, durations, and conditions. Care must be taken to ensure that if changes are made to legislation, the objective remains consumer welfare. There are multiple cases where such reforms end up being set up to favor bidders (for example with lengthy minimum durations) as opposed to consumers.

4.3. Strengthened and targeted regulatory intervention

In the first set of models presented by the CAA, there are a series of measures recommended to strengthen the role of the CAA. Most of these are not incompatible with the measures undertaken to promote competition for airport services.

- IATA supports step changes to the current Capex governance frameworks, focusing on engagements related to early parameters on investments and the quality of consultation.
- IATA supports a much stronger role of the CAA in scrutinizing Capex, particularly if the airport operator's proposal is the only option being proposed

- The CAA should take a stronger role regarding operating expenses, notably gathering cost-benchmarking data from other airports in the UK and abroad in a systematic way and ensuring that operating costs are optimized.
- IATA encourages the CAA to consider how service levels are established and the conditions under which services are provided to airlines at Heathrow. Measures which would encourage the broader collection of performance data across airports to compare quality and efficiency of airport services are welcome. This could lead to better discussions about service level frameworks.

5. Conclusion

In conclusion, effective regulatory frameworks and targeted intervention are essential to ensure that airport charges and licensing practices prioritize consumer welfare rather than the interests of bidders, owners and operators. IATA thanks the CAA for initiating this review and supports the introduction of competition in ways that will ultimately lead to lower costs or mitigate increases. IATA encourages stronger intervention by the CAA as a regulator whenever competition is insufficient.

Transparent and meaningful engagement with airlines, along with robust economic regulation, are critical to safeguarding the interests of both airlines and passengers. By focusing on demand-led, sustainable infrastructure and fair pricing mechanisms, the industry can achieve a balanced approach that promotes operational efficiency, environmental responsibility, and equitable access to facilities and services.

IATA encourages the CAA to continue discussion with stakeholders, including the Government, on how to ensure that Heathrow has the best framework which enables affordable industry growth and capacity to serve the UK and global markets.

6. IATA position statement for airport charges

The section below provides IATA's overall views on economic regulation of airport infrastructure. The highlighted links provide access to IATA's published positions, established by the industry working group of airline experts on charges and airport development matters.

Consultation

Airlines are key stakeholders who pay for airport and air navigation services investments, facilities, and services. They must be [engaged in regular, transparent and meaningful consultation](#). [Transparency](#) is an integral aspect of any progressive commercial relationship between a provider and its customers. This consultation must also apply to [airport infrastructure investments](#) where it is in everyone's interest to work together on the [business cases for new investments](#). All airlines should have access to the same level of [minimum cost of facilities and services](#).

Infrastructure

We encourage the development of safe, sustainable facilities that are demand-led, fit-for-purpose and cost effective to develop and flexible to adapt to changes in the operating environment.

Airports should be designed following [best practices at world class airports](#). This notably means solid [airport master planning](#) and ensuring airport investments are [demand-triggered](#). We encourage airports to consider [environmental sustainability](#) aspects when planning and following industry practice when [designing passenger terminals](#), notably considering the [Level of Service](#) that is agreed and discussed with airlines. [Peer reviews](#) are an excellent way to ensure efficient designs, along with [consultation with airlines](#) and solid [business cases](#).

When infrastructure is developed, airports should always keep in mind how they will proceed with the [operational readiness and airport transfer](#) processes, and how they will set up [airport service quality frameworks](#).

Economic regulation

[Strong, robust, independent and effective economic regulation](#) is necessary to protect airlines and their passengers from airports and air navigation services providers' abuse of their dominant position. [Single till](#) reflects the pricing mechanism airports would apply if they were under real competition: it is therefore the fairest mechanism of charging.

Fair judgment, transparency, consideration of the specific market situation and recent relevant precedent in other regulated industries with independent oversight are key in overcoming the inherent challenges involved in airports and airlines agreeing to the amount for [cost of capital](#). [Upward land and infrastructure revaluations](#) should not lead to higher

charges at the direct expense of airlines and their passengers. A general reduction in the level of charges for all carriers should be favored over [discounts and incentives that distort competition](#). [Peak/off-peak charges](#) are not an effective means of easing capacity constraints.

[Ground handling services](#) should be provided on a competitive basis and ground handling charges should be market-determined. If specific conditions do not allow competition, there must be meaningful consultation with the airlines

[Pre-funding capital projects through charges is costly](#), unreasonable and it does not reflect the most efficient use of airline investments in airports. A properly structured financing package for new investments will ensure that the costs of financing are kept to a minimum and that airlines only pay for agreed investments on an “as and when used” basis.

When changing the form of [ownership of airports](#), success must be measured by service levels and cost effectiveness and not by financial gains. With respect to groups or networks of airports as well as other forms of transportation, [airlines and their passengers should not have to pay for facilities and services they do not use](#). Removing [fees that airports and ANSPs pay to governments](#) will benefit all stakeholders - governments, airports, ANSPs, airlines and most importantly, the paying passenger.

Environment

In accordance with the ICAO Balanced Approach, airport noise should be addressed in the most cost-effective manner and [noise-related charges](#) only introduced as part of a broader noise management program. [Local Air Quality](#) problems at and around airports should be assessed and charges only introduced as part of a broad environmental management program. The emergence of a patchwork of [CO2-based charges or modulations](#) purporting to address climate change will obstruct the multilateral cooperation required for global progress and may impede sustained climate actions through more appropriate mechanisms.

State responsibilities

[Airport security charges](#) must not recover more than the costs involved in providing airport security. National border security is a responsibility of States and as such, they have the duty to implement the appropriate tools to achieve their objectives and to ensure their adequate funding. [Collection of passenger data](#) or [Health Measures](#) should not be funded by air carriers and/or their passengers.