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Dear Stewart,

Re: Heathrow Airline Community response on CAA's "Heathrow capacity expansion – update on the approach to the regulatory framework" (CAP3286)

Thank you for the opportunity to submit further views on the CAA's latest proposals on improvements to Heathrow's regulatory model, CAP3286, published 16th July 2026, ("the Consultation"), following the earlier consultation (CAP3251) issued on 15th May 2026, to which we responded.

This submission is made jointly by the London (Heathrow) Airline Consultative Committee ("LACC") and Heathrow Airline Operators Committee ("AOC"), and should be read alongside individual airlines, IATA, other groups and alliances' own submissions, as well as our responses to previous consultations referenced below. As previously stated, while not all of our members are direct members of the Heathrow Reimagined campaign, our members recognise many of the concerns laid out by the campaign.

In light of the challenging timetable set by the CAA to respond, not least overlapping with other critical consultations relating to Heathrow, we again reserve the right to submit further comments and evidence in due course. We also welcome ongoing engagement with the CAA on this critical matter.

Introduction and overall position

The Heathrow airline community welcomes the publication of CAP3286 and the CAA's continued engagement with stakeholders on the regulatory framework for Heathrow capacity expansion. We are encouraged that the CAA continues to recognise the strong case for reform and is now moving from assessment of individual models toward the design and implementation of an integrated package of reforms.

The direction of travel is positive. However, the CAA must now ensure that the final framework is sufficiently ambitious, fast-moving and enforceable to address the consumer harm already present at today's two-runway Heathrow, whilst also supporting any future expansion on an affordable and efficient basis. There is no justification for the CAA to wait several years – and billions of further spend by HAL – to implement a reform package to address the ongoing consumer harms at Heathrow.

The central case is straightforward: the poor outcomes observed at Heathrow reflect structural incentives inherent in the current regulatory framework. Tweaks to the existing framework will not address these issues, and structural remedies are required. In addition, the need for reform is not only an expansion issue. The evidence before the CAA shows that Heathrow's current regulatory model is already producing poor value for money, high charges and weak incentives for efficient delivery. Any reform package that is limited to future expansion would leave current consumers exposed to the same harms already identified by the CAA.

We therefore support the development of an integrated regulatory framework, but urge the CAA to ensure that the final package is grounded in four principles: **affordability for consumers, efficient risk allocation, meaningful accountability for capital expenditure, and the broadest practicable introduction of competitive discipline** across Heathrow.

Affordability must be central to the regulatory framework

As the airline community set out in response to CAP3251, affordability must sit at the heart of the future regulatory framework. The purpose of economic regulation is to ensure that consumers receive the infrastructure and services they need at the lowest efficient cost. Heathrow expansion will only deliver the increased demand, connectivity and wider economic benefits anticipated by Government if the airport remains affordable for airlines and passengers.

Affordability should therefore be treated as a core constraint on the design of the regulatory framework, not as a secondary factor to be considered only after decisions have been taken on scope, financing or cost recovery. If airport charges rise beyond a sustainable level, airlines will be constrained in their ability to grow demand and invest in connectivity. That would directly undermine the benefits that expansion is intended to deliver.

We continue to disagree with the CAA's decision to retain an evaluation framework that does not include affordability as an explicit criterion. Notwithstanding that Government and the planning process influence the ultimate scope of expansion, the CAA's decisions on capital governance, risk allocation, cost recovery, procurement and competition will be central to whether Heathrow can be delivered and operated affordably.

The Heathrow airline community therefore supports the CAA's intention to consider an overall cap for expansion costs and how such a cap might be credibly enforced. A well-designed cap could provide an important safeguard for consumers, provided it is set at the right level, avoids gaming and circumvention risks, and remains compatible with direct competition or phased expansion. Airlines' views must be properly reflected in the design of any cap because airlines are best placed to explain how charges affect demand, route economics and the ability to fill new capacity.

Reform must apply across Heathrow, not just expansion

The benefits of reform should extend across Heathrow as a whole. The case for change is based on harms observed at today's two-runway airport, including high charges, weak value for money and persistent capital inefficiency. It would not be consistent with that evidence, or with the CAA's statutory duties, to focus reform mainly on expansion while leaving significant business-as-usual expenditure under the existing regime for an extended period.

The Heathrow airline community therefore supports the CAA's recognition that the new capital governance reforms should ultimately cover both expansion and business-as-usual capital expenditure. However, we are concerned that the CAA's current description risks creating a

fragmented series of capex governance regimes, including separate processes for expansion, H8 business-as-usual capex, early costs and projects rolled forward from H7 or earlier periods.

A fragmented approach would be cumbersome, costly and vulnerable to gaming. HAL has strong information advantages and incentives to classify, phase or present expenditure in ways that maximise recovery through the RAB. Multiple overlapping governance regimes would increase those opportunities and reduce transparency for users and the CAA.

The CAA should therefore prioritise the rapid deployment of a single, unified capex governance regime applying to all capex at Heathrow, including expansion, H8 business-as-usual expenditure, early costs and rolled-forward projects. This should be pursued at pace, rather than through a phased implementation over several years. Significant expenditure will continue to be incurred before expansion is delivered, and consumers should benefit from a stronger regime as soon as reasonably practicable.

Enhanced capital governance must have authority, independence and urgency

The Heathrow airline community strongly supports the CAA's decision to prioritise enhanced capital governance. The present regime does not provide users with sufficient influence at the point where it matters most: before key strategic decisions are taken, project scope is fixed, and expenditure is committed.

In this context, it is essential that the CAA uses its authority to support the current airline efforts to improve the capital governance model; we do not expect HAL to progress this with sufficient urgency unless they are mandated to do so.

The future framework should ensure that users are involved at the earliest stages of capital planning, that proposals are supported by transparent and robust business cases, that independent assurance is genuinely independent of HAL, and that there are meaningful consequences where governance processes are not followed or projects fail to deliver promised benefits.

We continue to maintain that the new governance committee should have powers to prevent inefficient expenditure from entering the RAB. This need not interfere with HAL's responsibility to maintain the safe and secure operation of the airport. HAL can retain the ability to spend where it considers expenditure necessary; the key question is whether consumers should be required to pay for that expenditure through airport charges.

A veto over RAB additions, or an equivalent approval right, would create a clear discipline on HAL to provide high-quality evidence, efficient options and credible delivery plans before committing expenditure. If HAL disagreed with a committee decision, it could escalate the matter to the CAA for determination. That would preserve appropriate safeguards while ensuring that the governance process has practical force.

In the absence of such approval rights, a fast, effective and enforceable escalation process to the CAA is the minimum necessary protection. However, an escalation process will only be effective if the CAA is properly resourced, prepared to act decisively, make timely determinations before expenditure is incurred, and exclude inefficient expenditure from the RAB where appropriate. The effectiveness of reform will depend less on the existence of escalation routes and more on whether they are used with sufficient regulatory discipline.

Independent assurance must be genuinely independent

Independent assurance will be central to the credibility of the new regime. The Heathrow airline community supports the CAA's intention to engage with stakeholders on the assurance of expansion and business-as-usual costs, but the new arrangements must represent a genuine overhaul rather than an incremental change to the existing model.

Assurance bodies or experts supporting the new governance committee should be appointed by the airline members of the committee or the CAA, not by HAL. Their scope should cover the full capital lifecycle, including capital planning, option selection, baseline setting, approval, delivery monitoring, ex post review and benefit realisation. The review should also consider whether accountability arrangements are sufficient to ensure that HAL bears consequences where expenditure is inefficient or benefits are not delivered.

Given the breadth of issues involved, the CAA will need more than one expert. Relevant expertise includes economic regulation, capital governance, competition, major infrastructure delivery, corporate finance and detailed understanding of Heathrow's operating environment. Stakeholders should be consulted on scope, appointment and draft findings, and should have opportunities to engage through regular workshops during the process.

Risk allocation must reflect competitive market principles

The Heathrow airline community remains strongly opposed to risk allocation arrangements that require today's consumers to fund development risk for future infrastructure before that infrastructure is delivered and available for use. In competitive markets, investors generally bear development and delivery risk; consumers pay for services and infrastructure when they receive them.

The CAA should therefore ensure that studies, option development, preparatory work and other early costs associated with possible future infrastructure are not simply passed through to current users. Development risk should sit with the parties best placed to manage it. **Any departure from that principle should be justified by clear, demonstrable consumer benefits.**

This principle should also shape the design of capital incentives and delivery obligations. HAL should not be able to benefit from weak baselines, symmetric incentive rates or high thresholds for excluding inefficient expenditure. The future regime should include robust independent oversight of baseline setting, greater use of asymmetric incentives where HAL can manage the relevant risk, stronger delivery obligations focused on consumer outcomes, and a more credible bar for excluding inefficient expenditure from the RAB.

Long-term frameworks should not transfer project risk to consumers

Any longer-term framework is justified only if it delivers demonstrable consumer benefits, such as a lower total cost of expansion, more efficient delivery or improved investment outcomes. It should not become a mechanism for addressing the financing structure, leverage or balance sheet characteristics of a particular operator.

We continue to have fundamental concerns about Model 3. The CAA has not clearly identified the problem that a longer-term regulatory framework is intended to solve, nor demonstrated that expansion could not be financed efficiently under successive price controls. A framework that locks in parameters such as the cost of capital, return allowances or risk-sharing arrangements for extended periods could provide excessive protection to investors at users' expense.

It is recognised that major infrastructure projects require regulatory predictability; investors should understand the principles, methodologies and governance arrangements that will apply throughout the investment cycle. However, certainty of framework should not be confused with certainty of outcome.

Economic conditions can change materially over a decade. Interest rates, demand, construction risk, financing conditions and the risk profile of the project may evolve. A framework that fixes key assumptions too far in advance risks becoming detached from market realities and may prevent consumers from benefiting from reductions in risk or efficiency gains.

If the CAA continues to explore Model 3, robust consumer protections, reopeners and anti-gaming mechanisms will be essential.

The introduction of competitive incentives must remain a core policy objective

In our response to the previous consultation on Heathrow regulatory options (CAP3251), we highlighted the following CAA statement in that Consultation regarding competition:

“Direct competition, in general, always has the potential to improve consumer outcomes by incentivising parties to offer their best proposition to users. This could include lower costs or a superior service offering in areas that matter to consumers. While there are challenges in terms of the implementation of and underlying economics underpinning this model, we will work with stakeholders to understand whether and how the benefits of this model could be achieved in subsequent stages of our work.”¹

Heathrow’s enduring market power means that regulation will remain necessary, but regulation alone has not solved the structural incentive problems that drive poor outcomes. The broad introduction of competitive reforms can address these structural incentives, including by the introduction of direct competition between terminals.

Given the above, we urge the CAA to continue its development of competitive reforms as part of its shortlist of options and to look for opportunities to introduce competitive discipline wherever practicable and most effective.

The Heathrow airline community therefore welcomes the CAA’s intention to continue developing competitive procurement arrangements and direct competition. However, the CAA should be clear that different models serve different purposes. Models 4b and 5b should have separate workstreams, with clear criteria for when design-build competition or design-build-operate competition is appropriate. Model 5b is particularly important for semi-separable assets where direct competition may not be feasible.

The tender process should not be controlled by HAL. **The CAA, or a designated independent body, should control or oversee key decisions on tender scope, specifications, supplier selection, evaluation criteria, monitoring, compensation mechanisms and accountability.** This is essential because the purpose of the reform is to counteract HAL’s structural incentives, not to give HAL discretion over the use of competition.

¹ Paragraph 1.56 of the CAP3251 consultation

The CAA should also design safeguards against circumvention. HAL may have incentives to define projects narrowly, split packages, or frame assets as insufficiently separable to avoid mandatory competitive processes. The governance committee should therefore retain discretion to require competitive processes where doing so would further consumer interests, even if rigid gating criteria are not triggered.

Direct terminal competition should be developed broadly

As stated above, the CAA has recognised that the benefits of competition are likely to be greater where the scope of competition is broader. The logical consequence is that direct competition should not be confined narrowly to new expansion infrastructure where a third party receives planning consent.

The CAA should also develop Model 7b both ahead of and during any relevant DCO process. The regulatory framework should be capable of accommodating direct competition before critical planning decisions are taken, so that regulatory uncertainty does not itself become a barrier to competition or inadvertently foreclose alternative promoters.

We support a more flexible and pragmatic approach to Model 7b, including the use of contractual separation to enable direct terminal competition across existing and future terminals where practicable and effective. Under such a model, HAL could retain ownership of existing terminal freeholds while independent operators take responsibility for operating, investing in and competing for airline customers within their terminals. This would focus reform on forward-looking incentives without requiring immediate divestment.

If the CAA chooses not to adopt this broader interpretation of Model 7b, it should retain Model 8 for further consideration. The CAA's concerns about Enterprise Act timing, resources and uncertainty do not justify excluding a model that could enable the broadest application of direct terminal competition. The CAA should preserve optionality, particularly given the scale of consumer harm and the long-term importance of the framework now being designed.

Any assessment of direct competition should recognise that benefits arise through multiple mechanisms. These include competition for the market, competition in the market where airlines can switch terminals, richer benchmarking data for the CAA, stronger incentives for service quality and innovation, and reduced reliance on a single highly indebted operator to finance expansion. The consumer benefits of competition do not rely solely on frequent airline switching.

Operational interfaces can be governed without preserving monopoly operation

The Heathrow airline community wholeheartedly supports the importance of safety, resilience and effective coordination across Heathrow. However, the existence of operational interfaces does not justify retaining HAL's monopoly over terminal operation. Heathrow already operates as a multi-operator environment, and international experience demonstrates that separate terminal and airfield operations can be managed safely and effectively where accountabilities, standards and escalation routes are clear.

The CAA should draw on airlines' experience in developing Core Operating Principles to provide a practical starting point. They should distinguish between terminal-level responsibilities and whole-airport functions, while preserving Heathrow's operation as a single integrated aerodrome. Safety, security and regulatory compliance would remain non-negotiable, with centrally defined campus-wide standards and performance obligations applying to all operators.

The CAA's work on coordination and fragmentation should therefore test how interfaces can be governed, not assume that monopoly operation is required. Relevant interfaces include safety accountability, baggage, security, passenger assistance, connections, ramp and stand services, winter operations, disruption management, information sharing, funding arrangements and liability allocation. The CAA should engage with airlines, handlers, NATS, Border Force, prospective terminal operators and other operational stakeholders to refine these principles.

Wholesale services and third-party regulation

Where HAL provides wholesale services needed by competing terminal operators or third-party promoters, those services will need effective regulation. HAL would retain substantial market power over such inputs, and protections will be required against both exploitative pricing and discriminatory or exclusionary conduct.

The CAA should therefore prioritise work on the regulation of wholesale services, including price controls, access obligations, information-sharing requirements, non-discrimination rules and dispute-resolution mechanisms. These protections will be particularly important if HAL both supplies wholesale services and competes downstream with independent terminal operators.

The CAA should also continue its work on the steps required to regulate any third-party operator, including operator assessment, market power assessment, licence obligations, performance standards and interfaces with the new governance committee. This is necessary to provide clarity for potential alternative promoters and to ensure that competition can proceed without avoidable regulatory uncertainty.

Comments on the CAA's proposed next steps

The Heathrow airline community welcomes the CAA's decision to move towards an integrated regulatory framework. The September 2026 publication should provide a clear, detailed and ambitious work programme.

That programme should identify how the CAA will move from high-level principles to enforceable rules, governance structures and implementation milestones.

In particular, the CAA should prioritise:

- A single unified capex governance regime covering expansion, H8 business-as-usual expenditure, early costs and rolled-forward projects.
- A governance committee with meaningful approval powers over RAB recovery, or a fast and enforceable escalation route to the CAA as a minimum safeguard.
- A genuine overhaul of independent assurance, with experts appointed independently of HAL and with stakeholder engagement on scope, appointment and findings.
- Robust mechanisms for baseline setting, asymmetric incentives, delivery obligations and targeted ex post reviews that protect consumers from inefficient expenditure.
- A well-designed overall expansion cost cap that supports affordability, avoids circumvention and remains compatible with direct competition.

- Separate and detailed workstreams for Models 4b and 5b, including clear criteria for when each form of competitive procurement should apply.
- A broadened approach to Model 7b that enables direct terminal competition through contractual separation, with Model 8 retained as an alternative route. The CAA must develop this work on Model 7b ahead of, and alongside, any relevant DCO process to ensure that the regulatory framework does not create barriers to competition or foreclose alternative promoters.
- Detailed work on wholesale services, third-party regulation and operational interface principles to ensure competition can be implemented safely and effectively.

The CAA should also establish mechanisms for efficient ongoing stakeholder engagement, including regular bilateral workshops across the main reform workstreams. The detailed design of these reforms will determine whether they succeed. Stakeholders with first-hand experience of Heathrow's current regime must therefore have meaningful opportunities to feed into the process before key decisions are finalised.

Conclusion

The Heathrow airline community welcomes the direction of travel set out in CAP3286, but the next phase will be decisive. The CAA has recognised the need for reform and has identified the right broad categories of remedy. It must now follow that reasoning through to structural reforms that are ambitious, enforceable and implemented quickly enough to protect consumers from harm that already exists today.

The strongest opportunities for consumer benefit lie in broader direct competition, enhanced capital governance, stronger procurement disciplines, and more effective allocation of risk. These reforms should be implemented across Heathrow as rapidly as practicable, and should ensure that investors, rather than consumers, bear development and delivery risks that they are best placed to manage.

Heathrow expansion presents an opportunity to modernise not only airport infrastructure, but also the framework through which that infrastructure is planned, financed, delivered and operated. That opportunity should be used to create a more affordable, efficient, accountable and competitive Heathrow for passengers, airlines and the wider UK economy.

Yours sincerely,



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