AIRLINES UK
THE ASSOCIATION OF UK AIRLINES

Airlines UK response to Heathrow capacity expansion – consultation on a shortlist of regulatory models CAP 3251

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Airlines UK is the association for UK airlines, with members including 2Excel, British Airways, DHL, Eastern Airways, easyJet, European Cargo, FedEx, Jet2.com, Loganair, Norse Atlantic, One Air, RVL Aviation, Ryanair, TUI Airways, Titan Airways, UPS, and Virgin Atlantic.

Summary
Airlines UK welcomes the opportunity to respond to this consultation on a shortlist of regulatory models. Airlines UK supports the case for reform set out by Heathrow Reimagined in its response to this consultation, which sets out further technical arguments in support of the positions described here.

We welcome the CAA's conclusions on the need for change, which confirm the current regulatory model is not fit for purpose. Expansion will only support UK growth if it can be delivered in a way that minimises the cost to consumers, recognising that Heathrow is already the most expensive airport in the world. Yet higher airport charges impact the economics of operating routes, investing in fleet, growing capacity, and maintaining the UK's global connectivity. Affordability must be treated as a core objective in the CAA's evaluation criteria and the Government's review of the Airports National Policy Statement.

To that end, consumers stand to benefit most from the delivery of a competition-based model underpinned by strengthened governance that ought to be pursued with greater ambition and less ambiguity. Incremental change will not be sufficient to address Heathrow Airport Limited's (HAL) underlying incentives and do not deliver the change that the CAA have recognised is needed.

The Case for Change
Today Heathrow's charges are already exceptionally high by international standards, while service quality and resilience have too often fallen short of what passengers and airlines should expect from the UK's only hub airport. Airlines UK strongly supports the CAA's conclusion that there continues to be a case for improving the current regulatory framework. CAP 3251 confirms a set of findings that, taken together, demonstrate the shortcomings of the existing model. These include:

- HAL's aeronautical charges per passenger are high relative to comparator airports, and this gap is likely to grow because of expansion-related capital expenditure
- HAL's service quality recovery since the pandemic lags that of other comparable airports
- Capital expenditure has been the primary driver of HAL's high charges, and the CAA acknowledges that inefficiency may have taken place
- The existing regulatory framework was designed for the business-as-usual operation of a two-runway airport and is not suited to the scale and complexity of expansion.

Combined with earlier evidence cited in the Working Paper - including that HAL's charges appear high even after controlling for relevant cost factors - they demonstrate that the current model is not delivering sufficient value for money for consumers, and that the status quo is not a credible baseline for managing an expansion programme of this scale. If anything, we believe the CAA has afforded too much credibility to evidence provided HAL, which the CAA itself recognises is questionable.

It should also be noted that LHR airport charges are forecast to rise under H8 even without expansion – this is not a 'tomorrow' problem. Logically, the CAA conclusions on the case for change require a broader application of new regulatory remedies and constraints. We also strongly believe that regulatory framework for expansion must consequently have cost control and consumer affordability as central objectives; not least as they bear disproportionately on UK-based airlines, which face greater exposure to the increasingly uncompetitive costs of their home market - including airport charges, Air Passenger Duty, business rates, and sustainable aviation fuel mandates.

The CAA's conclusions from this regulatory review are specific to Heathrow, and should not consequently be assumed to apply elsewhere. Economic regulation is inherently airport-specific, and any assessment of regulatory arrangements at other airports should be undertaken on a case-by-case basis, reflecting the unique circumstances of the airport concerned.

Competition-Based Models: Our Preferred Direction
Competition is the most powerful and durable mechanism available to protect consumers from the consequences of Heathrow's monopoly position within the UK and as provider of AOS.

We therefore strongly support the CAA's decision to retain competition-based models on the shortlist and urge the CAA to pursue these options with genuine commitment, consistent with their duties.

The CAA notes that similar approaches have been used successfully at major international airports including Istanbul, LaGuardia, Newark, and Changi. Airlines UK believes these precedents are directly relevant and should be given significant weight.

Capital Governance
Airlines UK supports the package of capital governance improvements set out in models 1a, 2 and 4a. Enhanced scrutiny of HAL's capex plans, stronger incentive arrangements and improved oversight of procurement are all necessary and overdue. Greater transparency of plans is essential to enable effective choices and investment decisions in the interests of consumer benefit through efficient costs.

We welcome the CAA's proposal for a senior capital committee with independent oversight and meaningful airline participation. It should replicate as much as possible the discipline that management and shareholders of businesses seeking to attract capital and deliver services in a competitive market. It needs to be invested with sufficient powers to deliver real accountability, should have a right to refuse HAL capex plans to allow it to meaningfully control the risks faced by users as well as effective routes for the capital committee to escalate issues to the CAA for resolution.

Improved capital governance, while not a substitute for competition but is a vital complement to replicating the conditions of a competitive market. Any future framework that relies solely on enhanced governance without introducing genuine, effective competitive will likely fall short of what is needed.

Conclusion
The CAA's own findings in CAP 3251 confirm that the existing regulatory model has not served consumers sufficiently well, and that the scale of Heathrow's expansion programme demands a new approach.

Regulatory reform should be seen as enabling expansion, not obstructing it. A credible long-term framework will improve confidence that Heathrow can expand in a way that is efficient, financeable, and commercially sustainable, delivering an airport that works for its users — airlines and passengers — at a cost that is genuinely competitive with other major international hubs. Conversely, proceeding with expansion under a model that has already produced poor value for money would risk undermining public, airline, and investor confidence.

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For further information, please contact rob.griggs@airlinesuk.org