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Dear Selina,

Aer Lingus response to CAP3251: UK CAA consultation on a shortlist of regulatory models for Heathrow

Introduction

Aer Lingus welcomes the opportunity to respond to the Civil Aviation Authority's ("CAA") consultation on a shortlist of regulatory models for Heathrow (CAP3251). Heathrow is of strategic importance to Aer Lingus and to connectivity between Ireland and the United Kingdom. We operate high-frequency services from Dublin, Cork, Shannon and Belfast City into Heathrow Terminal 2, with Dublin-Heathrow among the busiest international routes in Europe. These services carry both point-to-point traffic, for which air links between Ireland and London are essential economic infrastructure, and substantial volumes of connecting passengers feeding long-haul networks at both ends of the routes. The cost, quality and resilience of Heathrow's infrastructure therefore bear directly on our passengers, our network, and Heathrow's role as the principal gateway connecting Ireland to long-haul markets worldwide.

This letter should be read alongside and as a full endorsement of the more substantive responses to CAP3251 submitted by our parent company International Airlines Group ("IAG"), and by Heathrow Reimagined, as well as their respective responses to the CAA's November 2025 Working Paper (CAP3195). Aer Lingus fully supports the positions taken in those submissions and stands by them in their entirety. We do not seek to repeat their detailed analysis here. Instead, this letter seeks to outline Aer Lingus' perspective as an airline operator at Heathrow, setting out our most relevant concerns, and to illustrate, such as through our direct experience at Terminal 2, why the reforms proposed are essential and urgent.

The case for change is settled and reform cannot wait

We fully agree with the CAA's reconfirmation that there is a strong case to improve the current framework at Heathrow and that the CAA considers the case for change settled. The three grounds the CAA identifies match our experience as an operator:

1. Heathrow's aeronautical charges per passenger are the highest in the world, with the gap to comparator airports likely to widen as expansion capital expenditure is added;
2. service quality remains below pre-pandemic levels and lags the recovery of peer airports; and
3. capital expenditure has been the primary driver of Heathrow's high charges, driven by capex inefficiencies.

The burden of the extent of Heathrow's charges falls on all operators but lands with particular force on operations such as ours. Airport charges are a big proportion of the total fare on short-haul feeder services and the economics of those services are correspondingly fragile. Continued escalation of charges puts at risk the regional and feeder connectivity between Ireland, the UK regions and Heathrow's global network that the hub proposition depends on and that delivers significant value to consumers.

Layering a £49 billion-plus expansion programme onto an unreformed framework would entrench this harm irreversibly. **Reform must therefore be implemented now, ahead of capacity expansion, and crucially, it must apply to the whole airport business.**

In this context, Aer Lingus is concerned that affordability does not sit more explicitly within the CAA's evaluation of the shortlisted models. The choice of regulatory model will shape the scope, cost and pricing of investment, and therefore directly affect whether Heathrow remains affordable for consumers, capable of sustaining the feeder and regional connectivity on which the hub depends. Affordability should therefore be treated as an explicit consideration in the CAA's assessment of the shortlisted models.

Aer Lingus endorses IAG's proposed solution

Aer Lingus fully endorses the integrated package of reforms set out in IAG's responses to CAP3195 and CAP3251, comprising:

1. a Capital Investment Committee ("CIC") with real authority over capital planning (including a hard budget), approval and performance across the Heathrow campus;
2. competition wherever practicable across the Design–Build–Finance–Operate–Maintain–Own (DBFOMO) value chain; and
3. a multi-RAB architecture underpinned by a single, cross-campus Maximum Allowable Yield ("MAY").

The CAA's shortlist provides a sound foundation for this package.

An empowered Capital Investment Committee

Models 1a, 2 and 4a together form the right basis for the CIC, but the critical adjustment is one of authority. The CIC must be able to approve or reject capital plans that do not serve the interests of consumers. A lack of such decision-making powers risks rendering the Committee another consultative forum that HAL can navigate around.

True competition across the value chain

Competition is the second pillar of the IAG proposed solution which is vital to be able to achieve the regulatory reform needed at Heathrow. As IAG sets out, capital regulation alone cannot fully neutralise the harmful incentives created by a monopoly RAB-based regime. Effective competition, where it can be introduced, can reset those incentives at source, because it is the only remedy under which the right to invest, to own and to earn a regulated return has to be won rather than presumed. If HAL offers the best value-for-money solution it can still prevail and deliver the project; but it must compete to earn that right, not receive it by default.

Model 7b (direct competition for airport operation services, under which independent third parties design, build, finance, operate, maintain and own discrete assets on the campus) must therefore sit at the centre of the competition package and apply to new and existing assets alike. It is not novel at Heathrow, and it is not contingent on a DCO-led pathway, since it can be implemented via contractual arrangements through licence modification under the Civil Aviation Act 2012.

Model 8 (the transfer of ownership of existing assets to independent operators,) should be retained as a parallel route alongside Model 7b rather than ruled out.

Model 5b (competitive tendering of the delivery of major projects that would otherwise be built by HAL, analogous to direct procurement models in other regulated sectors) is essential where Model 7b cannot be applied. However, tenders must be run under the oversight of the CAA and/or the relevant designated body rather than left wholly with the incumbent.

Conversely, we share IAG's view that Model 3 (longer-term price control commitments, including a long-term expansion cost of capital or cap-and-collar arrangements) should be dropped. In our view, longer-term price control commitments would not resolve the underlying problems and risk locking in further material harm to consumers.

Aer Lingus would not advocate for any of these models if they placed safe or resilient operations at risk; no stakeholder depends more on a reliably-functioning Heathrow than the airlines that operate there. Heathrow is already a multi-operator environment with hundreds of service providers on the campus, and the international evidence, from Munich and Atlanta to New York JFK and Dallas-Fort Worth, confirms that independently operated and competing facilities are fully compatible with strong operational performance, under a safety regulatory framework that remains unchanged. The coordination overhead of a multi-operator campus is modest, and in our view a price well worth paying for the capital efficiency that competition will deliver.

Single Maximum Allowable Yield

We particularly emphasise the importance of the single cross-campus MAY (a single maximum average charge per passenger applied across all facilities, however many operators provide them).

A single MAY is the fairest method of setting charges in a multi-operator campus and is fully consistent with, and the natural extension of, the single till principle which is the bedrock of economic regulation of Heathrow.

A single MAY ensures that new capacity is funded fairly across the campus, and that efficiency gains and pooled commercial revenues flow to <u>all</u> passengers at Heathrow rather than being retained within particular facilities. At the same time, competitive pressure is applied where it is genuinely effective, i.e. in the provision of the infrastructure and services themselves.

The T2 Baggage case study: Aer Lingus' direct experience of why a CIC with real authority is needed

The T2 Baggage programme is a live, daily demonstration of why capital governance at Heathrow must be fundamentally reformed.

When Terminal 2 opened in 2014, its baggage operation relied, as a supposedly interim measure, on the legacy Terminal 1 baggage system. The need for a permanent solution had been visible as far back as the Q5 planning process in 2007, and the risks were documented at the time. The 2013 Q6 review had identified the Terminal 1 transfer sorter as a single point of failure for Terminal 2, and over 85% of that system is now obsolete or at the end of its technical life. More than a decade on, our passengers, our ground handlers and our operation continue to bear the consequences of that dependency in terms of delays, reduced reliability and elevated risk of misconnections.

The permanent replacement will now be delivered in 2029-30 at the earliest, some fifteen years after the terminal opened and more than two decades after the need was identified. Over that period the programme's cost has escalated repeatedly (from £574 million at the H7 Regulatory Business Plan to around [REDACTED] in latest reporting), with the core T2A system alone rising by around [REDACTED] in the run-up to final investment approval.

Yet the committed capability remains anchored to protecting 2019 throughput. Users are now being asked to fund a near [REDACTED] system, delivered at the end of the decade, specified around yesterday's requirements. Independent benchmarking by Oxford Global Projects places the programme's cost per unit of capacity at roughly £210,000–£430,000 per bag/hour, against around £14,000 at Gatwick and £18,000 at Stansted.

Most tellingly, the programme exposes the gap between formal governance process and effective capital control. At the decisive G3 investment approval in 2025, HAL executed its supplier contracts on 4 September – before the airline approval decision on 18 September – and the independent governance review commissioned through the IFS found that the late declaration of that commitment effectively curtailed the Airline Community's ability to reject the project at G3. Airlines, Aer Lingus among them, were presented with a fait accompli. Operational, commercial and governance concerns were raised before, during and after G3, but the framework did not provide a mechanism to prevent HAL proceeding once commercial momentum had been created. This is clear evidence of how consultation and gateway compliance, however extensive, are not sufficient to control capital spending.

Had a Capital Investment Committee with real authority existed (i.e. with a hard capital envelope, enforceable controls ensuring that approval precedes financial commitment, genuine challenge of options, benchmarks and outcomes, and meaningful consequences for non-delivery), the T2 Baggage outcome could not have arisen in this way, and competitive delivery alternatives could have been tested before the incumbent's solution became the only practicable option. This is the standard operating model of every disciplined, capital-intensive business and of major US hub airports, as evidenced in Annex A to IAG's response.

With a £49 billion-plus expansion programme in prospect, the CAA must assume that, absent this reform, the T2 Baggage experience will be repeated at an even greater scale and cost to consumers.

Key asks

Aer Lingus remains ready, alongside IAG, to engage constructively with the CAA, the DfT and HM Government to translate these principles into the detailed reform package required to make Heathrow expansion a success. We urge the CAA to use its July 2026 update to:

1. confirm Model 7b at the centre of the competition package, applied to new and existing assets alike;
2. confirm that Model 5b tenders will be run under the oversight of the CAA and/or the designated body;
3. establish the CIC with real authority to approve or reject capital plans, not as another consultative forum while ensuring adequate risk allocation and penalties; and
4. add Model 8 to its shortlist, with consideration of implementation routes via legislative change or a CMA market investigation reference.

The CAA has the legal powers it needs to act through targeted modifications to HAL's existing licence under the Civil Aviation Act 2012. Acting now, with the powers the CAA already holds, is both legally available and statutorily required. Aer Lingus urges the CAA not to stop short of the reforms the evidence shows are urgently needed.

We thank you in advance for considering our views.

Yours sincerely,

Marta Drozdz