

19 January 2026

Civil Aviation Authority

Sent via email to: [economicregulation@caa.co.uk](mailto:economicregulation@caa.co.uk)

Dear Sir/Madam,

The Qantas Group welcomes the opportunity to provide input on the CAP3195 consultation regarding the regulatory model for Heathrow Airport (LHR). As a key stakeholder, and member of the Oneworld alliance, Qantas shares the CAA's concern given (i) the high-level of charges already experienced; (ii) the significant level of investment being proposed by Heathrow; and (iii) the levels of service currently received.

The evidence presented by the CAA and other parties, as set out within the consultation, demonstrates that the existing regulatory framework is not fit for purpose and there is a clear case for change. It is critical that the risks of LHR expansion are mitigated to the furthest extent possible through appropriate regulatory reform.

### Regulatory Reform

The Qantas Group suggests:

- **Light-touch regulation and price benchmarking should be rejected** – We recommend the CAA reject these approaches as they are inappropriate for Heathrow given its significant market power.
- **Introduce competitive pressure** - While competition cannot necessarily be introduced at Heathrow for all aspects of airport services, we have already seen that a single provider does not deliver the efficiencies required. The CAA should identify specific scopes, functions, or infrastructure elements that could be delivered or operated by other parties to improve efficiency and innovation. Competition may include design and build of infrastructure, as well as the delivery of terminal services and other on airport activities currently operated by Heathrow.
  - In the current cost-plus model, even though delivery risks are shared, financial incentives for the airport encourage inefficient design. With competition, a counter-incentive is created to pursue efficiency. [REDACTED]
  - [REDACTED].An airport has no incentive to make trade-offs or absorb efficient risk today.
  - We acknowledge complexities in a two-operator model. However, we cannot see the material risks to UK aviation being mitigated under the current monopoly operation and regulatory arrangements. It is essential to investigate alternative mechanisms e.g. separate RABs, and better definition of terminal/runway operator interfaces. As the CAA noted, this is achieved at other airports. In addition to the USA, we also note many second-tier airports in Japan have historically been operated by separate companies;



typically central government running the airfield and other consortia operating the terminals. In some USA airports, both individual airlines and airline consortia have also refurbished terminals and sold the improvements to the airport operators.

- We anticipate a strong appetite from airlines to operate from a new operator's facilities and the potential for demand to 'switch operators'. Mechanisms should be in place to allow for/require **asset sales to a more efficient provider without revaluation**.

**Strengthening regulatory oversight and targeted incentives** – We suggest the CAA must implement a step-change in capital expenditure scrutiny and governance. Mechanisms should be introduced to prevent cost overruns, excessive profits and service failings. Incentives must be sought to align cost recovery with the delivery of benefits, reward genuine outperformance and penalise failings. Incentives must also create the appropriate behaviours for cost efficiency in Heathrow, rather than incentivizing the growth of the RAB and charges.

The Qantas Group considers there are two key sources of inefficiency in airport infrastructure delivery:

1. Design inefficiency through designs that are over-sized, over-specified or premature given demand, creating unproductive build costs.
2. Delivery efficiency through failures to manage costs and take advantage of opportunities to reduce.

We do not believe that design efficiency has been given sufficient consideration in the options laid out. It is important to note that by the time a project enters scrutiny under the current approach, it is likely that the wider program and development path will have been decided, effectively limiting optionality. The Qantas Group has experience internationally where early airport design decisions substantially reduce other subsequent development pathway options and lock in higher cost. As a result by the time of consultation, there are no other alternatives. Masterplans should be costed, with price implications published before the consultation process; and whole programs must be properly consulted on and assessed before funds are committed to design pathways that limit future options. Those consultations must consider the lifetime costs of the decisions made rather than just the next regulatory period. We encourage the CAA to bring forward its capital assessment to an earlier program stage, and continue ongoing assessment through the project gateway process.

The regulator should have a framework to properly assess design decisions. This framework should assess technical efficiency and consider alternatives provided by IATA and airlines or their consultants. In addition, it should consider the likely impacts on demand/supply and the appropriateness of proposed staging. Where an airport plans to build prematurely when assessed against demand, or where its build has a negative consumer/airline industry business case, costs should only be recovered once they become efficient e.g. through growth

Value engineering should be required and subject to some form of independent oversight to ensure that where efficient design or build opportunities to reduce costs are declined, those costs are not recovered by the airport from the airport users.

- **Ensure cost-relatedness and discipline:** Costs must be transparent, demonstrably required and charges must remain aligned with actual costs, consistent with ICAO principles.
- **Stronger emphasis on affordability:** Whilst the CAA must have regard for financeability, the framework must ensure a stronger emphasis on pricing impacts and containing the level of charges.

- **Protect consumers and airlines:** Expediency must not override the CAA's statutory duties to further the interest of consumers. Policy cannot be allowed to compromise affordability, transparency or the implementation of the appropriate changes required.

### **Additional Considerations**

Whilst recognising the CAA is responding to Government policy in its role as an independent regulator, it should not rule out exploring alternative financing mechanisms, including government-backed options, to ensure expansion is feasible and continues in the consumers' interest.

### **Summary**

The Qantas Group believes that by building on the above key positions, a tailored, hybrid option of encouraging and inserting competition, combined with enhanced and effective economic regulation is required.

The Qantas Group urges the CAA to prioritise early design cost scrutiny, enable competitive frameworks and ensure risk allocation reflects genuine control. The Qantas Group is available to discuss our response with the CAA. We would value the opportunity 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. We also encourage the CAA to engage with IATA on its response.

Thank you for considering our views. We look forward to continued dialogue on this critical issue.

Yours faithfully,

Andre Nielson  
Head of Finance and International  
Qantas Group