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Re: Airline community response on CAA CAP3201 Heathrow Capacity Expansion – Early Costs (second consultation)

This submission is the Heathrow airline community's response to the CAA's proposals on the regulatory treatment of early expansion costs at Heathrow ("the Proposals"), CAP3201 ("the Consultation"), issued on 16 December, following the previous consultation in August – September 2025 (CAP 3149) to which we (the airline community) responded.

The submission is made jointly by the London (Heathrow) Airline Consultative Committee ("LACC"), Heathrow Airline Operators Committee ("AOC"), and the International Air Transport Association ("IATA") and should be read alongside individual airlines, groups and alliances' own submissions, as well as our previous response referenced above.

1. INTRODUCTION

- For the avoidance of doubt, the airline community remain supportive of an affordable expanded Heathrow but this must be executed in a manner that is in the interests of consumers and the UK.
- In line with our previous response, the airline community continues to strongly and fundamentally oppose any policy that means airlines, and ultimately consumers, are paying for pre-consent costs incurred by HAL and any other promoter in preparing their proposals for Heathrow expansion. We are therefore extremely disappointed that the CAA has rejected Option 4 (Do not allow recovery of costs). As previously stated, this is the clearest option that meets the CAA's statutory duty to consumers: it avoids the risk of consumers funding speculative or failed proposals, maintains a level playing field among promoters, and should inherently drive stronger cost control.
- The CAA's Proposals, however, transfer the pre-consent risk to today's consumers, encourage poor cost control, and pre-judge the case for expansion before a proper independent review of the consumer cost/benefit.
- The airline community's Primary Position is set out in Section 2, namely our opposition to the CAA's Proposals to allow the recovery of early costs by promoters prior to DCO consent and ask that the CAA's current Proposals be withdrawn, because of serious failings with both the apparent lack of substantive assessment and the process undertaken.
- In Section 3, we set out the reasons why we do not believe that the process followed by the CAA in developing its Proposals has paid sufficient regard to its primary duties relating to consumer protection, efficient costs, and promoting competition.

- In Section 4 we list specific concerns that are apparent in the CAA’s justification for its Proposals, and then discuss in Section 5, without prejudice to our position that pre-DCO costs should not be funded, essential safeguards that are required should the CAA proceed with its Proposals.
- Finally, we present a summary of key recommendations and actions which we are asking the CAA to take to safeguard its statutory duties.

The response does not address every item in the Consultation and should be read together with our previous responses to CAA consultations, including but not limited to CAA CAP3149, hereby incorporated into this response. The absence of a comment on any particular item in the Consultation should not be taken as endorsement or acceptance.

2. PRIMARY POSITION

The airline community remains strongly opposed to the recovery of early costs by promoters prior to DCO consent, for the reasons set out in our response to CAP3149.

We ask that the CAA’s current Proposals be withdrawn, because of serious failings with both the apparent lack of substantive assessment, the process undertaken, and the inadequate safeguards proposed, as set out further below.

The CAA must reconsider its position based on a thorough, balanced and independent assessment of costs and benefits.

3. GENERAL ISSUES WITH THE CAA’S APPROACH

We do not believe that the process followed by the CAA in developing its Proposals has paid sufficient regard to its primary duties relating to consumer protection, efficient costs, and promoting competition.

3.1 Incorrect premise on the basis of the Proposal

Despite the CAA’s own admission that *“the overall ‘benefits assessment’ for expansion is subject to uncertainty...”*, its Proposals **appear driven in response to a Government-set timetable and concerns to protect from risk Heathrow Airport Limited (“HAL”)** - an entity designated with significant market power – at the expense of consumers.

The Consultation proposal is predicated on concerns that HAL may not be incentivised to proceed without guarantees on early costs, yet we note on **15th January HAL publicly declared their intent to progress with expansion irrespective of the outcome of the treatment of early costs¹**. We have also seen similar statements from Heathrow West re their willingness to proceed.

Such statements contradict the CAA’s reasoning for allowing early costs that *“if we were not to make an explicit allowance for early costs then it would not be in HAL’s interests to deploy the resources necessary to proceed with capacity expansion in a timely way.²”*

3.2 The consultation process has not been thorough:

¹ <https://mediacentre.heathrow.com/pressrelease/detail/24600> “Heathrow greenlights work on third runway planning application as critical 2026 milestone approaches”, 15th January 2026

² Paragraph 2.23 of the Consultation

In its review of responses to CAP3149, the CAA summarises stakeholder feedback but does not respond in any detail to the points made.

Furthermore, the **short timescales for the consultations** on early costs can only raise suspicions that the outcome has been pre-judged in order to “provide comfort” for HAL in particular.

Indeed, in its December Investor Review, HAL stated : *“In December 2025, the CAA published CAP 3201, **confirming** that all efficiently incurred early costs in 2025 and 2026—including property and enabling works—will be recoverable after an ex-post review in 2027. These costs will not be subject to incentives tied to the success or failure of the DCO”*. (emphasis added). **It therefore appears that HAL consider this a “done deal” pre-judging this Consultation.**

Whilst this proposal relates specifically to early DCO costs, the DCO planning process for Heathrow Expansion is complex with many risks and stakeholders, and **the CAA has not discussed what lessons were learnt from the pre-Covid expansion proposal.**

3.3 Consumer benefits have not been independently evaluated, in spite of the CAA’s duty to protect the consumer:

The CAA appears to have taken HAL’s estimates of consumer benefits (based on assumed scarcity rents) at face value, without an independent assessment.

Additionally, current overlapping approaches by the CAA to H8, early expansion costs, and wider regulatory reform raises further concerns that **the overall impact on consumers is not being properly evaluated**. For example, we note HAL have already proposed to raise charges by 47% (real terms 2024 prices) in H8 including a £10bn capital envelope which excludes the costs being proposed here³.

Indeed, in its consultation document on regulatory reform (CAP3195), the CAA itself recognises that the combined effect of H8 and expansion costs *“are likely to result in HAL’s charges significantly exceeding current charges at other airports even after controlling for other relevant factors”*⁴.

3.4 The CAA Proposals will also undermine its duty to promote competition

The CAA is underwriting the existing monopoly provider HAL as the assumed scheme developer, granting significantly high early costs with insufficient due diligence.

The Proposal now goes even further by proposing to allow HAL to purchase residential and commercial property and early enabling costs which could pre-empt and potentially undermine competitive proposals.

4. SPECIFIC CONCERNS WITH THE CAA PROPOSALS

These comments are presented without prejudice to our primary position which is that pre-DCO costs should not be funded.

4.1 The Proposal goes against established regulatory practice and pre-empts its own regulatory review:

³ As per the Airline Community assessment of HAL’s H8 Business Plan, shared with the CAA through Constructive Engagement.

⁴ Paragraph 2.68 CAA CAP3195

The Proposal is inconsistent with the approach to the treatment of costs used for the Airports Commission, and also with regulatory practice in other sectors such as water and rail which the CAA is looking at as part of the ongoing Heathrow regulatory review.

Moreover, the CAA proposal to allow recovery of early costs here **appears to both pre-empt the outcome of the regulatory review and sets a worrying precedent for the treatment of costs from 2027 onwards.**

4.2 The CAA has not properly assessed early costs:

Given the limited information available, **we cannot see how the CAA can have any level of confidence in the claims for early costs presented so far.**

Firstly, the proposal to grant HAL at least £320m early costs is deeply worrying given that consumers are already paying for the £500m of previous expansion costs for essentially the same scheme. Despite being raised by the airline community in their response to CAP3149, **no analysis is presented as to whether previous work is potentially being charged for twice.**

The concern over the CAA's focus on its primary duty to consumers is reinforced by statements such as this in the Proposal: **"...the estimates of early costs for 2025 and 2026 are relatively modest⁵"** - but this is of course a minority of the costs to achieve a DCO which is likely to incur costs at least to 2029. As previously stated, in July 2025 HAL presented to the airline community a cost estimate of [REDACTED] to "Obtain Consent". This is likely to rise, given that pre-COVID, HAL tabled "early expansion costs" of at least circa £2bn⁶. The airline community refute any suggestion these are "modest costs".

HAL are already **"moving the goalposts"** on early costs and seeking to extend the scope:

- 15Jul25 HAL stated £20m to Sep 2025
- 31Jul25 HAL stated £71m to end-2025 and £249m in 2026 (ie £51m apparently spent Oct-Dec 2025 before HAL announced publicly that investors had approved start of spend on expansion)
- 09Dec2025 HAL sought to move £44m DCO and PM costs from Modernising Heathrow to expansion, and a redacted sum to include Commercial Property purchase/negotiation and planning costs for Modernising Heathrow. The CAA estimates that these requests amount to c.£400m

There are therefore indications already that HAL will not keep to the CAA's proposed cap and that cost control is already an issue. **It is therefore deeply disappointing to see the CAA has now looked to incorporate such enabling and acquisition costs.**

The cost breakdowns for the HAL spend are high level and inconsistent. Only 5 headings are provided to account for £320m spend in 2025/6, in less detail than the 11 headings provided for the £20m spend in 2025, which is not acceptable and certainly compares poorly with typical H7 cost proposals.

Lack of transparency: For example, HAL show £8m in 2025 for "Expanding Heathrow – Programme Mgt" and another £10m same year for "Early Programme Costs"⁷.

How do the costs relate to those previously incurred under previous Heathrow Expansion plan? As the proposals are fundamentally the same, HAL needs to show that previous work (and spend) cannot be re-used before the CAA authorises any new funds. There is no evidence that this has taken place.

⁵ Page 23, CAA CAP3202

⁶ Estimates taken from CAA CAP1871 where the CAA suggested support for £1.6bn of early Category C costs, alongside the £0.5bn Category B costs

⁷Letter of 9 Dec 2025 from Mike King HAL to CAA

5. PROBLEMS WITH PROPOSED SAFEGUARDS AND RECOMMENDED CHANGES

The airline community does not have confidence in the CAA's proposed safeguards for its Proposals, and suggests changes below to better protect the consumer. **Our comments throughout this section are presented without prejudice to our primary position that pre-DCO costs should not be recoverable.**

5.1 The Proposals do not address the airline community and the CAA's own concerns regarding HAL's cost management

The CAA correctly state that *"the higher cost estimate submitted by HAL reinforces the importance of strengthening the arrangements for incentivising efficiency to further the interests of consumers⁸".*

The airline community would also point to **the CAA's own assessment of HAL's poor management of and, despite clear concerns, difficulties it previously encountered with regards to efficiency:**

"Overall, we have identified a number of issues related to HAL's management of expansion, in particular in the way HAL has set and modified budgets for the expansion work, and with HAL's information recording in relation to expansion. However, it is difficult to translate some of these concerns into quantified inefficiency findings, based on our approach for quantifying inefficiency⁹."

However, **the proposed incentives and checks to ensure HAL deliver efficient early costs are inadequate.** HAL has a track record of cost escalation, late delivery and lack of transparency in major projects. For example, Cargo Tunnel works budgeted at £44.9m will be delivered at a latest estimate for circa [REDACTED]¹⁰, and a baggage system budgeted at £234m was delivered for £435m¹¹.

[REDACTED]

5.2 Key issues with Cost Management Mechanisms:

The CAA is proposing a £320m cap for 2025 and 2026 but this is not fixed, and HAL can apply to raise it, raising doubts as to the safeguarding incentive this provides. **The Proposals effectively insulate HAL from cost risks, which will be borne by consumers. There must be a stronger binding cap mechanism, with any application for raised cap subject to consultation and robust ex-ante checks by independent assessor, and no approval unless deemed necessary and efficient.**

Ex-post cost assessment, procured by HAL, will not be effective. The CAA specifically moved from an ex-post to ex-ante cost check regime for H7, noting that the ex-post system in place for Q6 led to a *"high bar being set for costs to be excluded on the basis of inefficiency, even where out-turn costs are much higher than the expected budget"* and that *"it does not offer any incentive to find efficiencies in the delivery of a project to outperform budget expectations¹²".*

⁸ Page 34, CAA CAP3201

⁹ Paragraph F60, CAA H7 Initial Proposals (CAP2265E)

¹⁰ [REDACTED]

¹¹ Statement by Shadow Transport Minister, 27.10.2025.

¹² CAA CAP2365, quoted in CAA CAP3195

The weakness of ex-post cost review is also apparent from the CAA's own assessment of pre-Covid early expansion costs: despite identifying "*a number of issues related to HAL's management of expansion*", including how HAL set and modified budgets, the CAA concluded that its approach to quantifying inefficiency made it "*difficult to translate*" these concerns into inefficiency findings¹³. The outcome, a finding of only £0 - £5.2 million of inefficiency out of nearly £500 million spent demonstrates just how little protection ex post review offers to consumers.

It is vital that the CAA take responsibility and ensure lessons learned are incorporated. **The cost assessment for early expansion costs must take place ex-ante.** For costs already incurred, an independent ex-post assessment of HAL's 2025 expansion spend should take place as soon as possible, and certainly before the allowance of any such costs.

Independent Cost Assessor: It is critical that for any credibility that the independent cost assessor is just that, independent, and contracted by and responsible to the CAA. **The airline community believe it is wholly inappropriate for HAL to appoint and fund the Independent cost assessor and do not support nor have confidence in such an approach.** This is weaker than both historic and current arrangements to date whereby roles such as the IFS and Subject Matter Experts are jointly appointed. **The independent cost assessor must be appointed by and report to the CAA to ensure independence.**

The airline community have consistently pushed for a **greater role and accountability for the CAA** in the governance of HAL, including on capital, which was also reflective in our general support for further CAA funding in dealing with Heathrow Expansion¹⁴. It is critical that the CAA takes a greater ownership in setting, monitoring and enacting stringent safeguards alongside providing independent assurance on proposals, the costs of which will ultimately be borne by consumers under the current Proposal.

5.3 Other Safeguards

Financing Costs: the CAA propose to use HAL's H7 WACC to reflect financing costs, but the airline community view is that, without prejudice to the airline community position on pre-funding, **Cost of Debt would be more appropriate**, at least until a major milestone such as DCO approval. This approach, in line with other regulated sectors, will ensure better cost discipline and ensures a closer alignment of costs and benefits for consumers.

Need for Clawback Mechanism: we note that the CAA is proposing to drop the previously proposed 105% / 75% incentive structure. The airline community agrees that no reward incentive is required, but **there must be a clawback mechanism** in the event of HAL deciding not to proceed or failing to secure a DCO. **It cannot be acceptable for airlines nor consumers to pay all of HAL's costs in either of these scenarios**, and we call on the CAA to review its position on this. Any costs added to the RAB must be written down if the scheme is abandoned.

Multiple Promoters: In line with our comments in response to CAP3195, we concur with the CAA's assessment that "*having a degree of rivalry between promoters has the potential to create significant advantages for consumers*¹⁵" and we strongly support the CAA "*facilitating competition*¹⁶". Given the CAA intends to permit cost recovery by multiple promoters, we re-iterate the need for the **implementation of further safeguards to prevent duplication and inefficiency**, including non-recovery of duplicated costs by

¹³ Paragraphs F59 – 60 CAA CAP2665E

¹⁴ See Airline Community responses to CAA CAP3168 and CAP3184

¹⁵ Paragraph 2.23 of the Consultation

¹⁶ Paragraph 2.25 of the Consultation



unsuccessful promoters and ensuring clear definitions and high thresholds for promoter eligibility and cost recovery.

Such safeguards should include a **clause in HAL's licence to facilitate third-party delivery** and guarantee that consumer-funded design work design is documented, structured and transparent so it can be transferred to alternative bidders (with appropriate confidentiality in place) and does not create an information advantage that forecloses competition.

All Safeguards must be set out in HAL's license.

6. CONCLUSION – KEY ASKS OF THE CAA

In conclusion, the airline community at Heathrow strongly disagrees with the CAA's Proposals to fund HAL and any other promoters' DCO and other early costs for Heathrow expansion, at the expense of consumers.

The Proposals must therefore be withdrawn because of serious issues with its substantive assessment and process. The CAA must reconsider its position based on a thorough, balanced and independent assessment of costs and benefits

Without prejudice to the above position, if the CAA decides to proceed with an early cost recovery mechanism, as a minimum the following changes must be made to the current Proposals in order to protect the consumer:

1. CAA must satisfy itself and provide evidence of **ensuring best practice** including on Benchmarking (how does this compare with LGW DCO costs for example)
2. **An ex-ante cost approval mechanism must be implemented**, with strengthened tests for all expenditure. An audit of 2025 costs must be carried out a.s.a.p. including any duplication with previous expansion work, with ex-ante cost assessment for future years.
3. **The independent cost assessor must be appointed by, and report to the CAA** in order to ensure independence.
4. HAL must provide to CAA, airlines, and independent assessor, **a full comparison of new workstreams against both the pre-Covid expansion workstreams and "Modernising Heathrow" programme.**
5. Must address issues of transparency and asymmetry of information; and consider airlines' role in the process
6. **The spend-cap must be binding**, with any application for raised cap subject to consultation and robust ex-ante checks by independent assessor, and no approval unless deemed necessary and efficient.
7. If the scheme is abandoned, an **unambiguous clawback mechanism** needs to be put in place so that consumers are compensated.



8. Land acquisition: in order to provide a level playing field for promoters, CAA must ensure that any land acquisition is compatible with this and does not limit options or add costs for other promoters. **Any land acquisition must remain within the single till.**

9. Pre-DCO return for HAL should be limited to **Cost of Debt** rather than WACC.

With thanks for consideration on these matters. Should you have any queries in relation to any of the points raised above we remain available to discuss further.

Yours sincerely

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