

Civil Aviation Authority
Sent by email to: economicregulation@caa.co.uk

Date: Friday 29th May 2026

Dear Rob,

Star Alliance response to CAP3232: H8 Initial Proposals

Thank you for the opportunity to submit views in response to the above. 23 of Star Alliance's 26 member airlines fly to LHR, thereby representing a significant weight of the airline community and collectively contributing a material portion of HAL's revenue via the charges they pay.

As well as engaging with our member airlines, Star Alliance has worked extensively with the wider airline community to formulate the very detailed response submitted jointly from the LACC and the LHR AOC. We are fully supportive of the contents of that response and ask that CAA reflects this support in its records.

Please note that some of our airline members will likely respond individually to this consultation and this Star Alliance submission should also be read in conjunction with those.

Rather than delve into technical details covered in the community submission, the intention of this response is to highlight and reinforce the following points which we believe are important and/or particularly relevant to Star Alliance and its member airlines.

Overarching comments

At a high level, we are broadly supportive of the CAA's Initial Proposals and the approach taken. The range of charges that would result are high, but this is unfortunately to be expected given the context of LHR already being one of the most expensive airports in the world. We draw the CAA's attention to the revised Airline Business Plan calculations included as Appendix A in the community submission; this has been carefully considered and is a more appropriate level of charges.

Importance of the single till

We welcome the CAA's conclusion that the single till concept should be maintained. This is well-understood, objectively reasonable, and aligns with the accepted approach at other airports. Having participated fully in the capital governance process throughout H7, Star Alliance rejects HAL's suggestion that it is impossible to progress long-term commercial property projects under the regulatory framework. Very few projects of this nature have actually been presented through the governance process, but where they have, this reflects the quality of the proposals rather than prohibitive capital governance or regulation. We believe that the CAA should do no further work on HAL's requested approach.

Weighted Average Cost of Capital (WACC)

Our primary concern with the Initial Proposals is the level of WACC. The expert analysis commissioned by the airline community objectively concludes that a reasonable level of WACC is 4.68%, contrasting with the CAA's proposed 5.87%. This differing conclusion alone would be sufficient to raise concerns in the context of a 'standalone' H8 price control settlement. But H8 cannot be viewed in isolation. With the impending likelihood of huge ticket capital projects, we are very concerned about the precedent set by the awarding of a high WACC now. Intentionally or not, this establishes a worrying baseline for the future. We urge the CAA to again review the proposed level of return.

Other Regulated Charges (“ORCs”)

We support many elements of the CAA's proposals on ORCs.

Regarding movements of cost elements between aeronautical charges (“aeros”) and ORCs:

- We firmly reject HAL's proposals to expand the ORC scope and are relieved that CAA is aligned with this. Business rates and check-in charges must remain in aeros.
- To align with our proposals on MTIs for baggage (see below), we restate our position that baggage charges (including HBS) should be moved into aeros.

One-Stop-Security is an evolving initiative that carries high importance for some of our member airlines and their passengers. We support the CAA's conclusion that further consideration of the appropriate treatment is required, rather than make the assumption that this service should be charged through ORCs.

Service quality, resilience and incentives

Departing baggage

We welcome the CAA's proposal to introduce a financial incentive for the timely delivery of departing baggage. We firmly support the view that this incentive will strengthen HAL's focus on the performance of its departing baggage systems and thereby contribute to airport resilience. However, we are concerned with the rejection of the airline community's proposal for this incentive to carry additional weight through the introduction of a reasonable and justified backstop to work in conjunction with the core timely delivery measure. As suggested by recent operational data, significant baggage events are simply not captured in the core measure as proposed, hence the reiteration of our proposal.

At the time of finalising this response, 'official' recent/updated data has not yet been made available by HAL. Once this is received, we are keen to work with all parties to revisit and develop a mutually acceptable measure that recognises the impact of baggage system failures and the consumer harm they cause.

Security queue measurement

We are excited by the ongoing implementation of Passenger Flow Management and Monitoring technology (the Xovis system). This will bring real benefits to airlines and their passengers at key touchpoints such as check-in, security and immigration. In the specific case of security, the technology will enable true per-passenger performance to be measured, and we look forward to working with HAL on the details once data begins to emerge. Given the importance of this data in transforming the measurement of security performance, we strongly encourage the CAA to develop a simple licence condition for inclusion in Final Proposals that mandates the usage of this new technology at a defined timescale. We acknowledge that full details need working through but are cognisant that a similar licence condition was included in Q6 and has never been met (at the reluctant acceptance of the airline community).

Eligibility criteria

We fundamentally reject the introduction of eligibility criteria for airlines in the MTI space. This is an historic principle of the airline community's position, but to reiterate and summarise our objection:

- HAL is the regulated entity, not the airlines. The airlines operate in a competitive market.
- HAL's proposals would reduce its risk and therefore dis-incentivise good performance.
- There is little evidence for a positive consumer benefit. The possibility of an airline 'missing out' on a potential rebate because it has failed to meet HAL's eligibility criteria will have no effect whatsoever on its operational performance; far greater intrinsic incentives already exist.

Capital expenditure

We are supportive of the proposed size of the capital plan as laid out in the Initial Proposals. HAL's proposed plan was clearly untenable, from the perspectives of both deliverability and affordability. We encourage the CAA to stand firm on a) the capital plan headline figure of £5.8b (mid-point), and b) as a needs-based envelope of which the contents need further open discussion between HAL and the airlines.

In developing its Final Proposals, the CAA must ensure that the capital envelope specifically contains 'business as usual' projects, rather than anything related to airport expansion. This is a sensible and pragmatic distinction given the ongoing uncertainty about the nature and treatment of expansion costs. Equally, the CAA must recognise the wider picture of the likely huge burden of costs to consumers, in addition to this H8 portfolio.

Structured prioritisation

We are keen to work with HAL in an objective prioritisation exercise to ensure that the H8 project mix is appropriate and balanced. This prioritisation should be grounded in agreed principles, not dissimilar from the very pragmatic approach taken by Steer in its work on the CAA's proposals. We encourage the CAA to consider how an ongoing structured prioritisation approach could be grounded in a step-change in governance arrangements that have regulatory weight (see below). Note that Star Alliance and its members do have in mind a small number of key projects that we would want to see in the H8 portfolio, but we are comfortable in making the case for those as part of the community-wide prioritisation discussions.

Uncertainty mechanism

The inclusion of a 5% uncertainty mechanism is a sensible element of the H8 capital arrangements, but its use must only be activated through mutual agreement in exceptional circumstances. HAL must not be able to view this simply as an increase to the envelope.

Capital governance regime

The capital governance framework needs significant change. We acknowledge that the broad topic of governance will be covered in CAP3251, but that is about capacity expansion. Changes to capital governance are required to address several shortcomings of the current model and these must apply for H8. Section 9 of the community response covers this subject in detail, and we urge the CAA to seriously consider these proposals. As a key player in capital engagement over the last three quinquennia, Star Alliance has the benefit of being able to reflect on what has worked well in the past, and this has been discussed in detail and reflected within the community response.

Conclusion and summary of requests

In conclusion, we summarise here the list of key requests contained in this response for CAA consideration. To be clear, this list is not exhaustive and should be read in conjunction with the longer list within the community response:

- Consider the key figures in the revised Airline Business Plan
- Maintain the single till approach and do no further work on alternative options
- Review the proposed level of WACC in the context of both H8 and the precedent this sets for expansion
- Move baggage charges from ORCs to aeros
- Coordinate an ongoing discussion of a reasonable financial incentive for baggage system performance, to finalise a measure which properly captures large-scale incidents

- Develop a simple licence condition to ensure that per-passenger measurement of security queues is implemented without delay
- Reject HAL's proposals for airline eligibility criteria for MTI rebates
- Maintain the proposed level of capital expenditure envelope and support an objective and structured prioritisation framework via mandated governance arrangements
- Coordinate the development of significant revisions to the capital governance framework, recognising the airline community's concerns

Yours sincerely

Simon Ralph

(sent by email)

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cc Simon Scoggins, Regional Director, Heathrow