

# Airlines UK response to working paper on regulatory models

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Airlines UK is the association for UK airlines, with members including 2Excel, Ascend Airways, AirTanker, 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.

## **Questions**

**Do you agree with our assessment of how the regulatory model has performed to date in terms of protecting the interests of consumers?**

**Do you agree with our assessment of how the current regulatory model might perform on a forward-looking basis?**

UK airlines consider that the CAA's economic regulation of Heathrow has not to date delivered sufficient scrutiny of airport proposals or value for money for consumers faced with uniquely high airport charges from the UK's only hub airport, Heathrow. We have consistently supported the need to ensure sufficient CAA expertise to deliver more effective economic regulation of airports, and to ensure decision-making on capacity expansion - at Heathrow or elsewhere - is fully accountable to airlines and the travelling public.

We support the Heathrow Reimagined view that the current regulatory model is not fit for purpose, and consequently that a fundamental review was necessary on the basis that the current regulatory model can and should be improved to better serve the interests of consumers.

We welcome recognition by the CAA within this working paper that:

- *HAL's charges appear high compared to other airports that are subject to a greater degree of competition and that ... factors over which HAL has relatively little control ... do not fully, explain the charge gap between HAL and other airports; [pg. 27]*
- There has been a marked decline in HAL's service quality compared with other airports following the pandemic - consistent with a higher observed level of rebates payable to airlines between 2021 and 2023 and that, more recently, HAL's service quality has not recovered to the same extent as other airports
- There is evidence to suggest that the costs of developing Terminal 5 and Terminal 2 were relatively high
- *Airport charges are likely to increase from £24.28 at the end of H7 to an average level of £33.26 per passenger during H8 under a two-runway configuration .... [and] could increase significantly beyond this level in the context of major capacity expansion at Heathrow ...*

*likely to result in HAL's charges significantly exceeding [our emphasis] current charges at other airports even after controlling for other relevant factors [pg. 29]*

It is critical that the UK's only hub airport is delivering good value for its customers, as part of the UK's wider aviation ecosystem. Whilst the UK has historic strengths as an aviation market, latest analysis by WPI Strategy undertaken for Airlines UK and industry partners demonstrates that UK competitiveness is suffering from a high and growing cost base. Unless addressed these cost pressures are expected to grow faster compared to our European competitor markets over the coming years, with consequences for UK aviation and wider economic growth.

These cost pressures disproportionately impact UK based airlines, who have greater exposure to the costs associated with operations from their home market, including airport charges (but increasingly also, rising business rates, highest Air Passenger Duty in the world, ambitious sustainable aviation fuel mandates, etc.). Supporting the ability for airlines to base aircraft in the UK matters, with each UK-based aircraft directly supporting over four hundred jobs and £27m UK GVA, compared to one hundred jobs and £7m GVA where overseas aircraft fly UK routes<sup>1</sup>.

In this context, we strongly agree that there is a persuasive case for examination of amendments or alternatives to the current regulatory model.

**Do you agree with our description of the regulatory models we have identified, and do you have initial views on the advantages and disadvantages of these models?**

**Are there additional variants of the current regulatory model or additional alternative regulatory models that we should consider and what would be the advantages and disadvantages of these approaches?**

Today the expectation is that airport charges at Heathrow could increase significantly under expansion plans under the current regulatory model, significantly exceeding current charges at other airports despite these charges already being too high.

It is unlikely that any reform package will be able to reflect entirely or as a complete solution any single model used elsewhere, or option modelled in this call for evidence. Moreover, any model would likely need to be airport-specific, noting each location's specific set of circumstances. However, by drawing examples of alternatives both at home and abroad, we have a unique opportunity to deliver improved regulatory outcomes for Heathrow users, in support of a more competitive UK aviation market.

Such an enhanced regulatory model would drive better incentives for efficient investment, operational efficiency and support user needs being met through innovation. This means placing factors such as costs, affordability, and delivering benefits to consumers (including lower fares and greater network choice) as priorities in the CAA's assessment criteria, noting that whilst for example achieving the lowest cost of capital is in principle a good thing, this

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<sup>1</sup> [Assessment of the strategic and economic importance of UK-based airlines | Airlines UK](#)

needs to be viewed holistically against overall cost to consumers of what is being developed and why.

We consider that key to delivering better outcomes will be increasing exposure to competition, for example in the delivery of infrastructure and terminal operations, helping align investment with user needs and driving efficiency improvements through greater transparency and accountability.

Lessons can be taken from other sectors (be it managing major capex by Thames Tideway model, Ofcom's regulation of BT to name two examples). We also note that experience in the US and elsewhere shows that terminals and airfield activities can be separately operated and owned, without impacting operations and whilst increasing the opportunity for competition to improve user outcomes.

Any system should also deliver better accountability for the delivery of benefits associated with capital spending over the lifetime of the investment, helping close the gap between Heathrow's charges and those of its peers. Ideas to support this outcome include a cross-industry body to develop and manage major capex (e.g., a form of capital investment committee) supervised by the CAA but with airlines playing an active role as engaged decision-makers. The intention here is to increase control and transparency over major capex decisions to limit HAL's ability to act on harmful incentives and drive efficient capex.

We note that Frankfurt Airport has a regulatory framework where aviation charges and capital plans are agreed based on engagement between airlines and the airport, and in Singapore, the regulator benchmarks charges against a range of other international hubs, considering explicitly the attractiveness of the airport hub.

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