INTERNATIONAL AIRLINES GROUP

Rob Toal
Civil Aviation Authority
Westferry Circus
Canary Wharf
London E14 4HD

By email: economicregulation@caa.co.uk

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IAG response to CAP3279: Proposed 2027 holding price cap for Heathrow Airport Limited

Dear Rob,

International Airlines Group (IAG) welcomes the opportunity to respond to the Civil Aviation Authority (CAA)'s consultation and notice under section 22(2) of the Civil Aviation Act 2012 proposing a holding price cap for Heathrow Airport Limited (HAL) for 2027.

IAG is the parent company of Aer Lingus, British Airways, Iberia, LEVEL and Vueling. Heathrow is central to the connectivity provided by the Group, both through British Airways' hub operation and through the services operated by other IAG airlines between Heathrow and their respective networks and home markets. The level and profile of Heathrow's airport charges have direct implications for airline costs, route economics, capacity and investment decisions, and ultimately for the affordability, connectivity and choice available to consumers.

Potential changes to the price control formula at this late stage of the 2027 planning cycle create material uncertainty for airline business planning and investment decisions. Airlines make pricing, network, fleet, capacity and investment decisions well in advance and on the basis of the charges framework they reasonably expect to be applied. Altering the formula, or leaving its application unresolved shortly before charges take effect undermines planning certainty and may distort or defer decisions that cannot subsequently be unwound through a later true-up.

IAG fully supports the detailed response and recalculation submitted by British Airways. We also support the consistent positions presented by our other operating companies in response to this consultation. This Group response should therefore be read alongside the British Airways submission and the responses previously submitted by IAG and its airlines to the CAA's H8 Initial Proposals.

In particular, **IAG supports British Airways' recommendation that the CAA set the 2027 holding price cap at £26.685 per passenger**, rather than the proposed £28.398. British Airways' recalculation adopts the lower end of the CAA's Initial Proposals range as the starting point, corrects the known 2026 Terminal Drop-Off Charge over-recovery, includes cargo revenues in the K factor calculation, and retains the established H7 service-performance adjustment subject to transparency.

This, in our view, would represent a balanced outcome, one that would allow HAL to recover its efficient costs while reducing the risk that airlines and consumers are required to fund an overstated allowance before the H8 settlement has been finalised.

Cost pressures in addition to the 2027 holding cap

The holding cap must be considered in the wider context of the cost pressures facing airlines and consumers at Heathrow. These include the final H8 settlement, which as per the CAA's Initial Proposals may result in further increases across the control period; potential expansion-related costs which the CAA indicated in its draft decision on the recovery of early expansion costs (CAP3238) that it was minded to begin recovering through an additional charge from 2028; and subsequent adjustments associated with traffic risk sharing, the Terminal Drop-Off Charge and capital governance.

Given these cost pressures, it would be remiss of the CAA to treat the precise level of the holding cap as immaterial on the basis that any over-recovery or under-recovery can be subsequently reconciled through the final H8 settlement.

Airlines make decisions on pricing, network, fleet, capacity and investment in real time, based on the charges they expect to face in each year. By the time the 2027 cap is determined, airlines will already have established business plans and sold a substantial proportion of tickets for travel during the year. A late increase from £26.22 per passenger in 2026 to approximately £28.40 in 2027 cannot be retrospectively neutralised by a true-up in a later year.

There is therefore a significant risk that front-loading charges into 2027 would compound these cost pressures and leave airlines with insufficient time and scope to take mitigating action. Those costs ultimately affect route economics, connectivity, consumer choice and the affordability of air travel.

Where increases are ultimately found to be necessary, IAG supports a smoother profile of charges across H8. This would provide airlines with a more realistic opportunity to incorporate changes into fares, schedules and business plans. It would also better align the timing of charges with the delivery of investment and the realisation of the associated benefits for consumers, rather than requiring users to fund increases materially in advance of delivery.

Outstanding H8 issues should not be prejudged through the holding cap

The CAA is setting the holding cap before it has completed its consideration of several material issues raised in stakeholder submissions on the H8 framework. In particular, these include the appropriate traffic forecast and the continued application of the shock factor which we strongly dispute.

The CAA proposes to use a forecast of 85.9 million passengers, based on the shocked base-case scenario in its H8 Initial Proposals. However, the airline community has made extensive representations on both the level of the forecast and the continued use of the shock factor. In particular, the shock factor has not been demonstrated to improve forecast accuracy and risks embedding a downward bias in the forecast at a capacity-constrained airport.

There is also a risk of duplication if a downward shock adjustment is applied to the traffic forecast while HAL is separately protected through a traffic risk-sharing mechanism.

IAG considers that the Irish Aviation Authority's recent Draft Determination for Dublin Airport provides relevant regulatory read-across. The IAA rejected Dublin Airport's proposed asymmetric risk adjustment for extreme and transient traffic shocks. It concluded, among other matters, that the centreline forecast should represent a fair bet by balancing upside and downside risks overall, that the airport has some ability to respond to traffic changes through its costs and commercial revenues, and that an additional allowance would risk being uncalibrated and duplicative.[1]

We view the underlying principle as highly relevant to H8. Conservative forecasting assumptions and additional risk protections should not be layered without clear evidence, appropriate calibration and an assessment of their cumulative effect on consumers.

Use of the CAA's shocked traffic forecast for the limited purpose of setting the 2027 holding cap should therefore not be interpreted as acceptance by IAG or its operating companies of either the shock factor or any overlapping traffic protection for H8. Nor should the use of any such forecast for the limited purpose of calculating the holding cap result in those assumptions becoming embedded in, or treated as settled for, the H8 Final Decision.

Using the lower end of the CAA's own range

In circumstances where the underlying H8 settlement remains contested, the prudent approach would be to use the lower end of the CAA's Initial Proposals range as the starting point for 2027. This would reduce the risk of over-recovery while preserving HAL's ability to recover efficiently incurred costs.

The lower end of the CAA's own range, £25.790 in 2024 CPIH prices, remains above the airline community's efficient unprofiled 2027 charge of £25.13. It therefore provides HAL with a reasonable interim allowance while materially reducing the risk that consumers fund an overstated settlement before the CAA has completed its assessment.

IAG consequently supports the use of £25.790 as the starting point and the resulting British Airways recalculation of the holding cap to £26.685 per passenger.

Adjustments and other components of the holding cap

IAG endorses in full the positions set out in the British Airways response on the remaining components of the holding cap. These include the immediate return of the known 2026 Terminal Drop-Off Charge over-recovery (a reduction of £0.65 per passenger, updated for inflation as appropriate), the inclusion of 2025 cargo revenues in the K factor (changing K(2027) from £0.616 to £0.781 per passenger), a full and transparent true-up from forecast to outturn inflation through the X(2027) factor, and the proposed treatment of the AC(2027), T(2027), TDO(2027) and TRS(2027) adjustment terms. We emphasise the need for meaningful airline engagement on HAL's forecasts and for any subsequent policy changes to be reflected through an adjustment term in 2028.

Three points merit particular emphasis:

First, while IAG accepts the inclusion of the 0.230% service-performance bonus for 2025 for the limited purpose of calculating the holding cap, as it arises under an established H7 policy, this is without prejudice to the position of IAG and its airlines that service-quality bonuses should not continue in H8. Specifically, a regulated monopoly should not be rewarded for delivering the standards of service that airport users and consumers are already entitled to expect for the charges that they pay. The CAA should disclose the data and methodology underpinning the 0.230% figure and the corresponding £0.063 per-passenger adjustment.

Secondly, on capital triggers, **[REDACTED]**.

[11] Irish Aviation Authority, *Draft Determination on the Maximum Level of Airport Charges at Dublin Airport for 2027–2031*, 14 July 2026.

Thirdly, in addition to the recommended correction of the known 2026 TDOC over-recovery, we reiterate the recommendation made in our response to the H8 Initial Proposals on the inclusion of a licence condition requiring HAL to return to consumers 100% of any additional Terminal Drop-Off Charge revenues generated by increases in the tariff above the current £7 level. **[REDACTED]** IAG considers it likely that HAL will seek to increase the tariff during H8 in order to retain windfall gains under the current risk-sharing arrangements. Our proposal would remove this perverse incentive and ensure that any additional revenues are returned to consumers in full.

Conclusion

IAG fully supports the detailed response and recalculation submitted by British Airways and the aligned positions presented by IAG's operating companies.

The CAA's proposed cap of £28.398 per passenger would introduce a material increase at short notice while key elements of the H8 framework remain unresolved. The prospect of a subsequent true-up does not remove the immediate consequences for airline pricing, route economics, connectivity, capacity, investment decisions and uncertainty in business planning in general, or for the consumers who ultimately bear airport charges.

The 2027 holding cap should not be considered in isolation from the final H8 settlement, potential expansion-related costs and other subsequent adjustments. Nor should it be used to embed disputed assumptions on traffic, risk sharing or capital governance before the CAA has completed its assessment. IAG therefore requests that the CAA adopt the lower end of its Initial Proposals range as the starting point and set the 2027 holding price cap at £26.685 per passenger, in line with the British Airways recalculation and incorporating the corrections described above. This would provide a balanced interim outcome that protects consumers against avoidable over-recovery while allowing HAL to recover efficiently incurred costs.

Given the limited period before the 2027 charges take effect in January 2027, IAG encourages the CAA to determine and communicate the holding cap as early as possible. IAG remains available to discuss any aspect of this response.

Yours sincerely,

Maria Borg
Group Head Airport Regulation
International Airlines Group, S.A.