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Iberia response to CAP3279
Proposal for a 2027 holding price cap for Heathrow Airport Limited

Dear Rob,

This letter sets out Iberia's response to the Civil Aviation Authority's (CAA) 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.

This response should be read alongside the detailed response submitted by our sister airline British Airways and our recent response to the CAA's H8 Initial Proposals (CAP3232). Iberia stands behind the principal conclusions and the recalculation of the holding cap set out by British Airways. In summary, **we support a holding price cap for 2027 of £26.685 per passenger**, rather than the CAA's proposed £28.398. This proposed figure would still allow HAL to recover its efficient costs while ensuring that charges are no higher than necessary and that the transition into the H8 period is a smooth one.

Iberia operates scheduled services between Heathrow and our Madrid hub, and Heathrow is an important part of the connectivity we provide between the United Kingdom, Spain and the wider IAG network. Airport charges at Heathrow feed directly into our route economics, our fleet and capacity allocation decisions, and ultimately the fares and choice available to consumers.

<u>The CAA should not consider the 2027 holding cap in isolation</u>

The CAA should not treat the holding cap as a merely temporary matter on the basis that H8 will eventually true up any over or under-recovery, particularly given the short lead time between now and the start of 2027, for which a large part of air tickets would have already been sold. This is particularly important given the holding cap sits within a wider context of cost pressure on airlines and consumers, including the final H8 settlement (H8 Initial Proposals envisage further increases across the control period), possible expansion-related costs from 2028 as per CAA's draft decision (CAP3238), and further adjustments relating to traffic risk sharing, TDOC and capital governance.

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The level of the 2027 holding cap which is being proposed is concerning

It follows from the above that the scale of the proposed change raises serious concern to us. The CAA's proposal would increase the Maximum Allowable Yield by £2.19 per passenger, from £26.22 in 2026 to £28.40 in 2027. A step change of that size, confirmed only weeks before it takes effect, cannot be absorbed within business plans that are already fixed.

Front-loading of charges from 2027 would compound that trajectory and leave airlines with less time and less scope to take mitigating action. Where increases are unavoidable, we share British Airways' preference for a **smoother profile across H8** which would better align the timing of charges with the delivery of investment and the realisation of the associated benefits for consumers.

The starting point should therefore be the lower end of the CAA's range

The CAA has taken the mid-point of the range in its H8 Initial Proposals (£26.62 in 2024 CPIH prices) as the starting point for the holding cap. We consider that the range as a whole is overstated for the reasons set out in our and British Airways' responses to the Initial Proposals, and that the appropriate starting point is the lower end of the range, £25.79 in 2024 CPIH prices.

That figure sits much closer to the efficient unprofiled 2027 charge identified by the airline community (£25.13) than the mid-point does, and it materially reduces the risk that HAL over-recovers during the first year of H8 on the strength of assumptions that remain contested.

Adopting the lower end is therefore more appropriate when the underlying settlement, which airlines are contesting, has not yet been determined. It is also the course most consistent with the CAA's statutory duties to further the interests of consumers and to ensure that charges reflect no more than the efficient costs of providing airport operation services.

The resulting adjustment for 2025 service level bonus should be explained

The CAA proposes a bonus factor of 0.230%, equivalent to £0.063 per passenger, in respect of HAL's 2025 service level performance. Given this reflects performance in 2025 under the established H7 framework Iberia accepts its inclusion in the calculation of the holding cap. We do so without prejudice to our position, set out in our response to the H8 Initial Proposals, that **service quality bonuses which reward a regulated monopoly for delivering the level of performance users are entitled to expect should be removed** for H8.

We do, however, ask the CAA to disclose how the 0.230% figure and the resulting £0.063 per-passenger adjustment have been derived, including the underlying performance data and assumptions. The consultation does not explain the derivation which makes it impossible for users to verify an adjustment that they will pay for.

The known 2026 TDOC over-recovery should be returned in 2027

HAL increased the terminal drop-off charge by £1 in November 2025, after the 2026 airport charges consultation had concluded and after charges for 2026 had been set, with effect from January 2026. Under the prevailing H7 arrangements, 65% of the additional revenue generated by that increase would have been returned to airlines through a lower Maximum Allowable Yield. Since the increase was introduced outside the formal consultation process no such adjustment was made and an over-recovery has arisen during 2026.

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This is **a known over-recovery under the existing H7 framework, and it can be addressed now**. It does not depend on the outcome of the H8 review. We therefore support the inclusion of an adjustment of £0.65 per passenger, updated as necessary for inflation, in the 2027 holding cap. Doing so would return to consumers what is due to them without unnecessary delay, would ensure charges are not higher than necessary, and would provide the right incentive for HAL to bring tariff changes forward within the formal consultation process rather than immediately after it.

<u>The k factor should be corrected to include cargo revenues</u>

The CAA's calculation of the k factor appears to exclude cargo revenues for 2025 and the consultation does not explain why. Cargo-only flights use the runways, taxiways and other common infrastructure whose costs are recovered through the regulatory settlement, and the revenues they generate should be recognised in the 2025 revenue recovery calculation on the same basis as passenger services. We invite the CAA to explain its rationale and, absent a compelling justification, to apply the correction identified by British Airways of approximately £13 million.

<u>The inflation true-up should be preserved and simplified</u>

Iberia supports the CAA's proposal to replace forecast inflation with outturn inflation through the X2027 factor. A full inflation true-up directly addresses a defect in previous holding caps. The 2023 holding cap was set using inflation assumptions materially above outturn, and HAL retained the resulting windfall with no mechanism to return it to consumers. That should not be repeated.

We ask the CAA to simplify the mechanism and to confirm expressly how and when the X2027 factor will be recalculated once outturn data are available, and how the resulting adjustment will flow through to charges.

We would also welcome an explanation of the rationale for moving from the D7BT series to the L522 CPIH series. The two appear to produce broadly comparable outcomes and there may be practical advantages to a single, transparent source for both forecast and outturn data, but the change has not been explained in the consultation.

<u>Later adjustments must reflect the H8 final decision and be made promptly</u>

We note that the CAA does not propose to include the AC2027, T2027, TDO2027 and TRS2027 adjustment terms in the holding cap since the relevant H8 policies have not been finalised. Where that is unavoidable, the treatment of those terms should follow three principles:

- First, they should ultimately reflect the CAA's H8 final decision, including any changes to the TDOC risk-sharing mechanism, the traffic risk sharing calibration and capital governance arrangements.
- Second, the forecasts HAL provides in the 2027 charges consultation should be subject to meaningful scrutiny and engagement with airport users, given their direct effect on the charges we pay. [REDACTED]

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- Third, any resulting correction should be made promptly through an adjustment term in 2028 so that charges reflect outturn costs early in the control period rather than allowing discrepancies to persist.

We would likewise ask the CAA to recognise that the traffic assumptions underpinning the holding cap, including the continued application of the shock factor, remain contested by the airline community and should not be treated as settled by their use here.

Summary of our position

The table below summarises the changes we support, consistent with the recalculation set out by British Airways.

Formula term	CAA value	Iberia’s position and proposed values
Starting point (2024 CPIH)	£26.615	£25.790. Adopt the lower end of the CAA’s Initial Proposals range.
Adjusted for expected 2027 inflation	£28.951	£28.053. Same assumption on inflation. X2027 is consequently recalculated to 0% (CAA: 3.043%).
B2025 (service level bonus)	0.230% (£0.063)	0.230% (£0.063). Retained as an established H7 policy. Disclosure of methodology required.
TDO2027	£0	-£0.65 per passenger. Return over-recovery for 2026.
K2027	£0.616	£0.781, correct cargo revenues (approximately £13m) from users of common airport infrastructure.
M2027	**£28.398**	**£26.685**

We would welcome a timely decision from the CAA on this matter so that airlines have as much certainty as possible before charges take effect in January 2027. In the meantime, we remain at your disposal to discuss any aspect of this response.

Yours sincerely,

Jaime García Blázquez
Manager Aeropolitical Affairs