Yann Cambier
International Airlines Group

9 April 2026

Dear Yann,

Thank you for your email of 27 March where you point me to your report, “Empirical Tests of the Starting Scarcity Rent Hypothesis at Heathrow”, published on the CAA website.

As outlined to you when we met on 8 April, we appreciate the challenge your analysis provides. Our intention is to engage directly with it and to explain where we consider the conclusions do not follow from the evidence presented.

In that spirit I attach to this letter a note from Frontier Economics that engages with your report. Of particular note:

1. **Scarcity rents are not a “Frontier-only” theory**: scarcity rents at Heathrow have been accepted by the CAA (including an assumed range of £0.9bn–£2.5bn p.a. described as “conservative”) and are embedded in Airports Commission and DfT appraisal work. They have also been examined in the CAA-funded independent peer review by the Institute for Transport Studies, University of Leeds. (See Sources 1–4.)
2. **Other airlines have also pointed to scarcity rents at Heathrow**: commissioned analysis referenced by Virgin Atlantic (WPI Economics) concludes that on a significant number of Heathrow routes passengers face limited choice, including 77 “monopoly routes” operated by IAG in summer 2019, and that affected passengers may be paying up to 10% more in fares where they lack an alternative to BA. easyJet has also argued publicly that Heathrow expansion would enable low-cost entry “at scale” and could reduce fares on some routes by almost a third through increased competition. (See Sources 5–6.)
3. **Your own analysis evidences a premium on BA LHR-LGW overlap routes**: on like-for-like BA routes (P2P economy; after controlling for airport charges) you find average fares £36 higher to Europe and £12 higher on long-haul from Heathrow versus Gatwick.
4. **Hub revenue management is not an alternative explanation to scarcity - it is a means by which it is realised**: network bid-price logic can explain *how* BA chooses to allocate seats, but it cannot explain *why* the Heathrow–Gatwick margin persists. In a market with spare capacity, competitors would add seats and compete away such margins. However, at Heathrow, entry and expansion are constrained by limited capacity.
5. **If there is a premium on LHR-LGW overlap routes, it is likely larger on Heathrow-only routes**: where the same route is also available from Gatwick, passengers have at least some outside option, which should place a ceiling on sustainable premia. Where Heathrow is the only London airport offering a comparable direct service, alternatives are more limited and the scope for extracting scarcity rents is correspondingly greater.
6. **It is telling your report does not engage with slot values and trading evidence**: slot transactions (and slot-backed financings) provide a direct market signal of expected future returns from operating at a constrained airport. A rational airline would not pay an upfront price for a slot unless it expected the present value of the *incremental* profits enabled by that slot - i.e. profits in excess of a normal return - to be at least as large as the acquisition cost. (See Source 7.)

Taken together, we consider these points difficult to reconcile with the conclusion that there is no congestion premium at Heathrow. We hope you receive the attached note in the constructive spirit intended, and we would welcome the opportunity to discuss the analysis further.

As you have submitted this report to the Civil Aviation Authority and, as I understand it, the Department for Transport, I will share this note with them, too.

Yours sincerely,

Pierpaolo Barrett
Regulation & Commercial Strategy Director
Heathrow Airport Limited

Sources

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2. Airports Commission, *Final Report* (Jul 2015): https://assets.publishing.service.gov.uk/media/5a808ab4e5274a2e8ab50bd4/airports-commission-final-report.pdf
3. Department for Transport, *Updated appraisal report: airport capacity in the South East* (Oct 2015): https://assets.publishing.service.gov.uk/media/5a8245a9ed915d74e6236b38/updated-appraisal-report-airport-capacity-in-the-south-east.pdf
4. Batley, R., Wheat, P. & Mackie, P., *Independent Peer Review of Recent Research on the Existence of Scarcity Rents at Heathrow* (CAA-funded; Aug 2019): https://www.caa.co.uk/publication/download/17572
5. City A.M., "Virgin Atlantic ups IAG war with teaser for new routes at Heathrow" (18 Sep 2019) (reporting on WPI Economics analysis): https://www.cityam.com/virgin-atlantic-ups-iag-war-with-teaser-for-new-routes-at-heathrow/
6. BBC News, "EasyJet says Heathrow Airport fares could drop by third" (12 Jun 2018): https://www.bbc.co.uk/news/uk-england-44454579
7. Apollo Global Management, "Apollo and Virgin Atlantic Complete $745m Asset-Backed Financing Solution" (13 Nov 2025): https://www.apollo.com/insights-news/pressreleases/2025/11/apollo-and-virgin-atlantic-complete-745m-asset-backed-financing-solution