

13 August 2026

Tim Johnson
Chief of Staff, Director of Consumer, Markets and Communications
Civil Aviation Authority

economicregulation@caa.co.uk

Dear Tim,

CAP3286

Thank you for the opportunity to engage on CAP3286 and the Civil Aviation Authority's continued work to develop the future regulatory framework for Heathrow.

We are writing to reinforce the key messages set out in the Heathrow Reimagined submission and to emphasise the importance of maintaining momentum as the CAA moves from identifying the need for reform towards the detailed design and implementation of the new regulatory framework.

At the outset, we want to make clear that **International Airlines Group, S. A. (IAG) has co-authored, fully contributed to and endorses the Heathrow Reimagined submission**. It reflects a shared view of the structural issues affecting Heathrow today and the reforms that are required to address them. The positions advanced are therefore not simply aligned with IAG's own thinking; they are positions that we have developed collectively and which we believe provide the strongest basis for delivering better outcomes for consumers, airlines and the UK economy.

We welcome the progress that the CAA has made over the last year. In particular, we believe the CAA has now established a compelling evidence base demonstrating that the existing framework is failing to deliver the outcomes consumers deserve. The diagnosis is clear. Heathrow remains the world's most expensive major airport whilst continuing to exhibit performance that does not justify those charges, and those outcomes are not the result of isolated issues but of structural incentives embedded within the current regulatory model. As the Heathrow Reimagined submission explains, regulation can continue to mitigate some of the symptoms, but only competition can fundamentally change those incentives and deliver sustained improvements in efficiency, service quality and affordability.

For that reason, we encourage the CAA to remain focused on implementing reforms that address those underlying structural incentives, rather than allowing the next phase of work to become concentrated on refining existing regulatory mechanisms. The evidence

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assembled through the CAA's own consultations points consistently in one direction. Where competition can be introduced, consumers benefit, and those benefits increase as the scope of competition expands. We therefore believe the final package of reforms should continue to reflect that principle throughout its design and implementation.

Importantly, the case for change is not driven by the prospect of expansion alone. The evidence demonstrates that significant consumer detriment exists today, at today's two-runway Heathrow. Accordingly, the remedies should also address today's airport rather than being deferred until future expansion takes place. This principle runs throughout the Heathrow Reimagined submission and remains fundamental to our position.

These reforms can and must be implemented at pace, and we are ready to support the CAA in this process. There are three areas where we believe particular urgency is now required.

First, the CAA should move rapidly to establish the new Capital Investment Committee and associated capital governance arrangements.

The governance reforms now under consideration have the potential to represent the most significant improvement to capital oversight at Heathrow for many years. However, those benefits will only be realised if they are implemented across the entire spectrum of spend, and quickly.

The current governance arrangements have demonstrably failed to constrain inefficient capital expenditure or provide sufficient protection for consumers against excessive costs. At precisely the point when Heathrow is preparing for the largest capital investment programme in its history, it would be a significant mistake for major investment decisions to continue being taken under arrangements which the CAA itself has recognised require fundamental reform.

We therefore strongly support the early establishment of the new governance arrangements, drawing on the Capital Investment Committee model set out in the Heathrow Reimagined submission. That governance framework should not simply become another process alongside the existing arrangements. Rather, it should become the single framework through which all capital investment is governed. This means applying consistently across expansion expenditure, business-as-usual investment, early costs and projects carried forward from previous control periods. A fragmented approach risks unnecessary complexity, inconsistent decision-making and opportunities for regulatory gaming. A single integrated framework would instead provide clarity, consistency and accountability for all parties.

Equally importantly, we encourage the CAA not to allow implementation to become unnecessarily protracted. The suggestion that the full governance framework could take several years to emerge would leave consumers exposed to the shortcomings of the existing arrangements throughout a period of exceptionally high capital expenditure and large, out of existing process "early cost" requests. The opportunity now exists to introduce a genuinely modern governance framework capable of improving investment discipline from the outset, and we believe that opportunity should be seized.

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Secondly, we believe it is essential that the CAA develops the regulatory framework required to support direct competition before any Development Consent Order is designated.

This is, in our view, one of the most important issues facing the current programme of regulatory reform.

If the objective is to enable meaningful competition for the delivery and operation of future airport infrastructure, then the regulatory framework cannot be developed after the planning process has effectively concluded. Potential promoters and investors require confidence that the regulatory framework will be capable of accommodating direct competition before critical planning milestones and investment decisions are reached.

Waiting until after DCO designation would create avoidable uncertainty, increase implementation risk and could inadvertently prejudice the very competition that the CAA has consistently recognised is capable of delivering the greatest consumer benefits. By contrast, establishing the necessary framework now would provide clarity to all potential participants, reduce regulatory uncertainty and ensure that competition is a realistic option rather than simply a theoretical possibility.

For this reason, we strongly encourage the CAA to continue developing Model 7b so that it can operate ahead of, and throughout, any DCO process. As the CAA has itself recognised, where competition is effective it delivers better consumer outcomes than regulation alone, and those benefits increase as the scope of competition expands. We therefore continue to believe that direct competition should be implemented wherever it is practical to do so, including through a more flexible interpretation of Model 7b that accommodates contractual separation. That would allow competitive pressures to extend beyond new expansion assets and across the wider airport, addressing the consumer harm that exists today rather than only that which might arise in the future.

Thirdly, affordability should remain central to the CAA's work as the detailed framework develops.

Expansion will only deliver the wider economic and connectivity benefits anticipated by Government if it is delivered efficiently and at a cost that airlines and passengers can ultimately afford. Airlines must concurrently make over £75bn in independent aircraft and aircraft related investments devoted to Heathrow to avoid a spiral down capacity crisis. Every increase in unit costs attributable only to Heathrow makes investment at this scale less likely. Strong capital governance, effective competitive disciplines and credible mechanisms to control overall expansion costs are therefore not simply regulatory objectives; they are essential preconditions for successful expansion itself. We welcome the CAA's recognition that the incentive arrangements could include an overall cap on expansion costs, and we encourage it to develop that into an enforceable cap in preference to the alternative incentives it identifies. Affordability should remain a central consideration throughout the implementation phase.

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We would like to reiterate IAG's commitment to working constructively with the CAA as this important programme progresses. The Heathrow Reimagined submission is intended not simply to identify shortcomings in the current arrangements but to provide practical proposals for implementation. We therefore welcome continued engagement with the CAA as it develops the detailed design of the new framework, including the work on capital governance, competitive procurement, direct competition and the associated implementation roadmap.

The CAA has now undertaken a substantial body of analysis and has established a robust case for reform. The challenge now is to ensure that implementation proceeds with sufficient pace and ambition to deliver the benefits that passengers, airlines and the wider economy have been waiting for. We believe the opportunity exists to establish a fundamentally stronger regulatory framework for Heathrow, and we encourage the CAA to move decisively to deliver it.

Yours sincerely,

For and on behalf of International Airlines Group, S. A.



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