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Dear Selina,

Iberia response to CAP3251: consultation on a shortlist of regulatory models for Heathrow Airport

Introduction

Iberia is grateful for the opportunity to respond to the Civil Aviation Authority's (CAA) consultation on a shortlist of regulatory models for Heathrow Airport (CAP3251).

Iberia operates high-frequency services between its hub in Madrid and Heathrow Airport. Our Heathrow operation serves both point-to-point air connectivity in the UK-Spain market, and carries connecting passengers in both directions, feeding Heathrow's long-haul network and linking the UK, through our Madrid hub, to Latin America and beyond. Both functions depend on short-haul route economics in which airport charges represent a large share of the total fare. The level and trajectory of Heathrow's charges therefore bear directly on the viability and frequency of our services, and on consumer choice.

Iberia's response should be read together with the submissions made to this consultation by our parent company, International Airlines Group (IAG), and by Heathrow Reimagined, and with their responses to the CAA's November 2025 Working Paper (CAP3195). Iberia supports those submissions in their entirety. We do not repeat their analysis by means of this letter but rather highlight the points of greatest importance to Iberia and its customers.

The case for change

Iberia shares the CAA's view that the case for change is settled. Heathrow's charges per passenger exceed those of every other airport in the world; service quality has not recovered to pre-pandemic standards; and capital expenditure – the main source of Heathrow's cost base – has not been subject to effective discipline.

The gap between Heathrow and its peers matters most for short-haul services where charges absorb a large share of the fare. Further increases in charges force a choice between higher prices for consumers and reduced frequency or capacity, and over time erode the feeder connectivity on which the hub itself relies.

An expansion programme costed by HAL at more than £49 billion cannot be added to this framework without severe repercussions to the hub proposition, consumer affordability and air connectivity. IAG calculates that recovering such a programme through charges would require roughly £3 billion per year more in aeronautical revenue in real terms, levels at which airlines could not commit the approximately £65 billion in aircraft capital needed to use the new capacity. Reform must therefore precede expansion commitments and must cover the entire regulated business, not expansion alone.

Iberia supports IAG's proposed solution

Iberia endorses the package of reforms IAG has proposed in its responses to CAP3195 and CAP3251:

- a Capital Investment Committee (CIC) holding genuine authority over capital planning – with a hard budget – and over project approval and delivery across the campus;
- competition applied wherever practicable along the Design–Build–Finance–Operate–Maintain–Own (DBFOMO) value chain; and
- a multi-RAB structure with a single Maximum Allowable Yield (MAY) across the whole campus.

On the shortlisted models, Iberia's positions follow from this package.

The governance models (1a, 2 and 4a) are the right foundation for the CIC, provided the designated body can approve and, where necessary, refuse capital plans, with risk allocation and penalties that give its decisions effect. Without the necessary decision-making powers, that body would be reduced to another consultative forum which could be circumvented.

Model 7b, in which independent parties compete to design, build, finance, operate, maintain and own discrete assets, should be the principal competition mechanism, available for the existing assets as well as new infrastructure, and introduced through HAL's licence under the Civil Aviation Act 2012 via contractual arrangements rather than contingent on the planning process for expansion.

Model 8, involving a transfer of ownership of existing assets, should stay on the table as a complementary path. Model 5b, competitive tendering of projects that HAL would otherwise build, is needed wherever Model 7b cannot operate, on condition that the CAA and/or the designated body oversee how tenders are specified and awarded.

Iberia does not support Model 3 on the basis that extending the duration of price control commitments would prolong HAL's over-insulation from risk at consumers' expense without addressing any of the problems the CAA has identified. We therefore request Model 3 be dropped.

A single MAY across the campus

Iberia attaches particular importance to the single, cross-campus MAY under which one maximum average charge per passenger is applied across all facilities, irrespective of who operates them.

Competition should determine who provides infrastructure and at what cost, not what different passengers pay depending on the terminal their airline operates from.

Setting one MAY across the campus shares the cost of new capacity fairly and passes the benefits of competition and pooled commercial revenues to every passenger. This is in line with the single till principle which Iberia fully supports.

Capital governance must be reformed before H8 and expansion

The case study of the Terminal 2 Baggage Programme annexed to IAG's response, which Iberia endorses, illustrates why the CIC requires real decision rights. It documents a programme approaching £1 billion in cost, delivered more than a decade late against the original need, on which supplier contracts were executed before the airline community's approval decision.

It is evident that the current processes do not adequately control capital spend inefficiencies at Heathrow. The reformed framework must ensure that no financial commitment is made before approval, that options and costs are genuinely tested against benchmarks, and that failure to deliver carries consequences. These disciplines are standard in capital-intensive industries and Heathrow should be no exception, least of all when considering the cost estimate for planned expansion.

Conclusion

Iberia asks the CAA to use its July 2026 update to:

(a) confirm Model 7b as the principal competition mechanism, covering existing and new assets;
(b) place Model 5b tenders under the oversight of the CAA and/or the relevant designated body;
(c) constitute the CIC with the authority to approve or reject capital plans, supported by appropriate risk allocation and penalties, and remove Model 3 from the shortlist; and
(d) add Model 8 to its shortlist, with consideration of implementation routes via legislative change or a CMA market investigation reference.

These reforms are within the CAA's existing powers through modifications to HAL's licence under the Civil Aviation Act 2012, and Iberia considers that the CAA's statutory duties require it to use them.

Iberia remains open to engaging with the CAA as the reform process develops, including in relation to expansion.

Yours sincerely,

Jaime Garcia Blazquez
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