By Email

18 May 2026

S. Chadha
11, Westferry Circus
Canary Wharf,
London, E14 4HD

Dear Selina,

Economic regulation of Heathrow Airport: Draft Decision on the Regulatory Treatment of Early Costs of Capacity Expansion at Heathrow Airport (CAP3238)

International Airlines Group, S.A. ("**IAG**") welcomes the opportunity to respond to the Civil Aviation Authority's ("**CAA**") consultation on the draft decision regarding the regulatory treatment of early costs of capacity expansion at Heathrow Airport (CAP3238) ("**Draft Decision**").

IAG supports and endorses the detailed consultation responses submitted by its airlines. We fully agree with the analysis, evidence and conclusions set out in these submissions, which we consider provides a comprehensive assessment of the Draft Decision and its implications for consumers, airlines, wider industry and the regulatory framework.

Uncompetitive airport charges negatively impact the whole aviation ecosystem; they affect ticket prices and therefore passenger demand, business investment decisions, supply chains, connectivity and the competitiveness of the UK aviation sector internationally. The regulatory framework governing Heathrow expansion must therefore reflect the reality that the consequences of inefficient expenditure or cost escalation extend far beyond the airport operator itself.

Airlines and their associated supply chains will require investments in excess of £100bn over the life of the programme in aircraft, operational infrastructure, engineering capability, digital systems, airport facilities, sustainability initiatives, workforce planning, recruitment and development, and associated supply chain capacity. This is in addition to the capital programmes to expand and modernise Heathrow airport. Such level of investments can only be justified with a realistic and positive Return on Investment (ROI).

As per our previous correspondence and submission, IAG is supportive of additional capacity at Heathrow. However, expansion must be delivered in a manner that is affordable and aligned with airline economics, consumer interests and the UK's long-term growth objectives. These objectives will not be met unless the regulatory framework governing pre-construction activity promotes robust cost control, appropriate risk allocation and effective regulatory scrutiny from the outset.

In this regard, we share our airlines'[1] concerns that the CAA's Draft Decision is fundamentally flawed. In particular, permitting recovery of early expansion costs prior to the grant of a

[1] Aer Lingus, British Airways, Iberia and Vueling

Development Consent Order ("**DCO**") risks transferring speculative, pre-consent development risk onto today's passengers without adequate scrutiny or effective consumer protection. That approach weakens incentives for disciplined project development, risks embedding inefficiencies and wasteful (including duplicative) expenditure[2] at an early stage of the programme.

Proceeding on this basis would be inconsistent with the CAA's statutory duties to further the interest of consumers, promote economy, efficiency and support effective competition. We wish to ensure the UK Government's timetable milestones (DCO, construction and opening) are not compromised, but where adherence to that timetable would require decisions that cut across those duties, the CAA must, as an independent regulator, give priority to compliance with its statutory obligations.

While IAG disagrees with the principle of recovering early expansion costs prior to the grant of a DCO, given much of the 2025-2026 expenditure has already been incurred and the consultation has been initiated too late to enable meaningful ex ante scrutiny, any allowance for cost recovery in this period must be subject to rigorous <u>independent</u> review. Furthermore, procured and funded outputs, e.g. site surveys, ground investigations, environmental baseline data, design and engineering work, optioneering studies and technical specifications, planning, environmental and consultation materials and professional services' contracts, should be made available to other promoters – without delay.

Since the publication of the Draft Decision, we have been advised by HAL that they will be seeking, during 2026, to secure £9bn in financial commitments for future pre-DCO related spend. It is critical that the CAA's current approach to the 2025-2026 costs is not treated as establishing any precedent for the regulatory treatment of expenditure from 2027 onwards. It is essential that the CAA instead establishes a robust, CAA-led ex ante regulatory framework, with sufficient lead time to enable meaningful scrutiny before costs are permitted, before commitments are made and before irreversible decisions are taken. Failure to do so would risk repeating the deficiencies identified in the current Draft Decision at a materially greater scale.

IAG supports the alternative regulatory framework proposed by our airlines for any future treatment of early costs, which it considers to provide materially stronger consumer protection than the approach set out in the Draft Decision.

In accordance with its statutory duties, it is crucial that the CAA gives paramount weight to the interests of consumers, the promotion of competition and the integrity of the regulatory framework at Heathrow in finalising its approach. In that regard, IAG reserves all of its rights in respect of any final decision that departs from those duties.

Yours sincerely,

Raghbir S. Pattar
Director, Corporate Development – London

[2] See correspondence to CAA and Department for Transport dated 6 February 2026 – appended

Appendix

6 February 2026

Selina Chadha
Group Director for Consumers & Markets
Westferry House
11 Westferry Circus
Canary Wharf
London, E14 4HD

Copy: Hannah Newell, Director – Heathrow Expansion, Department of Transport

Dear Selina,

Duplication and Inefficient Costs Incurred by Multiple Promoters – Heathrow Expansion

Without prejudice to our response to CAP3201 and CAP3195, International Airlines Group, S.A. (IAG), wishes to reiterate its position on duplicative and inefficient costs incurred by multiple promoters in relation to capacity expansion at Heathrow airport.

IAG seeks assurances that the CAA (and DfT) will facilitate a level-playing field across all prospective promoters. Furthermore, IAG asks that the CAA does not implement a process that favours (and further entrenches) the incumbent monopoly at the cost of enhancing competition.

Outsourcing early enabling activity to an independent third-party for the benefit of all promoters will provide the most neutral of platforms from which to facilitate shared access and avoid duplicative costs. Outputs from activities carried out by an independently appointed third-party, if structured well, will ensure outputs are immediately accessible to all prospective promoters, and are fully transferable, reusable and capable of novation to any future successful developer or delivery vehicle. In the absence of an independent third-party acting as a common-use platform for all prospective promoters, it will be essential to facilitate a level-playing field through implementing a binding commitment upon Heathrow Airport Limited (HAL) to provide full and timely access to information to all prospective promoters, in addition to ensuring transferability and novation rights for contracts and assets relating to capacity expansion at Heathrow.

This should include, at a minimum, site surveys (including analysis), ground investigations and environmental baseline data, design and engineering work, optioneering studies and technical specifications, planning, environmental and consultation materials, professional services' contracts, and land and property interests. Land and property acquired must carry full access, development, and operating easements that are transferable to any alternative developer proposing a scheme on the site. All such outputs and assets must be freely assignable without delay or penalty, provided on an open-book basis, and made available to the CAA and any successor promoter without restriction.

To reassure you, IAG supports expansion at Heathrow. Expanding Heathrow has the potential to be a major success for the UK. However, that outcome is not a certainty. It will only succeed if it is affordable for airlines and their customers, and if it is governed by a regulatory and policy framework that is set up to succeed and enhance competition.

Yours sincerely,

Raghbir S. Pattar
Director, Corporate Development – London