

Stewart Carter

Civil Aviation Authority

Sent by email to: economicregulation@caa.co.uk & stewart.carter@caa.co.uk

September 2025

Dear Stewart,

Subject: IAG's Endorsement of British Airways' Response to CAP3149 – Heathrow Capacity Expansion

International Airlines Group, S. A. (IAG) welcomes the opportunity to comment on the Civil Aviation Authority's (CAA) consultation CAP3149 regarding the regulatory treatment of early costs associated with Heathrow capacity expansion.

We write to express our full support for the submission made by our subsidiary, British Airways (BA), and to reinforce the recommendation that the CAA adopts **Option 4: No recovery of early expansion costs**. As the parent company of Aer Lingus, British Airways, Iberia and Vueling, all airlines operating to/from Heathrow airport, we believe this is the only policy approach that upholds the principles of consumer protection, competitive neutrality, and regulatory integrity.

Summary of IAG's Position

We strongly advocate that **no early-stage costs incurred by Heathrow Airport Limited (HAL), the Arora Group, or any other promoter should be recoverable from airport users** unless and until a single promoter is selected by Government and a Development Consent Order (DCO) is granted. Even then, recovery should be strictly limited to costs directly related to the DCO process, subject to rigorous governance and efficiency tests (e.g. no recovery for lobbying, membership fees/sponsorship, internal resources, etc.). On internal resources that HAL, Arora Group and other promoters may have had to assign to early-stage expansion related efforts, we should note that IAG and its subsidiaries have also had to dedicate resources to engage with promoters and we are having to absorb these costs against respective P&L's to enable engagement on expansion.

Our position for no recovery of early-stage costs is grounded in the following key principles:

- **Early costs are speculative and should be borne by promoters:** These expenditures—covering proposal development, legal and consultancy fees, land acquisition, and regulatory engagement—are typical of business development activities. In competitive markets, such costs are absorbed by the entity pursuing the opportunity, not by consumers.

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- **Consumers must be shielded from financial exposure to unapproved projects:** HAL's previous expansion attempt resulted in over £0.5 billion being added to the regulated asset base (RAB) despite the project's cancellation. HAL have and will continue to earn substantial returns against these Cat B and Cat C additions. This precedent must not be repeated. Consumers should not be asked to fund ventures until they materialise (in this case, until DCO approval).
- **Regulatory fairness demands equal treatment of all promoters:** The Arora Group has requested parity with HAL in cost recovery. We agree that fairness is essential—but the most equitable solution is for **no promoter to receive reimbursement**. This ensures a level playing field and avoids distorting the competitive process.
- **Option 4 best aligns with the CAA's statutory duties under CAA12:** The regulator's primary obligation is to further the interests of air transport users. Reimbursing speculative costs—particularly when no tangible benefit has been delivered (i.e. no DCO approval)—would contravene this duty and risk undermining public trust in the regulatory framework.
- **Precedents from other regulated sectors support our view:** Across industries such as energy, water, and rail, companies routinely bear the costs of bids and feasibility studies. Recovery is only considered once a project is approved and demonstrably beneficial to consumers.

Recommendations and Safeguards

Should the Government select a promoter and approve a specific expansion scheme, we accept that certain costs incurred from that point forward—specifically those tied to the DCO application—may be eligible for recovery. However, we urge the CAA to implement the following safeguards:

- **Recovery only if the project proceeds:** No reimbursement should be permitted for failed or abandoned schemes. Recovery to only occur once DCO approval has been granted. The cost risk remaining with the promoter(s) until DCO approval ought to ensure cost efficiency in this phase and protect consumers' interests.
- **Risk-sharing mechanisms:** As applied in previous regulatory decisions, a recovery model should be considered in order to incentivise promoters to keep cost under control.
- **Limit on returns:** The recovery should be done as part of a new regulatory regime the CAA is considering for capacity expansion, not under H7 or H8. Should costs be recovered via transfer to the Regulated Asset Base under a new regulatory regime for capacity expansion, recovery should be restricted to the cost of debt, not full weighted average cost of capital, to avoid rewarding speculative investment. We note that alternative models may be considered subject to the chosen regulatory regime for capacity expansion.

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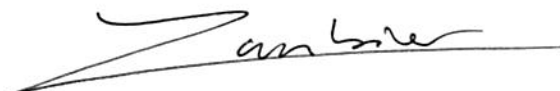
- **Governance and transparency:** Airline input and oversight must be embedded in any cost approval and cost recovery framework(s).

Conclusion

IAG firmly supports the CAA's efforts to ensure a robust and consumer-focused regulatory environment. We believe that **Option 4** is the only policy choice that meets the regulator's statutory obligations, promotes fair competition, and protects consumers from unnecessary financial burden.

We appreciate your consideration of our views and remain available to engage further on this important matter.

Yours sincerely,



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