

## By Email

26 January 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  
Copy: [economicregulation@caa.co.uk](mailto:economicregulation@caa.co.uk)

Dear Selina,

### **Response to CAP3201 – Proposals on the Regulatory Treatment of Early Costs of Capacity Expansion at Heathrow Airport**

1. This letter sets out International Airlines Group, S.A.'s (IAG) response to the Civil Aviation Authority's (CAA) consultation on the proposed regulatory treatment of early costs associated with capacity expansion at Heathrow Airport (CAP3201). IAG fully supports and endorses the submissions of its operating airlines (Aer Lingus, British Airways (BA), Iberia, and Vueling), which are appended to this letter for convenience, and sets out its overarching comments below.

#### **Executive Summary**

2. IAG supports expansion at Heathrow. BA, as the operator of the UK's only global hub airline and IAG, recognises the unique role Heathrow plays in connecting the UK to global markets and supporting trade, tourism, and employment. Expansion has the potential to be a major success for the UK. However, that outcome is not a certainty. Expansion 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 aligned with economic reality.
3. As IAG submitted in its response to the CAA's working paper for consultation on its review of regulatory models at Heathrow (CAP3195), the scheme proposals currently being advanced by Heathrow Airport Limited (HAL) for capacity expansion at Heathrow are unaffordable and require urgent, coordinated and fundamental intervention by both the Civil Aviation Authority and HM Government. Without decisive action, expansion will proceed on an economically unviable basis – undermining its deliverability, weakening UK connectivity, and failing to deliver the outcomes it is intended to achieve for consumers and the wider economy.
4. IAG and Heathrow Reimagined have also explained to the CAA at length why the existing regulatory model creates consumer harming incentives for HAL to spend inefficiently with high costs. In CAP 3195, the CAA also concluded that the existing regulatory model creates consumer harm, principally through high prior capital spend by HAL. IAG agrees with this conclusion.
5. The above conclusions of an unaffordable expansion proposal and a harmful regulatory regime make it impossible for us to support the CAA's proposals under CAP3201. To permit HAL to recover at least £320 million in expansion spend in 2025 and 2026, years before a decision on

planning consent and based on an unaffordable expansion proposal born from a dysfunctional regulatory regime, would be a perverse outcome wholly inconsistent with the CAA's primary duty to further the interests of consumers.

6. Furthermore, we understand the £320 million early costs proposal under consideration now is only the tip of the iceberg and that HAL intends to claim further early costs in excess of £4 billion, as set out in the CAA's Proposals on the regulatory treatment of early costs of capacity expansion at Heathrow airport (CAP3201)<sup>1</sup>, in relation to significant amounts of land to be acquired prior to the granting of consent under a Development Consent Order (DCO) in 2029. Such a level of cost recovery would be excessive in the extreme.
7. The problem is further compounded by the fact that HAL has already benefitted from over £500 million<sup>2</sup> of previous early expansion costs being transferred to the Regulatory Asset Base (RAB), giving it a consumer-funded, proprietary and an unfair advantage vis-à-vis other promoter competitors in this expansion round. Other potential promoters may not have access to the same privilege, therefore granting a further allocation of early costs materially compounds HAL's existing unfair advantage vis-à-vis other competing promoters, risks duplication by HAL of work previously undertaken and further harms consumers.
8. In normal commercial practice and commercial property development, early-stage development risk is borne by shareholders. The proposals by the CAA represent a significant departure from the CAA's own stated principles of proportionality, efficiency, and consumer protection. Implementing the proposals would structurally shield HAL from risk and market discipline, and allow HAL (or other promoters) to recover speculative spend in advance of planning consent. The risk of the scheme not proceeding in the form and timeframes currently proposed remains high. The ANPS has not been reviewed. The only known financial details of the scheme, supported by the government's ANPS review, are unaffordable for the industry. With such high risk of stranded or escalating costs, allowing early costs will further the harm already faced by consumers today, who shoulder the costs of previous iterations of new runways at Heathrow airport.
9. IAG urges the CAA to act in accordance with its duties and not to proceed with its proposals set out in CAP3201.
10. We set out our views in more detail below on the following:
  - A. IAG's position that allowing early costs is harmful to consumers and contrary to the CAA's duties to act in the interests of consumers.
  - B. On a strictly without prejudice basis, in the event that the CAA disregards its duties and nonetheless proceeds to approve early costs recovery, the minimum safeguards that would be required to mitigate as far as possible the harm to consumers.
  - C. Legal considerations in response to any decision to approve the recovery of early costs.

---

<sup>1</sup> Section 2.50, page 28 of CAP3201: Proposals on the regulatory treatment of early costs of capacity expansion at Heathrow airport.

<sup>2</sup> HAL total expansion spend passed to RAB: **£519 million** excluding capitalised interest. From 2016-2020 HAL added **£508 million** (excluding capitalised interest): HAL Regulatory Accounts 2020 ([page 15](#)). From 2021 to date HAL has added a further **£11 million** to the RAB. HAL Regulatory Accounts 2021 ([page 15](#)), 2022 ([page 15](#)), 2023 ([page 10](#)), 2024 ([page 12](#)).

**A. Allowing early costs is harmful to consumers and contrary to the CAA's primary duty to further the interests of users of air transport services**

11. **Consumers should not be exposed to speculative, duplicative or premature costs.** IAG, both independently and through Heathrow Reimagined, has set out at length why HAL's £49 billion expansion and master plan for Heathrow expansion is unaffordable for airlines and consumers and thus at very high risk of failure<sup>3</sup>. Heathrow is asking for early costs (including scheme design, scheduling, or planning applications) that lack certainty, to support a scheme that is financially illiterate and will not work. Allowing such early costs recovery by HAL, based on a proposal which is entirely unaffordable, would be irresponsible in the extreme. The risk of incurring stranded costs is significant and it would be entirely contrary to consumers' interests for them to bear the risks of such costs. The risk of delivering expansion remains high and yet significant elements of HAL's proposed expenditure, particularly land, property and enabling works, are irreversible and carry substantial risk if expansion is delayed, redesigned or abandoned. It would be disproportionate and harmful to transfer this risk to consumers.
12. **Uncertainty of total cost increases consumer harm:** HAL's estimate of at least £49 billion materially understates the true cost of the expansion project. It excludes the surface access rail scheme mandated by Government under the ANPS (and that we understand HAL intends to promote), does not reflect the significant cost uncertainty acknowledged by HAL (expressed as a £40 billion to £63 billion range<sup>4</sup>), and makes no allowance for investment in Terminal 4, which is approaching 40 years of age (and will be circa 60 years old by 2045). Expansion costs will also be on top of further price control periods over the timeframe of expansion. HAL propose the next five-year price control period alone is set at £9.5 billion. The CAA itself acknowledges substantial uncertainty around expansion costs<sup>5</sup>, as well as schedule and scope. Where uncertainty is high, consumer exposure should be reduced, not increased in order to comply with the primary duty to further the interests of consumers under the Civil Aviation Act 2012.
13. **The experience of High Speed 2 (HS2) serves as a clear warning:** advancing for the sake of expedience, without robust economic scrutiny and effective governance, will result in significant delays, escalating costs, and ultimately, a loss of consumer trust. It is imperative that the expansion of Heathrow avoids repeating these mistakes.
14. **The downside risk to consumers is too high.** The quantum, the timing of new capacity and the lack of transparency of total early-spend should be a red flag to the CAA, and Government. HAL alone has requested to spend at least £320 million in 2025 and 2026. We also see that HAL has subsequently increased its request in its letter of 9 December 2025 to an amount closer to £400 million, together with additional flexibility to allow for further expenditure. We fully anticipate that HAL will demand an increasing rate of spend in 2027 and each of 2028 and 2029, to build momentum and secure the ability to push on regardless, not least to strengthen a barrier to alternative promoters being considered. As identified above, HAL has made clear it will seek to spend in excess of £4 billion before planning consent being granted in 2029. These are eye-watering sums, more than the combined cost of the entire expansion schemes for London Gatwick and London Stansted which bring an additional capacity of more than 30 million annual passengers. Whilst HAL wants to spend £4 billion at risk to the consumer and ultimately spend 15 times more to deliver less than 2 times as much additional capacity. The CAA cannot proceed with their proposal at this quantum of spend – and judge it to be credible and in the consumer interest.

<sup>3</sup> See IAG's and Heathrow Reimagined's responses to CAP3195 (20 January 2026).

<sup>4</sup> HAL's Long Term Growth Programme Brief, 20 June 2024

<sup>5</sup> CAP3201: CAA Proposals on the regulatory treatment of early costs of capacity expansion at Heathrow airport

**15. Failing to maintain appropriate incentives for cost risk management, by forcing airlines and consumers to shoulder the cost burden, increases potential adverse outcomes for consumers.** Transferring cost risk to airlines and consumers removes promoters' incentives to discipline cost. Risk should reside where it can best be managed - with the promoters as they speculate and seek approval. HAL is a privately owned, profit-seeking monopoly. Other promoters are commercial companies. Expansion is a private investment project. Allowing recovery of early costs in advance of planning consent being granted removes promoters' incentive to rigorously control costs; weakens discipline around scope, timing and procurement; and shifts downside risk to airlines and consumers while preserving upside returns for its shareholders. Early recovery creates certain and immediate cost burdens in return for highly uncertain and, at best, contingent benefits, rendering the burden disproportionate.

**16. In competitive commercial markets, businesses and their owners bear the risks (and potential rewards) of exploring speculative opportunities.** Airlines routinely invest billions in aircraft, routes, employment and supply chains at full commercial risk. Heathrow West Limited has expressed a willingness to proceed at risk provided a level playing field applies and that all promoters including HAL bear their early risks<sup>6</sup>. The introduction of competition through multiple promoters provides the potential to significantly reduce expansion costs and this potential must be extended to the early costs stage. It is contrary to consumers' interests to fund unapproved and highly uncertain activities.

**17. The evidential basis for the early costs proposal is weak and ought not to be relied on.** IAG's response to CAP3195 (20 January 2026) sets out a detailed explanation on the fundamental flaws of the economic analyses. In brief, the CAA places material reliance on economic analyses that are flawed and do not demonstrate consumer benefit, in particular the economic analysis.

- it relies on masked or altered datasets without adequate recognition of their limitations;
- uses aggregated data that obscures real-time competitive airline pricing dynamics;
- treats materially different products as cost-equivalent conflating premium and economy cabins, despite fundamentally different cost structures;
- fails properly to control for changes in product mix, aircraft gauge, frequency or network structure;
- assumes the existence of a congestion premium without testing that assumption against observed profitability outcomes at Heathrow; and
- fails to model airline affordability or the likelihood of capacity deployment under higher charges.

This displays a fundamental lack of understanding of airline economics and has led to unsubstantiated benefit claims. The CAA's reliance on this analysis is therefore misjudged and it is wholly incorrect and inappropriate to rely on the analysis to justify exposing consumers to early project costs and risk.

**18. Unsubstantiated timelines for new capacity increase risk which should not be transferred to consumers.** Subjecting current consumers to additional costs without a clear and certain prospect of when new services will be brought into operation is inappropriate. The timing and realisation of future capacity are materially uncertain and it is unreasonable to expect consumers

---

<sup>6</sup> Paragraph 2.12: [CAP3201 Proposals on the regulatory treatment of early costs of capacity expansion at Heathrow airport](#)

to shoulder the financial burden for an undetermined period with no guarantee of delivery. Consumers already bear the £500 million in early costs unfairly awarded to HAL in prior years. Burdening consumers with further early costs, despite continued uncertainty of outcomes, unacceptably compounds consumers' exposure to cost risk.

19. **The early cost recovery proposals favour an incumbent monopoly and fail to provide a fair and level playing field.** Although the CAA seeks to justify early cost recovery as facilitating competition, the proposals risk entrenching the incumbent's monopoly position rather than enhancing rivalry. In the absence of competitive pressure, HAL is incentivised to raise debt, gold-plate designs, inflate budgets and encourage cost overruns in order to prioritise shareholder returns, to the detriment of consumers. Providing upfront regulatory certainty to HAL advantages the incumbent monopoly, creates barriers to entry through irreversible early commitments to land, property and supply chains; and allows one promoter to externalise risk whilst requiring others to internalise and bear such risks thus deterring them from entering the field to compete. True competitive neutrality requires that all promoters bear early speculative costs at risk before planning consent is granted.
20. **Approving further early recovery of costs will cause cumulative negative effects for consumers.** The CAA should also not neglect considering the cumulative impact of previous failed expansion attempts. Consumers cannot be expected to bear a cumulative financial burden expected to be in the billions. The duplication of work and the risk of further stranded costs for consumers must be explicitly considered. Consumers have already funded in excess of £500 million in planning preparation for HAL's Northwest Runway scheme, as well as BAA's previous attempts at a third runway. In any other industry, consumers are not expected to pay for early investments in assets or products until they are delivered and operational. They are not expected to fund speculative spend.
21. IAG notes that once costs are incurred and capitalised the burden of proof shifts to consumers and the evidential bar for disallowance is unacceptably high. An ex-post efficiency review is therefore not an adequate safeguard.
22. Finally, IAG is concerned that the CAA's process for early costs was undertaken with haste, with key positions determined quickly, raising concerns of a predetermined outcome. The CAA relied on HAL's assertions without independent analysis or clear justification, and omitted important implementation details from draft licence modifications, leaving stakeholders unable to fully understand the proposals.

**B. On a strictly without prejudice basis, in the event that the CAA disregards its duties and nonetheless proceeds to approve early costs recovery, safeguards that would be required to mitigate as far as possible the harm to consumers.**

23. We strongly object to the CAA proposed position and the basis for it. Expansion at Heathrow is a privately promoted infrastructure project. As such, early costs incurred prior to the grant of planning consent should be a normal business risk and therefore should remain with the project promoter. This principle applies consistently across the thousands of businesses with whom we transact, where early-stage development and bidding costs are incurred at risk.
24. If the CAA does not take on board the arguments set out in this letter and proceeds with permitting costs prior to planning consent, and without prejudice to a future position we may wish to adopt,

the following safeguards, in addition to the ex-ante conditions our airlines refer to, must be put in place:

- **Transferability and novation of early expansion activity:** In the absence of outsourcing early enabling activity to a neutral third-party for the benefit of all promoters, any early activity undertaken by HAL and funded directly or indirectly by airlines or passengers must result in outputs that are immediately fully transferable, reusable and capable of novation to any future successful developer or delivery vehicle.
- This includes, 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.
- While HAL could be compensated through the RAB for early land and property acquisition, the same principle should apply to any other developer, which would require a multi-RAB model. 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. Should an expansion DCO not be granted, any early land costs (or other major facilities) should be removed from the RAB at a minimum of the higher of their inflated values or ultimate proceeds from sales.
- **Robust claw-back and downside protection:** Any recovery framework must include explicit and enforceable claw-back provisions. These must apply where:
  - costs are rendered abortive, duplicative, unnecessary;
  - expansion does not proceed to DCO approval;
  - the promoter receives consent under the DCO but elects not to proceed;
  - costs are incurred materially earlier than required;
  - assets acquired cannot be reused or transferred without loss; or
  - expenditure reflects inefficient procurement or monopoly pricing.
- Claw-back must include removal of disallowed costs from the RAB, reversal of any associated allowed return, and interest-adjusted refunds where recovery has already commenced.
- **Affordability tests:** if planning consent is granted under the DCO, a promoter will decide whether to proceed with the scheme taking account of the conditions imposed by the final Development Consent Order. Early costs can only be recoverable once consent is granted and if the scheme is deemed affordable by the airlines.
- **Strict Gating, Ring-Fencing, and Cost Caps:** Any permitted early expenditure must be subject to hard stage gates linked to clear planning and policy milestones, ring-fenced from existing regulatory allowances, subject to a non-flexible cap with no presumption of upward adjustment, and approved only on a minimum-necessary basis. Airline oversight, meaningful consultation, and a fast-tracked escalation mechanism must be embedded in these gates.

### **C. Legal considerations in response to any decision to approve the recovery of early costs**

25. IAG would urge the CAA to reconsider its proposal to allow early recovery of costs, which in IAG's view is contrary to the CAA's primary duty pursuant to the Civil Aviation Act 2012 to further the interests of consumers.
26. Should the CAA proceed nonetheless to approve such recovery, IAG will be forced to consider its options for legal action including pursuant to section 25 of the Civil Aviation Act 2012 and pursuant to judicial review. Based on a preliminary assessment, IAG believes an appeal pursuant to either of these processes would have a strong prospect of success. Regrettably any such appeal route is likely to delay rather than accelerate expansion and would undermine confidence in regulatory certainty, but IAG will not hesitate to proceed accordingly given the risk of harm to consumers.

### **Conclusion**

27. For the reasons set out in this letter and our airlines' submissions, IAG calls for the withdrawal of the proposals in CAP3201 to allow recovery of early expansion costs prior to assets being brought into operation and available to consumers. Early development activity is speculative, does not result with sufficient certainty in the provision of airport services, and should remain the commercial risk of any promoter. Only by rejecting early cost recovery can the CAA protect consumers, preserve efficiency incentives, and materially reduce the risk of successful appeal to the CMA or challenge by way of Judicial Review.

Yours sincerely,

[Sent by email]

**Raghibir S. Pattar**

Director, Corporate Development – London

Enc.,

- IAG Airlines' Submissions