

Civil Aviation Authority
Westferry Circus
Canary Wharf
London EH14 4HD

Sent by email to: economicregulation@caa.co.uk

17th November 2021

Dear Sir/Madam

Response to CAP2265 Economic regulation of Heathrow Airport Ltd Holding Cap for 2022

Thank you for the opportunity to respond to your latest consultation on the Economic Regulation of Heathrow: H7 Initial Proposals ("CAP2265").

IAG fully supports British Airways' submission in full which represents in detail IAG's our views on the Civil Aviation Authority's ("CAA") proposals and implications for the wider policy environment. The response is summarised as follows, which exactly reflects British Airways' executive summary.

Heathrow's current price control ends on 31st December 2021. A final decision on licence modifications for a new five-year control period for H7 will not be made until mid-2022. Without any further action by the CAA, no price control will apply to the airport charges levied by HAL from 1st January 2022 until the licence modifications to implement the H7 price control have effect. As already acknowledged by the CAA, the absence of a price cap condition creates very significant risks for users of airport services and airlines.

We are therefore, in principle, supportive of the imposition of a "holding cap". However, it is fundamental that the figure of any holding cap is appropriate, justified and in accordance with the Civil Aviation Act 2012 ("CAA12" or "Act") and the Airport Charges Regulations 2011 ("ACR2011" or "Regulations").

We consider that the price cap condition proposed in CAP2265 does not satisfy this. The proposed holding cap, based on a maximum revenue yield per passenger of £29.50, is inappropriate and fails to satisfy the requirements of the Act and the Regulations for the reasons detailed in this response. Most notably, the proposed holding cap:

- a) is based on inaccurate and unreliable evidence and data sets, and indicates that the CAA has failed to take into account all relevant information, evidence and materials presented by airlines in advance of this proposed licence modification;
- b) does not have regard to / is not commensurate to the risk that HAL may engage in conduct that amounts to an abuse of substantial market power;
- c) does not promote economy and efficiency on the part of HAL in its provision of airport services at the airport;
- d) is inappropriately weighed in favour of HAL and puts HAL's interests ahead of the interests of airlines and users of airport transfer services; and

- e) fails to take into account the principles of section 1(4) which require regulatory activities to be carried out in a manner that is transparent, accountable, proportionate and consistent.

Given the above, the CAA must reconsider all of the evidence and analysis before it, as well as the responses received from airlines as part of this consultation, in order to arrive at a revised holding cap figure that is more appropriate, more defensible and in compliance with the requirements of the Act and the Regulations.

As is demonstrated by this response, a review of up to date data confirms that a more appropriate range for determining a new price cap condition falls somewhere between £16.87 to £21.91 in 2020 prices. If the CAA insists upon adopting a midpoint, this derives a holding cap figure of £19.39.

Yours sincerely,



Colin Betteridge
Head of Regulation and User Charges
IAG GBS