

ANNEX 8: CAA GUIDANCE ON THE ECONOMIC FRAMEWORK FOR CONSIDERING CASES RELATING TO THE ALLOCATION OF SCARCE BILATERAL CAPACITY

Introduction

1 The CAA's decisions regarding the grant of scarce bilateral capacity are based on all the evidence presented by the parties concerned after it has been tested at a Public Hearing. The evidence an applicant airline uses to support its case is a matter for its commercial judgement. This annex is intended to inform that judgement by offering guidance on that part of the evidence that would be most helpful in the CAA's consideration of the likely benefits to users of the competing proposed uses of scarce bilateral capacity.

2 This guidance can only be set out in broad terms since experience has shown that detailed and precise guidelines are unlikely to be useful: circumstances differ from case to case and airlines differ in their views of market definition and other issues.

Passenger benefits

3 The CAA's Statement of Policies indicates that it is concerned that scarce capacity be used in a way that sustainably produces the most benefit to passengers. So, the CAA will expect each applicant to have a section as part of its written submission, which sets out the passenger benefits it intends to generate from its proposal.

4 An air route will often serve a number of different types of demand, such as point-to-point and connecting passengers. For example, a new service between London and Johannesburg may affect not only those passengers just travelling between the two cities but also passengers who want to fly from Edinburgh to Johannesburg for whom a connection over London is an attractive option. The passengers may be further divided by journey purpose (business, VFR¹, leisure) and by residence (UK-originating or foreign-originating). The benefits to passengers of a new service might stem from lower prices and/or from a more convenient and higher quality product². In some cases the benefits may be restricted to those enjoyed by passengers who travel on the proposed service but in other cases benefits may be enjoyed by all the passengers on the route, for example because of increased competition. In addition to the existing passengers travelling directly or indirectly, other passengers who may benefit are those who might otherwise have travelled but to another destination ("diverted" passengers) or those who would not have travelled at all without the new service ("generated" passengers).

5 So, the CAA expects each applicant to set out what the benefit to passengers of its proposals will be, with supporting evidence on how this benefit is distributed among the different traffic flows and the different passenger types, distinguishing between fare and non-fare benefits.

¹ A VFR passenger is one making an air journey is made in order to visit friends and relatives.

² For example, the non-fare costs experienced by a passenger might fall because: a greater flight frequency provides a more convenient departure time; a more direct flight reduces the inconvenience of changing aircraft and possibly airlines; a new service leaves from a nearby airport; and a new service offers greater in-flight comfort or a better chance of getting a seat on the passenger's preferred flight.

6 This supporting evidence, quantified to the maximum extent possible, should indicate:

- the main traffic flows affected by an applicant's proposals;
- the current size of those flows and their expected growth rate in the near future;
- the current passenger mix in these flows;
- the pricing and service proposals for each of the affected flows;
- the extent to which traffic from these existing flows will use the proposed services;
- the degree to which demand is stimulated;
- the price and other benefits that the applicant's proposals will bring compared with the existing situation; and
- the way in which the benefits of these proposals split between UK and foreign residents.

7 The applicant should state what assumptions have been made not only about its own proposal but also about the expected commercial responses of other airlines.

8 Airlines are required to submit a three-year cost/revenue forecast to CAA hearings (a pro-forma table for this data is set out below). The evidence on passenger benefits should reflect this forecast and indicate how the level of benefits may change over the forecast period.

9 It should be noted that the CAA will consider all information presented to it that is made available to all other parties to the hearing. This means that the CAA will exclude from consideration any information presented by any party on a confidential basis. The CAA has adopted this policy in order to maximise the fair and transparent nature of the hearing process.

10 Finally, it must be stressed again that it is the decision of each party to present the factors it considers most important and to put forward factors other than those described here if it believes them to be of relevance.