Economic Regulation Group
Economic Policy & International Aviation

3 August 2006

Dear Consultee

CAA AIR FARES POLICY: REMOVING REGULATION

CONSULTATION ON A PROPOSED REVISION TO PARAGRAPHS 9 AND 10 OF THE CAA'S STATEMENT OF POLICIES ON ROUTE AND AIR TRANSPORT LICENSING

The attached consultation document seeks views on a CAA proposal to **remove** the limited fares regulation that still remains. Such regulation currently affects **only** the holders of route licences for scheduled services to points **outside** the single European aviation market.

We propose that fares regulation would be removed in two stages. The first stage would remove the regulation from all routes other than UK/US. The second stage would extend this to UK/US routes, once the UK/US market is liberalised.

We welcome any comments on this consultation document and the changes which it proposes. Comments should be submitted, preferably by e-mail, to me at fares@caaerg.org.uk, or by fax or post to the address at the foot of this letter. The closing date for responses to the consultation is 31 October 2006.

In line with usual practice and the Freedom of Information Act 2000, a copy of all responses will be placed on the CAA's website. The CAA will only be able to respect requests for confidentiality if this is consistent with Freedom of Information obligations.

We look forward to receiving your views.

Yours sincerely

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Cabinet Office Code of Practice on Consultation

The code of practice applies to all UK public consultations by government departments and agencies, including consultations on EU directives.

Though the code does not have legal force, and cannot prevail over statutory or other mandatory external requirements (e.g. under European Community Law), it should otherwise generally be regarded as binding unless Ministers conclude that exceptional circumstances require a departure.

The code contains six criteria. They should be reproduced in all consultation documents. There should be an explanation of any departure from the criteria and confirmation that they have otherwise been followed.

Consultation criteria

1. Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.
2. Be clear about what your proposals are, who may be affected, what questions are being asked and the time-scale for responses.
3. Ensure that your consultation is clear, concise and widely accessible.
4. Give feedback regarding the responses received and how the consultation process influenced the policy.
5. Monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator.
6. Ensure your consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.

A full version of the code of practice is available on the Cabinet Office website at:
www.cabinet-office.gov.uk/regulation/consultation/code.asp

CAA AIR FARES POLICY: REMOVING REGULATION

CONSULTATION ON A PROPOSED REVISION TO PARAGRAPHS 9 AND 10 OF THE CAA'S STATEMENT OF POLICIES ON ROUTE AND AIR TRANSPORT LICENSING, AUGUST 2006

This consultation seeks views on a CAA proposal to remove any remaining fares regulation.

The CAA's current regulation affects only a small part of the market, specifically fares that meet all of the following criteria:

- **flexible economy fares;**
- **offered by UK-licensed airlines;**
- **between the UK and points outside the single European aviation market;**
- **in relatively dense scheduled markets; and**
- **where competition is constrained by government-imposed restrictions.**

The CAA proposes to remove any remaining fares regulation. This would be achieved in two stages. The first stage would remove the regulation from all routes other than UK/US. The second stage would extend this to UK/US routes, once the UK/US market is liberalised.

The CAA welcomes views on the general approach set out in this paper, the proposed two-stage implementation, and whether the suggested amendments to the Statement of Policies and Route Licences are fit for purpose.

Comments should be submitted, preferably by e-mail, to Trevor Metson at fares@caaerg.org.uk, or by fax to 020 7453 6236, or by post to Trevor Metson, Economic Regulation Group, 4th Floor, CAA House, 45–59 Kingsway, London WC2B 6TE. The closing date for responses to the consultation is 31 October 2006.

In line with usual practice and the Freedom of Information Act 2000, a copy of all responses will be placed on the CAA's website. The CAA will only be able to respect requests for confidentiality if this is consistent with Freedom of Information obligations.

Summary

1. The CAA's fares policy is expressed in its Statement of Policies on Route and Air Transport Licensing, which relates only to UK-licensed airlines and routes outside the European single aviation market. Before publishing revisions to its Statement of Policies, the CAA has a statutory duty to consult representatives of the industry and users. The CAA's long-standing preference is for airlines to set fares with a minimum of regulatory intervention. Its policy has therefore been, wherever possible, not to intervene in fares or to dictate what level they should be, except in the few cases where it has seen a need to protect "captive" passengers that are at risk of being overcharged.

2. The CAA has reviewed the background to its fares policy, how it is implemented, what its effect has been, how the context in which the policy operates has changed, and whether the degree of intervention remains a proportionate response in the context of the CAA's statutory duties and the principles of good regulation. The results of this review are summarised in this consultation document. The CAA has provisionally concluded that significant changes in the way the airline market functions mean that intervention is no longer appropriate or necessary. Continuing liberalisation of global airline markets has reduced the number of markets where regulation can or should operate, greater competition has led to a wider choice for the passenger, in particular from airlines offering indirect travel via a change of aircraft at their hub, and the internet has made it much easier for the consumer to identify those choices. The CAA is therefore minded to discontinue its residual regulation of excessive fares, and to revise the relevant paragraphs of its Statement of Policies accordingly. This would be more consistent with the principles of good regulation, in particular that regulation is appropriate only where the benefits outweigh the costs that it imposes.

3. It is proposed to achieve this change in two stages. The first stage will cover routes other than UK/US, so that the limited fares regulation currently applied would continue on UK/US routes alone. It is anticipated that the second stage (removing fares regulation from UK/US routes) would take effect once liberalisation of that market is achieved.

4. UK/US routes are regarded differently because in its analysis of the wider choices now available to the consumer – choices which are considered to remove the need for regulation – the CAA attaches some weight to the availability of lower fares on indirect services that involve a change of aircraft en route. This analysis does not hold for UK/US markets, where the ability for indirect airlines to offer lower fares is severely constrained by the "sum-of-sector" policy, which the CAA applies at the request of the UK Department for Transport (and which is outside the scope of this consultation). This policy imposes a floor on the prices that can be charged by airlines for indirect travel. The policy would be discontinued when liberalisation of the UK/US market removes any restrictions on market access and pricing.

Existing legislative and policy framework

5. The CAA's general objectives are set out in Section 4(1) of the Civil Aviation Act 1982. In economic terms, the CAA is required to secure that British airlines satisfy all substantial categories of demand at the lowest charges consistent with an adequate economic return and the sound development of the industry, and to further the reasonable interests of users. It achieves this by way of the route

licensing mechanism for UK airlines under Section 69A, which also includes a duty to impose the minimum of restrictions on the industry.

6. These duties are reflected in the CAA's Statement of Policies on Route and Air Transport Licensing[1], which relates only to UK-licensed airlines and routes outside the European single aviation market[2]. The Statement makes clear the CAA's view that the interests of users will be best served if airlines are free to operate air services in competition with one another according to their commercial judgement, subject only to the application of normal competition policy. It also includes two paragraphs specifically referring to air fares. These state that it may sometimes be necessary for the CAA to safeguard users against any abuse of market power in markets where competition remains restricted because of government-imposed constraints under a bilateral Air Services Agreement. In other words, if an airline is protected from competition because all or most of the frequencies on a route that are permitted by the bilateral agreement are already being used, and effective new entry or expansion is therefore impossible, then the CAA has been prepared to regulate fares to protect passengers. This fares policy has evolved over many years, and the extent of the CAA's intervention has reduced considerably in that time. Starting from first principles, the test that should be applied before contemplating regulatory intervention should be whether the benefits from regulation outweigh the potential burdens, uncertainty and distortions that the regulation may impose. This is a tougher test than the usual market definition approach adopted in competition analysis.

7. In liberalised markets, including the EU single market, the CAA does not (and often cannot) intervene. The fares of foreign airlines based outside the EU are governed by the relevant bilateral Air Services Agreement, some of which require fares to be filed for prior approval, a function which the UK Department for Transport (DfT) delegates to the CAA. The CAA has never sought to apply its fares policy to such airlines, although it does exercise some control over their fares at the request of the DfT where UK airlines are perceived to be affected by potentially unfair competition. The most significant routine intervention concerns transatlantic fares to/from interior points in the US, which are subject to "sum of sector" policy. This consultation is *not* about such intervention in the fares of foreign airlines, which is essentially a matter for the Department for Transport. However, the CAA needs to take into account the effect on the market of such intervention when considering its own fares policy.

Current policy

8. In most cases the market works well enough not to require price regulation. The vast majority of fares are therefore not currently subject to regulation (other than normal competition law), including those in:

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[1] www.caa.co.uk/docs/589/Statement_of_Policies_Dec2003.pdf

[2] Fares within the single market are governed by Council Regulation (EEC) 2409/92 of 23 July 1992 on fares and rates for air services, which allows airlines to price freely subject to the safeguard in Article 6 (which has never been used) against excessive fares or a "downward spiral" of fares. See also The Air Fares Regulations 1992 (as amended) which implement the UK's obligations under the Council Regulation. Outside the single market, the fares of foreign airlines are governed by the relevant bilateral Air Services Agreement.

- Markets that are unconstrained by government-imposed restrictions. Examples of major markets that fall into this category are those between the UK and Canada, the United Arab Emirates, Kenya, Singapore and the denser Caribbean markets.

- Markets that, while subject to government-imposed restrictions, in practice exhibit sufficient contestability not to require regulation. The main examples are those between the UK and Hong Kong and China.

- The holiday market, where sufficient competition exists to hold prices down, and the market is relatively broad (in that destinations will be potential substitutes for one another), including all fares offered on a charter or part-charter basis.

- Relatively thin routes falling below a set traffic threshold. In the CAA's experience, such routes can be difficult for airlines to operate profitably and any potential user benefits from price regulation can be outweighed by the risk of the service being discontinued altogether.

- First Class, Business or Premium Economy fares, where passengers are deliberately choosing to pay extra for a premium product.

9. However, in some markets, the CAA has perceived there to be certain "captive" passengers who must travel by air and who are not prepared to pay for a premium product, but may have no option than to pay what is on offer by airlines that are effectively protected from competition by government restrictions. Examples of major markets that fall into this category are the USA, Nigeria, South Africa, India and Japan. These passengers may need to travel at short notice on specified flights with a minimum journey time, and to retain some flexibility to change reservations etc without an onerous penalty. Past experience, coupled with anecdotal evidence, suggests that typical examples of such passengers may be those working for a small business or travelling because of some emergency. Hence the development of the CAA's current policy, aimed at ensuring that in market conditions where competition is significantly constrained, such passengers still have access to a so-called "basic" fare that allows last-minute travel from A to B without onerous conditions and at a level that is reasonably related to cost.

10. The CAA regulates these fares by assessing their *absolute* level against cost. This relies on the provision by UK airlines, where necessary, of cost, revenue and traffic data, and on a methodology that was devised, in conjunction with airlines, over many years. As far as the CAA is aware, the UK is the only country that does this, although it is understood that some governments assess fare *increases* in percentage terms against generalised cost increases experienced by airlines.

The "Y2" fare

11. Over time, the CAA's policy has resulted in a flexible economy class fare known as a "Y2" becoming a normal part of the fare structure, with the CAA's regulation focusing on this fare alone. The Y2 will normally be among the more expensive economy fares on offer (see the example at Appendix 1). The number of tickets sold at this fare in the UK market is relatively small, in the region of 3% on UK airlines' long-haul routes on average – far fewer than flexible business class fares, for example – and appears to have reduced in recent years because of the

alternatives (apex-type business class fares, premium economy cabin) that are now available. Not surprisingly the number of passengers using flexible economy fares on predominantly leisure routes is even smaller.

12. The CAA regulates by requiring airlines, as a condition of their route licence, to file for prior approval any changes in the Y2 fare from the UK to specified countries (excluding markets free from bilateral restrictions and thin markets). This method limits the CAA's regulation to freezing the level of a fare such that it is eroded by inflation over time, rather than forcing a reduction[3]. On many long-haul routes the pre-existing level of these Y2 fares has exceeded what the CAA has regarded as reasonable in relation to cost; the level has therefore remained frozen or severely constrained by regulation over long periods. Y2 fare levels have consequently tended to decline in real terms, and the CAA's regulation has ensured that passengers in this segment of the market have shared in the efficiencies from new technology and from airlines driving down costs.

Current methodology

13. The methodology for calculating the profitability of a given fare was developed by the CAA some years ago, in conjunction with UK airlines. This document does not seek to explore the detail of the methodology. However, it is worth noting that it has only ever been considered a reasonable means, given the inherent complexity of cost allocation in regulatory activity, of judging the "acceptability" of the Y2 fare and thereby affording some protection to the vulnerable consumer. The methodology makes allowances for the necessary imprecision of the calculations involved. It is not intended to be a refined means of replicating what the situation would be in a competitive market.

The impact of the policy

14. There seems little doubt that, were it not for the CAA's regulation over a long period, many Y2 flexible economy fares would be at a higher level than they are today. Instances of Y2 fares decreasing in nominal terms as a result of normal market forces have been relatively rare. (Although airlines have sometimes introduced other flexible fares alongside that may obviate the need to buy a Y2 fare.) In more recent years, where fares regulation has (following a previous policy review) been discontinued in markets that are free from government-imposed restrictions, Y2 fares have subsequently tended to rise, in part because of network-wide fuel surcharges. There has been no obvious pattern of dramatic increases, or of the Y2 fare being cancelled altogether, but it is also true that on certain of these routes Y2 fares have increased substantially.

15. The CAA has considered whether the regulated Y2 fare in some sense anchors other, non-regulated fares. On a pence-per-mile basis, Y2 fares tend to vary according to whether the route has been subject to regulation in the past and the degree of competition in the market – whereas flexible business class fares more obviously tend to conform to a geographical pattern (Appendix 2). This evidence supports the CAA view that there is no evidence of any systematic linkage between Y2 fares and other fares in the market (the closest linkage would probably be with the equivalent fares sold in the Premium Economy cabin).

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[3] This stems from the arrangements for tariff approval that historically have formed part of the UK's bilateral Air Services Agreements with other states.

Changes in the market since fares regulation was last reviewed

16. The CAA's fares policy has been reviewed from time to time and revised policy statements have been the subject of industry consultation. The CAA's last detailed review of the policy was carried out in 1998–99, and, as noted above, this resulted in regulation being discontinued in markets that were (or subsequently became) free from government-imposed restrictions[4]. Even in the short time since, the aviation market has continued to change significantly. The following paragraphs summarise the most salient changes. Some developments, such as the widespread use of the internet by consumers in purchasing air travel, have become significant relatively recently, while others, such as greater competition between airlines, have been more gradual and have been emerging over a longer period. In considering whether there is ongoing justification for regulation, it is the sum of these effects that is important.

(a) The number of markets where competition is constrained by government-imposed restrictions is shrinking

17. Continuing liberalisation of bilateral Air Service Agreements is gradually reducing the number of markets that remain subject to fares regulation, as government-imposed restrictions on frequency are progressively reduced. The precise number of routes that are potentially regulated can vary as networks and traffic levels change, but is currently around 39 (Appendix 3). Of those 39, 20 are routes to the USA and four are routes to India, so if negotiations to liberalise the EU/US and UK/India markets are successful, government restrictions that are currently impeding competition will be removed, and the number of potentially regulated routes will fall to around 15. Of those 15, several are relatively thin routes or are leisure-orientated, where the number of Y2 passengers is very small.

(b) Competition between airlines is increasing

18. Even where frequency restrictions in bilateral agreements remain in place, competition has generally increased. The traditional duopoly of one "flag carrier" operating from each country has given way to a greater variety of airlines, UK and foreign, some independent, some grouped in alliances, usually with a much more commercial, consumer-focused outlook (including those that remain in state ownership). Airlines are now offering a much greater range of products and fare types. Appendix 4 illustrates how BA's fare structure has changed over the last 20 years on some sample routes, and now includes an entirely new Premium Economy cabin, lower conditioned leisure fares in all the premium cabins, and a wider range of economy leisure fares. On denser routes, such as London–Johannesburg, London–Mumbai or London–Hong Kong, additional airlines have managed to enter the direct market despite the frequency caps imposed by the bilateral, such that three or four airlines are now competing on the same route, further widening the choice available and potentially lessening the need for protection of the consumer. The wide range of fares now available on London–Mumbai, for example, is illustrated by Appendix 5, and this shows fares only for

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[4] The resulting consultation document can be viewed at www.caa.co.uk/docs/5/ergdocs/sopconsult.pdf. The revised policy was formally adopted in the CAA's 2002 Statement of Policies on Route and Air Transport Licensing, and remains unchanged in the current (2003) version.

the airlines operating direct services – hundreds of other fares are offered by different airlines on an indirect basis.

(c) The influence of IATA tariff coordination on fares has lessened

19. Through IATA, airlines have historically discussed and agreed with their direct competitors fare levels for travel to long-haul destinations at multilateral conferences with immunity from competition law. At one time this was the primary means of establishing fares in the market, but today the main aim of these discussions is to give rise to fares that can be used for travel on multiple airlines (interline fares). This system of tariff coordination is now much less influential on fares than it was in the past. Instead of being virtually the only "published" fares available in the market, as was the case 10–15 years ago, these IATA fares now act more as default fares that are likely to be used only for more unusual itineraries where interlining is necessary. (The relation of IATA fares to other fares can be seen in the example in Appendix 1.) Airlines now tend to set most or all of their fares unilaterally, rather than relying on fare levels that have been set through IATA tariff coordination.

(d) Price competition from airlines offering travel on an indirect basis has greatly intensified

20. In the past, with fares set through IATA, airlines offering fares for travel between a given origin and destination on an indirect ("sixth-freedom") basis, usually via their hub, were obliged to charge the same fares as the airlines serving the route direct, irrespective of the route taken. This was reinforced by restrictions imposed by governments[5] on the ability of airlines offering indirect travel to act as price leaders. National carriers were strongly opposed to these sixth-freedom airlines from a third country taking "their" market. As a consequence, sixth-freedom airlines would sell price-leading fares through consolidators in the "grey" or discount market. Most of these restrictions are now falling away. As a consequence, price (and product) competition from sixth-freedom airlines has significantly expanded the range of options available to passengers prepared to travel indirect and incur a time and inconvenience penalty. Some airlines specialise in the carriage of such passengers and a significant proportion of their traffic from the UK is connecting with other flights at their hub in order to continue to points on their network beyond. The growth of alliances has also broadened the range of through fares available and the coordination or marketing of connecting possibilities.

21. Appendix 6, although only a snapshot, illustrates the alternatives that are now available to a last-minute traveller on five long-haul routes plus London–Moscow from a very simple quote on one of the internet booking agents (which draws data from one of the main Global Distribution Systems). The fares shown have been filtered so as to show only those that are actually bookable (rather than theoretically available). Of the six routes, one is a liberal market where the CAA does not regulate (Singapore), and the other five are markets where the CAA

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[5] Including, until the end of the 1990s, the UK, which sought to prevent foreign airlines price leading on indirect routes to/from the UK unless their own Government was prepared, on a reciprocal basis, to sign an agreement that the airlines of both sides should be permitted to price freely without government intervention. Today, the UK Department for Transport requests that the CAA considers restricting price leadership by an indirect airline only in the rare instances where that airline's own Government both refuses to sign such an agreement <u>and</u> is actively restricting UK airlines' pricing.

potentially regulates the Y2 fare. The itinerary on which the table is based deliberately does not include a Saturday night stay (a condition imposed by airlines to prevent business passengers trading down to lower fares aimed at the leisure passenger) and is for travel the following week. It is likely to be reasonably representative of the sort of fare quote that a last-minute traveller may require, although the fare levels may of course vary according to demand and the time of year, with fewer alternatives at peak times. There will be other fares also on offer, for example through consolidators.

22. Appendix 6 shows that even in restricted markets like London–Tokyo there are many lower priced alternatives to the Y2 fare, usually on indirect services (as might be expected), but sometimes on direct services as well. It should be recognised that there may be a significant time penalty and inconvenience from changing aircraft en route. However, it is apparent from the data that the CAA holds from the mid-1990s that 10 years ago there was nothing like this sort of choice in published fares on most routes. There was little variation in fares between airlines, whether travel was direct or indirect, and indeed many airlines did not even publish their own fares in reservation systems used by travel agents, since these were no different to the IATA “industry” fares. There was an active discount market via consolidators, but many of these discount fares would have required a Saturday night stay, since they were firmly aimed at the leisure market, and might not have been available for last-minute bookings.

23. The inconvenience of indirect travel may well point, in many circumstances, to a conclusion that these alternative fares should not be regarded as a true substitute in terms of traditional competition policy analysis and market definition. However, the test for regulatory intervention should be more stringent, and where reasonably close alternatives, in the form of indirect services, are available at competitive prices, regulation would not seem to be warranted.

24. It should be noted, however, that the London–Seattle fares in Appendix 6, and to a lesser extent the London–Washington fares, do not show a big range of lower-priced alternatives. On US routes virtually all leisure fares have a Saturday-night stay requirement and therefore do not quote for the itinerary used in this snapshot. There is also a significant constraint on UK/US airlines pricing on an indirect basis. This stems from regulatory restrictions on price leadership by airlines offering indirect fares, because of the “sum-of-sector” policy that the CAA applies on behalf of the Department for Transport. This policy imposes a floor on the prices that can be charged by airlines for indirect travel. The policy would be discontinued as soon as EU/US liberalisation removes restrictions on market access and pricing. The existence of these pricing restrictions suggests that the CAA’s approach to fares in UK/US markets should for the time being differ from its approach to other long-haul markets.

(e) A proportion of business passengers is prepared to travel indirect

25. CAA survey data can be used to analyse the proportions of direct passengers, relative to indirect, who are travelling from a London airport as well as the country of residence and whether the purpose of the journey is business or leisure. Appendix 7 shows nine long-haul markets and the proportions of UK-resident business and leisure passengers flying indirect. Reasonably dense routes have been selected to minimise distortions from small sample sizes. Passengers connecting at either end are excluded, as are foreign residents. (All these passengers therefore commenced their journey in London and terminated their journey at the destination shown.)

26. The data show quite different results between routes. On Mumbai and Lagos, a large proportion of UK leisure passengers in 2004 was travelling indirect, which is probably a function of the constraints on frequency in those markets (constraints in the India market have since been relaxed). Seattle also shows a relatively large proportion of both business and leisure passengers travelling indirect, which is probably because BA is the only carrier serving the route direct, and operates only once daily. (This is interesting given that the discounts available on other airlines for indirect travel shown in Appendix 6 were limited and travel times significantly longer.) The proportion of UK business passengers travelling indirect to Tokyo is also significant at 10%.

27. While these results do not in any way suggest that business passengers would regard indirect flights as a perfect substitute, they do show that a proportion of business passengers, originating in London, are travelling indirect, for whatever reason (acknowledging that on a frequency-constrained route this may of course simply be spillover from excess demand). This would suggest that the Y2 passenger, who would be expected to be more price sensitive than the average Business Class passenger, may also be prepared to switch to an indirect flight, even if time was a consideration. This is a pertinent consideration when assessing whether regulation of fares is still justified.

28. This of course relates to London-originating passengers. The CAA's regulation does not focus on passengers originating from the UK regions because such fares are set as a standard "add-on" over the regulated Y2 fare from London. However, the regional passenger may well regard an indirect routing via a foreign hub as a close substitute for a connection over Heathrow. Indeed, although Heathrow offers a range of destinations and a frequency that is hard to match, the total journey time connecting over a foreign hub may be more favourable.

(f) The internet has given the consumer greatly superior information to compare prices and make purchasing decisions

29. The internet has also played a big part in transforming the way that the market operates. As noted above, fares available to consumers have traditionally been a mixture of "published" and "grey market" discounted fares. Published fares would be openly advertised, but price competition tended to be muted by the IATA system of tariff coordination and government restrictions. Grey market discounted fares were widely available on both direct and indirect flights through consolidator intermediaries with clearer price/quality trade-offs, although advertising was limited, with the identity of the airline revealed only by a telephone call or visit to a travel agent. The increasingly widespread use of the internet in recent years, together with the slackening of the government restrictions that were pushing cheaper fares for indirect travel into the discount market, have resulted in a very different picture today. The discount market through consolidators continues to operate, but lower indirect published fares are also now available. The transparency of the internet, and the advent of internet agencies alongside airlines' own websites, allows consumers to make easy price/quality comparisons very quickly indeed, like that in Appendix 6. Thus lower-priced fares offered for indirect travel are not only free of restrictions and more widely available, but are also transparent and more readily accessed by the consumer.

(g) The way airlines price their fares, and consumer expectations, have changed

30. The pricing models that airlines use have been changing. In the liberalised EU and US domestic markets, the entry of no-frills carriers has not obviously reduced the level of flexible Y2-type fares offered by established airlines, but instead has resulted in a wider choice of more accessible, restricted fares[6]. In those liberalised markets, passengers who would previously have had no option but to purchase Y2 or similar fares – for example those not staying a Saturday night – are now able to switch to other products with different price/quality options. This ability to switch appears to be spreading gradually to long-haul routes. To the extent that regulation is meant to be a surrogate for competition (in seeking to prevent an airline with market power exploiting a captive market through excessive pricing), it should be recognised that competitive markets do not seem to produce the sort of fare that the CAA's fares regulation seeks to provide. There appears to be a high premium placed on last-minute or flexible tickets even where competition is relatively strong, and consumer acceptance of this premium (recent experience of the CAA and Air Transport Users Council has been that consumer complaints have rarely focused on the *level* of air fares). Indeed, similar effects are common outside aviation.

31. In short-haul markets it has become obvious that passengers, including business passengers, have become accustomed to expect relatively low fares, and may be less inclined to pay fares that they would once have considered too high but which they felt obliged to accept in the absence of alternatives. The widening in the choice of fares in the long-haul market may be an indication of the same behavioural changes. For example, even passengers with a time constraint might prefer a cheaper, indirect flight to a more expensive, direct flight, particularly if the fare saving is considerable and the indirect flight offers a high-quality product. With the information now at hand from the internet, the consumer is more able to make informed choices and as a result has become increasingly sophisticated at assessing the range of options on offer.

(h) Corporate accounts may exert some countervailing buyer power

32. Corporate accounts are now a more significant feature of the market and the published prices that are currently regulated do not reflect the volume discounts being given. Corporate customers may be able to exercise some countervailing buyer power so as to dampen attempts to raise prices – although the CAA has no firm evidence to support this assertion, and it may be negated by market power exercised by airlines in restricted markets.[7]

(i) Competition law has been strengthened

33. UK competition law has been strengthened considerably since the CAA's fares policy was last reviewed, and would provide a backstop against any serious competition problems in the market.

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[6] Although this may depend on the extent of competition on the route, and whether a no-frills carrier is operating.

[7] Indeed, it should be recognised that corporate travel policy (for example, restricting employees' use of business class travel) may actually have made the Y2 alternative (or premium economy equivalent) more significant.

Is the current policy still valid?

34. The CAA's fares policy is much less intrusive today than it was when first devised. The focus of current regulation is on a very small subset of fares on a shrinking number of mainly long-haul routes. The question that needs to be addressed is whether the residual fares regulation meets the tests for good regulation – in particular whether it remains appropriate and proportionate, and whether the benefits outweigh the costs that the regulation imposes.

35. The findings from the CAA analysis of the impact of the existing fares policy on the market do not indicate clearly what would happen once the existing fares regulation were removed. There is some risk that Y2 fares may increase, or be withdrawn or conditioned in some way. But this would not in itself suggest that regulation should be left in place. The issue needs to be considered in the context of the wider market, taking account of the wider range of options now available to the consumer.

36. The CAA's analysis has also shown just how significant the changes in the market have been since the policy was last reviewed, and of course since the original policy, and associated fare-type costing methodology, was first devised. All the evidence points to the proportion of passengers in bilaterally constrained markets who are in need of protection as having declined. This seems to be borne out by the CAA's and Air Transport Users Council's experience of relatively few recent consumer complaints about the level of air fares.

37. Where bilateral constraints on the market do remain, there is still a wider choice of airlines and products than before, and the indirect market (with the exception of UK–USA) is now generally free to offer a lower-priced alternative. The internet has greatly improved transparency in allowing instant fare comparisons, empowering the consumer and further enhancing price competition. The consumer appears to be more sophisticated and can make informed choices that would not have been possible 10 years ago. Those booking close to departure or requiring a flexible fare would appear to have significantly more options than in the past, and even in fully liberalised and relatively competitive markets such as the EU, there tends to be a high premium placed on last-minute and flexible tickets – yet it seems to be generally accepted that there is no case for detailed fares regulation in intra-EU markets.

38. As noted above, starting from first principles, the test that should be applied before contemplating regulatory intervention should be whether the benefits from regulation outweigh the potential burdens, uncertainty and distortions that the regulation may impose. This is a tougher test than the usual market definition approach adopted in competition analysis – applying the usual market definition test to long-haul air services might not lead to a conclusion that indirect flights are a sufficient substitute for direct flights to mean that they are within the relevant market for time-sensitive passengers.[8]

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[8] It could be argued that an indirect airline will want to "fill up" with sixth-freedom traffic offering fares at below fully allocated cost. Its objective will be to maximise revenue and so, if it can fill up already, then when the direct airline puts up its fares, so the indirect airline will tend to follow suit, taking the same number of passengers at a higher yield rather than taking more passengers (for which they have no room without displacement) at its previous yield. This is obviously a complex issue that will depend upon the balance of supply and demand in the particular sixth-freedom market compared with other

39. However, in terms of applying a test as to whether regulation is warranted, the greater availability of genuine lower-priced alternatives to passengers that CAA fares regulation has sought to protect is very pertinent, and suggests that the test may no longer be met. When the CAA last reviewed its fares policy, little account was taken of price competition from airlines offering indirect flights, because the regulatory system then in place sought to prevent it; and while the discount market could find a way around this, it was perceived as somewhat opaque and catering more for leisure passengers for whom choices of schedule, airline, product etc were secondary to price. The position is very different today.

Conclusion

40. Since its inception, the CAA's policy on the regulation of air fares has secured significant benefits for the user. The policy has offered users some protection from airlines that were relatively immune from competitive pressures and able to exploit "captive" consumers (i.e. last minute, "must-travel" passengers). However, the conditions that gave rise to the policy have altered significantly.

41. Continuing liberalisation has reduced the number of markets where regulation can or should operate, the number of passengers that potentially benefit from regulation has been declining, greater competition has led to a wider choice for the passenger, in particular from indirect carriers, and the internet has made it far easier for the consumer to identify those choices. All of these factors weaken the arguments in favour of continued fare regulation. UK competition law has also been strengthened considerably, and would provide a backstop against any serious competition problems.

42. In the context of today's market, therefore, continued day-to-day regulation of fares would seem disproportionate to the risks arising from not regulating. It seems most unlikely that the CAA would see a need to introduce regulation to cap excessive fares were it considering the issue afresh today.

43. The CAA is therefore inclined to the view that it would be consistent with the CAA's statutory duties under the Civil Aviation Act 1982 to withdraw from fare regulation on routes outside the single European market, and to amend the CAA's Statement of Policies on Route and Air Transport Licensing, and the conditions requiring tariff filing that form part of UK route licences, accordingly.

44. However, the CAA is also minded to exclude UK/US routes from this change for the time being. The current "sum-of-sector" policy imposes a floor on the fares that UK and US airlines serving this market indirect can charge, severely restricting the competitive price pressure on the direct flights. Until these restrictions on indirect carriers pricing freely to the US are removed, it is proposed that excessive fares regulation should continue on UK/US routes in the same way that it does today. The CAA would then move to remove this regulation at the same time as "sum-of-sector" policy falls.

45. Consequently the CAA may continue, where necessary, to require the submission of cost, revenue and traffic data from UK-licensed airlines in support of residual fares regulation on UK-US routes.

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possibilities the indirect airline has for using that capacity. (For example, the indirect airline might take higher direct fares as a signal to increase capacity rather than raise its own fares.)

Proposed changes to the Statement of Policies on Route and Air Transport Licensing

46. The CAA has a statutory duty to consult representatives of the industry and users before making these changes. The existing paragraphs in the CAA's current Statement of Policies, and the proposed changes to give effect to the change of policy, are shown below.

Existing paragraphs

> *9. The CAA's preference is for airlines to be free to set their own fares with a minimum of regulatory intervention. In markets where competition between airlines is unconstrained by government-imposed barriers to entry, the CAA will therefore not expect to intervene in airlines' fares proposals.*
>
> *10. However, the presence of government-imposed bilateral constraints can confer market power on airlines. Therefore, the CAA will be prepared to consider intervening where, after taking into account the relevant market, the degree of bilateral constraints, the availability of different fare products and other factors including route profitability, it concludes that airlines possess and exploit market power to the disadvantage of users. In such circumstances, it will be concerned to ensure that all those who require it on international scheduled services have available basic on-demand travel. This will provide at least a commensurate level of seat access, freedom to change reservations and appropriate in-flight facilities, at a price reasonably related to the cost of its provision, including a return on capital. Where this exists the CAA will not expect to intervene in the prices or conditions of other products solely to protect users from being overcharged.*

Proposed paragraph to remove the CAA's residual excessive fares regulation

> *9. The CAA believes that the interests of users will be best served if airlines are free to set their own fares without regulatory intervention, subject only to the application of normal competition policy. The CAA does not therefore expect to intervene in airlines' fares proposals.*

Proposed paragraph to retain the regulation of UK-US fares in the interim

> *10. However, notwithstanding paragraph 9, the CAA believes that special considerations apply on UK/US routes. So long as the UK/US market remains subject to government-imposed constraints on market entry, and airlines offering travel in the UK/US market on an indirect basis are unable to price freely, there is the potential for conditions that would lead the CAA to consider intervention in UK/US fares. The CAA will be prepared to consider intervening where, after taking into account the relevant market, the degree of bilateral constraints, the availability of different fare products and other factors including route profitability, it concludes that airlines possess and exploit market power to the disadvantage of users. In such circumstances, it will be concerned to ensure that all those who require it on international scheduled services have available basic on-demand travel. This will provide at least a commensurate level of seat access, freedom to change reservations and appropriate in-flight facilities, at a price reasonably related to the cost of its provision, including a return on capital. Where this exists the CAA will not expect to intervene in the prices or conditions of other products solely to protect users from being overcharged.*

Proposed changes to Standard Tariff Provisions[9] in UK route licences

47. The CAA proposes to make the following changes to all route licences by amending Schedule 4 to the Official Record Series 1:

    Standard Tariff Provision I is deleted. This provision currently applies to carriage other than to or from the United States or Canada. The change has the effect of removing any residual requirement on these routes for fares and conditions to be filed with the CAA for prior approval.

    Standard Tariff Provision II currently applies to carriage to or from the United States or Canada. This provision **remains unchanged except that the reference to Canada is deleted**. This change is a tidying-up exercise consequent to a new bilateral Air Services Agreement between the UK and Canada earlier in 2006, and is unrelated to the current consultation. It has the effect of removing any requirement for fares and conditions between the UK and Canada to be filed with the CAA for prior approval. Fares and conditions between the UK and US will continue to be filed for approval in order for the CAA both to apply "sum-of-sector" fares policy at the request of the Department for Transport, and to regulate the level of Y2 fares from the UK in accordance with paragraphs 9 and 10 of the revised Statement of Policies.

[9] The current provisions can be viewed at www.caa.co.uk/default.aspx?categoryid=213&pagetype=90&pageid=758

Appendix 1

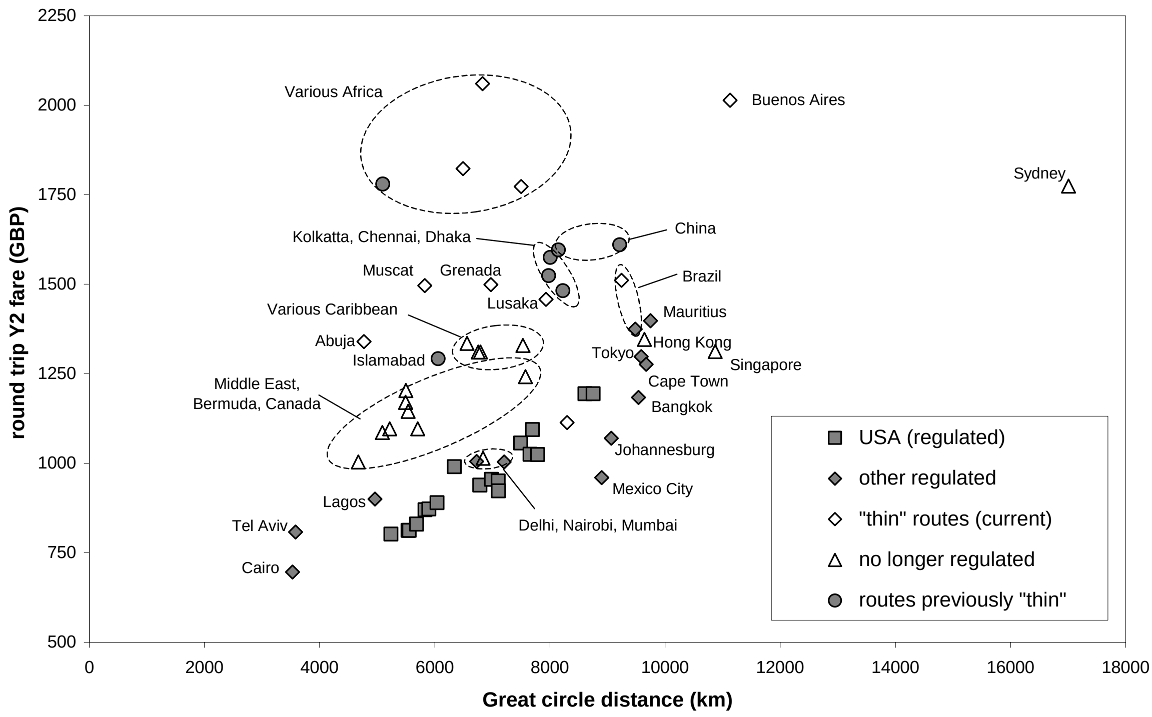
British Airways fares from London to Johannesburg (January 2006)

Fare type	Fare level (GBP) One way	Fare level (GBP) Round trip	Bookings flexible? (1)	Minimum stay	Advance purchase	Notes
First (IATA interlineable)	5321	8194	Yes			
First F2	-	5933	Yes			
First Apex	-	3996	No	7 days	42 days	(4)
Business (IATA interlineable)	3416	5265	Yes			
Business J2	-	3603	Yes			
Business Apex	-	3311	No	-	7 days	(4)
Business Apex	-	2876	No	Sat. night	28 days	(4)
Business Apex	-	2476	No	Sat. night	42 days	(4)
Prem.Economy (IATA interlineable)	2214	3416	Yes	-	-	
Premium Economy W2	-	1691	Yes	-	-	
Premium Economy Apex	-	991 to 1367	No	Sat. night	21 days	(2)
Premium Economy seat sale	-	856	No	Sat. night	21 days	(3) (4)
Economy (IATA interlineable)	2084	3216	Yes	-	-	
Econ.Excursion (IATA interlineable)	-	2071	Yes	6 days	-	
Economy Pex (IATA interlineable)	-	1298 to 1722	No	7 days	-	(2)
Economy Y2	**541**	**1071**	**Yes**	**-**	**-**	
Economy semi-flexible (H class)	-	791 to 1167	No	Sat. night	-	(2) (4)
Economy semi-flexible (K class)	-	741 to 1117	No	Sat. night	-	(2) (4)
Economy semi-flexible (M class)	-	691 to 1067	No	Sat. night	-	(2) (4)
Economy semi-flexible (R class)	-	641 to 1017	No	Sat. night	-	(2) (4)
Economy semi-flexible (V class)	-	591 to 967	No	Sat. night	-	(2) (4)
Economy seat sale (R class)	-	556	No	Sat. night	-	(3) (4)
Economy seat sale (N class)	-	456	No	Sat. night	-	(3) (4)

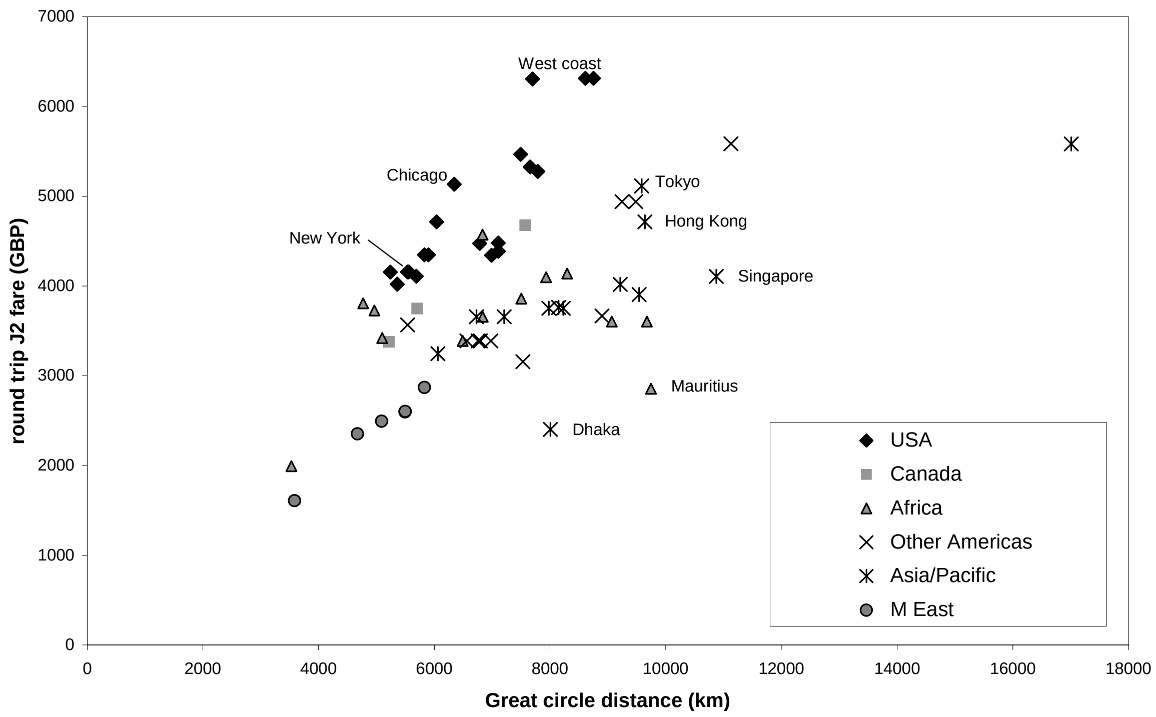
Notes
(1) reservations changeable, tickets refundable without penalty
(2) fare level within each booking class (H, K etc) varies according to season
(3) travel on selected dates only, for sales before 31 January.
(4) a limited number of seats is available at these fares, controlled by booking class (H, K etc)

Fares include insurance/security/fuel surcharges and UK passenger service charge, but exclude government taxes
Source: Airline Tariff Publishing Company database, Worldspan Global Distribution System, January 2006

Flexible economy (Y2) fares against distance



Flexible business (J2) fares against distance



Source: Airline Tariff Publishing Company database, April 2006: British Airways fares on long-haul routes from London including surcharges but excluding government taxes.

Appendix 3

Routes on UK airlines' networks that remain subject to potential regulation

Routes subject to bilateral restrictions (and therefore potentially subject to fares regulation)		Routes not subject to bilateral restrictions	Routes subject to bilateral restrictions where some headroom for new services exists
Atlanta	Moscow	Nairobi	Bahrain
Baltimore	Johannesburg	Istanbul	Kuwait
Boston	Cape Town	Abu Dhabi	Hong Kong
Chicago	Accra	Dubai	Beijing
Dallas	Mauritius	Singapore	Shanghai
Denver	Abuja	Montreal	Manchester-Chicago
Detroit	Lagos	Toronto	Manchester-New York
Houston	Cairo	Vancouver	Manchester-Orlando
Las Vegas	Tel Aviv	Bermuda	
Los Angeles	Tokyo	Antigua	
Miami	Bangkok	Barbados	
New York	Chennai	Kingston	
Newark	Delhi	St Lucia	
Orlando	Kolkatta	Sydney	
Philadelphia	Mumbai		
Phoenix	Islamabad		
San Francisco	Dhaka		
Seattle	Mexico City		
Tampa	Sao Paulo		
Washington			

Notes:

All routes are from London unless stated.

Routes operated by UK airlines that are not listed are regarded as falling under the CAA's policy on "thin" routes in that they carry insufficient traffic to warrant regulation (based on CAA statistics for the year to December 2005).

Changes in British Airways fares structure on regulated and unregulated long-haul routes 1985–2005

London-Johannesburg (still regulated)

Cabin	Type	1985	1990	1995	2000	2005
First	flexible	✓	✓	✓	✓	✓
	flexible pt-pt			✓	✓	✓
	Apex				✓	✓
Business	flexible	✓	✓	✓	✓	✓
	flexible pt-pt			✓	✓	✓
	Apex 1				✓	✓
	Apex 2				✓	✓
	Apex 3					✓
Premium	flexible					✓
Economy	flexible pt-pt					✓
	Apex					✓
Economy	flexible	✓	✓	✓	✓	✓
	flexible pt-pt ("Y2")	✓*	✓	✓	✓	✓
	types of leisure fare	3	3	4	6	6

London-Singapore (regulated until 2001)

Class		1985	1990	1995	2000	2005
First	flexible	✓	✓	✓	✓	✓
	flexible pt-pt				✓	✓
	Apex				✓	✓
Business	flexible	✓	✓	✓	✓	✓
	flexible pt-pt	✓	✓	✓	✓	✓
	Apex 1				✓	✓
	Apex 2				✓	✓
	Apex 3					✓
Premium	flexible					✓
Economy	flexible pt-pt					✓
	Pex					✓
Economy	flexible	✓	✓	✓	✓	✓
	flexible pt-pt ("Y2")	✓	✓	✓	✓	✓
	flexible pt-pt	✓				✓
	types of leisure fare	2	2	4	8	5

Notes:
Fare structures are for travel from the UK as at July.
* introduced October 1985 (Johannesburg) and December 1985 (Tokyo).
Includes "published" fares only (i.e. excludes fares specific to particular clients etc).
Excludes inclusive tour, group, student fares etc.
Highest flexible fare is generally the fully interlineable IATA fare.
Flexible "point-to-point" fare is likely to have restrictions on routing, stopovers, transfers, and may be limited to BA services only.

London-Tokyo (still regulated)

Cabin	Type	1985	1990	1995	2000	2005
First	flexible	✓	✓	✓	✓	✓
	flexible pt-pt					✓
	Apex					✓
Business	flexible	✓	✓	✓	✓	✓
	flexible pt-pt					✓
	Apex 1					✓
	Apex 2					✓
	Apex 3					✓
Premium	flexible					✓
Economy	flexible pt-pt					✓
	Apex					✓
Economy	flexible	✓	✓	✓	✓	✓
	flexible pt-pt ("Y2")	✓*	✓	✓	✓	✓
	types of leisure fare	1	1	2	6	7

London-Dubai (regulated until 2001)

Class		1985	1990	1995	2000	2005
First	flexible	✓	✓	✓	✓	✓
	flexible pt-pt				✓	✓
	Apex				✓	✓
Business	flexible	✓	✓	✓	✓	✓
	flexible pt-pt				✓	✓
	Apex 1				✓	✓
	Apex 2				✓	✓
	Apex 3					✓
Premium	flexible					✓
Economy	flexible pt-pt					✓
	Apex					✓
Economy	flexible	✓	✓	✓	✓	✓
	flexible pt-pt ("Y2")		✓	✓	✓	✓
	types of leisure fare	3	3	2	5	5

Source: Airline Tariff Publishing Company database

London–Mumbai published fares (direct carriers, travel April 2006)

Airline	fare basis code	one way (£)	return (£)	effective	last ticket	min. stay
Air India	GSALEUK		218	11 Apr 06	31 Mar 06	-
Air India	GRTUK		240	15 Feb 06	31 Mar 06	-
Virgin	NJMEG		244	16 Mar 06	31 Mar 06	SUN
Jet A/w	H2SP		265	01 Mar 06	31 Mar 06	-
Air India	VRTUK		323	12 Apr 06	-	-
bmi	QLNRBMI		325	01 Apr 06	-	SUN
Jet A/w	K2SP		335	01 Mar 06	31 Mar 06	-
Air India	GOWUK	168		15 Feb 06	31 Mar 06	-
bmi	HLNRBMI		373	01 Apr 06	-	SUN
Air India	MRTUK		375	01 Apr 06	-	-
Jet A/w	K2KGB		389	01 Sep 05	-	-
Virgin	XKGB		405	01 Apr 06	-	SUN
BA	RKNCGB		405	01 Apr 06	-	SUN
bmi	MLNRBMI		422	01 Apr 06	-	SUN
Air India	LRTUK		427	01 Apr 06	-	-
Jet A/w	S2KGB		439	01 Sep 05	-	-
BA	MKNCGB		455	01 Apr 06	-	SUN
Virgin	QKGB		455	01 Apr 06	-	SUN
Air India	VOWUK	229		12 Apr 06	-	-
bmi	KLNRBMI		470	01 Apr 06	-	SUN
Air India	KRTUK		479	01 Apr 06	-	-
Jet A/w	Q2KGB		489	30 Oct 05	-	-
Virgin	MKGB		505	01 Apr 06	-	SUN
BA	KKNCGB		505	01 Apr 06	-	SUN
Air India	HRTUK		531	01 Jan 06	-	-
Air India	MOWUK	266		01 Apr 06	-	-
Jet A/w	L2KGB		539	30 Oct 05	-	-
Virgin	LKGB		555	01 Apr 06	-	SUN
BA	HKNCGB		555	01 Apr 06	-	SUN
Air India	BRTUK		583	01 Jan 06	-	-
Jet A/w	K2KOWGB	292		01 Sep 05	-	-
bmi	BLNRBMI		587	01 Jun 05	-	SUN
Jet A/w	U2KGB		599	30 Oct 05	-	-
Jet A/w	U2KGB		599	01 Sep 05	-	-
Virgin	BKGB		605	01 Apr 06	-	SUN
Air India	LOWUK	303		01 Apr 06	-	-
Jet A/w	S2KOWGB	329		01 Sep 05	-	-
Air India	YRTUK		667	01 Jan 06	-	-
Jet A/w	T2KGB		669	01 Sep 05	-	-
Jet A/w	T2KGB		669	30 Oct 05	-	-
Air India	KOWUK	340		01 Apr 06	-	-
bmi	LLBGEN		713	01 Apr 06	-	SUN
Jet A/w	Q2KOWGB	367		30 Oct 05	-	-
Jet A/w	Q2KOWGB	367		01 Sep 05	-	-
Air India	HOWUK	375		01 Jan 06	-	-
Air India	WRTUK		771	01 Jan 06	-	-
Jet A/w	M2KGB		779	01 Sep 05	-	-
Jet A/w	M2KGB		779	30 Oct 05	-	-
BA	TKAPGB		805	01 Apr 06	-	SUN
Virgin	KKAP21		805	01 Apr 06	-	SUN
Jet A/w	L2KOWGB	404		30 Oct 05	-	-
Jet A/w	L2KOWGB	404		01 Sep 05	-	-
Air India	BOWUK	411		01 Jan 06	-	-
Jet A/w	U2KOWGB	449		30 Oct 05	-	-
Jet A/w	U2KOWGB	449		01 Sep 05	-	-
bmi	Y2	450	900	13 Sep 05	-	-
BA	Y210	463	926	08 Mar 06	-	-
BA	Y210	464	928	08 Mar 06	31 Mar 06	-
Virgin	Y2UK	464	928	14 Sep 05	-	-
Air India	YOWUK	470		01 Jan 06	-	-
Jet A/w	T2KOWGB	502		01 Sep 05	-	-
Jet A/w	T2KOWGB	502		30 Oct 05	-	-
Virgin	SKAP7		1005	01 Apr 06	-	SUN
Air India	WOWUK	543		01 Jan 06	-	-
bmi	JMUMAP		1121	10 Jan 06	-	SUN
Jet A/w	M2KOWGB	584		01 Sep 05	-	-
Jet A/w	M2KOWGB	584		30 Oct 05	-	-
BA	BLE6M		1180	28 Feb 03	-	6 days
Air India	JRTUK		1469	01 Apr 06	-	-
bmi	U2		1514	04 Nov 05	-	-
Virgin	W2R		1561	01 Apr 06	-	-
BA	W2BA		1561	01 Nov 05	-	-
bmi	JLNRBMI		1610	10 Jan 06	-	SUN
Jet A/w	Z2LGB		1800	03 Sep 05	-	-
Jet A/w	J2LGB		1950	01 Mar 06	-	-
Air India	JOWUK	1031		01 Apr 06	-	-
Air India	FRTUK		2094	01 Apr 06	-	-
Jet A/w	A2LGB		2100	03 Sep 05	-	-
Jet A/w	J2LGB		2195	01 Mar 06	-	-
bmi	DL2		2252	11 Aug 05	-	-
Jet A/w	A2LGB		2354	02 Sep 05	-	-
bmi	Y		2390	09 Dec 04	-	-
BA	YRT		2390	09 Dec 04	-	-
Virgin	ZHAP		2622	10 Aug 05	-	SUN
BA	IHAP		2622	07 Dec 05	-	SUN
bmi	U		2706	06 Apr 05	-	-
Virgin	DHAP1		2722	10 Aug 05	-	SUN
BA	DHAP		2722	09 Aug 05	-	SUN
bmi	C2		2760	25 Oct 05	-	-
Virgin	WR		2790	27 Mar 05	-	-
BA	W1RT		2790	11 Mar 05	-	-
Jet A/w	A2OWGB	1400		03 Sep 05	-	-
Virgin	DAP7		2845	01 Oct 05	-	-
BA	CRT1		2845	22 Oct 05	-	-
Air India	FOWUK	1469		01 Apr 06	-	-
Jet A/w	C2LGB		2950	03 Sep 05	-	-
bmi	YOW	1553		07 Jan 05	-	-
BA	YOW	1553		09 Dec 04	-	-
Jet A/w	A2OWGB	1659		02 Sep 05	-	-
bmi	UOW	1760		06 Apr 05	-	-
Virgin	J2R		3579	01 Apr 06	-	-
BA	J2BA		3579	13 Oct 05	-	-
BA	AHAP		3622	09 Aug 05	-	SUN
Virgin	W	1814		27 Mar 05	-	-
BA	W1OW	1814		11 Mar 05	-	-
BA	J1RT		3774	09 Dec 04	-	-
Virgin	JR		3774	19 Oct 05	-	-
bmi	CRT		3774	09 Dec 04	-	-
Virgin	J	2453		19 Oct 05	-	-
BA	J1	2453		10 Jun 05	-	-
bmi	C	2527		07 Oct 05	-	-
BA	F2BA1		5336	01 Nov 05	-	-
BA	F1RT		5636	09 Dec 04	-	-
BA	F1	3664		10 Jun 05	-	-

Notes: Fares for travel April 2006 excluding taxes, fees and charges   Source: Worldspan GDS 21 March 2006

Appendix 6

Fare options for last-minute economy travel

London-Singapore (free from bilateral restrictions)

Airline	via	return fare	journey time out/back
Gulf Air	Bahrain	£576	15hr50mn/17hr20mn
Singapore Airlines	direct	£611	12hr45mn/13hr30mn
Qantas	direct	£684	12hr50mn/13hr35mn
BA (out) Qantas (back)#	direct	£706	12hr45mn/13hr35mn
BA	direct	£722	12hr45mn/13hr35mn
KLM	Amsterdam	£745	15hr20mn/15hr45mn
Malaysian	Kuala Lumpur	£759	15hr20mn/15hr30mn
Cathay Pacific	Hong Kong	£775	16hr30mn/18hr05mn
BA flexible Y2 fare	direct	£1342	12hr45mn/13hr35mn

London-Tokyo (bilateral restrictions on direct flights)

Airline	via	return fare	journey time out/back
All Nippon	direct	£507	11hr35mn/12hr15mn
SAS	Copenhagen	£579	16hr10mn/15hr20mn
Austrian	Vienna	£728	15hr10mn/16hr00mn
Swiss	Zurich	£729	15hr10mn/15hr30mn
Lufthansa	Frankfurt	£737	14hr55mn/15hr10mn
Korean	Seoul	£874	15hr25mn/15hr25mn
KLM/Air France	Amsterdam (out) Paris (back)	£912	15hr45mn/15hr15mn
BA flexible Y2 fare #	direct	£1339	11hr20mn/12hr05mn

London-Johannesburg (bilateral restrictions on direct flights)

Airline	via	return fare	journey time out/back
Nationwide	direct	£655	11hr40mn/11hr15mn
Kenya A'ways/KLM	Nairobi (out) Amsterdam (back)	£673	13hr35mn/13hr15mn
South African	direct	£834	10hr50mn/11hr15mn
Virgin flexible Y2 #	direct	£1125	11hr05mn/10hr55mn
BA flexible Y2 fare #	direct	£1125	10hr40mn/11hr05mn

Notes:

lowest BA/Virgin price for this itinerary

Seats available for travel out Monday 27 March back Friday 31 March, sorted by price. Fare includes all taxes, fees and charges including an Opodo booking charge.

Source: Opodo 20 March 2006.

Fare options for last-minute economy travel (continued)

London-Washington (bilateral restrictions on direct flights)

Airline	via	return fare	journey time out/back
Icelandair*	Keflavik	£376	10hr45mn/9hr45mn
KLM	Amsterdam	£704	11hr50mn/10hr20mn
Continental*	Newark	£762	11hr35mn/9hr55mn
Air France	Paris	£784	10hr55mn/9hr50mn
Northwest	Amsterdam (out) Detroit (back)	£898	11hr10mn/10hr00mn
Virgin (out) Continental (back)	direct (out) Newark (back)	£918	8hr10mn/9hr50mn
BA #*	direct	£930	8hr05mn/7hr15mn
BA flexible Y2 fare	direct	£934	7hr55mn/7hr10mn

* to Baltimore

London-Seattle (bilateral restrictions on direct flights)

Airline	via	return fare	journey time out/back
Delta	Atlanta (out) Cincinnati(back)	£1032	16hr38mn/13hr00mn
American	New York	£1122	18hr34mn/14hr10mn
Continental(out) United (back)	Newark (out) Chicago (back)	£1151	16hr00mn/13hr28mn
US Airways(out) Delta (back)	Charlotte (out) Atlanta (back)	£1151	18hr06mn/16hr30mn
United	San Francisco(out) Chicago (back)	£1154	16hr20mn/13hr28mn
BA flexible Y2 fare #	direct	£1156	9hr30mn/9hr05mn

London-Moscow (bilateral restrictions on direct flights)

Airline	via	return fare	journey time out/back
Swiss	Zurich	£234	5hr45mn/7hr25mn
SAS	Copenhagen	£271	5hr00mn/8hr15mn
Czech Airlines	Prague	£304	5hr45mn/6hr10mn
Siberia A/l & bmi	Frankfurt	£328	7hr20mn/6hr50mn
Aeroflot	direct	£329	3hr40mn/3hr55mn
BA flexible Y2 fare #	direct	£795	3hr50mn/3hr55mn

Notes:

lowest BA price for this itinerary

Seats available for travel out Monday 27 March back Friday 31 March, sorted by price. Fare includes all taxes, fees and charges including an Opodo booking charge.

Source: Opodo 20 March 2006.

Proportion of passengers travelling indirect on nine long-haul routes

from London to	UK residents Journey purpose	
	Business	Leisure
	Proportion of this segment travelling indirect	
Vancouver	0%	13%
Chicago	4%	3%
Lagos	5%	39%
Hong Kong	6%	5%
Johannesburg	6%	15%
Mumbai	10%	42%
Tokyo	10%	17%
Los Angeles	11%	6%
Seattle	20%	29%

Source: CAA origin and destination survey, London airports 2004

List of consultees

Government

Competition Commission
Department for Transport
Department of Trade and Industry
Local Authorities Coordinators of
Regulatory Services
Office of Fair Trading

Alderney
Guernsey
Jersey
Isle of Man
Gibraltar

Trade and professional associations, user representatives, other independent bodies

Air Transport Users Council
Association of European Airlines
Association of British Travel Agents
British Air Transport Association
Council on Tribunals
European Low Fares Airline Association
European Regional Airline Association
Guild of European Business Travel Agents

Guild of Travel Management Companies
International Air Carrier Association
International Air Transport Association
Institute of Travel Management
National Consumer Council
Scottish Passenger Agents Association
Trading Standards Institute
Which?

Consultants

KN Associates Ltd

Martin Clough & Associates

UK Type A Operating Licence holders (excluding sole cargo and North Sea helicopter services)

Air Atlanta Europe Ltd
Air Kilroe Ltd t/a Eastern Airways
Air Southwest Ltd
AirX Ltd t/a Blue Islands
Astraeus Ltd
Aurigny Air Services Ltd
BA Connect Ltd
British Airways plc
British Mediterranean Airways Ltd
bmi (British Midland Airways Ltd,
British Midland Regional Ltd,
bmibaby Ltd)
easyJet Airline Company Ltd
European Aviation Air Charter Ltd
Excel Airways Ltd
First Choice Airways Ltd
Flightline Ltd
Flybe Ltd

Flyjet Ltd
GB Airways Ltd
Globespan Airways Ltd t/a Flyglobespan
Highland Airways Ltd
Jet2.com Ltd
Loganair Ltd
Monarch Airlines Ltd
MyTravel Airways Ltd
Suckling Airways (Cambridge) Ltd t/a
Scot Airways
TAG Aviation (UK) Ltd
Thomas Cook Airlines (UK) Ltd
Thomsonfly Ltd
Titan Airways Ltd
Twinjet Aircraft Sales Ltd
Veritair Ltd t/a British International
Virgin Atlantic Airways Ltd