THIS STATEMENT HAS BEEN REPLACED BY THE STATEMENT ISSUED ON 1 DECEMBER 2006

CAA STATEMENT OF POLICIES ON ROUTE AND AIR TRANSPORT LICENSING

Part 1

GENERAL PRINCIPLES, OBJECTIVES AND APPROACH

1. The CAA's general objectives are set out in Section 4(1) of the Civil Aviation Act 1982, as amended by the Licensing of Air Carriers Regulations 1992, ("the Act") and its general duties in relation to air transport and route licensing functions are set out in Section 68 of the Act.

2. The CAA believes 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. To this end, it believes that the long term interests of users would be best served by a full liberalisation of international aviation markets, involving the removal of all bilateral restrictions so that the airline industry can compete on the same footing as other industries. The CAA will aim to make the UK's international aviation markets as contestable as possible by eliminating all unnecessary restrictions within its licensing and other regulatory processes.

Licensing Policy

3. Consistent with its aim of making the UK's international aviation markets as contestable as possible, the CAA sees no good grounds for constraining competition through the licensing process other than where government-imposed bilateral restrictions prevent British airlines from operating all of the services they plan to provide. This points towards a fully liberal approach to the grant of licences to serve points outside the EU, just as now applies to routes within the EU. The CAA will therefore be prepared to grant global Route Licences for scheduled or charter services which permit the combination of any points world-wide.

4. Many international routes are subject to bilateral restrictions on designation, frequency or capacity which would prevent a British airline from exercising its licence freely. However, the CAA would not regard the absence of the necessary bilateral rights as good grounds for refusing to grant a licence application. If a problem of scarce bilateral capacity should arise as a consequence of the CAA granting an application, then this would be most appropriately addressed through specific procedures established to allocate such scarce rights.

Allocation of Scarce Capacity

5. Where bilateral restrictions prevent British airlines from operating all of the services they plan to provide, the CAA will allocate scarce capacity between competing British airlines. In such cases, the CAA's overarching objective will be to maximise economic efficiency. The most comprehensive approach would be to conduct a full economic

analysis of the costs and benefits that would accrue to airlines and users, with capacity being awarded to the airline that provided the highest level of net benefit. In conducting this analysis, the CAA will take into account the effect on competition of the proposed services. This will include considering to what extent an award of scarce capacity would affect rivalry in all the relevant markets, using standard competition analysis and having regard to the Office of Fair Tradings' relevant published guidance and guidelines. Any detrimental impact on competition will then be weighed against the benefits which would arise from awarding the scarce capacity to the relevant carrier.

6. In a limited number of cases competition may be precluded, or unattainable on acceptable terms, because of bilateral constraints. In these circumstances, the CAA will be ready to consider substituting one carrier for another, in whole or in part, so as to safeguard or further the interests of users. It will expect to do so sparingly, and only when to do so would manifestly enhance the achievement of the objectives of the Act. It will take into account the length of time the incumbent has had to establish itself on the route and the degree of commitment it has shown in serving it. It will pay particular attention to the quality of service (capacity, seat availability, frequency, timings and price) offered by the newcomer relative to the incumbent's established standard.

Abuse of a Dominant Position

Anti-competitive behaviour

7. The CAA believes that allegations of anti-competitive behaviour are best addressed through the application of normal competition law. With the entry into force of the Competition Act 1998, UK competition law now applies to the UK aviation market, including routes to and from points outside the European Union.

8. However, in the event that the CAA is called upon to apply its regulatory powers to a case involving allegations of anti-competitive behaviour, it will adopt the principles of UK competition law. It will therefore seek first to establish whether the airline whose behaviour is the subject of the complaint is dominant in a relevant market. If so, it will then seek to establish whether its behaviour constitutes an abuse of that dominant position.

Air Fares

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.

Part 2

OTHER POLICIES

Leasing of foreign-registered aircraft

11. The CAA believes that airlines should be free to choose the aircraft they employ and, subject to Article 8.3 of Council Regulation (EEC) 2407/92, will advocate a liberal policy when advising the Department for Transport on applications for the use of aircraft not registered in the United Kingdom. If, however, the applicant fails to demonstrate a genuine commercial requirement for the aircraft within its own operations the CAA will advise that the application would be more appropriately dealt with under the Department's policies on fifth freedom flights.

Part 3

APPLICATION OF POLICY

12. The CAA will reach its decisions on the basis of the facts and circumstances of each particular case. It may need occasionally to depart from its policies in unforeseen circumstances or where the Act requires.

Part 4

COMING INTO EFFECT

13. This Statement of Policies will take effect on 23 December 2003 and the Statement of Policies established by the CAA on 1 June 2002 will cease to have effect on the same day.