UNITED STATES OF AMERICA

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DEPARTMENT OF TRANSPORTATION

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NATIONAL COMMISSION TO ENSURE
CONSUMER INFORMATION AND CHOICE
IN THE AIRLINE INDUSTRY

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HEARING

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WEDNESDAY,

JUNE 26, 2002

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CHICAGO, ILLINOIS

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The Commission met at the Hyatt Regency, 151 East Wacker Drive, Gold Coast Room, Chicago, Illinois, at 10:10 a.m., David L. Winstead, Chairman, presiding.

PANEL COMMISSIONERS:

DAVID L. WINSTEAD, Chairman
PATRICK V. MURPHY, JR.
JOYCE ROUGE
DR. ANN B. MITCHELL
PAUL M. RYDEN
MARYLES CASTO
GERALD J. ROPER
TED R. LAWSON
THOMAS P. DUNNE

C-O-N-T-E-N-T-S

P-R-O-C-E-E-D-I-N-G-S

(10:10 a.m.)

CHAIRMAN WINSTEAD: Good morning. If I could ask everybody to file in and take a seat? It would be all right if you all could take a seat, I'd appreciate it. I also appreciate everybody attending this morning. I'm David Winstead. I'm the Chairman of the National Commission to Ensure Consumer Information and Choice in the Airline Industry.

And I welcome everybody to the Chicago hearing. This is the second hearing of our Commission. We had a couple of weeks ago a hearing in Washington, DC. And so, this is our second stop on a hearing schedule that will continue in San Francisco two weeks from now.

I'd like to just, before I ask all the Commissioners to sort of, brief opening comments that they might like to make. I do want to thank Gerry Roper for all his help here with the Chicago Chamber as not only a Commissioner but helping us sort of make sure that we had a place to house this and had accommodations for the Commissioners coming from out of town. So, Gerry, on behalf of all of us, thanks for all your work.

For those that are not familiar, Bill

Jackman or Dick Fahey, I think, have gotten both in the federal register and in the press release the background of the Commission and our task. But the Commission was created by the Aviation Investment in Reform Act for the 21st Century Air 21 and enacted by Congress in April of 2000 to really study the market position and general condition of the retail travel agencies in today's competitive air travel market.

And the Commission, two weeks ago, we continued to do so to examine both the financial condition of travel agencies, the decline that's been experienced and we certainly heard from our witnesses in Washington and the effects of such a decline on consumers.

We all obviously have heard a lot and many of you all are from the industry, travel agency and travel industry and airlines, we certainly saw a severe impact of September 11th on the overall industry as well as the traveling public. And we certainly have seen in evidence in our hearing of the decline of some ten percent in travel agencies from 2000 to 2001 and sales down about 20 percent. Airlines since 9/11 have cut over a hundred thousand jobs. So, we really have seen an enormous economic impact recently.

The Commission will also, in its second

charge from Congress explore whether there are impediments to information regarding the service and products offered by the airline industry, and if so, what are the effects of these impediments and on both travel agents in a major focus as well as internet-based distributors of airline information and the consuming public. Again, I think in our discussions two weeks ago, many of the Commissioners said we've really got to focus on the customer and in this as well.

Two weeks ago, we heard from a number of airlines. ASTA had a major presentation, independent travel agents were present. We heard from Consumer Reservation System companies, and in addition to the statements on financial condition of travel agents and airlines, public policy questions were raised regarding the issues of fares and the offerings of fares and the limiting of fares to certain consumers in certain uses. I think this week here in this hearing today, we hope to again hear from airlines, travel agents and computer reservation companies as well as consumer unions and people representing the consuming public and internet-based travel organizations.

We are sure that your testimony today will contribute to all of our more thorough understanding of this very, very complex industry. I would certainly mention that, for myself, it was appointed by Secretary Manetta. About a third of the Commission is appointed by the house, a third by Senate and three of us by the Secretary of Transportation. I do not come with a great deal of background other than being a consumer of airline services in this issue. So, we do hope again to gain a more thorough understanding from your perspective on our charge.

Our first witness, before I introduce our first witness today, I would like to just ask the Commissioners if they had any opening comments they'd like to make before we get underway. We have a full agenda today. There have been a few shifts in some of the order to accommodate travel plans but also about testimony, one of our, a couple of our witnesses today got their testimony in this morning. And we do want to have the time over the break and lunch to take a look at it. So, we might make one or two shifts in the schedule.

But thank you all for participating and I am sure that your input to this Commission will be thoroughly both evaluated and considered. We are by charter reporting back to Congress by about November

15th is when the deadline of the Commission sort of expires. We've got a six-month task here so we've all been working very hard to get underway and to get this information early in that consideration process.

I would also like to mention that the Commission has, we have several loaned federal employees that are staffing us out. Dorothea, who is out the door there, is with us today. But Dick Fahey, we've brought on as executive director of the Commission, is right behind me. Tilly Fahler, who is a law student but worked on the Aviation Committees in the House and Senate, is helping us on testimony and evaluation. Bill Jackman, who is contracting for public relations, is here as well. Also, representatives of the administration, Doug Lister and others are from Maryland DOT, the aviation office.

With that said, why don't I just turn to Pat. Do you have any general comments before we get underway?

MR. MURPHY, JR.: I might just get underway. I'm just, I would just say I'm glad that you reminded us again that we agreed earlier on the focus. This Commission really ought to be on the consumer. And I'm glad that our first witness today is Gary Doernhaefer from Orbitz. Several people on our first hearing sort of turned into the Commission on Orbitz so we might as well hear from you today, so I look forward to the testimony.

MS. ROUGE: I don't really have anything to add except as we move across the country, and our third hearing will be out on the West Coast, it's an opportunity to not only have that focus that Pat was talking about on the consumer but to hear from travel agents across America and the challenges that they're facing. And I think that's something that the Commission needs to be paying attention to.

DR. MITCHELL: It's good to be here today and we do need to get on with the activities of the day because we have so much to cover. Again, the consumer is the key. If the consumer is okay, we'll be okay.

MR. RUDEN: All I would ask or I would add, excuse me, is that I agree, this is not a Commission to investigate Orbitz, but it is about the owners of Orbitz. And so, Orbitz must necessarily be a focal point but not the only focal point of our attention. And we will do our best to get expeditiously through the good testimony of Mr. Doernhaefer who will deliver in the questions that we have to ask.

CHAIRMAN WINSTEAD: Maryles, welcome. By the way, Maryles could not make that first hearing, so this is --

MS. CASTO: So, it's my first session here and I had a lot of reading to do and last night spent all of this reading and it's very interesting. And I'm looking forward to participating in this Commission.

MR. ROPER: I'd just like to give the official Chamber of Commerce welcome to Chicago. Sorry about the little storm last night and the one this morning but it's all clear and the City is sold out. The airports are working. The hotels are doing well. And my job is to see how many times Paul Ruden says Orbitz.

MR. RUDEN: Better get a clicker.

MR. LAWSON: I'd like to welcome all the witnesses. We appreciate you coming and your expertise that you are lending on to this hearing. We think that's valuable for the consumer and to understand this complex issue. Thank you very much.

MR. DUNNE: Lastly, I'd like to thank everybody for their work and hard work and testimony today that we're about to hear, and welcome you. And once again, I am also in favor of working what's best for the consumer.

CHAIRMAN WINSTEAD: Great. Thank you all. Let me go get right underway. Under Ann's advice here, we have Gary Doernhaefer from Orbitz. He's vice president and general counsel. Obviously, from both the comments from some of the Commissioners in the hearing in Washington, we had a lot of comments about your business and its services to the public and to the airlines and we're very appreciative of you joining us today. So, why don't we start off?

I would like to, in Washington, we ran a little bit over and we had some traveling, some of the travel agents here today need to get out reasonably late this afternoon but we're trying to move things along. I would ask, and I've been told by many of the Commissioners that they have very extensive questions and much more so than maybe the first hearing. So, I would like to suggest we try to limit, many of you all, I think all of you at this point have prepared written testimony and a lot of it has been very thorough and well done.

I would like to suggest maybe we try to hold presentations to no more than 15 if we can because I think the questions will drive, I know you have about 20-40 pages of testimony but thanks again, Gary, for joining us.

MR. DOERNHAEFER: Thank you very much for the opportunity to be here and welcome to all the Commissioners, too, to Orbitz' hometown. We're based here in Chicago, just down the road on South Wacker Avenue. And I appreciate as well, Mr. Chairman, your introduction to focus on the issues that were addressed by Congress because I think it is important to try and drag the focus of this back to the actual questions that were posed in the legislation that created the Commission. And with that, I'll jump right into where I think Orbitz comes out on this.

In its final report, this Commission was asked to make recommendations that would help those travel agents, especially small travel agents, and consumers alike. Orbitz would like the Commission to focus on two key aspects of the travel distribution business.

First, the degree to which innovation and technology has improved the availability of the information to the consumer fostered new competition and efficiency and improved consumer choice. In many other industries, technological progress has made massive contributions to our nation's productivity. Let it continue to do so in the travel industry. Let free market competition work in the travel distribution channels where the prices fall and new technologies flourish.

Second, the regulations governing computer reservation systems or CRS's are desperately in need of reform. The CRS industry is highly concentrated with one company holding more than 50 percent of the market, and they tend to move their prices upward in a lockstep because they know there is no viable alternative to the service they provide, at least not yet. Not only has the cost of using their service allowed them double-digit profit margins while airlines and travel agents alike suffer vast declines. But their contracts literally transfer wealth from small agents to large agents, and lock in travel agents making any new competitive entry nearly impossible.

Thus, Orbitz offers three principles we hope will guide this Commission's ultimate recommendations. First, consumers should be free to decide how and where they want to purchase travel without regulatory schemes that interfere with consumer choice. Second, travel suppliers who are the consumers of the distribution service provided by travel agents, CRS's and websites should remain free to choose which channels they will use to distribute their products based on the cost and the quality of the distribution service they provide.

Third and maybe most importantly for this panel, travel agents, and in particular, small travel agents, need to be given meaningful competitive choices among the computer systems they use to view travel suppliers' inventory and book reservations for their customers. New entry and new competition in the computer reservation systems market will let the travel agent choose the most efficient system. Travel agents need to be free from existing onerous CRS contracts without penalties. In an internet world, new choices should be just a click away for agents as they already are for consumers.

In the first hearing, Mr. William Maloney, the executive vice president and chief operating officer of ASTA, offered what I found to be the best example of the financial status of the travel agency industry. His data showed clearly that the number of travel agency firms grew from deregulation in 1978 through about 1986 when the growth rate slowed and it essentially leveled off. Then, in 1995, his data showed that the reverse, that the trend reversed and became a declining trend. The number of agencies and the number of agency locations decreased.

The data showed, most importantly though, Mr. Maloney's data showed a very interesting and revealing statistic. And that was that despite the decline in the number of agencies and the number of storefronts, actual locations, the dollar value and the actual number of air tickets sold through the retail travel agencies distribution chain, the brick and mortar, continued to increase. It continued to increase all the way up until September 11th when this entire industry suffered along with the rest of the country, the tragedy of the terrorist attacks.

One obvious and inescapable conclusion from this data is that the travel agency industry was and is undergoing a consolidation beginning in 1995 that is unrelated to the volume of tickets that they are selling. What could be driving this consolidation? It is likely two things. First, it is what the Wall Street Journal recently described in the airline business as the Wal-Mart phenomenon. Here, it is occurring in travel distribution where volume wins and the small retailer loses. This scenario is being played out across the country in a variety of industries.

In travel distribution, however, the way travel agents today are compensated, and the way they pay for or get paid by the CRS means that there are strong, that it strongly favors the large agent from the small. It is inevitable that large agencies would thrive literally at the expense of small agencies. And second, and I'll talk about the second one first, the introduction of paperless ticketing, the e-ticket, started in 1995 and corresponds directly with Mr. Maloney's data at the beginning of the decline of the number of agencies needed.

Let me start, go back and talk about the compensation schemes and in particular with the CRS. Perhaps the most important and in some ways insidious economic factor that compels agency consolidation is the cost of the CRS. The CRS is paid a booking fee by the airline for every booking made via its system. The CRS has a strong incentive to get and maintain the use of its system by the largest travel agents that sell the most tickets; for each ticket, they get paid.

Small agencies with low volume do not generate significant booking fees for the CRS. Thus, the CRS compels the small travel agent to pay for the service. In contrast, the CRS company actually will pay the largest travel agents to use their system. The larger the agency, the more the CRS is willing to rebate part of the money they receive from the airline to that travel agency to ensure a continued flow of bookings. The effect of this is that the small travel agent pays each month for the use of its CRS and it may as well be writing a check directly to its largest competitor who is receiving the money from CRS.

We turn back to paperless ticket. The introduction of paperless tickets also changed the role of the travel agent, traditional travel agent, and accelerated this consolidation of the number of agencies. Prior to 1995, the distribution system needed a ticketing location, a physical ticket printer, in as many places as possible in order to get the ticket to the consumer quickly and easily. Travel agents were a great and efficient way to do that. Throughout the years, the travel agency industry built a system of over 34,000 locations in order to have the kind of geographic spread necessary to hand off the tickets.

When paperless ticketing arrived, having your travel agent a block away become less important because now the passenger had only to bring to the airport a record of an electronic ticket that could be printed off their PC computer or somewhere very convenient. Then, adding to this came the internet.

Perhaps the clearest success story of internet commerce has been in the distribution of travel. Today, travel represents the largest segment of all internet sales. Travelocity launched in 1996, and Expedia later in that same year, accelerating the trend away from the need for physical locations for travel agents distributed throughout the United States.

There has been a lot of speculation about the internet displacing the traditional travel agent. We at Orbitz believe that the internet is no more likely to displace the traditional travel agent than Amazon.com is to displace all bookstores. There are some people for whom the internet is a preferred tool and many people for whom it is not. Where the travel agent adds the most value and earns the most in commissions or customer fees, it is in the most complex trips and the special vacation that requires an expert knowledge of a particular area within the world.

Travel agents will under any circumstances go on making a large portion of travel sales and will in particular make a disproportionate share of the high value sales of the complex transactions. Today, only about 15 percent of all airline tickets are sold at the internet. In short, the low margin, the simple ticket out and back to visit relatives will move in part to the internet where it could be done very efficiently. Now, the high-margin business, the complex business or vacation travel is likely to stay in large part with the traditional travel agent whose personal advice will be valued by the consumer and the consumer will be willing to pay for that service.

It is actually an attractive business model for travel agents, but it does mean that they will have to change the way they do business to adapt to the new technology and changed circumstances. In air travel as elsewhere, the internet has a valuable role to play directly for consumers. For those who want lots of information about anything, books, clothing, air travel, car rental, it delivers a lot of information in a very short time. If the consumer wants this volume of information, Orbitz and other like it are the place to go.

But the fact is some people do not want all of that information. Some people would prefer to have a professional or an expert in the field to help them wade through the volumes in information and help them make the decisions. That will be the ongoing role of the traditional travel agent.

The point though is simple. We believe the consumers are entitled to the choice. We believe consumers, not government, should decide which works best for each individual on any given day. In our view, people will continue to want both, the internet and traditional travel agents, to be available. They will use both and both will continue to exist side by side, and the consumer will be better off for it.

The second question posed by Congress for this Commission to address is impediments to information about airline products and services. Much of this debate is focused on the availability of web fares, those deeply discounted fares the airlines have chosen to sell only through low cost distribution channels.

For several years before Orbitz even existed, airlines put their own web fares out on their own web sites. They did not sell them through other channels, not even usually through their own call centers or ticket officers. This reflected a simple fact. An airline can sell a ticket through its own web site at a lower cost than it can through another channel. In a sense, there was nothing new about this. Airlines had long had a right to sell fares in some places and not in others. This is represented by consolidated fares and other means that have always been used by the air travel industry.

But what was new to this was just the tool, it was the internet. Orbitz arrived on the scene with its low cost and competitive consumer-focused approach that has resulted in making web fares much more widely available than they were before we entered the market. And we did it in the old-fashioned way, we earned it. Our critics like to overlook the fact that we receive web fares not only from our airline founders but from 37 other airlines including foreign carriers.

The point is it must have been a good economic deal from the perspective of the airline if we were attracting not only our founders but that form of participation from the rest of the industry as well. All airlines serving the United States were offered the same simple bargain. If you will allow Orbitz to sell all of your fares including the web fares, in return Orbitz will lower the cost of sale on every ticket we process for you. It's a simple volume discount type deal.

Thus, Orbitz took fares that were available only on one airline's website and made them available not only on that airline's website but on

Orbitz' as well. And we did it in a way that frankly any other competitor could have done long before we arrived on the scene. Travelocity and Expedia were up for six years, or for five years before we even launched. Web fares were available for most of that time, but they made no effort to go get them from the airlines' websites.

Once, however, we entered the market, enticed these fares onto our site, we got the competition started. Other online agents felt they had to compete to get those fares, and they did compete. And now, they have web fares, too. After all, the arrangement Orbitz has to get those web fares under our agreements is strictly non-exclusive. Orbitz gets the web fare but the airline remains free to also give that very same fare to any other distribution channel it wishes. The first result is that the other major online agencies like Expedia and Travelocity have gone into the competition to get those web fares, and they have largely succeeded.

I brought with me today a full-page ad recently taken out by our competitor Expedia in which they boldly announced that, in fact, they have web fares. There are other examples of this as well which we can put up on the screen. These are screen shots that we have taken from advertising, either on print or online that show that Expedia is announcing their web fares as are, and here's an example of Travelocity, United web fares and more from $78 dollars round trip.

Obviously, the point here is that web fares are not the exclusive province of Orbitz today as suggested by our competition. Why do CRS's not have web fares as well? Because they have priced themselves and unfortunately the travel agents who depend upon them out of the business of selling the deepest discount web fares. Reforms in the CRS business and regulations could go far in helping lower the cost of travel distribution, making travel agents pay more attractive, lower cost distribution channel for airlines and removing the financial obstacles that travel agents face.

Selling an airfare is a distribution service in and of itself, and is a business. The distributor, like Orbitz, charges the airline for the service of selling the airfare and may charge the customer as well. An airline does not simply make an airfare available for sale on Saber, for example, by doing so, it agrees to pay Saber a fee every time one of those fares are sold. The airline is literally buying a distribution service and is the consumer of the product we and others offer.

The airlines view the cost of the CRS today as being so excessive that they cannot afford to sell their lowest fares through that channel. It's just that simple. Deep discount fares have very little margin for the airline, a margin that would evaporate completely if the cost of selling it is too high. What this means is that the agent is not getting the web fares on their CRS because the CRS has priced the agent out of the business of selling those fares.

CHAIRMAN WINSTEAD: Gary, can I ask you?

MR. DOERNHAEFER: Sure.

CHAIRMAN WINSTEAD: Can we try to wrap up in three to five minutes?

MR. DOERNHAEFER: Yes.

CHAIRMAN WINSTEAD: It's sort of about 20 minutes now.

MR. DOERNHAEFER: Okay. I think that should be appropriate.

CHAIRMAN WINSTEAD: I appreciate it. I know you're summarizing.

MR. DOERNHAEFER: Right. I'm trying to move as quickly as I can.

CHAIRMAN WINSTEAD: Because I know we have a lot of questions.

MR. DOERNHAEFER: Right. It also means that the CRS has grabbed really for itself nearly all of the money the airlines have been willing to pay to have a travel agent using the CRS sell a ticket.

The chart I've now put up is it takes the data very basically from, the green line that slopes down, drops off sharply, shows the amount of commissions that have been paid to travel agents and is very consistent with the data that Mr. Maloney presented. And as you can see, from 1995 to 2002, it dropped precipitously until the recent move to eliminate base commissions all together.

The other line, however, that trends gradually upward throughout the entire period, is the average amount of the booking fee paid to the CRS's by the airlines over the same period. And you can see that while commissions have been dropping, basically, the CRS's have continued to be enriched by their ability to increase the price.

The total, the numbers on this chart put together by Fogel Aviation Associates, a Washington-based analytical group, but this shows I think the trend that we're trying to highlight. The CRS booking fee has become a major problem obviously for the travel agents. As I've just described, they are no longer able to sell the web fares because even though they're not being paid by the airline, the CRS they are now obligated to use is charging the airline a substantial amount of money for each ticket.

We've heard some suggestions that airlines should be forced to provide web fares to the CRS's. This would be a tragic mistake, essentially rewarding the CRS's for their high costs and inefficiency. If the CRS's are to have access to the airlines' lowest fares, they should have to earn them just like Orbitz did, by lowering the cost of the service they provide. If the government were to impose a rule compelling the airlines to provide their full inventory to all channels regardless of cost, competition, innovation and efficiency would be banished from travel distribution and airfares would have to increase to cover the added expense.

This leads me back to the principles I outlined at the beginning of my remarks. What we see in the industry today is the introduction of new technology and rapid change. The technology encompasses everything from paperless ticketing to the use of the internet. Without doubt, that new technology has provided tremendous benefits to the travel consumer, fostering efficiency and new alternatives.

At the same time, the travel agency industry is undergoing changes in consolidation that are not unique to a travel distribution business. The primary challenge to the travel agents is to escape their reliance on the high cost technology of the CRS's and to benefit from the new technology. Today, that means using access to web fares as they can through online websites and to encourage the use of further technology that we can see just on the horizon.

The CRS industry in turn must find a way to lower its cost or the travel agent will continue to suffer. It is an industry that has been insulated from competitive pressure for too long and regulatory reform and did increase the likelihood of new entry is what it -- would do.

I have a little bit more information about Orbitz directly, but I think at this point in my testimony that address the concerns really focused on the Commission, by the Congress for the Commission, if there questions about Orbitz, there are some more information I'm happy to provide.

CHAIRMAN WINSTEAD: I appreciate it, Gary. And as I said, I think the written testimony, we appreciate getting it early and it was very thorough, and for me, particularly helpful in understanding both where you are with them.

I wanted to, just a couple of quick comments. In the beginning of your testimony, you talked about, you know, the position of the small agent. And you know, in any distribution scheme, particularly with access to the internet and the CRS's and websites, why do you feel that certain trends in Wal-Marts and Home Depots sort of absorbing the storefront in small towns? And that's certainly happening, I happen to do some real estate work and I know that that's certainly happening.

But I'm really, your statement about, you know, there is a future for the big agents but there isn't for the small agents, and one of my concerns is why you feel that's the case and what you would recommend to try to ensure that the playing field, regardless of size of agency, that they can compete, that they can have access to all information through all sources. And I find it just a little bit concerning that, you know, from your perspective, you're, you know, sort of suggesting that their time has gone, like maybe the storefronts in the old towns.

If you could respond to that, and then, in deference, I'd like to let Paul, we sort of start from right to the left in -- in terms of questions but I'd like to get some, call Paul up first and then move to the other Commissioners.

MR. DOERNHAEFER: I think this all goes back to what does the consumer want out of this industry. And I think small travel agents are going to survive perhaps in a fewer number than when we had 34,000. But the small travel agent who can continue to provide true value to their customer, they will have knowledge of the destinations you may want to fly to, they will take the time to search all of the tools available to them to find you the best fare, best hotel, best car rental deal. Those small travel agents will continue to exist, but they need some help.

Today, they are locked into the high cost CRS and they need another tool. I mean, they have one tool in the toolbox and it costs the airlines a lot when they use it. So, I think what needs to happen to ensure the success of the small travel agent is somehow, we need to get into their hands a lower cost but equally efficient tool as the CRS.

That either comes through the CRS's beginning to recognize that their time has come and the double-digit profit margins of the past are gone, and they are going to have to compete to provide the service. Or it means that we provide, we meaning the internet industry, begin to provide a whole new tool to the travel agent and get the internet on to the desktop in a convenient and usable way that gives them a lower cost distribution channel, lower cost technology tool to place a book at. But one of those two things has to happen. Otherwise, I think the small travel agent is in serious problem, serious predicament.

CHAIRMAN WINSTEAD: Well, I have a few more but I think I'll let some of the Commissioners ask some questions first. Paul?

MR. RUDEN: Thank you, Mr. Chairman. Gary, this chart that's up here, this shows GDS fees going up and commissions going down. You're not suggesting that that's causal, are you?

MR. DOERNHAEFER: No. There's, I'm not suggesting there is a relationship in between the two. It's just an interesting fact that while travel agents and airlines are losing a lot of money, CRS business in the middle of the two continues to increase its prices.

MR. RUDEN: Because if you took it back in time, of course, the X would disappear.

MR. DOERNHAEFER: Correct.

MR. RUDEN: Yes, okay.

MR. DOERNHAEFER: That's correct. Well, actually, Paul, the X would get bigger because the travel agency commissions actually peaked slightly earlier than this and the CRS fees have just been on one constant increase since 1978.

MR. RUDEN: All right. But my point was that they're not causal because the agents' commissions were not going down before this chart starts.

MR. DOERNHAEFER: It's not causal. That's right.

MR. RUDEN: While the fees may have been going up for the GDS's.

MR. DOERNHAEFER: I agree with you there. They're not causal.

MR. RUDEN: All right. Actually, I think there's a surprising amount of agreement between us on some things and one of the points of my examination today is going to be to find out where those are.

You did say, I think, during your verbal testimony that the one new thing that came along with web fares was the internet, but it seems to me that something else came along at the same time which makes the web fares internet connection perhaps different that you characterized it. And that is that while you had consolidated affairs and things like that before, where airlines put special fares out to those groups, you didn't have airlines telling the public to go see your local consolidator to buy our tickets. And when web fares came along, the airlines have started and indeed regularly now do try to incentivize the public to go by them in preference to all the alternative sources of purchasing that are out there.

Would you agree that that's a difference?

MR. DOERNHAEFER: Well, I certainly agree that that's happening. I mean, it's the logical reaction of an entity that wants to try and sell as much as it can through its least costly channel itself.

MR. RUDEN: You mentioned the three principles at the beginning about freedom of choice in your verbal testimony, and it's also discussed at page 1 of your written testimony. And one of the principles was that consumers should be free of regulatory schemes that interfere with the choice.

You would also agree, would you not, that they should be free of airline schemes that interfere with their choice as a principle?

MR. DOERNHAEFER: I'm not, frankly, I don't know what that really means.

MR. RUDEN: Well, if airlines got together and had a scheme that interfered with the consumer choice, and I'm not asking you to agree and I'm not accusing you at the moment of being that scheme --

MR. DOERNHAEFER: I note the at the moment qualifier.

MR. RUDEN: But you would agree as a general principle that consumers should be free of airline schemes that interfere with their choice just as they should be free in your view of regulatory schemes?

MR. DOERNHAEFER: I think the airline industry will act in a very rational way to try and serve the consumer as best they can at the lowest possible cost. And the problem they have was an industry that wasn't working well for them to do that. And they've done a variety of things to try and repair that. I'm not sure what, I mean, I guess by your indication you're suggesting some scheme that has the sense of unlawful and I'm certainly not willing to go there with you.

MR. RUDEN: All right. Well, I don't want to consume a lot of record time arguing about that. In the next paragraph of your testimony on page 1 where you're talking about these principles, you say that suppliers should be free to choose the channels they want based on two things, cost and quality. What do you mean when you use the term quality in this context?

MR. DOERNHAEFER: Well, let me give you an example from one of the things that we are quite proud of at Orbitz. And it's quite valuable and valued at the airline industry. We are committed to being unbiased and the airlines find that to be a substantial value to them. They are assured, small carriers, large carriers alike are assured of the fair shake in the display that you get from Orbitz. That is one aspect of the quality to them.

In addition though, of course once we make a sale, we service that customer. So, if there is a problem in the ticket, they need to change it, they need a refund, they're calling Orbitz not the airline. And it's important to the airline to maintain good customer relationships even through their agencies. So, there are a lot of aspects to quality. Those are just two.

MR. RUDEN: Do you agree or not that the price differences through these channels, that consumers and suppliers have freedom of choice among, that price differences through those channels should reflect cost differences?

MR. DOERNHAEFER: Maybe you have to be a little more specific. I'm not sure I'm following what that means. I mean, price normally follows demand. So, I'm not sure what it means to follow cost.

MR. RUDEN: Right. Well, if you had two channels to choose among toward distributing a product, just to keep it simple, and they had different costs associated with them to the supplier whose prices are being posted, do you agree that their price differences as they post among those two channels should reflect those costs?

MR. DOERNHAEFER: It should make --

MR. RUDEN: For those cost differences?

MR. DOERNHAEFER: Well, it would be, the rational thing for the airline to do where it has very low margin fares, the web fares or any other very deeply discounted fare, in order to preserve that margin, they need to try and sell as much of that product through the cheapest distribution channel they have available to them. So, in that sense, I think the answer to your question is yes, you would expect to see the lowest fares available first on the cheapest distribution channel and not the reverse.

MR. RUDEN: Even if the setting of those fares had absolutely nothing to do with cost?

MR. DOERNHAEFER: The setting, it's my understanding --

MR. RUDEN: The choice of the actual price itself, whatever that level might be.

MR. DOERNHAEFER: Right.

MR. RUDEN: And has nothing to do with airline cost.

MR. DOERNHAEFER: It has nothing to do with airline cost at distribution?

MR. RUDEN: Any cost of airline.

MR. DOERNHAEFER: Well, I hope they, you don't sell below your cost and make it up on volume, not even in the airline business. Although many have tried.

MR. RUDEN: Well, indeed that's my point. We would agree, wouldn't we, that a lot of airline prices don't cover costs?

MR. DOERNHAEFER: No, I would no, it depends on what you mean by cost. If you mean variable cost in the anti-trust sense, as you know it's my background, I would not agree with that.

MR. RUDEN: Well, if the aggregate of all the fares they charge produces revenue and is less than the aggregate of all the costs that they incur --

MR. DOERNHAEFER: And they lose money.

MR. RUDEN: It is fair to conclude, isn't it, that their prices are not covering costs?

MR. DOERNHAEFER: Their total costs. That's true in the airline industry on an unfortunately regular basis.

MR. RUDEN: Now, you note, your third principal is the travel agents, especially small ones, should have choices of CRS systems and you say some regulatory change may be required. Actually, in order for that to happen, regulatory change is essential, isn't it? The rules have to be changed in a very basic way, would you agree --

MR. DOERNHAEFER: It seems to me, I can't think of another way to get there, Mr. Ruden, without regulatory change. So, yes, I think I'd agree with you.

MR. RUDEN: I thought we would agree on that.

MR. DOERNHAEFER: Yes, I think I would

agree. It was the lawyer in me that made the --

MR. RUDEN: I understand. And I'm a lawyer, too, and I'm trying to prevent us as lawyers from getting into a lot of debate here. So, I'm just going to go through your testimony pretty much in order.

MR. DOERNHAEFER: Well, so far, I like the points we've agreed with.

MR. RUDEN: On page 5, you make this observation that you reinforced in your verbal testimony, the travel agents, small ones especially, will be around almost no matter what, and in here you say that especially making high value sales. Do you understand that when a travel agent is about to make what one could call a high value sale, let's just say hypothetically an $800-dollar ticket which is a pretty good ticket price these days, and the client finds that same service on the same day on the same flight between the same pairs of points on an airline website or perhaps even on Orbitz for $200 or $300 dollars, that that agent's ability to sell high value sales is materially impaired? You'd agree with that?

MR. DOERNHAEFER: By high value sales, Mr. Ruden, what I had in mind is a complex travel package. So, when you're going to go for the two-week vacation and part of it's on a cruise ship and part of it's on Mikonos island, you know, a Greek island, you are going to use a travel agent to put that direct trip together for you, and that will be a high value trip.

MR. RUDEN: And the airline, then that market of fares I was describing which is a portion of the market that's out there, and I think you and I agree on that, those situations exist, are documented in DOT files, that part of the market probably would be lost to travel agents.

MR. DOERNHAEFER: To a good travel agent who understands and has access to all of the tools, there's no reason why that should be true. Nothing in the world prevents, as we heard from the last hearing, the travel agent from understanding that the internet is another tool available to them to find the best fare for their customer. And in fact, we had the one gentleman from a travel agency who just developed technology within his own agency to facilitate that.

So, at the moment, it's a little clumsy but the technology is coming. They can look at the CRS and at the internet and whatever other resources they may have available to them in order to best serve their customer.

MR. RUDEN: Well, I wouldn't dispute that,

that they can look. But you do understand and the subject is touched on at page 7 of your testimony where you say the travel agents can sell web fares, no problem. But of course, there are problems, aren't there? Don't we agree that they can't do it really efficiently because right now they don't have the means to move all that information into a P&R record they can manage in their CRS without doing a lot of extra keystrokes and basically doing the work twice? That's for one thing.

MR. DOERNHAEFER: Now, literally, if you say literally today, that is true, but help is on the way.

MR. RUDEN: Help is on the way.

MR. DOERNHAEFER: As we heard from the gentleman who testified last time. And as Orbitz has explored its opportunities with a company called the AQUA to facilitate precisely that kind of --

MR. RUDEN: I heard that testimony a little differently, that it was costing that agency a lot of money and a lot of trouble to do that. But the record will say whatever it says. There's also the problem with CRS penalties, we agree on that. The agent's got a, if he has a penalty provision in his contract with booking thresholds every time he does one of these readily available bookings on the internet, he's potentially being punished financially for doing that because of those penalties.

MR. DOERNHAEFER: We agree completely on that one. That is one of the problems that needs to be addressed.

MR. RUDEN: Yes. And you make the point at page 7 of your testimony that the CRS's have priced themselves out of the business of selling web fares. But it is not the case that all the web fares differ from the CRS fares by the amount of those pricing differences. There are, in fact, many web fares that are hundreds and hundreds of dollars cheaper than what's available in the CRS for the same service, the same day, the same plane, same seats.

MR. DOERNHAEFER: Well, I would agree that web fares are essentially all over the map today in a broad range. But the overall point remains the same, that you want to, when you are selling a ticket, you are trying to preserve your, you're trying to lower your distribution cost. You want the opportunity to sell that through a cheap channel, an inexpensive channel.

MR. RUDEN: And the overall point also exists though, doesn't it, that you cannot explain those price differences of hundreds and hundreds of dollars on the basis of any cost difference in the choice of channel that you're using to sell through. CRS booking fees under even the most extreme scenario do not amount to hundreds and hundreds of dollars on the average against any ticket.

MR. DOERNHAEFER: Well, what's happened here, let's step back a little bit, what's happened here is a new technology has come on the scene that has been able to pull these web fares out of dark closets of the individual carrier websites and put them out first broadly on Orbitz and then rapidly on the websites of our competitors. What the airlines put into that basket certainly does vary. But the point is to lower the distribution cost for the fares that the airlines put into that basket and to make them more accessible to the consumer. And that, I think, is what's happened.

MR. RUDEN: Well, I understand that point, but I'm really asking you a different question, I think, and I don't want to go on and argue about it. But the prices that are hundreds of dollars below CRS prices, hundreds below on the internet are not explainable, are they, by CRS cost of doing business differences to the airline? There's nothing about the

CRS booking fee structure that would explain that.

MR. DOERNHAEFER: Right. I doubt very much that there are many examples of the type of fare you're discussing, you're hypothesizing here. But if there were such a thing, it would exceed the amount of difference in the cost of the CRS.

MR. RUDEN: You said at the top of page 8 of your testimony that as with all other services, airlines don't want to spend money for services like CRS's unless they're reasonably priced. Do you agree that CRS services collectively viewed all the things that they do for a travel agency in terms of the ability to search, book and create a manageable passenger name record that the agency can manager on the consumer's behalf? That those services exceed the services that are typically available through the internet?

MR. DOERNHAEFER: Only if you ask me that question today because we can do everything, I mean --

MR. RUDEN: I'm talking, to be clear, I think, unless I say otherwise, all my questions are about today, the world we're living in right now.

MR. DOERNHAEFER: But let's step back for just a second. When Orbitz launched, we took essentially two-thirds of what a CRS used to do and started doing it ourselves. That was the search and booking capability. The search, I'm sorry, the database and search capability, okay? You can find those fares more rapidly on Orbitz at less cost than you can on CRS.

The next step in the chain is when we roll out what we call direct connect or supplier link. That's that step that actually takes the computer reservation system out of the loop all together and allows us to place a booking directly into the airlines system. That means that from the supplier side, we have completely eliminated the CRS. And frankly, the next logical step is to turn our attention to providing the services the CRS provided to the travel agent and automate the back end of it as well.

It's an obvious progression: we're first, others will follow, and the technology will be there soon for the travel agents.

MR. RUDEN: You know, what strikes me about that is that what you just described is Orbitz has become the CRS. You've taken over, if I understand you correctly, essentially you will take over the functions that they perform, get them out of the way and you'll do this and set up direct connections with the major airline at least with internal reservation systems and you will be the CRS.

MR. DOERNHAEFER: With regulatory change, we believe we could enter the CRS market and do it cheaper than the guys that are there today. Will they go away? I doubt it. They have massive resources and a lot of invested technology. They will have to adopt and compete, however, something they never have been exposed to for many, many years. But we're not going to unseat the CRS's overnight.

MR. RUDEN: Well, am I missing something? We would have then, would we not, a five airline-owned CRS called Orbitz?

MR. DOERNHAEFER: And Saber and Galileo and --

MR. RUDEN: Perhaps, but what you described is a new CRS called Orbitz that's owned by the five major airlines.

MR. DOERNHAEFER: And we have WorldSpan that's owned by three airlines today.

MR. RUDEN: I understand.

MR. DOERNHAEFER: Yet that scenario is certainly possible. But it will be a fifth new entrant into the market instead of four. How could that be bad from the prospective of the travel agent who now gets to choose between five CRS's each competing for their service and to provide it at the lowest possible cost?

MR. RUDEN: How it can be bad is a question the Commission will, I'm sure, spend some time talking about. And you say that, on page 9 of your testimony, you say that as you did verbally, the travel agents are paying the price for the failure of the CRS rules to contain CRS booking fees. Then, it's your view, I take it your being Orbitz' here, of course, this is not personal, that the problem the travel agents face is really DOT's fault, that they should have seen this coming and done regulatory things, taken regulatory actions to do something about it.

MR. DOERNHAEFER: If the, what's needed here is the travel agents need to be able to select a better tool than they had, the one they have in front of them today, one that will cost an entire system less. And had the regulations change more rapidly? The answer is yes, we may well have been able to avoid the situation that we have today. But the good news is, I think, the Department of Transportation is addressing that problem as we sit here today. There are proposed rules that, I think, they're going to come out sometime December.

MR. RUDEN: But the Orbitz-CRS that we just talked about wouldn't function under the old rules. You would require, in order to do what you're talking about doing, you would require significant changes in those rules?

MR. DOERNHAEFER: We would need changes to the rules, whether it's significant or not, I don't know. But that we can't enter the, we can't put this out on the desktop directly of the travel agent without regulatory change.

MR. RUDEN: Can you just in a minute tell what those changes might be?

MR. DOERNHAEFER: Sure. In section, it's Part 255 of the CRS Rule, 14CFR255, section I'm sure you know well.

MR. RUDEN: Yes.

MR. DOERNHAEFER: The principal change that would have to occur is the elimination of what's called the participation rule, mandatory participation rule which requires an airline, if it owns a system, to participate in all systems to the same extent essentially regardless of cost. And that would be a problem, something we would want to avoid because it would defeat the whole purpose of trying to get competition up and running here. If the regulation required the airlines that own us to give all of their fares to all sources, even those sources that cost them more to sell, you defeat the whole purpose of trying to encourage a lower cost distribution channel.

If we could get rid of that rule, we could then put Orbitz out on the desktops of the travel agents, the travel agents could make the booking through Orbitz that would cost the airlines less and the airless doesn't really, have no reason not to then allow travel agents to sell all the inventory, even the deep discount.

MR. RUDEN: But retaining the ability to have those low fares, the very low fares available to Orbitz and not to your other competitors is a very important power, a very important economic reality for your company, isn't it?

MR. DOERNHAEFER: No, I mean, we don't have that advantage anymore as we have demonstrated pretty clearly. We had it for about six months until the competition got engaged, got in the game, got aggressive, started cutting the same sort of bargains that we cut with the airlines. And now they have the web fares, too.

MR. RUDEN: So, I shouldn't read the

statement in your S-1 registration statement to the Securities and Exchange Commission that if other, if DOT implemented a requirement that the founding airlines had to provide other GDS's the inventory they're giving Orbitz, that you say that would have a material adverse effect on Orbitz' business, that's what the S-1 says. If you're not pulling back from that statement.

MR. DOERNHAEFER: No, I'm not pulling back from that statement. These are in the risk factors that you present to the investors, to potential investors. If --

MR. RUDEN: But it's a true statement?

MR. DOERNHAEFER: If the regulations went just in the direction you've just described, it would be a disaster not only for Orbitz but for the travel agency industry as well because once again, there would be no, you would have avoided the idea of competing for a low-cost channel. If the government just said everybody gets everything starting today, then, why would the CRS's ever lower their cost? There's no incentive for --

MR. RUDEN: How did you get WorldSpan to do it?

MR. DOERNHAEFER: They were going to get

the fares anyway, so why lower the cost for the airline industry? That line on my chart continues to trend upward and Orbitz that's locked into lower cost deals doesn't get the margin that my competitors get even though they all get the same fares.

MR. RUDEN: Well, Orbitz got WorldSpan to agree to a reduction in the fees without those regulatory changes and without Orbitz becoming a CRS in its own right under a new set of CRS rules, how did you do that?

MR. DOERNHAEFER: The same way my competitors or any large travel agent does. Any large travel agent, as I mentioned before, has so much volume that it can actually go to the CRS and say you need to rebate part of the fee you're collecting from the airline back to me. If you want all of my volume or all of my hundreds of travel agents sitting at their desktops booking through your CRS, you have to actually rebate a part of that fee to me. That's what we did with WorldSpan.

MR. RUDEN: But they already had all those travel agents out there booking and using WorldSpan and WorldSpan was getting that business. What did you add to that?

MR. DOERNHAEFER: We had 20,000

transactions a day. That's a lot for a CRS. So, we are adding --

MR. RUDEN: That's Orbitz' share?

MR. DOERNHAEFER: That's an approximate amount of, you know, of air bookings we make per day. That kind of volume and each one of those bookings are made on some airline and that airline is forced to pay WorldSpan the full CRS fee, the full booking fee. What we said to WorldSpan, look, we can use WorldSpan or we could use Saber or we could use Galileo. You want us to use you WorldSpan for those 20,000 bookings a day, you need to pay us. You need to rebate a part of that to us.

And then, we turned around, took that rebate and said to the airline, okay, we're getting a rebate of the money you had to pay to the CRS. We'll give part of that back to you if you'll ensure us that we get to sell everything you sell. So, the money goes in a big circle. It goes from the airline to WorldSpan to Orbitz and then it goes back to the airline in order to lower the effective cost of these transactions.

MR. RUDEN: And that is the six-million-dollar figure referred to in the registration statement?

MR. DOERNHAEFER: Correct.

MR. RUDEN: And you had 6,000,000 transactions according to the registration statement.

MR. DOERNHAEFER: Okay. I don't remember that number off the top of my head.

MR. RUDEN: Take it for hypothetically true as an assumption so that the rebate is a dollar a transaction to the airline.

MR. DOERNHAEFER: I'll take that from your numbers rather than try and make up my own. Another way of looking at it that I can tell you is effectively, it's about a 30 percent discount to the airline on the booking fee they would have otherwise paid. That's how we think about it. So, we went to them and said, we will cost you less as a travel agent and we will give you 30 percent of your CRS fee back if you'll agree to give us all of your inventory. And frankly, as I understand it today, that's exactly what my competitors have done or nearly so, and the reason they're not getting the web fares as well.

CHAIRMAN WINSTEAD: Gary, let me ask if any of the Commissioners, we'll come back if Paul's got some more questions, but let me open it up because you've been very patient here within 50, 45 minutes --

MR. LAWSON: Did you all earn a profit

last year?

MR. DOERNHAEFER: We're a private company, sir, so we're still not reporting those. But the answer is no, we have not yet earned a profit.

MR. LAWSON: So, you're operating at a loss?

MR. DOERNHAEFER: Correct, yes.

MR. LAWSON: Substantial loss?

MR. DOERNHAEFER: Given that I'm in the middle of a registration statement with the SEC, I really can't go very far into that other than reference back to the S-1 with the SEC.

MR. LAWSON: That's fine. So, WorldSpan, which is a CRS company, correct?

MR. DOERNHAEFER: Yes.

MR. LAWSON: And so, they power your site, is that correct?

MR. DOERNHAEFER: They do today, yes. I qualify that only because we're about to initiate technology where we begin to move bookings off of WorldSpan and make, and place them directly with the airlines.

MR. LAWSON: So, the very, the GDS system that you had, that your, or CRS systems that you're complaining about as far as having --, you're really contracted with the CRS system, is that correct?

MR. DOERNHAEFER: When we entered the business, as I mentioned, there's only one tool in the toolbox and that's some CRS. Now, I would make sure we're clear about this. When we entered the business, we started doing about two-thirds of what a typical CRS does. All we really needed them for is the connection they have into each airline's internal reservation system. Just that placing the actual booking.

We do all of the database management and search on our own. We have since we launched. And we're now trying to move to replace that last step.

MR. LAWSON: So, just from, I'm trying to get a perspective and I think I'm there, and just from my perspective standpoint, the CRS cost then which are apparently very similar, whether it's Galileo or WorldSpan to the airlines that actually, that is what's powering your site, too, and you're really operating just off of volume leverage with the CRS, is that correct?

MR. DOERNHAEFER: We use our volume of sales to convince them to give us a rebate of that booking fee. Exactly.

MR. LAWSON: Right. And WorldSpan is

owned by the airlines?

MR. DOERNHAEFER: WorldSpan is owned by three airlines, yes.

MR. LAWSON: And Orbitz is owned by five airlines?

MR. DOERNHAEFER: That's correct.

MR. LAWSON: See a paradox there?

MR. DOERNHAEFER: Frankly, I see a paradox for WorldSpan because Orbitz is moving forward to implement technology that takes the number of bookings we place on them down. And we're moving forward whether, you know, with them or without them. But frankly, in the long-term, they're all going to have to come along. They're going to have to get into the game to compete.

I think the parallel, actually the more interesting parallel is Orbitz launched and provided head-to-head competition for Expedia and Travelocity. And what happened? Six months, we had an advantage, we grew rapidly. They got in the game. They got aggressive. They started cutting exactly the same bargains that we did. They got the web fares and frankly we've been tracking at almost dead-even in terms of shared change between the three of us for the entire year.

What will happen next? The exact same thing with computer reservation system business. We'll get into the business. We'll be aggressive. We'll be the low price setter and they're going to have to come along.

MR. LAWSON: Just, finally, in perspective, so, the airlines are currently losing money, most of them. And you're currently losing money. That's all I have.

MR. DOERNHAEFER: And the CRS business isn't.

CHAIRMAN WINSTEAD: Any other, Maryles?

MR. MURPHY: Mr. Chairman, are we going to have a limit on how long each Commissioner --

CHAIRMAN WINSTEAD: I do, I was trying to exert that. I think with Maryles --

MR. MURPHY: With nine Commissioners here, if each Commissioner goes on a half-hour, we're not going to get done tonight.

CHAIRMAN WINSTEAD: We are going to try to get around. You have the floor now.

MR. MURPHY: I had several tickets of the Cubs game. I was just going to leave Paul here and Gary.

MR. DOERNHAEFER: Actually, all of Orbitz is going to the game today. Just so you know.

MR. MURPHY: I had basically two lines for Mr. Doernhaefer. The first one is I'm trying to understand a little better the dynamic that we're seeing in these hearings. I understand why Travelocity, Expedia and the CRS systems are critical of Orbitz. I'm trying to understand why the travel agents seem to be focusing more of their ire on Orbitz than on other large internet travel agencies like Expedia, Travelocity and the CRS systems who they are captive of to a large degree. Could you try to explain the dynamics please?

MR. DOERNHAEFER: Maybe we should just ask Mr. Ruden. No, the honest answer, Mr. Murphy, is I can't explain that. We have moved, we entered into this marketplace years after Travelocity and Expedia. Travelocity and Expedia are still the dominant players. We are a third in size to them and that segment of the industry continues to grow but we are still only 15 percent, just only 15 percent of all air tickets are actually sold --, are sold via the internet.

So, most of the sales, 70 percent of the sales are still going through traditional travel agents. And you know, if you look at this, what's really challenging to the travel agent is not only the third-party websites like Travelocity and Expedia now, but the individual airline websites which according to the latest data are growing faster than the rest of us.

When I started in this business, it was that 15 percent or so of tickets that were sold online were split almost exactly evenly between the individual sites like AA.com and United.com and so forth and all the rest of Travelocity, Expedia and Orbitz. And then, in the latest statistics, the split has now gone to 58-42. So, 58 percent now through individual sites and 42 percent through the third-party sites. So, that strikes me as misplaced concern as well.

MR. MURPHY: On page 18, you had some specific recommendations for the Commission to consider and your first one is that the travel agent-CRS contract relationship needs to be looked at and modified. Having been at DOT the last time around when that was attempted, I think you know that is a very difficult thing to do because as soon as you close one issue, others pop up almost immediately.

Did you make these, you got into very specific recommendations, about half a dozen or so, did you make these same specific recommendations to DOT during their rule-making that they're conducting now?

MR. DOERNHAEFER: We have presented most of those same recommendations and then we look forward to an opportunity to do that again when they actually promulgate a proposed rule.

MR. MURPHY: Your first was to prohibit productivity pricing. Did you make that recommendation to DOT?

MR. DOERNHAEFER: Yes.

MR. MURPHY: What was the reaction of the travel agents to that?

MR. DOERNHAEFER: My sense is that the travel agents agree that productivity pricing is not a good thing for them. It does have a tendency to prevent them from changing from the one tool they have chosen first to any other tool because as they try and move bookings off the existing CRS and try moving somewhere else, the cost for the remaining bookings of the old CRS goes up higher and higher to them. So, if they don't make certain targets, then they start having to pay for the system. So, it locks them in in a way that's quite onerous.

MR. MURPHY: And how about the airlines,

what was their reaction to prohibiting productivity pricing?

MR. DOERNHAEFER: The airlines, as far as I know, are in agreement with the need to change the productivity pricing elements of those contracts.

MR. MURPHY: That's all I have. Thank you.

CHAIRMAN WINSTEAD: Thanks, Pat. Any other questions?

MS. CASTO: Yes. I just have one question. Gary, is the reason why you can charge less to your suppliers is because of the technology that you use?

MR. DOERNHAEFER: Yes.

MS. CASTO: The other CRS systems are so old they're using the old mainframe?

MR. DOERNHAEFER: That's exactly right. We were able to start with a blank sheet of paper and used today's technology so that the system that powers Orbitz and does essentially all of the things that a CRS does today would fit in this portion of this room. And indeed it does. It's out in a suburban facility here in Chicago and it uses racks of serial processors of the latest technology, as opposed to a bunker size of the Rose Bowl that Saber maintains in Tulsa, Oklahoma to house its computer systems that are all the old mainframe IBM's.

We also are a company of 190 employees as opposed to literally thousands at Saber or at the other companies. We were able to do this in a way that was much more efficient than they could have done when starting in the 70's as they did.

MR. ROPER: Let me go tie it back to the consumer and to the travel agency. Our objective is the Commission shall study whether the financial condition of the travel agent is declining. And if so, the effect this will have on the consumer.

Your comment earlier about escape the reliance on the CRS's, I want to go back to somewhat the question that you asked. You believe that the brick and mortar travel agent will survive if they escape their reliance on the CRS's which will then --

MR. DOERNHAEFER: That's exactly right. What has to happen is once the brick and mortar travel agent has the ability to move off the high-cost tool they have, they are then in a position to better serve both their customer and the supplier, because the supplier then is happy to give them access to all the inventory and the cheapest thing, even the cheapest fares in a very efficient way because it cost them little to distribute through the brick and mortar travel agent. That serves the consumer who can now choose either between the internet or the brick and mortar travel agent, and it serves the supply chain because it's more efficient.

But somehow, we have to figure out how to allow the small travel agent to be weaned from the current CRS, either by the CRS getting more aggressive and more competitive in lowering its costs or by new technology that replaces it.

MR. ROPER: Well, Chambers of Commerce would just love when the big guys, when you bang heads with each other, we love when United and American bang heads with each other here and Southwest in Chicago because we win. We love when SPC and AT&T bang heads with each other. So, you know, get in there and keep fighting.

MR. DOERNHAEFER: Right.

CHAIRMAN WINSTEAD: Any other? Yes, Joyce?

MS. ROUGE: Gary, I'm totally sympathetic that the airlines have to be able to have a low cost of distribution. And I'd like to probe that a little further because you were talking about the, you know, if the CRS's charge X and Orbitz is charging X less 30 percent, and they have their own websites which would be the least expensive form of distribution.

MR. DOERNHAEFER: That's probably correct. You know, one of the things that I'm not sure the airlines have all necessarily done very well is figure out what the actual total cost of operating their websites really are. But there is, the general industry assumption is that it is lower cost to distribute through your own website.

MS. ROUGE: So that would be a great way for them to keep their cost low.

MR. DOERNHAEFER: Absolutely, and that's why I think you see the growth in the industry to go 58 percent on airline websites and 42 percent on to the third-party sites as the airlines are following frankly in the Southwest Airlines model.

MS. ROUGE: For the partners that, the five airline founders, obviously they're looking for less cost distribution model by, you know, building Orbitz, by founding Orbitz. How much cost savings have they realized to date?

MR. DOERNHAEFER: Well, to date with only one year's operating history, it would be very difficult for us to estimate that. But it was, there are two things going on here. One is that I think the major airlines found that they needed not only their own websites but many of their customers, unlike the more faithful Southwest Airlines customers, would not necessarily come to each individual website.

So, the thinking was to create more competition, lower cost in the whole distribution channel, and hope as it happened that that competition spreads. The other airlines, I think in this industry, are interested in lots of alternative means of distribution. It's good for the consumer, you capture every kind of consumer. They can choose brick and mortar, online, individual carrier website, third-party website, but the point is to get the cost of the overall system down through competition.

That was not happening when it was just Expedia and Travelocity. So, they're encouraging a cost savings that they'll receive on Orbitz but that cost saving will spread to the cost savings as the channel becomes more competitive.

MS. ROUGE: And can you tell me how the travel agent is going to benefit? You described yourself as a travel agent, that you're a little different because you're owned by five airlines. And are you aware of any other travel agency that's owned by airlines?

MR. DOERNHAEFER: There would be SATA and there's other but essentially, no.

MS. ROUGE: Right, okay.

MR. LAWSON: SATA.

MR. DOERNHAEFER: SATA.

MS. ROUGE: SATA, yes.

MR. LAWSON: That's not a, well, there are better examples.

MR. DOERNHAEFER: Right. Exactly, yes. That's why I sort of dismissed it afterwards.

MS. ROUGE: And your goal is to become the new form of the CRS. So, how will that benefit the travel agency from a fee standpoint? I mean, are they, I mean, they're already locked in to the old CRS, and then now there's going to be a new CRS where they're going to pay fees and --

MR. DOERNHAEFER: Well, that's, my point is precisely what you're suggesting here is that current travel, travel agents today need a way to be able to get off of the expensive channel. And we hope to enter that market eventually as a lower cost CRS. And if the travel agent, you know, is wise and looks around, they either get their existing CRS to match that cost and come down or they shift channels.

And they shift because they can then

presumably cut better deals with the airlines because they're saving the airlines money. So, they get access to web fares, they get access to other things. If you save the airline industry money, I mean, you would help travel agents that are helping you.

MS. ROUGE: And then, the travel agents would be able to book that as a P&R as opposed to booking it as a consumer.

MR. DOERNHAEFER: Correct. Correct, eventually we hope that that's the case.

MS. ROUGE: That's your plan?

MR. DOERNHAEFER: Right.

CHAIRMAN WINSTEAD: Right. Tom?

MR. DUNNE: Okay. I have just sort of a two-part question, if I understand this correctly, where you're heading and what have you and I realize that you're based on technology and have made the advancements on technology which I commend anybody on this day and age. But also, in the present system of the CRS's, the way I understand it, the smaller agents are punished because of the fact of a number of tickets they could basically write and therefore have to pay a larger fee.

If you're successful at reaching your goal, number one, will in effect then the small and large agency have competitive fees or equal fees or equal access of charges so that the small's can eventually grow and the large's can still be large? Will there be a protection that both of them get equal fees and that there's not a disproportion or I don't want to use the word kickback, but a rebate from the airlines back and forth? Will there be a protection in that?

MR. DOERNHAEFER: Orbitz' principles today treat all airlines the same so that we offer them exactly the same what we call charter associate deal. And it expressly says the deal will be the same regardless of the volume of tickets we will sell in that airline. It's too soon for us to tell, to be able to answer your question about how we will price, you know, when we are able after regulatory change to enter the CRS market. But I think the example of how we entered the travel agency business, treating obviously all consumers alike but also all travel suppliers alike regardless of the volume of sales they would distribute through us might be a good indication that that principle would continue.

MR. DUNNE: Okay. My second part of the question would be, let's say everything is successful and it's a perfect world and everything works out well. What is going to keep the new system from turning exactly what the old system as if in fact you're a CRS that has got antiquated from what I can understand from your testimony?

MR. DOERNHAEFER: The answer should be that we are the fifth new system, or fifth system to enter the market, and the answer to your question is competition. It's just, it's inconceivable to believe that the existing CRS's are going to just rollover and go away because of one new competitor entered the market, particularly a CRS the size of Saber today has over 50 percent of all travel agency locations.

So, the answer is we're just the fifth new entrant. We're not likely to rule the world in any time soon, anymore than we, you know, we have been able to do so by entering the travel market as a travel agent from which we now command something under two percent of all airline tickets sold in the domestic US. It's the competition we're looking for, but it's not likely to lead to some dominant position.

MR. DUNNE: Very good. Thank you, that's all I have.

CHAIRMAN WINSTEAD: Any other pressing questions? Paul had one or two others that we'll try to get on the record quickly. I apologize but to be very honest with the, oh, Anne, do you have something? I'm sorry. In Washington, there were a lot, obviously a lot of questions that came up.

MR. DOERNHAEFER: Sure, I'd be happy to.

CHAIRMAN WINSTEAD: We're taking a little longer than we really can afford to.

MR. DOERNHAEFER: I'm perfectly happy to stay as long as you like.

DR. MITCHELL: Thank you. In looking at the situation that you described and realizing that you're owned by five largest airlines that control 80 percent of the lift, they're also the same airlines or some of them at least that developed a very close relationship with travel agents when it was helpful to the airlines. They developed the CRS systems when they were helpful to the airlines. And then, they used those elements as long as it was helpful and then they were scrapped in a large sense.

And in thinking about the consumer, in the long term, I think we must be aware of what can happen if five airlines that control 80 percent of the lift have almost complete control of the consumer, will that in the long run be best for the consumer? And how do you view that as something that you would be sure and protect?

MR. DOERNHAEFER: That's a great question. I mean, this industry though is really all driven by the consumer in the sense that the consumer now is getting an array of choices. And the airline has very limited control over which channel the consumer chooses to purchase the ticket. The consumers used to be able to purchase it in really only two ways. You could either call the airline or you can call a traditional travel agent.

Now, you can go on to the internet and you can choose from individual airline websites or third-party sites. Some third-party sites, one certain third-party site owned by the airlines and two plus Trip.com, an up and coming new competitor not owned by the airline.

So, the point here is to just develop a range of choices, no one of which is likely to become dominant in any time in the future. You can see from the current market shares it just isn't happening the way our critics were concerned about before we launched. All we've done is add one more player in the market who is kind of a low-cost, low-price leader and is pushing the others to do that. But the others aren't going away. So, the consumer is just benefitting from choice of channel.

DR. MITCHELL: I'm not sure the consumer would be as widely agreeable when the service levels for the consumer have gone in a nosedive. And I certainly think we should be absolutely concerned that the options for consumers price-wise don't go in a nosedive once you have them in your control.

MR. DOERNHAEFER: Well, I think the competition in the marketplace through all these different distribution channels will at least keep that aspect really striving for the best interest of the consumer. I mean, not only did we enter with low cost for the supplier, but we entered with a whole new concept of consumer service. I don't know if anyone here has booked a ticket on Orbitz but when you book on Orbitz, you can sign up for care alerts, for instance.

We have a staff, a former air traffic controller who watches the weather.

DR. MITCHELL: That thrills me to death to know that you do all that.

MR. DOERNHAEFER: Who watches the individual airline operations of the day, forecast delay. We run it against our database of customers. And if you've given us a way to reach you, we will let you know about the status of your flight throughout the day.

DR. MITCHELL: You know, I just wish the five airlines, the ones that own 80 percent of the lift had been as concerned to move forward with technology in a responsible way over the last several years rather than get to this point.

MR. DOERNHAEFER: Well, the great news is that our CEO came from the airline industry where he pioneered a lot of consumer benefits and a real focus on the consumer at Swiss Air. And he has come here and brought that focus with him. So, at least from Orbitz' perspective, you know, look for us to be providing you the best possible customer service for the segment of the business we control. I can't necessarily promise that the food is going to get better on the airline when you get there or there'll be food.

DR. MITCHELL: Or that there'll be any. Thank you.

CHAIRMAN WINSTEAD: All right. Paul, we got a couple more and we're going to wrap up.

MR. RUDEN: Okay. Given that you've now essentially come clean about Orbitz' anticipated future as a CRS and given the history that we all know and shared from the old days when airlines ran and owned and controlled the CRS's, I'm assuming that your comments to DOT in the upcoming rule-making that we all want to have happen soon will say we're back. Is that right? You're going to tell them this plan, that Orbitz is really the new, the born-again CRS controlled by five airlines?

MR. DOERNHAEFER: I think our S-1 adequately identifies our intent to enter the direct connect segment of the business which essentially puts us down that path as our business plan with Aqua. I don't think that this is particularly a secret anymore.

MR. RUDEN: And in that regard, while your testimony on page 16 talks about new non-airline investors and the like, it's absolutely clear, isn't it, from the S-1 statement that the five founding airlines who are in complete control of Orbitz today intend to remain in complete control into the foreseeable future?

MR. DOERNHAEFER: Certainly, post IPO, they will continue to control the fate of Orbitz. How far that reaches into the future, I can't tell.

MR. RUDEN: You characterized Orbitz on page 10 and following as I've heard it characterized before, it was Jeff Katz in Congress that said, you know, we're just another travel agent, you call yourselves a travel agent and somewhere else you say, we're just a startup travel agent, just like every other agent, and you describe a lot of the things that Orbitz does. But you didn't mention that Orbitz has an arrangement with the charter associates for the payment of minimum transaction fees. And those fees, in fact, make Orbitz very, very different, don't they, from all other travel agencies?

MR. DOERNHAEFER: Not at all. We are a large travel --

MR. RUDEN: Well, let me ask you specifically what I'm talking about so we don't get into a philosophy debate.

MR. DOERNHAEFER: Okay.

MR. RUDEN: When the airlines eliminated base commissions to travel agents in general, they did not terminate the minimum guarantee transaction fee to Orbitz, did they?

MR. DOERNHAEFER: When the industry eliminated base commissions, it immediately turned around and negotiated overriding other transactions like that with the larger travel agents. We qualify as a larger travel agent and we continue to be paid under our agreement. Not at all unlike any other large travel agent that continues to receive --

MR. RUDEN: But isn't it true that you did not have to negotiate those fees when the airlines, the major carriers, Southwest excluded, went to zero, you didn't have to go back and attempt to renegotiate with anybody? You have a contractual commitment from the airlines to pay Orbitz minimum transaction fees that's locked in, done deal, that changes your situation relative to the other agencies, that's all I'm asking.

MR. DOERNHAEFER: Yes. When we entered the market, we negotiated a deal with the airlines that locked in a fee that at the time we signed the contract was lower than they were paying as a base commission to any other travel agent. Any other travel agent. And it is promised to decline every year into the future.

We were fortunate enough to sign that contract two years before the unfortunate events of the September 11th, and that contract remains in place for our owners for some period of time to come.

MR. RUDEN: All right. Can you explain briefly what the mechanism was by which those minimum transaction fees were entered into between Orbitz and the founders? Was your board of directors involved in that?

MR. DOERNHAEFER: Actually, that precedes my time in the job with Orbitz. So, I inherited the charter associate agreements when I took the job in September.

MR. RUDEN: So, you don't know that history personally?

MR. DOERNHAEFER: No, I do not know that history personally. I should point out though that you, Mr. Ruden, that you continue to make mention to the charter associate agreement applying only to the five founders and that is, of course, not true.

MR. RUDEN: No, no. I did not mean to imply that. I understand that all of the charter associate airlines are 43 in total including the five owners.

MR. DOERNHAEFER: Correct.

MR. RUDEN: All signed that same deal.

MR. DOERNHAEFER: That's exactly right.

MR. RUDEN: And gave you the benefits of that same deal.

MR. DOERNHAEFER: And we gave them the benefits of that deal. That's the way I look at it.

MR. RUDEN: You have noted in your testimony, and this kind of wraps things up for me, in a couple of places all the problems that travel agents face because of the CRS contracts and they're kind of caught on the left and caught on the right. You talked earlier about making bookings on the internet. You discussed some of the problems that that entails.

Other than cutting their compensation to zero, what have the airlines themselves done, in your view, to mitigate the impact of all these problems on travel agents, in particular the small ones? Anything come to mind?

MR. DOERNHAEFER: Well, I am a travel agent and I'm not one of the airlines. You have probably better witnesses to answer that question, but the thrust of what we are, we at Orbitz are trying to do is to try and to inject new competition into this marketplace and frankly give guidance to commissions like this on how we think we could free up the travel agents from the burdens and allow them to take advantage of the new technology. That's the best that I can offer.

MR. RUDEN: Well, then, maybe my final two questions related to the same subject, the rule-making that you've talked about is going to come sometime this year, we think.

MR. DOERNHAEFER: We think.

MR. RUDEN: And it's going to take, if history is any guide and it usually is, about a year to complete.

MR. DOERNHAEFER: I mean, we're all guessing here about the DOT's pace.

MR. RUDEN: Right.

MR. DOERNHAEFER: But I'd be surprised if they don't get it finished before they are obligated to roll the rule over again which would mean March of '03, of 2003.

MR. RUDEN: That would be an interesting phenomenon to witness. And then, the rules have to have their effect, work through the marketplace, technology has to change in response to it, relationships have to change and so forth. All that will take time, too.

MR. DOERNHAEFER: Yes, it will.

MR. RUDEN: Have you been apprized by Orbitz' five owners, who as Dr. Mitchell just reminded us control most of the domestic market, of anything they intend to do during that time period to mitigate the impact of the losses and the other adversities that you described travel agents are suffering under?

MR. DOERNHAEFER: I haven't had any

conversations about that sort of subject one way or another.

MR. RUDEN: Okay. Do you think Orbits for itself would be interested in participating in collective bargaining with the travel agents and the airlines about those issues?

MR. DOERNHAEFER: I've never thought about the issue of participating in a collective bargaining but it's not something that I think is necessarily in the best interest of the marketplace as a whole.

MR. RUDEN: All right. Mr. Chairman, in the interest of time, I'll stop asking questions.

CHAIRMAN WINSTEAD: Well, Paul, I appreciate it. Gary, we obviously haven't gotten through all the questions and if you'd be willing to take them in writing and get back to us?

MR. DOERNHAEFER: Absolutely.

CHAIRMAN WINSTEAD: I appreciate it, because I don't think we've -- it even though we took an hour and 15 minutes. But we thank you for indulgence and participation and thanks for being with us.

We're going to move on to Scott Yohe of Delta Airlines. If you could come up please? United, we have Greg Taylor, where you are out there and I apologize but a couple of Commissioners did request that we have a chance to break to look at the United testimony. So, we're going to do you all after the lunch break if we could because we didn't get the testimony until this morning.

Scott, thanks for joining us. I appreciate it.

MR. YOHE: Sure. I was going to say, I've never been to Wrigley Field, Gerry, so if we can get this done in time, I'd love to go with you.

Thank you, Mr. Chairman. On behalf of Delta Airlines, we appreciate the opportunity to be here this morning to provide our testimony to the Commission on this very important subject. You have, as been described previously, two very important charges from the Congress. First, to determine whether the financial condition of travel agents is declining and if so, what the effect of that decline is on consumers. And secondly, I think the emphasis here this morning is the correct one, whether or not there are impediments to information regarding services and products offered by the airline industry.

First of all, let me just state right up front that we certainly think this is an important Commission. The work is very important. There have been, needless to say, an awful lot of discussion, conjecture, debate about the subjects and I think that this Commission certainly will help in bringing a lot f clarity to these issues. And I think it will be a very important guide to Congress and to the regulatory agencies, DOT in particular, as they look at these very important questions.

We certainly agree with the Commission that consumers should have full and complete access to information of our services, and that is our goal. And we think that benefits us, that benefits our customers. And certainly, we believe the travel agents are a very important part and will remain a very important part in our distribution network.

Again, Delta's goal, very simply stated, is to give consumers what they want at the lowest possible cost. And we're committed to extending our product to all consumers, selling our tickets through every distribution channel that consumers want to use. Certainly the information age has dramatically improved consumer access to air travel information. But more importantly, it has also created enormous new consumer choice. Consumers now can choose the way they want to shop for their travel needs.

It's very critical in that regard in

keeping that in mind that this Commission makes sure in its report that entails the Department of Transportation that it should avoid any steps that would stifle the internet or restrict new consumer choice that the e-commerce revolution has spawned. It's very important to first put our testimony in context. By that, I mean, we have to look at this and Delta's role in this in the context of the financial crisis that we're facing. Not just ourselves but the entire industry.

Last year, I'm sure you've heard this, US airlines collectively lost $7.7 billion dollars. Delta alone lost a billion dollars. Two major airlines are now seeking government loans of nearly three billion dollars to meet their capital needs for survival. In the first quarter of this year alone, industry loss has climbed by an additional $2.4 billion and Delta's losses in the first quarter totaled nearly $390 million.

Airline revenues are now down 20 percent where they were a year ago. What we're also seeing is that the average ticket prices continue to decline. The airlines simply do not have today any pricing power in this environment. Our average domestic round-trip fare is $45 dollars lower in the first quarter of this year as compared to the same period last year. What that means quite simply is that we cannot pass new costs on to consumers. And it means that any new costs, whether they're security, taxes, fees or other unfunded mandates are directly impacting our bottom line.

Let me now turn to what Delta is doing in response to this financial crisis and what it's meant for distribution of our product. Obviously, this crisis has forced us to find ways to cut cost in every aspect of our operation. No aspect of our business has been spared. We have lost over 13,000 jobs at my company since last September. The industry has lost over 100,000 jobs.

Our flight schedules are down 15 percent. We cut our orders to Boeing for wide-body aircraft in this year and next year from 56 to 13. The airlines have parked 350 airplanes. We still have 40 airplanes idle.

The key point here is that this crisis is forcing us to find ways to reduce cost and improve efficiency. And this obviously has to include the cost of distributing our tickets which is the third largest cost variable that we have totaling about $1.7 billion dollars a year. Within that context, let me address the specific issues that the Commission is considering beginning with the question of the condition of travel agents in the current environment.

First, I want to make it very, very clear, we're committed to extending our reach to all customers selling our tickets through every distribution channel that consumers want to use. Traditional travel agents are part of that network. Today, traditional travel agents sell 47 percent of Delta tickets and they generate 64 percent of all revenue for Delta sales.

Some have suggested the changes to the Commission's structure which we recently took, to suggest that we are banding travel agents, or worse, intentionally driving customers to lower cost channels and that simply is not true. Delta spends hundreds of million dollars a year to support the sales efforts of traditional travel agents. Let me review those. First, CRS booking fees. Delta spent more than $350 million dollars in CRS booking fees in the year 2001.

These booking fees, by the way, as you've heard previously, have been increasing to the tune of four to seven percent every year since 1999. Again, while prices are falling or profits are falling, CRS booking fees continue to rise. In addition, unlike most merchants, travel agents are not required to enter into merchant agreements with major credit card vendors to sell airline tickets, that airlines, Delta pays the agencies' merchant fees and this is up to three percent of every transation. For Delta, that represented approximately a $190 million dollars in the year 2001.

Finally, while we have eliminated fixed or base commissions, we still do have hundreds of incentive commission contracts from large and small travel agents who we believe are very important in terms of driving business and driving market share to Delta. We want to reward those travel agents based upon their sales performance in delivering more customers and more revenues to Delta. We think that's appropriate.

But not all consumers want the services of travel agents, and that's very clear. Some prefer the convenience and control of online tools, which brings me to the second question before this Commission. The information age has clearly dramatically improved consumer choice in their travel in ways that previously we did not contemplate. Before e-commerce revolution, consumers had to call individual airline reservations departments or go to a travel agent to get fare information.

Those traditional options are still available, but they're no longer obviously the only choice. The internet gives every consumer direct access and control as far as their purchasing choices. Many consumers want that and that's why we are continuing to participate in a more substantial way in that channel. The e-commerce revolution has made information about fares and schedules more readily available than ever before, and again, has created unprecedented choice.

Consumers are voting with their wallets by choosing to buy tickets through online channels. Delta.com generated $1.1 billion dollars in revenue for Delta in the year 2001. That's a 45 percent increase of year 2000. Online travel agencies, Expedia, Travelocity and Orbitz are also flourishing. Delta sales via Expedia grew 54 percent from the year 2000 to 2001. Sales in Travelocity grew 18 percent during the same period. Today, Delta sells approximately 24 percent of its tickets through either Delta.com or online travel agencies.

Why? It's quite simple. These online channels save Delta money because they reduce the high cost of CRS booking fees. Sales through Delta.com avoid the GDS-CRS booking fees all together. It costs Delta 75 percent less to sell a ticket through Delta.com than it does through a CRS company. We have negotiated significant CRS rebates from major online travel agents.

Obviously you heard in great detail about the relationship with Orbitz, but we've also done the same thing with Travelocity and with Expedia. Delta has agreements with Travelocity and Expedia that provide those two companies with web fares. It costs Delta roughly 50 percent less to sell a ticket through these online agencies as through normal travel agent distribution channels.

The key point here is that Delta must find ways to cut costs to survive. And those costs certainly, those cost-cutting measures certainly are reflected in lower fares to consumers including web fares. We think that web fares are providing very important benefits to consumers. But despite the evidence to the contrary, there continue to be a number of allegations about web fares and whether or not consumers are receiving the full benefit of web fares.

Some travel agents complain that web fares are not fair to them and consumers who choose to take advantage of the online channels. One allegation which is totally false is that web fares are not available to many, many consumers. Any travel agent can sell Delta web fares to its customers via Delta's online agency service center. We have created a means by which travel agents can access Delta web fares and can sell and purchase those web fares and sell them. The fact that some consumers choose not to shop online does not make it unfair to offer discounts to those who do.

Many businesses offer discounts to consumers who shop through less expensive distribution channels, whether that's an internet website or a warehouse superstore or a rural factory outlet. Airlines are no different. It is no more and fair to offer discount airline tickets on the internet than it is to offer discount commissions for online stock trades or discount prices for consumer products in a warehouse superstore. The key here is that low fares benefit consumers. And any regulatory attempts to interfere with those distribution channels will absolutely result in increase in fares to consumers.

Let me now turn very briefly, and I don't want to spend a lot of time on it, to Delta's relationship with Orbitz because I think you've heard enough about Orbitz this morning from Orbitz itself, and I think Gary in his answers to this question made for me frankly, the very compelling business case that motivated us to get involved with that particular venture. But it's really quite simple. What we are trying to do is respond to what consumers want. And our consumers are telling us that they wanted lower cost, unbiased distribution channel.

That's what Orbitz is. And Orbitz has obviously engendered lots of competition between itself and other online agencies. And that is certainly, I think, a compelling reason why we recently entered into web fare agreements with Travelocity and Expedia.

Let me just mention a couple of other things regarding our relationship with Orbitz that are important to put into the record. First of all, Delta's contract with Orbitz is not exclusive. You've heard that and I want to reaffirm that. Orbitz has, let me repeat this, Orbitz has no unique access to Delta web fares.

Any travel agent can book any Delta web fare as I said via the online agency service center which we've created. Orbitz earned the right to sell web fares on the Orbitz website by offering us significant rebates to the very expensive CRS booking fees. We make that same offer available to other sellers online through other channels.

Finally, let me address one last matter that relates to travel agents and our decision to eliminate base commissions. We certainly have been criticized for our decision in March of this year to no longer pay a base commission on travel agent ticket sales in the United States. This change was a very painful one, but one that we had to take in order to reduce our cost. It also reflected what we see in terms of the growing competition that Delta has with low fare carriers such as Southwest.

Delta has more low fare competition than any other major network carriers. Roughly 48 percent of all of our routes or itineraries have low fare competition. We have to compete with the lower cost providers of air transportation.

What we think the decision does in terms of choosing to go this route, it allows consumers to choose whether they want to pay, and this is very important, whether they want to pay for the services of a travel agent. We've unbundled, in effect, the fares that previously were provided through travel agency community. And we've given consumers a choice to decide whether or not they want to pay for those services. And they make those choices every single day. Because they are important to us, we continue to invest heavily in supporting travel agency distribution systems, as I've mentioned.

Let me simply conclude by saying that we hope that the Commission report will conclude the following:

One, that competition in the distribution of airline tickets is fair and is robust.

Secondly, the travel agents will remain an important part of this process for the foreseeable future.

Third, that airlines want to distribute their tickets through all channels that consumers want to use at the lowest possible cost. Consumers are the winners in this process.

And most importantly, we hope that the Commission report will reflect that any attempt to stifle competition and innovation that the internet and e-commerce has created would be a terrible mistake. Thank you and I'll answer your questions.

CHAIRMAN WINSTEAD: Thanks, Scott. I appreciate your testimony and I'm sure any followup questions that we might have for you. On page 13 of your testimony, you talked, there's a lot of, both with Orbitz' testimony and yours, a lot of discussion about what the consumers want. It says many consumers, however, do not need or want these services, and yet the travel agency businesses on this Commission and data shared with us in our first hearing shows that 80 percent of ticket sales are still being done, you know, through travel agencies, large and small.

So, clearly, the best majority of consumers still want to use the travel agency. So, I'm curious, that disturbs me. We keep coming back to sort of that conclusion and I ask the basic question if, you know, if an agent leaves the CRS in booking and makes a separate search of obviously Delta's website, how are they really compensated for that?

The fact is they're not, you know. And how do you address that? I mean, businesses that, or in a situation can't continue if they don't find a way to generate value in service and revenue. It seems to be, you know, a concern to me and I'm sure others. Do you have any thoughts in that?

MR. YOHE: Well, they are compensated directly from the clients. They are an intermediary. We provide the product, they're the intermediary to the consumer. The consumer who is asking them to help them in the booking buying that product is providing 90 percent, I think, most travel agencies today, the fee for that service. We are making that fare available to them. And certainly, if they choose to go through, you know, the CRS system as I mentioned in the testimony, we pay booking fees and if a credit card is involved, we pay that.

But what we are providing is access to those low fares and if that's what their customers want and they're telling them they want because they don't want to use the internet or they don't have access to the internet. Then the travel agents, you know, can provide that. So, we're still providing and facilitating the means for them to engage in their business and their livelihood.

What I'm saying is that they have had to adjust as we've had to adjust to a sort of new economical reality out there. And they have done that. And they've done that successfully. In addition, for those travel agents who bring value to Delta in terms of increased sales, increased revenue, we have incentive arrangements. And we provide those to large and small.

Delta is the largest airline in terms of passengers. We also serve over 390 cities worldwide. We fly to a lot of small and medium-sized communities, you know, throughout the country. There's a lot of small travel agencies in Huntsville, Alabama, in Charleston, South Carolina and Mobile, Alabama who use Delta, who we do business with. And certainly in those cities in those towns, there's a lot of people who go to them and use their expertise to buy Delta Airlines which is very important to Delta's system. And we reward those travel agents in those ways that I just referred to.

CHAIRMAN WINSTEAD: I have a few more but let me open it up for other Commissioners.

MS. CASTO: Would you consider the travel agencies as your sales people? They're selling your product.

MR. YOHE: Absolutely. Absolutely. We absolutely have a partnership with them. They are sales agents for Delta Airlines, no question.

MS. CASTO: Now, if your CRS fees are lowered because you're saying that the distribution, the reason you are not paying the travel agency is because the cost of the CRS is too prohibitive, if the CRS fees are lowered, would you then consider paying the travel agencies?

MR. YOHE: You know, if you ultimately got to a world where essentially what you're dealing with is, you know, transactions fees, you know, yes, maybe. But again, the question here is, you know, what is the cost and what is the value to Delta for selling Delta's product. And again, you know, we want, it's a system out there that creates as much competition as possible, but obviously one also that works for us.

And so, you know, we have to sit down just like we do with consolidators, with businesses, with government, with all kinds of purchasers of transportation to negotiate, you know, those arrangements.

CHAIRMAN WINSTEAD: I'm sure we have some others here. Ted?

MR. LAWSON: Yes, I'm interested, it's reported to SATA that, Bob Crandall, the former CEO of American Airlines, reported one time that he would rather have 10,000 travel agents selling one ticket than one travel agency selling 10,000 tickets. Do you see the wisdom from your perspective in that?

MR. YOHE: Well, I think from his point of view, from where he was sitting at the time he said that, that probably made a lot of sense. But I don't necessarily agree with that, and quite frankly, you know, we can wish a lot of things about the market, but what we found out in the airline industry is the market is going to tell us where it wants to go. And so, what we try to do is follow the market and follow demand in the market, whether it's, you know, price for a product where people want to fly or, you know, how they want to book that particular purchase.

MR. LAWSON: I guess the reason for the question is, jumping over the fence, looking at it from your perspective, I'm a little concerned from the airlines' position that they create a marketing situation where you have so much leverage against you. If there's a, if consolidation continues, all of a sudden, you have a distributing area widening the tail of the airlines. Can you see that possibility?

MR. YOHE: No, I really don't because it is such a large industry, such a diverse industry. As you've heard earlier, needs of consumers are vastly different in terms of to simply, you know, taking a day trip to go see the Cubs play, you know, or flying to Bangkok for a week business trip. So, again, consumer needs and choices are very diverse and I think, you know, that obviously facilitates an awful lot of competition.

And there's competition, you know, between airlines. I mean, let's face it, you know. My objective, my company's objective is to win in the marketplace in competition with all the other airlines that are in the marketplace. So, again, as long as that competition is there and vibrant, you're going to have competition between distributors for that business.

MR. LAWSON: My last thing with it, do you see, I'm a great fan of Delta.

MR. YOHE: Thank you.

MR. LAWSON: In fact, Delta and United are probably my favorite airlines but do you see a difference between how Delta does business than a low-cost carrier may do business in the fact your route structures are much more complex? And it may be true that for a particular low-cost carrier that a point-to-point quick sale on the internet may be the very best thing, but maybe what you've done is leveled the playing field for the low-cost carriers to compete against.

MR. YOHE: Right. Well, we have different business models, and with those different business models, there are different cost structures associated with it. Clearly, Southwest or AirTran has a, you know, a different cost structure than Delta. They also have a different distribution system than Delta. And our cost in distribution because of the nature of our system and how we participate is much higher. But the reality is, as I mentioned in my testimony, that we have to compete against those guys. Increasingly, they are becoming, you know, our number one competitor.

Leon Moen said at an annual meeting, I guess it was even year before last, you know, Delta's number one competitor is Southwest Airlines. So, we've got to figure out a way to compete against Southwest who has a very different kind of business model than we do, but at the same time serve the Huntsville, Alabama's and the Mobile's and the Charleston's and the hundreds of other medium and small towns who want access to the air transportation system. So, again, you know, what we want to try to do is make sure that with the evolution of this e-commerce and the internet business, that we can take advantage of that to the fullest extent possible so that we can compete with Southwest and other low fare providers.

MR. LAWSON: Okay.

CHAIRMAN WINSTEAD: You have a question, Ann?

DR. MITCHELL: I have a question. We have focused so much of our time on the cost, low cost to consumers and the low cost. But isn't it true that the business traveler actually is a higher percentage of your income from passengers than the low-cost passenger?

MR. YOHE: I'll give you the numbers. Currently today, about seven percent of our customers drive about 30 percent of our business. A year ago last May, ten percent drove 40 percent. So, yes, those road warriors, frequent flyers of which we have about 24 million in the Delta frequent flyer program, they do drive a disproportionate amount of income.

DR. MITCHELL: We keep talking about the low cost to the consumer time and again. But isn't it true that the business traveler has had an inordinate increase in the amount of cost for a ticket over the years as compared to any other factors?

MR. YOHE: It depends on how you define business traveler, and that's a very tricky question. But let me give you the numbers, okay? I will give you, you know, average fares. What I said was, and if you look at this in the last 12 years, if you look at airfares in real terms, they've declined. They've actually declined relative to the consumer price index.

Year over year, first quarter of this year, we went from like $294 dollars to $258 dollars on an average round trip. My point is that there are declining fares out there for business travelers and every other consumers. But I also point out that of the 120 million people that Delta flew last year, 93 percent of those flew on a discount. So, if you will, with all due respect to your fellow Commissioner, Delta is the lowest fare provider of air transportation in the United States.

DR. MITCHELL: Afraid our business clients would differ with your position that fares have declined for them. And they do seem disproportionately high. And we certainly need to be concerned about our business community and our business consumer to be able to effectively run their businesses. And I know you need to be able to run yours but you all look like you're running them all in the ground with --

MR. YOHE: Well, you know, Dr. Mitchell, if I do that, if I don't listen to the market, if I don't listen to what price elasticity of demand is, those valued customers which you referred to which are so important to me, we're going to lose them and we're going to lose our business. What we're struggling with right now is how do we get those consumers back.

And so, I don't disagree with your assertion that we've got to find ways of making sure that we keep those people on our airplanes. But I would submit to you that the competition in the marketplace, in supply and demand as far as what the price is, is extraordinarily vigorous, so much so that overall what we're seeing with our revenue is a significant decline.

DR. MITCHELL: Well, I've just challenged all of us to keep that customer in mind as we look at these papers.

MR. YOHE: Believe me, we do. Thank you.

CHAIRMAN WINSTEAD: Joyce?

MS. ROUGE: I think one of the things that we're going to end up focusing a lot on once we get into the deliberations is how this cost breaks out. And you were very good in your written testimony and also today in showing us the breakout of the distribution. You have 47 percent through brick and mortar travel agents and 24 percent online which I'm assuming leaves the other 29 percent for probably your res centers?

MR. YOHE: Yes, why don't I give you the

exact numbers?

MS. ROUGE: That would be great.

MR. YOHE: This is for April of this year. Traditional travel agencies, 47 percent. Excuse me. Offline and direct, 28 and a half percent. Online direct, 13 percent. Other, 11.5, and that breaks down as follows. Three percent Expedia, three percent Travelocity, three percent Orbitz, two percent Priceline, and then .3 percent other.

MS. ROUGE: Great. And can you, I'm assuming, which is why I'm asking the questions, I don't want to just assume this, that your website, and I think you said this, is your least expensive distribution?

MR. YOHE: Yes, ma'am.

MS. ROUGE: Can you break out how that, I mean, I know you said the 100 percent, you know the 50 percent and the 75 percent less, but can you come and give us a better break on that?

MR. YOHE: Yes. Let me do it this way. Delta.com is by far the lowest, if you take that as the base, has the lowest cost. Delta Res is about twice that. Online agencies are about 60 percent of that. And then, travel agencies are another 50 to 60 percent of that. So, if you look at Delta.com versus a travel agency is what I said was about 75 percent.

MS. ROUGE: Increasing cost to the other travel agents?

MR. YOHE: Right.

MS. ROUGE: Because of all the fees?

MR. YOHE: Correct.

MS. ROUGE: Great. Thanks.

CHAIRMAN WINSTEAD: Pat?

MR. MURPHY: Yes. Scott, I was very interested in Delta offering the online agencies service center for the travel agents, and I had a couple of questions about that. Do you know when that came online? When Delta began that service?

MR. YOHE: About a year and a half ago.

MR. MURPHY: And do you have any data on how active it is and whether the, how growth rates off of that --

MR. YOHE: Yes, I don't have those numbers, Pat. It's a good question and I'll be happy to provide that for the record.

MR. MURPHY: Yes, because it would be helpful to know that since, you know, we've heard a lot of testimony that web fares were not available. And do you know how many --

MR. YOHE: Right. I mean, I think what's

important here is that we recognize that access is important as a principle. Clearly, technology and other things cost, you know, are going to have to improve to make it, you know, a more robust feature or channel or offering, if you will.

But I think, sort of what you've heard in testimony in your previous hearing and this one is that we're moving very quickly in terms of the e-commerce and distribution of travel. And what I think you're going to find is very rapidly because of the competition that exists out there, that you're going to see big improvements in terms of, you know, sales by those channels for web fares and all kinds of other low fares.

MR. MURPHY: And do you know if any incentive arrangements are still active when an agent uses the online website that you have, the online agencies service center?

MR. YOHE: Do we have, we just went through a process of negotiating with agents after March. I suspect that there are. I'm sure there has to be agents out there that we have incentive deals with who use, you know, who use web fares and use that channel. But I don't know what the number is, but I'll see if I can get it.

CHAIRMAN WINSTEAD: Do you have any other questions?

MR. RUDEN: I've got some.

CHAIRMAN WINSTEAD: Okay, Paul.

MR. RUDEN: As you might imagine.

CHAIRMAN WINSTEAD: Sure.

MR. RUDEN: Although not so many as this morning.

MR. YOHE: Oh, I'm disappointed.

MR. RUDEN: I know you would be, Scott. While we're on the subject of Delta.com and the service center, the service center permits the travel agency, as I understand it, to go into the Delta fare array and sell any fare that's there. What kind of management tools does it provide other than the capacity to just book somebody and put it in a credit card?

MR. YOHE: At this point, I don't believe that we provide any of those back office tools.

MR. RUDEN: So, it's really the functional equivalent of the front end of, pick one, Travelocity, Expedia?

MR. YOHE: Absolutely. Absolutely.

MR. RUDEN: Okay.

MR. YOHE: As I've admitted earlier, that there are limitations, and enhancements, I think, are to come.

MR. RUDEN: Okay. On the subject of fairness and fares and the regard that Delta says it has for travel agencies as a continuing component of their distribution complex, all of your direct distribution has a cost associated with it. It may be, and it varies depending upon whether it's direct over the telephone or direct at your online site. But there are costs of distribution that Delta incurs when it sells direct.

And in some sense perhaps, you also have some costs of distribution associated, internal costs associated with dealing with external distributors like the online agencies and certain traditional agencies. Do you agree with that?

MR. YOHE: Correct.

MR. RUDEN: Okay. And all those costs are reflected in Delta's fares. They have to be.

MR. YOHE: As far as variable cost, yes, they're in there.

MR. RUDEN: Well, the system that's developed so far, talking about today, leaves the travel agent in a situation where you having unbundled him as you described it, you've unbundled him by saying we're not going to pay you any base commission anymore. You can still sell everything that we have to sell, but you now, in order to get paid, are going to have to mark it up. We may pay you something back for moving some share to us but in terms of the basic fundamental transaction, the only way the agent gets paid is by adding to that price his distribution costs, his own internal costs and hopefully some return for profit.

So, I'm asking you the question that I posed at the first hearing, whether that system, well, an alternative to doing it that way, to putting the agent in a position of being in the consumer's eyes, the apparently highest price no matter what because he's got to add on to the same price that you're offering that consumer over the phone. You could take your distribution cost, internal distribution cost out of your price, create a wholesale retail kind of arrangement in which you would still, because if your internal price of distribution was less, you'd still have a low price at that distribution point or that channel if you prefer.

And each channel would then be adding its own cost and whatever return it seeks to make on a wholesale type price. Is there a Delta position on the question whether that is not a better system in terms of maintaining all the distribution channels in a fair chance to compete based on their own costs?

MR. YOHE: Well, first of all, I wouldn't necessarily agree that that, you know, we are not paying something for that distribution. And we are helping that agent in terms of, you know, making the sale and delivering the product to his customer by paying some of their fixed cost, i.e., the GDS fee, in some cases the credit card fee. That's very unusual for most retailers.

As to whether or not we would evolve to a system where down the line whatever cost savings are associated or passed down, I think ultimately, you could evolve to that. I'm not going to say here today that, you know, I'm going to advocate, you know, that kind of world. But I think what we're finding is and it's certainly true with many, many, many consumers reflect about the fact that, you know, travel agents provide 67 percent of our revenue, there are people like me out there who go to a travel agent because I'm, you know, technically challenged and don't use the internet.

So, they're providing a service just like my broker who I used to sell my stock. He has expertise. He has experience. He has knowledge, and it's a convenience that I want. And so, I'm willing to pay for it. I think the market, as based on what I've seen of the testimony provided, is that they're going to continue to be a huge market for travel agents for those kinds of purchasers.

MR. RUDEN: You led kind of into where I was going to start by saying that Delta is paying travel agents' costs and you're saying you're paying their costs by paying their CRS fees. And you've said you're paying their merchant fees, and I agree with you that most retailers are in a different situation. But isn't it true that most retailers aren't agents the way travel agents are? And travel agents don't have any inventory risk in your inventory.

So, I'm wondering why it is you are so comfortable saying that the merchant fee is somehow their cost that you are, you used the word subsidize throughout your testimony. And subsidize implies I really shouldn't be paying this but I'm doing it to achieve some social good.

MR. YOHE: No. You know, maybe it's a little pejorative. Sorry if it disturbs you.

MR. RUDEN: It just puzzled me. I'm hard to disturb these days.

MR. YOHE: But when you as a supplier pay for the cost associated with somebody else to deliver your product to the consumer, I think that's a subsidy. And hey, it's an appropriate subsidy in the system that we have. And I'm not complaining about it. In fact, I'm paying it because I think they're providing an important service to Delta Airlines.

Would I rather not pay it? Yes, and I would support some of what you heard earlier in terms of changes that would enable there to be competition between the CRS vendors so that those costs would go down and I'd end up not having to pay that "subsidy" to the tune of $390 million dollars a year.

MR. RUDEN: Well, even if it went down, you'll still be paying something for it.

MR. YOHE: Sure. Just as you, when you pay a transaction fee in the case of Orbitz.

MR. RUDEN: Okay. So, in Delta's corporate mind, if you will, the view is that all of those costs are attributable somehow to travel agencies even though they don't create those costs?

MR. YOHE: No.

MR. RUDEN: And that it is in a sense inappropriate for you to have to pay them?

MR. YOHE: No. They are costs associated

with distributing the product to the consumer from the supplier through the intermediary. And the intermediary in most businesses assumes those costs. In our industry, they do not. The supplier assumes those costs.

MR. LAWSON: I think the reason that they assume those costs, if I might interject, is there's not a wholesale retail scenario that is at work. In other words, normally in a retail outlet, the goods or services are sold at a wholesale to the distributor who then sells them at whatever efficiency that they can. So, there is the dramatic difference.

In other words, the credit card charges would be yours whether they call the res center, go to your city ticket office or go to Orbitz or anyone else. It's just another way of doing business. I think probably the question would be, if I might, would you entertain then in the distribution system what might be the level playing field, if you had a wholesale retail, I think Rosenbluth's Travel advanced that where the airlines put its cost in and said, gee, our res center costs so much, our retail distribution because no one wants to be subsidized.

MR. YOHE: Absolutely. And again, I would apologize if that word rubbed the wrong way.

MR. LAWSON: Subsidize always, that bothers me.

MR. YOHE: Let's say support, okay. But yes, absolutely. You enter into those arrangements, you do it today where those costs through the intermediary are picked up or rebated back or whatever because of the fact that, you know, you want to do business with that particular entity in that way.

DR. MITCHELL: May I ask one follow up? Regardless of who the seller is to the consumer, do those costs not have to be there ultimately to get to the consumer? And if so, does not the consumer absorb those costs in the cost of the ticket and it's going to happen at any place whether it comes directly from a Delta reservation person, though I certainly understand that there may be some cost efficiencies with some improvements in the distribution.

MR. YOHE: Right. And Dr. Mitchell, you're absolutely right. Even, you know, with Delta.com, there are costs associated with that which are --

DR. MITCHELL: And so the customer --

MR. YOHE: Presumably reflected in the price which the consumer is paying. And so, the point here is that we wanted through technology and other things, we're driving that price down so that ultimately to the end use of the consumer, they're getting the lowest possible price. And that's the magic of what's going on right now.

DR. MITCHELL: When the commissions were reduced to zero, do you have any data on how much savings then went to the customer in ticket prices?

MR. YOHE: No. That took place in March. I mean, I can, you know, I can tell you what the savings were to Delta but as I pointed out, we're --

DR. MITCHELL: I was asking about the savings to the consumer.

MR. YOHE: To the consumer?

DR. MITCHELL: Since you all didn't have to pay us any.

MR. YOHE: Well, the consumer is doing very well right, if you've looked at the prices of transportation lately, and you can look at our P&L's and discern that rather quickly. So, I think the consumer is winning by any stretch of the imagination.

DR. MITCHELL: And I don't think any business should lose.

MR. YOHE: Nor do we. We are a publicly traded company. We do have a responsibility to --

DR. MITCHELL: I'm a privately owned and I don't want to lose --

MR. YOHE: To make money and return something to our shareholders. And we're going to get back there.

CHAIRMAN WINSTEAD: But Scott, you would get that information from the April cutoff of the commissions, you would get that data? I know in terms of the --

MR. YOHE: Well, because --

CHAIRMAN WINSTEAD: Because savings to the consumer is hard to count.

MR. YOHE: Yes.

CHAIRMAN WINSTEAD: But in terms of the impact to Delta.

MR. YOHE: Of what the savings to Delta?

CHAIRMAN WINSTEAD: Yes. Yes.

MR. YOHE: Well, I can tell you, we have said, Wall Street and others, the savings for Delta is about $150 million dollars a year.

CHAIRMAN WINSTEAD: Just on the commission cuts?

MR. YOHE: Correct. Point of base commissions system.

MR. RUDEN: That's net of anything you say you may be paying back in the form of incentives.

MR. YOHE: That's what we anticipate it's going to be, yes.

MR. RUDEN: The net?

MR. YOHE: Correct.

MR. RUDEN: I've only got two other things I want to ask you, Mr. Yohe. You say on page 9 of your testimony that travel agents may choose not to take advantage of your Delta online service center. And I'm quoting, "because they prefer to rely on their legacy high-cost GDS computer systems for booking tickets."

Why would they prefer that given the way you characterize it?

MR. YOHE: Because the legacy system may have other things that we don't provide in terms of the offering.

MR. RUDEN: So, as a tool, it's more useful?

MR. YOHE: Yes. I mean, we're talking about web fares here.

MR. RUDEN: Right.

MR. YOHE: Okay. And Delta.com, that's really what it does, it provides web fares. And so, obviously, the legacy systems are a different tool that provide different products.

MR. RUDEN: And different capabilities?

MR. YOHE: And different capabilities, absolutely, I've admitted that.

MR. RUDEN: All right. Then, finally, on page 13 of your testimony, you again, you draw a parallel distinction to the cost issue we were talking about a minute ago when you say that some of the things travel agents do are services they render to their customer, not to the airlines, such as researching alternatives, planning, providing travel management services, expertise and all the rest. And I here that's a lot, that this is a new discovery that travel agents do these things for customers and not for airlines.

Has Delta done a study of the extent to which the availability of those kinds of services are decisive in the minds of consumers choosing whether or not to fly?

MR. YOHE: That's a good question. I don't know the short answer, Paul, if we have any studies. But I'd be happy to take that one under advisement and if we have something to offer, I'll be happy to provide it in writing.

MR. RUDEN: Because I think you'd agree to the extent that there is a connection between this availability of all of these types of services which have been available to consumers for a very long time and to which, and if it is true that in some cases, perhaps many cases, those availabilities are really decisive. You are running some risk if you were to damage the capacity of travel agents to deliver all that, some risk that the demand for your basic product will be impaired along with the demand for everybody else.

MR. YOHE: I think that's fair. And I think that what you just have articulated is the value proposition for travel agents. Just like in Delta's pricing scheme in the value proposition for that same person is that when he calls up at 12:30 and says I want to fly to Atlanta at 3:00 o'clock, we've got a seat for him. And we're holding the inventory open and he's going to pay a premium associated with that. If we don't have it, then obviously we change the demand curve, same with travel agents.

MR. RUDEN: Okay. And, all right, I'll just stop right there then. Thank you very much.

CHAIRMAN WINSTEAD: Thank you, Paul. Are there any other questions? For your indulgence, we would like to take up WorldSpan and then break for lunch. Scott, thanks again.

MR. YOHE: Sure.

CHAIRMAN WINSTEAD: And I'm sure there will be followup questions but we'll get them to you in writing.

MR. YOHE: I'd be happy to provide anything in writing that you might need.

CHAIRMAN WINSTEAD: Thank you very much.

MR. YOHE: Thank you. I enjoyed it.

CHAIRMAN WINSTEAD: Paul, could you come on up please? Thanks. We're going to just continue here and plan to break as soon as WorldSpan concludes and then we'll come back after lunch. Paul, thanks for joining us.

MR. BLACKNEY: Thank you very much. On behalf of all my colleagues at WorldSpan, I am delighted to be able to talk to the Commission. My opening remarks are neither written nor long.

To use a reptilian analogy to either being the dragon or the dinosaur, I would like to point out just a couple of uniquenesses about WorldSpan. We're in the unique position in the travel distribution chain. We provide services to about 20,000 travel agencies worldwide. We process more than 50 percent of the online transactions, the e-commerce transactions in travel on a worldwide basis being the engine involved with Expedia, Orbitz and Priceline as well as numerous other web entities.

We provide hosting of web service to numerous airlines. But one thing we are not is a direct-to-consumer entity. We are not involved with our own presence in selling travel to consumers. We are not an aggregator of travel products in the merchant model as some of our competitors are starting to be. And we are not a vertical integrator of the distribution of travel.

We do not own travel agencies. We do not compete with any of the forms of distribution with travel. And that's because we have the unique perspective as a result of where we are. We focus on serving customer choice. We focus on value for price. We believe we've been a technological innovator over the years, taking a number of risks which has resulted in the marketplace position change that WorldSpan has enjoyed in the last three years, becoming the second largest GDS in the marketplace as the way in which travel as distributed has changed.

For more than 30 years, I was a Chicagoan. I'm an Atlantan now. But one of the maxims that we use at WorldSpan, and this was coined before political correctness, but it was done by the great merchandiser of this city, Marshall Field, at the turn of the previous century when he said, "Give the lady what she wants." And our view of WorldSpan is we want to facilitate the bringing together of the buyers and sellers of travel through electronic means.

Having said that, we also realize that, we believe that the distribution model is broken. The system is not necessarily broken, but perhaps the economics behind it are. And as a result of that, we are prepared to take a very strong look at everything that we do, the value in those services that we provide, to whom that value -- and is that appropriate in 2002 and beyond as it may have been appropriate in 1985 or 1995 or whatever.

And I think with that, I will end my remarks. I'll be happy to address any questions the Commission wants to ask me.

CHAIRMAN WINSTEAD: Well, Paul, I appreciate it. And we did get your testimony in advance. I think everybody has had the opportunity to review it.

You mentioned that, you know, this new business model that you're working on, there's a lot of anticipation in your testimony about the current situation being broke and you're developing new models. How is that going to actually impact or change in terms of booking fees and accessibility to the travel agent?

MR. BLACKNEY: Well, I wish I could answer that question directly right now, and we are kind of in a listen mode at this moment in time talking with suppliers of travel. That's airlines and all the other services that are sold through the WorldSpan GDS such as cars, hotels, cruises, tours and other ancillary travel related products. We're talking to distributors of all types, the online distributors, the brick and mortar distributors, traditional travel agencies, and entities who at this point in time may not be distributors of travel but are likely to become distributors of travel at some point in the future.

After we've gone through this listen mode, I think we will then apply to a number of possibilities that we're looking at. But one of the things that you hear talked about a lot and if you listen to a lot of what was said this morning, you hear a lot about people talking about changing the size of the slices of the distribution pie. And I think that there is a fundamental thing happening right now where at least on the part of suppliers, they don't want to change the size of the slices of the pie, they want to shrink the pie.

And I think where you have an entity in the chain of distribution that clearly believes that price outpaces value, that it is incumbent on us as WorldSpan and I can't speak for an industry, I'll speak for a company, but it becomes incumbent on us to make sure that we provide value for the services that we produce that is commensurate with the price. And that's what will come out of this.

CHAIRMAN WINSTEAD: And when will this be completed?

MR. BLACKNEY: Well, we clearly hope to have it completed by late summer, early fall. But a lot of that will have to do with what we hear as we talk to people and do it in an organized way. Frankly, one of the ones that I failed to mention that we will talk to is also consumers because there are other models, particularly other online models for the purchase of goods in an online environment where the cost of the distribution of those goods is borne differently than it's borne in the cost of the distribution of goods purchased online in the travel channel.

CHAIRMAN WINSTEAD: Can I turn to the panel for questions? Ted?

MR. LAWSON: Yes, Paul. I'm interested in your new vision or pricing. What is your makeup of, how many, what's your percentage of small independent travel agencies that have WorldSpan currently?

MR. BLACKNEY: Percentage of them? It probably, I guess I'd have to ask the unit of measure, but I guess if you looked in terms of volumes of transactions, they probably represent 30 percent or so of our transactional volume.

MR. LAWSON: How does that relate to Expedia, Orbitz and Priceline?

MR. BLACKNEY: Our online channels represent roughly 50 percent of our volume.

MR. LAWSON: Okay. So, you're really slanted towards e-commerce?

MR. BLACKNEY: We aren't slanted toward e-commerce. We're slanted toward the ways in which the consumer chooses to buy travel. I think, you know, certainly in WorldSpan's history as a company and my history in this industry, my view of the travel agent and the importance that they play, have played and continue to play and will continue to play in the future in the distribution of travel is totally clear. And I kind of take a, almost chuckle in some respects when you talk about small travel agents.

I don't think this is an issue with small and large. I think the issue is what services do the travel agents provide; and whether you're a small travel agent or a large travel agent, what you do is you are an order taker that takes information over a telephone and just fulfills a simple order. That is something that is very easily replaced by mechanical means.

To the extent that the travel agent provides counseling services, they provide expertise and importantly they provide comfort in what is particularly in a post-9/11 environment, not necessarily the most comfortable environment, I think there is a real value in that. And they will continue to have that value.

CHAIRMAN WINSTEAD: All right. Yes, Joyce?

MS. ROUGE: Mr. Blackney, 50 percent of online travel, can you explain that dominance that you have? I mean, how did that come about?

MR. BLACKNEY: Sure. We're no one's competitor. Very simple. If you go back early on, the first of the online entities that did business with WorldSpan was Expedia and we were fortunate to win that business. Priceline was next and we were fortunate to win that business. Orbitz was next in terms of the large ones, we won that business as well.

But we don't run at Travelocity. So, we are not in competition with Expedia or Orbitz or Priceline or any other entity that uses WorldSpan as the engine to work that. Just as we run hosting systems for multiple competing airlines including some of our owners, just as we run web systems for multiple competing entities, so I think we've gotten into that position (a) by being clearly positioned as being no one's competitor, and secondly, we got into that position by proving we can do it.

If you look at the phenomenal experience of the growth of Orbitz over the course of the past year, on Day One, they were doing zero. Today, by the testimony I heard, they are at an equivalent with Travelocity and Expedia. It takes a certain level of expertise to gear up to handling those kinds of items and we have a lot of experience in doing that.

MS. ROUGE: How does it break down within that 50 percent of like Expedia or Orbitz or the online, the airline websites?

MR. BLACKNEY: Well, that doesn't include the websites.

MS. ROUGE: Okay. That's separate.

MR. BLACKNEY: The airline websites, we mark that under a different line of business. But in terms of the distribution business, the neutral distribution business, if you will, the big three are obviously the larger percentage of our 50 percent. But we have some 80 websites around the world that are engined by WorldSpan. And they continue to grow as the phenomena of the adoption of the internet and e-commerce as a way of doing business expands to other parts of the world.

MS. ROUGE: Can you break down Expedia's and Priceline's and Orbitz'?

MR. BLACKNEY: I'd just go with what have been said earlier. I like to stay away from specific customer information but I think it's fair to characterize them as being reasonably equal in size.

DR. MITCHELL: How do you view your current position of being demonized by several other sources? And how would you respond to that in the marketplace in how you fit and how you plan to move in the future which you've already alluded to?

MR. BLACKNEY: I guess I'm used to being demonized, so that's --

DR. MITCHELL: Do you think it's fair?

MR. BLACKNEY: It doesn't matter whether

it's fair or not, it's real. And you have to deal with the reality of what's out there and you have to be practical about it. We have never shied away from competition and by not shying away from competition, I think we've been able to positively affect our market position particularly in the last three or four years.

If there are entities out there be it ones in the room or ones that are not in the room that want to get into the GDS business, they're, you know, they're welcome to do that and we're welcome to compete with them. Our technology is dinosaur. Our systems are not out of date. We provide a very facile system across a wide variety of products that serves the needs of consumers, of distributors and suppliers.

We may not have done the best job in the world of demonstrating the value in the course of the last years of the industry but I think that will change.

CHAIRMAN WINSTEAD: Any Commissioners have any questions?

MR. MURPHY: Yes. Earlier this morning, we heard Orbitz' statement that their number one suggestion was to change the relationship between the CRS's and the travel agents through the contracts by prohibiting productivity pricing, by shortening contract terms, by preventing overlap of multiple contract terms, barring liquidated damages and similar measures. Do you have any comment on that?

MR. BLACKNEY: Oh, I guess my only comment would be, is that in the current rule-making, I think we've been clear that we believe the best rules are no rules. And no rules means no rules, so that if there are no rules, then we should be free to enter into contract negotiations with business partners on equal terms and negotiate the kinds of contracts that we want to negotiate. If those are long-term contracts or those are contracts that have incentives or those are contracts that have overlaps or whatever, as long as they're entered into freely between the parties, we ought to be able to do them to the extent that there are no rules.

If there are rules, and as I said we're clearly on record that they should be done away with or suspended for two years --

MR. MURPHY: I think it's a good assumption there will be some rules.

MR. BLACKNEY: I suspect there will be. Then, I think you have to be very careful about how you deal with the dynamics of the marketplace by saying this practice is okay, this practice is not okay because they have a way of distorting what the end result is. I don't think in 1984 when the rules were first promulgated that anyone would have envisioned the discussion that took place today as it surrounds the pricing policies of the GDS's worldwide and the power that theoretically we have and what it's done to prices.

So, I'd be very careful what would happen with rules on a forward-going basis. I think the market has demonstrated, you know, in the 250 years in the history of this country that a free market system works pretty well. But that means it's got to be free.

MR. MURPHY: And secondly, with your announcement today that you're going to evaluate new pricing strategies and that the current industry model is broken, do you envision we're going to see more competition in the future or in the CRS booking fees?

MR. BLACKNEY: I think there's always been competition. We have a very responsive, I believe, pricing system that exists today that results in varying prices depending on the type of transactions that take place and the amount of work that WorldSpan has to do in delivering those transactions. I think that it would be very beneficial to everyone involved in the chain of distribution including WorldSpan if we were to be increasingly flexible and able to address value for service provided to the entity to whom that value accrues.

MR. MURPHY: Well, to the extent that the re-evaluation led to even more price competition for CRS booking fees. We saw earlier the graph showing the fees, the GDS fees going up while the commissions were going down. Do you think it's possible that the GDS fees will begin to move downward with the new pricing model?

MR. BLACKNEY: It depends on how you define GDS fees. It's back to my analogy about the pie and changing the size of the slices of the pie. In terms of changing the size of the slices, those slices might change. I think a fundamental piece of the discussion is how big is the pie. And as long as you have one set of entities, in this case the suppliers in the distribution chain that believe that the pie is too big largely because the perception is, whether it's reality or perception, I don't want to argue, but the perception is that the size of the pie is determined only by the supplier, and that, therefore, the slices of that pie, the discussion of how big they are is not relevant.

Then I think we have to look very carefully at our sources of revenue and make sure that our revenue sources are in line with the value we create. And frankly, and I've said this in interviews and so forth, we need to decompose all the things that we do and look at them from a value perspective. And frankly, if we do things today that no one is willing to pay for, we should stop doing it.

MR. MURPHY: Thank you.

CHAIRMAN WINSTEAD: Paul, let me ask you, you know, this analysis, you're going through this new business plan and the comment about the industry's outgrown pricing mechanism. I mean, as someone who's not been in the industry before and the comments about the CRS and GDS fees, if you look at what's happened since 9/11 and Delta's actions that they just mentioned in terms of commission, we certainly have seen a huge attrition. We started of a hearing in Washington seeing an 18 percent reduction in travel agents. And yet they're delivering 70 percent or through, large and small.

Do you think that your reconfiguring a business model in pricing of your fees will in fact bring them, will enable even the smaller ones to come back in and be competitive on the airline?

MR. BLACKNEY: I think, again, I personally shy away from the small and large comparison because I don't think it's particularly the valid one. It's what does the travel agent provide in terms of services. And if the services that they're providing are basically rote, mechanical, order-taking type services, I don't see anything that would change in GDS pricing that's really going to change that.

In a previous life, in almost ten years ago, I addressed a travel agency group and said you need to be very careful if you value yourself on writing tickets because they're going to go away. If you value yourself as a gatekeeper of information because it's going to become ubiquitous or if you value yourself by making reservations because that's going to become mechanized. And I think those things all stand true today.

And so, I don't think that pricing per se is going to bring or take anybody else in or out of the market. It's what value that they provide and is it the way that the consumer wants to buy travel. I don't think there's going to be one winner and eight losers. I think that you're going to see the size of the pieces of, or the selection of distribution change as the consumer decides which way they want to buy travel.

WorldSpan's goal is to make sure that we're involved in all those ways.

CHAIRMAN WINSTEAD: Paul, I think you, do you have a question?

MR. RUDEN: Yes.

MR. BLACKNEY: Why does that not surprise me?

MR. RUDEN: I will try as usual, as always, to be brief. The complaints about CRS market power and excessive booking fees are not new, as you know. They've been around for many, many years. And without getting into the question of how long I've been around or how long you've been around which we discussed at the last hearing, why did it take so long for CRS decision makers to make the decision to start negotiating about fees with at least the big agencies?

MR. BLACKNEY: Well, I guess I make two comments on that. I don't know whether it took so long is the right answer, but whether it took too long or it didn't take too long, the reality is we are here today and you can only do change on a forward-going basis. Now, in my 20-20 hindsight mirror, should we have done this at some point in the past? Who knows. But I can only change what we do from this point forward.

MR. RUDEN: I know you're not going to tell us today the details of these various pricing options. But I'm sure you know that the press release you'd put out has struck terror in the hearts of a lot of people because it implies, if it doesn't say, that CRS booking fees are coming your way to small business people who say I've already had my revenue stream destroyed by the continuous reduction in commissions to the zero level today.

I'm out in the marketplace trying to charge fees, trying to negotiate my way through this set of different systems that the airlines have created, one of which offers the consumer frequently prices that are hundreds of dollars below the price that I am being given to sell, even though I'm their agent. And then, now, they are asking the question, how can I function recognizing all the talk about value of service if we are now going to have the next shoe drop which is travel agents, you get the CRS fees on your books and you can pass those on to consumers and try to explain to them why it is that the cost of buying through travel agents keeps going up and up and up while distribution expenses on airline books go down.

Because that's what you're essentially doing, you're just taking stuff off one set of books and passing it on to consumers through somebody else's set of books. Is that where we're going in your view?

MR. BLACKNEY: Well, no. I think for someone to read into what we said about looking at pricing that the answer was already drawn is in error. And as you know, we are in a listen mode and one of the folks we're going to be listening to is you on Friday. And so, you know, we don't have a foregone conclusion on this other than the fact that the realization is whether you like this statement or not, there is a significant portion of the chain of distribution, that being the suppliers.

And I'm very careful to use the word suppliers and not the world airlines although I realize this is a commission on airline information. But this level of concern goes beyond the airline industry, goes to the suppliers. And the concern is that there is the perception that all the costs of this are borne by them, and all the value isn't necessarily theirs.

Now, you can read that as that costs are, you know, booking fees are coming at travel agents, you can read that they're coming at consumers. You can read all kinds of different things about it, or that we're going to make the whole system more efficient and take cost out of it. I can't give you the definitive answer to this yet.

MR. RUDEN: Let me run through real quick just some factual things that I'm not clear about in your testimony. On page 4 at the top, you talk about that WorldSpan has structured fees according to specific market segments. Now, there's a CRS rule that says no fee discrimination. You have to charge the same fees for the same service to each airline.

MR. BLACKNEY: That's correct.

MR. RUDEN: So, this refers to something else obviously.

MR. BLACKNEY: That is absolutely correct. It's a way in which the system is utilized. The amount of sharing that takes place, the types of transactions that takes place, carriers have or suppliers have the choice of various levels of communication technologies that they can choose to employ in how they communicate with the system and so forth. And those things can vary prices.

MR. RUDEN: Further down the page, you say, "Growth has been necessitated," and this is, I guess, growth in costs, CRS cost, "necessitated to support the suppliers' sophisticated revenue management systems."

What is that about?

MR. BLACKNEY: Well, roughly, in excess of 40 percent of all the development that we do as WorldSpan is to meet the needs of suppliers, whether they're industry requirements, government mandates or whatever it happens to be, some 40 percent of what we do. But revenue management systems have become very sophisticated in the last few years and if you were to go back seven or eight years ago, things like married segments didn't exist.

You would sell segment from A to B and B to C and the price would be, you know, the A to C price. But there are carriers that don't want you taking it A to B and B to C. They only want you to take it if they want it to be sold that way, and we have the systems and the sophistication that make that happen.

One interesting statistic that I had pulled together for this, one of the measures of what we do with the complexity of our transactions is in a measure called MIPS. And MIPS is millions of instructions per second, and that's the length of the computer programs that we have to go through to process a transaction. The path links of our transactions from 1996 through May 15th of this year has gone up by 56.2 percent.

The complexity of the transactions that we process in order to facilitate shopping, low fare searching, availability searching, communicating in real time with 20 carriers in order to put up an availability display and so forth has caused the compound growth rate to be 56 percent in the complexity of transactions. So, welcome to our business.

MR. RUDEN: Dr. Mitchell said you were being demonized and, not by her but in general. And from what I hear, Orbitz intends to have an exorcism because they're saying that not too far down the road, they're going to what they call this direct connect thing where they're going to cut you, your company out of the picture. How, then, in that environment will those kinds of functions get performed and integrated?

MR. BLACKNEY: You'd have to ask Orbitz how they plan to perform and integrate those things. And on a general level, this industry tends to talk about, I mean the travel industry in whole but also the technical part of it in particular, tends to talk about very complicated situations, very complicated transactions in relatively simplistic terms. And it's reasonable --

MR. RUDEN: Sometimes some of us can only understand it that way.

MR. BLACKNEY: Well, some of us aren't really technicians but have had to become that way. But it's one thing to hook up, you know, direct connects to five or ten or 15 or 40 or whatever number. It's another thing to do it and to manage it and to make it efficient to 520 some airlines worldwide who vary in technical sophistication and capabilities from, you know, the space age to something that approaches two cans and a string.

And, you know, we provide a plethora of integration services in the way we do this across a number of products. If someone wants to get into this market place and compete with us on that, we're welcome to have that happen.

MR. RUDEN: In the same paragraph, you refer to a shift to online bookings, and there is certainly a lot of data to support the fact that that's happening, requires more computer resource intensive shopping or perhaps that's the result of the shift.

Is that one of the things that drives

these message links and these other things that you're talking about?

MR. BLACKNEY: It doesn't necessarily drive the message link although it does in some extent but it certainly drives the number of messages. I don't think there's any surprise in the statement to you or to Dr. Mitchell or to Mr. Lawson that the travel agent is a much more efficient user of information technology relative to travel, and I'm sorry, Maryles, to you as well, to the user of information of travel than the consumer is. And generally speaking, you aren't on the system at 2:00 o'clock in the morning because you can't sleep surfing for prices across multiple sites. There are a lot of consumers who do exactly that.

MR. RUDEN: Well, you go on down this page and you talk about other types of costs that have to be covered by somebody including non-travel e-commerce companies that have entered the online market and so forth. Are all of those costs that you incur, that WorldSpan incurs, being covered by CRS booking fees today?

MR. BLACKNEY: No, we have other sources of revenue. We charge technology service fees in some cases. We provide hosting services to carriers that are not covered by booking fees and a number of other things. The vast majority of our revenue does come from CRS booking fees but not all.

MR. RUDEN: A lot of the things you talked about though are not driven by travel agents, it seems to me if I'm understanding this right.

MR. BLACKNEY: A lot aren't and a lot are.

MR. RUDEN: Yes. But if a significant portion of those costs that you describe as having been necessary over time to keep up with what airlines are asking for, for example, married segments being one of them perhaps, many examples, those are not travel agent driven. In a sense, they're not even consumer driven. They're supplier driven.

MR. BLACKNEY: Those particular ones aren't. Many of the others are.

MR. RUDEN: I understand that there are others, yes.

MR. BLACKNEY: Right.

MR. RUDEN: That raises a difficult question though about how you're starting to look at this transparency issue of aligning cost with value. You've got to be very precise, don't you, about who is driving the cost.

MR. BLACKNEY: Oh, we have to be very

precise about what the services we provide are, what the costs of those services are by making a determination, you know, where the appropriate costs for those services lie. And as I said earlier, if we find we do things that nobody wants to pay for, then maybe we should just stop doing it.

MR. RUDEN: Okay. On page 5 of your testimony about three quarters of the way down, you address the question of a new entrant and it now turns out we may have one, at least an aspirant to entry which would be the first one in a long time. Orbitz, they seem to be saying here the exact opposite of what WorldSpan is saying. And WorldSpan is Orbitz' engine right now.

Why are they, the alter ego of the five largest airlines, wrong about this?

MR. BLACKNEY: Different people have different views and that's what competition does. If there is a new entrant in the CRS marketplace, then there will be a new entrant and we will compete with them. And if there's more than one new entrant because I'm not sure that they're the only ones who would like to be in this business, and if there are more than one, then it's incumbent on us and the others still have to decide what they want to do but it's incumbent on us to compete with them and to compete effectively and innovatively.

And I think we've done that. And I think we've shown that particularly over the last three or four years.

MR. RUDEN: Do you have a way to solve the conundrum that Mr. Yohe and I were talking about of figuring out who actually gets value of a particular service, who is it for and what are the stimulative consequences --

MR. BLACKNEY: Ask me that in about another 90 days and I'll tell you whether I can answer that directly or not or to what extent I can answer it.

MR. RUDEN: All right. Today, you don't have the answer to that?

MR. BLACKNEY: Today, I can clearly pick out some things that are of value to travel agents and others that are of value to the suppliers. But it's a very complicated system. And when I say system, I don't just mean the computer system. I mean the way in which travel is distributed.

MR. RUDEN: All right. Thank you very much.

MR. BLACKNEY: Thank you.

MR. RUDEN: That's all my questions.

CHAIRMAN WINSTEAD: Paul, thank you. Are there any other pressing questions? Great. I really appreciate you spending --

MR. BLACKNEY: It's always fun to be the last one before lunch. I apologize.

CHAIRMAN WINSTEAD: If I could just have, there are a bunch of after-lunch, we're going to come back at 2:00 o'clock and resume but can I have any of the travel agents that are signed up for this afternoon that have travel plans that would be pressing at 3:00 o'clock or after? Come up and just let us know. Now, we'll be back here at 2:00 o'clock to resume the hearing. Thank you.

(Whereupon, a lunch recess was taken at 1:15 p.m. to resume at 2:00 p.m.)

CHAIRMAN WINSTEAD: Thank you for coming back. I'm sorry we were a little late in getting started here. United Airlines has left testimony with us. Unfortunately, they needed to, the executive needed to head back, Greg Taylor. And he's going to participate in a hearing later this month in lieu thereof. But we do have copies of their testimony.

And I did want to get right in this afternoon because I know we have some, a number of people that have flight plans out. But Beau Brindler, Director of Consumer Web Watch at Consumer Union and also Chuck Bell, Director of Programs are with us.

So we really appreciate you coming and we did get your testimony in advance. We appreciate you, the time you've taken taking with that and we'd be happy to summarize your testimony. I'm sure we had a lot of questions.

MR. BRINDLER: Sure.

CHAIRMAN WINSTEAD: Thanks.

MR. BRINDLER: And just to sort of, I sort of represent kind of a journalistic function at Consumer's Union and am here to also speak for Bill McGee or you've got Bill McGee's testimony. But Bill is the editor of the Consumer Reports Travel Letter and is probably known to some of you folks, but he can't join us today.

So, just briefly, Consumer Reports Travel Letter is published by Consumer's Union, a nonprofit, independent organization founded in 1936. No Consumer's Union publication accepts outside advertising or is beholden to any commercial interests. And Consumer Reports Travel Letter does not engage in marketing relationships of any kind with outside travel companies, accepts no free trips or gifts, and nothing published in the Travel Letter can be used in advertising.

Of interest, and I think many of you have copies of it, but of interest, I think, to you, is the June, 2002, issue of Consumer Reports Travel Letter, which includes the story, "Travel Websites You Still Need to Compare", which reflects the extensive testing that Consumer Reports Travel Letter and Consumer Web Watch recently did, among the six largest integrated travel websites. We can get additional copies of those for you who don't have them.

It says, "This testing built on the earlier research that Consumer Reports Travel Letter conducted in travel purchasing on-line. An examination of four integrated travel websites, at that time, which is Cheap Tickets, Expedia, Lowest Fare and Travelocity."

So, we have that material as well for your use if you need it.

To our knowledge, no other independent and unbiased organization has conducted testing of integrated travel websites or travel agencies that has been as extensive, in depth and repetitive as the testing conducted by Consumer Reports Travel Letter.

For the June, 2002 study, Consumer Reports

Travel Letter and Consumer Web Watch conducted nine coordinated tests of ten roots at various times of the day and week. Again, this is of the six majors.

Each website was queried 90 times for a total of 540 queries. Consumer's Union statistics staff confirmed that this was a valid sampling. And in addition, Consumer Reports Travel Letter bench marked all three of its travel distribution examinations by conducting identical and simultaneous tests in a computer reservation system operated by an outside consultant, New York-based Harrell Associates.

At all times, Consumer Reports Travel Letter's and Consumer Web Watch's interests rests squarely with the consumer. However, it's clear that the interest of the consumer is consistent with one of the twin mandates of this Commission, to determine whether there are impediments to the distribution of schedule and fair information to the traveling public.

Our examinations have raised serious questions about such impediments.

In October, 2000, Consumer Reports Travel Letter cited disturbing evidence of bias in the integrated travel websites.

In June, 2002, Consumer Reports Travel Letter stated, "It is fair to say that, even overlooking the issue of ownership, the relationships between websites and their airline advertising and marketing partners, have raised reasonable doubts in both our website studies."

You have copies of the questions that were raised from this research. And just briefly, a couple of the more compelling ones were why did these integrated travel websites offer such broadly different flights and fares as their first offerings when we submitted identical real time queries for the lowest fares on busy, competitive, domestic routes? And why did these integrated travel websites so often not offer lowest fares that were equal to or lower than the fares offered by a regulated computer reservation system, particularly since most of these sites are powered by CRSs?

For example, in our June, 2002 study, this percentage of not meeting or beating the CRS range from 22 percent for Expedia to 76 percent for One Travel.

The more closely we examined integrated travel websites, the more perplexed we are by the quality of the flight and fare information offered by these systems. Clearly, there are great bargains to be had in these sites. But it's equally clear that there is little order in their integrated displays and that consumers are not always assured of receiving complete and honest responses to all queries.

And this is the summary of Bill McGee's testimony.

And let me just very briefly describe what Consumer Web Watch is. We are a grant-funded project of Consumer's Union, the nonprofit publisher of Consumer Reports. And we're supported by grants from a few charitable trusts, John S.& James -- Foundation and the Open Society Institute.

Our roll in this is is that through its grantors, Consumer Web Watch funded the Consumer Reports Travel Letter's latest research in 2002 that I've been talking about. And we also participated in that research, hands on.

So, the conclusions reached by the Consumer Reports Travel Letter are our conclusions as well.

In addition, Consumer Web Watch also commissioned a research paper by Harrell Associates, a leading airline pricing consulting firm in New York. And we've provided copies of that to you as well.

You've already heard many of that reports' conclusions. Briefly adding some additional ones, we also think that consumers can indeed find great bargains on airline ticket booking sites, but it's important for them to learn as much as they can about how the sites work and who their various owners are.

Sites should better separate airline and other advertising from screens of available fares so the consumer is not manipulated into making a choice based on strategic placement of an ad.

Further, fees should be more clearly disclosed earlier in transactions, not at the end.

Concurrent with the publication of the Travel Letter's research and with the Harrell Report, we also proposed and published six guidelines specifically for airline ticket booking sites. They're included in the documents we've provided and you can also find them at www.consumerwebwatch.org.

Thank you for your time today. I'll now turn this over to Chuck Bell of Consumer's Union. He'll discuss Consumer's Union's position on these issues.

MR. BELL: Our mission at Consumer's Union is to conduct independent tests of products and services, to inform consumers, their policy makers. And also, where necessary, to advocate for consumer protection.

And so I come from the advocacy side of the organization. I am the Programs Director in the executive office of Consumer's Union.

And we're very pleased that the Commission is looking into this issue. We think that you have a major opportunity to make a critical difference in improving the quality of information for consumers in the traveling public.

And our basic approach to this issue is we want consumers to have complete and unbiased information in whatever medium they choose to shop for travel services. We think that the integrity and quality of information on the web and the independence from commercial sponsorship is an important emerging issue in the 21st century. And we believe, in general, that markets depend upon the transparent exchange of accurate information.

And when there is manipulation and distortion and inaccurate information, consumers suffer. And the economy, as a whole, may suffer as well.

Beau has just summarized the fact that we've now done two major studies on integrated air travel booking sites. We do think there's a lot of benefits for consumers from these sites and there's some very good deals out there.

However, we've also reported we've seen disturbing evidence of bias. In our 2000 study, for example, we found that on Travelocity, advertised airlines dominated flight listings. On lowest fare, many TWA flights with inconvenient itineraries were repeatedly listed first. And on all four sites we looked at at that year, certain airlines with viable itineraries for routes we tested, were not listed at all.

And so, we think there's a very important issue relating to the relationships between these integrated travel sites and the airlines and marketing partners. And that these raise reasonable doubts whether consumers are getting a fair, complete and unbiased presentation of fare and schedule information.

We are not alone in this view of being concerned about display bias. We believe it's widely shared among other national, state and local consumer organizations. It's shared by many independent researchers, scholars and economists. And certainly shared by many consumers, who by and large are not aware of the extent to which there are pay-for-placement arrangements on search engines and other shopping tools on the internet.

We have now written twice to the Department of Transportation to urge two things. We've urged them to regulate the integrated travel websites using the same methodology that was used to effectively regulate the Computer Reservation System, CRS systems.

And second, we've urged them to require travel agencies to disclose to consumers the existence of commission overrides and incentives from airlines and travel companies.

So, we think this is a very important issue. We invite you to join us in making the same recommendation to the Department of Transportation, and if necessary, to the Congress.

We think that, you know, a recommendation of that nature coming from you would be greatly appreciated by consumers and would have a great deal of weight. And we feel that this is one of the most essential issues that needs to be addressed in terms of improving the quality of information for consumers.

CHAIRMAN WINSTEAD: We appreciate it. Beau and Chuck, thanks again for a very complete and also your survey and results.

Just a couple of questions, and I'm sure others will have a lot more.

At a previous hearing, and you've heard again today, we have a lot of issues about the access to low fares and particularly as related to Orbitz. And they testified this morning.

But in your research, Expedia and Travelocity actually have lower rates than under the survey. And I was curious how you sort of balance that to a lot of the testimony we heard in Washington and again today?

MR. BRINDLER: To some extent, probably some more detailed answers to that can be had from Bill and we can get you probably more detail if you need it.

Really, in the testing of the six websites, the three, you know, the top three, and it came out Expedia for lowest fares, Travelocity for, still for lowest fares but a little better with viable flights. And then Orbitz, sort of a relatively strong third. And there's a big gap between those top three and the bottom three.

So, it was very, it was very close in determining. But it related to a number of factors having to do with privacy policy and not just fares. Ease of use and some other types of factors. And we sort of lined them up and it was as if it was kind of a road race. After, you know, each one passed all of the individual parts on the curve.

MR. BELL: Yeah. I'd just like to add though also that we didn't say that there was one site that's the clear standout site that consumers should use exclusively.

In fact, we came up with a sort of a different conclusion, which is you really need to shop around. And, in fact, the article mentions that, you know, calling a travel agent is also a method of shopping for air fares that, you know, we think is important.

So, I think the policy implication that's raised by our study is why do consumers get such different results by using tools that are supposedly their agent? You know, this is, in effect, their agent trying to get them the best or the lowest-priced air fares. And yet there's a significant variation between these different tools.

And we think that it should be -- if there are various marketing tie ins and transaction fee arrangements, those shortcomings ought to be disclosed up front to consumers so that they can evaluate the integrity of that tool when they're using it.

CHAIRMAN WINSTEAD: Chuck, one of your last statements before you concluded was, again, the request for our consideration of potentially looking at regulation of the websites. And I would be curious, I'm sure others will have questions in that area. Where have -- can you give us examples of perhaps other industries where you all are on the same charge? And what's happened? Has any of them gone anywhere?

MR. BELL: Well, in our project, our Consumer Web Watch project, we're also looking at other types of on-line shopping tools such as tools that purport to get you the best price for electronic goods or insurance quotes, search engines --

MR. BRINDLER: General search engines.

MR. BELL: Search engines. We'd like to see greater delineation between commercially sponsored listings and, or just to make it clear that there is a pay-for-placement arrangement so that your search results are not just the best, the information that's the most salient to your request. It might have some sort of a commercial sponsorship.

And then sort of the agency issues. As you know, in the real estate industry, it's been a major issue for many years to inform consumers that real estate agents actually generally work for the seller. Or if there's issues of dual agency, that that's been a very important issue.

We have a similar issue we're working on in the financial services area right now, where many brokers do not disclose that they are investment banks or underwriting issues that they're actually urging investors and consumers to buy.

So, we see this issue of market transparency and conflicts of interest as one that does cut across many different types of industries. And we think it's very important in the travel area as well.

CHAIRMAN WINSTEAD: Great. Well, I am sure that it's generated some questions, so I will turn to my colleagues in the Commission here and --

MR. LAWSON: I'm interested in your perspective that, my view of air transportation is that it's a public transportation system that the economy depends on. So, it's a little bit different than just a business out there competing.

What is your view? Because I think the other thing is, I've always had this voice in the back of my mind that perhaps the airlines are operating on a system of where there's confusion, there's profit.

And, but from that standpoint, shouldn't there be a comparison for public transportation that you could rely on that you either fulfilled the requirements of a particular fare and you were able to achieve that fare without going to five or six different channels in order to come up with that?

What's your all's perspective on that?

MR. BELL: Well, I think that we feel that the problem that arose in the early 80's, possibly earlier, with the Computer Reservation Systems, was not just a problem for consumers. It was also a problem for airlines and travel agents as well, that the issue of display bias was investigated by the Department of Transportation and the General Accounting Office. And, you know, and found really to be a major problem, given that many of the flights were getting booked based on the first, first line of results that were returned.

And so, I think there is -- and also travel is something and it's a larger ticket item for consumers. Air travel, you know, is expensive. I mean, it's, of course, it's a good bargain in many respects. But it's more expensive than many other goods and services that consumers buy.

We think that people ought to be able to use these tools effectively. And I think we're a little frustrated by not being able to say, you know, they're all roughly equivalent. You'll find a good fare on all of them.

A lot of consumers will go to one of these tools and think they've really come away with a bargain.

So, we think, for many different reasons, that there's a very important reason to standardize the provision of information across these tools or else to prominently inform the consumers in what ways they might have shortcomings.

MR. BRINDLER: Yeah. Disclosure, in its sort of purest sense, is important, we think. Not necessarily for any reason other than the amount of sort of consumer confusion that you point to or that you asked about. And that, you know, knowing from a site that a fare was a web-only fare, when it actually is a web-only fare or an exclusive fare.

Some of the other concerns that we've, you know, heard from consumers just sort of range through the use of different kinds of words throughout the industry. What is a connection versus a direct flight versus a -- you know?

And there's not, it's not that we're sort of advocating for standardization among websites in the sense that it would, you know, limit the number of options for consumers. But we just are seeking really some consistency of term use and some consistency of technology and some consistency of disclosure as to how your industry works. Because it's very complicated from one end to the other as you've sort of seen in the Harrell Report that we did.

I mean, that was really an intent to try to help consumers learn as much about the industry as they might learn listening to a hearing like this. And it's a pretty complicated report as you've seen, so.

MR. LAWSON: In the perfect world, how would you like to see fares disseminated?

MR. BRINDLER: That's, as far as websites, which is really what, what, is really what I'm only qualified to speak to. Just that there would, that again, that they're clearly, you're clearly disclosed that when you're being offered a lowest fare, that it is, indeed, the lowest fare.

That, you know, that concerns about marketing agreements with airlines do not necessarily interfere in the consumer experience of trying to buy a ticket.

Consumers shouldn't be hoodwinked or steered or pushed in a different direction based on the way the technology of a particular website is set up. If they want to come in and get the lowest fare on Continental, they should be able to do that even if the website has some sort of marketing agreement with another airline that pushes pages at it that say, "Our featured airline is this. Our featured airline is this."

It's still a very new medium and it's still very difficult for people to get used to working with. And, you know, it's amazing to us how few people who use the web regularly even understand what a banner ad is, let alone how to find, you know, a fare in a complicated grid.

So, I guess just simplicity and disclosure of terms would be a big help to answer your question.

MR. BELL: I think also from the advocacy perspective, we believe that public oversight is also necessary. I mean, this is a very complicated market. There are big incentives for various players to try to game the system as was seen in the 1980's.

And so, we'd like to be able to trust all the actors, you know, to having good faith and good intentions. But I think we also need to verify. And so there needs to be oversight by appropriate federal agencies.

MR. ROPER: Since we are focused on the consumer, do you think that, perhaps, is there a possibility that this Commission could take a look at your raw data. Because there are a lot of variables in doing this type of research. And I think it would be very helpful to us since you are focused on the consumer.

And Bill, did I see you on T.V.?

MR. BELL: Yeah. I have been.

MR. ROPER: And Chuck, so you know, I came out based on you allowing the press to come in and do the spin, that Travelocity was the number one site that you were recommending. I mean, that's what happens when you allow the press to come in and do that, sir.

What you tried to accomplish, you didn't. Because I walked away saying to my wife, "Travelocity is -- it's in our home town, but it's not even on the screen.

MR. BELL: Well, I think I would urge people to read the report that we published. Because we take a lot of care in characterizing results. It's always an issue. And when the findings are reported in the trade press and the popular press, they tend to seize on the most, you know, the numbers or whatever finding entices them the most. And so you don't always get the most balanced presentation.

And in terms, I mean, I'm sure we could provide additional background and briefing. It's really a question for our editor in terms of what, what additional data. I mean, I think we've put most, most of the background in the public domain through the Harrell Associates Report and what we published.

MR. ROPER: Well, just so we could come back to you in case we have any --

MR. BELL: Certainly.

MR. ROPER: -- additional questions.

MR. BELL: Certainly.

MR. ROPER: And I thought Bill looked great on T.V. I mean, he was --

MR. BELL: Thank you.

MS. ROUGE: Yes. When you were doing your study, you know, we had so much discussion back in Washington and then today on the new technology and where it's taking us. Were you, did you also look at the search engines that the different airline sites were using and did you have any thought as to whether one was better than the other? Or are they compared to each other?

MR. BRINDLER: We didn't compare, really, at that level. I mean, at the, we just really sort of compared the consumer end of it.

So, in terms of sort of, you know, taking a look at whether, you know, Ammadeus had a better technology than another type of CRS or whatever. We didn't look at it that way. We just really looked at it in terms of the front-end results.

MS. ROUGE: Because the on-line sites go out and advertise a lot about their, you know, our search engine is better. I mean, a lot of times they, or even in their press releases, they put forth that. And so I was just curious if that was --

MR. BELL: We do have some analysis of the different features that are available on the different sites. So, for example, how many people can you book for?

MS. ROUGE: Um-hum.

MR. BELL: What happens if you're taking children or seniors with you?

There was, you know, we noted some variation. We found, and there was two sites, I think, in particular. We said the customer service appeared to be significantly stronger than others.

So, we'd, if, I'd be happy to leave a copy with you. It might go to some of those issues.

MS. ROUGE: Thank you.

MR. BELL: We don't have subpoena power, you know. We're sort of approaching this from the consumer perspective as an ordinary consumer would.

MS. ROUGE: Thank you.

MR. ROPER: What are your distribution numbers, on a monthly basis, you publish?

MR. BRINDLER: The Travel Letter has a circulation of over 125,000.

MR. ROPER: Okay.

MR. BRINDLER: Consumer Web Watch is a relatively new website. We just launched in April, so we are building an audience.

MR. ROPER: Okay.

MR. BELL: And then Consumer Reports magazine is approximately at four million subscribers and our on-line website is about 850,000. It's one of the larger, paid-content websites.

DOCTOR MITCHELL: The internet has been somewhat of a sacred cow with it's recent emergence and importance in providing information. And there's been a great reluctance to provide any kind of controls on internet business.

What is your view on that and what would be your recommendations?

MR. BELL: Well, I think it is a new industry. And often times, when you have new infant or emerging industries, there is sort of a sense that you want to give that industry time to get started and to find its moorings and so on.

And so, yes. I think that's absolutely right.

We have, through Consumer Web Watch, we've proposed a number of voluntary guidelines for travel websites that are available today. You know, if a site wants to adopt those guidelines, we think that would be a significant benefit for the consumer.

However, we don't think that the, at a minimum, that the internet should be allowed to get around existing consumer protections that we have in the off-line world. And so, this example of how we have sort of a lower standard of protection for the integrated travel websites, visa vie the computer reservation systems, is an important issue for us.

And there are many other issues relating to fraud or quality of health care information, where, you know, we think it's, we have to scrutinize the internet very carefully and provide appropriate measures through public policy or voluntary initiatives to protect consumers.

So, we don't, you know, we're appropriately cautious about wanting to regulate the internet. We enjoy it. We like it. We want to use it like everyone else. But where consumer interests are being hurt, where people are being steered to overpay or if there's sins of practices, we think that appropriate government action may be warranted.

MR. BRINDLER: And the guidelines that I alluded to earlier will, in essence, form the basis for doing ratings. So eventually, as we're publicizing the guidelines that we've talked about for airline ticket booking sites and independent sites. Those will sort of form criteria that we'll actually use to do consumer reports dial ratings down the road.

So, the Consumer Web Watch part of it does not want, you know, does not stand for government regulation of the internet.

DOCTOR MITCHELL: Thank you.

MR. MURPHY: Yeah. I appreciate your comments about this as a new medium, just emerging. And a bit of a Wild West out there on the internet. And that's why it concerns me, your proposal.

When I go on the internet, almost any

search engine, even to look up a fact or find some bit of information, almost every search engine will bring things up differently. And, in fact, the same search engine will bring it up differently one hour later than it did one hour earlier. And so it concerns me very much that we begin to get on the slippery slope of regulating the internet.

So, with that, I'd like to first understand your position, because I think I've heard a little bit of difference in your position in your discussion.

First I heard, we should regulate the screen displays. So what comes up on our screen will be regulated by the federal government.

And then I also heard there should be full disclosure. And then I've heard an and and an or. Do you want both or either/or of those two outcomes?

MR. BRINDLER: I understand the confusion. Actually, the Consumer Web Watch is a project of Consumer's Union but is independent of it. And we worked with the Travel Letter to do this most recent study.

What we support is the system that I was sort of talking about there with Dr. Mitchell, which is publicizing sort of guidelines for the industry to, you know, improve areas where we think there's consumer concern. And then sort of using those guidelines down the road to be the substance of ratings.

But there is understandable confusion because Consumer's Union, which is the nonprofit publisher of Consumer Reports also has an advocacy arm and an advocacy function that seeks additional, seeks additional action in this area, so.

MR. MURPHY: So, Consumer's Union is the regulators? They want to regulate the internet?

MR. BELL: Well, for this aspect of commerce, we feel that it should meet the same standard that the CRS's are required to meet.

MR. MURPHY: Would you regulate the airlines' own individual websites?

MR. BELL: Actually, we don't, I don't think we see the need to do that at this point because those sites are understood by consumers to be essentially dealerships for the airlines that own them.

But when you have an integrated travel website that holds itself out there as a neutral shopping tool and tells consumers it's going to find them a low fare or perhaps the lowest fare. It's making a claim that is too important to not have some oversight over it.

MR. MURPHY: And so you've done a test on hotel fees on the internet or car rentals? Do they always come up identical from site to site?

MR. BELL: We're actually looking at that.

MR. BRINDLER: Yeah. Planning on doing, doing that --

MR. BELL: I don't believe that they do. But one thing that we have done is, the Consumer Web Watch recently did an opinion survey, a phone poll of 1,500 consumers across the country. And I believe that we found that 60 percent of consumers were not aware that search engines take fees for placement of results. And when they were informed that, yes, some search engines do do this, 85 percent said they would like to have that fact disclosed to them.

So, I think our position would be in the breach of having a uniform regulation of computer reservation systems in integrated travel sites. We do want more disclosure.

But if we were able get a uniform standard, the need for disclosure would recede somewhat because you would be pretty assured by the tool that you're using that you're getting all the viable itineraries and all the low fares.

MR. MURPHY: So, would you recommend the government then regulate the screen display on hotels and car rentals if they turn out to be unevenly displayed?

MR. BELL: I think we have, we have not come to that point. We haven't taken a position on that issue. We're going to do the research first and then see what findings we --

MR. MURPHY: The last question I have then is if, is your sense, if a consumer were to go to an airline website and then go to several of the independent websites and conduct a search over several of those sites, that they would come up with a decent fare that way by doing a search through several sites? Is that, is that the preferred approach?

MR. BRINDLER: In fact, in some of the interviews we've done, and there's been a lot of press interest in this story. We've sort of said that our general recommendation would be to do either way or look at the, look at the integrated sites first, perhaps, and shop. But then make sure that you also look at the airline sites as well because you may find something there that's of equal price that may not have the fees that the integrated sites have or that may be an internet-only fare.

MR. BELL: Or that there's some carriers that are not in those databases also.

MR. MURPHY: I guess that leads me to if the consumer was made aware of, that's the best way to obtain the best fare, is to go to several sites and do some comparison shopping is a more superior approach to having the federal government step in and regulate what comes up on the screen when you call up every website.

MR. BELL: Well, I think our judgement is that under the -- Fair Method, that a lot of consumers will end up not getting the best deal. I mean, the proposition of doing that level of consumer education and also the amount of shopping time and transaction costs involved for consumers, is considerable. And we think it's a better program or proposal to standardize it across the marketplace.

MR. MURPHY: Thank you.

MR. RYDEN: My turn?

CHAIRMAN WINSTEAD: Paul?

MR. RYDEN: I guess so. I'll start by saying you all are the last people in the world I want to fight with. So, I'm not going to.

But I am puzzled. I'm, and especially

after hearing your colloquy with Mr. Lawson about whether this industry, in effect, has something special about it that makes us more concerned about what goes on here than we are about what goes on elsewhere, including hotels, which are at least related to travel, or selling CDs, or selling garden rakes or tennis rackets.

Do you think this industry is vested with a public interest that takes it out of the ordinary run-of-the-mill products that the marketplace supposedly delivers to us? Is it special?

MR. BELL: This is a very important sector for consumers, absolutely. It has may special qualities. I mean, we can only look at what's happened since September 11th to see that there are many public characteristics of travel.

And I also just want to clarify, we're not saying the hotels and car rentals are not important. What we're saying is we haven't come to them yet. We're trying to be even-handed and deal with each industry as we see it.

MR. RYDEN: The reason I'm focusing on this is that in a lot of industries, we see people saying -- and they say it on the internet and they also say it a lot of other places. I've got the best deal in town. I have the best prices in this state. I have the best values in the world.

And we don't concern ourselves about consumers having to figure out whether that's true because, typically, I guess it's because, typically those things occur in marketplaces where there are lots of choices of people to buy from.

And to some extent, that's also true in travel. So I'm, I wonder a little bit about why we would want to bring the government to bear on a statement like I've got the lowest fares.

MR. BELL: You know, I think our feeling is that if you are operating with substantial sponsorship from airlines or a particular, you know, particular carriers, they have particular incentives. You are not just a neutral shopping tool anymore. You're functioning more as a dealership for a particular set of companies.

And we think consumers are entitled to know that. So, at a minimum, we think there should be disclosure of those types of relationships.

But we also think that there's just too much potential for abuse in overcharging of consumers. You know, if there's another way to address it, you know, I would appreciate if the industry would bring it forward. But right now, this seems to be the thing that would make the most sense, that we should meet the common standard that's already been established for the CRSs.

MR. RYDEN: Well, some people at least, at the moment, are arguing that those standards, themselves, are completely out of date precisely because of the advent of the internet.

I was really interested to hear you suggest that for a lot of consumers, it's hard to use and difficult to understand. The commonly accepted view, in the media at least is, and often stated in our industry, that in fact the internet is the easiest thing in the world to use and the easiest to understand. And new information is just a click away. And so we don't need to be concerned. And yet, you are. And your opinion is one I respect and I think everyone respects because of the objectivity and neutrality that you do bring to the table.

But I'm just kind of reeling with the notion of, you know, where this goes. Because as you move further down the marketplace, away from the internet, you have people in business who are typically small businesses. Would these same rules apply to them and separate them out from other small businesses who are not affected by these kinds of requirements?

It's somewhat like putting a skull and crossbones on those people when you have to start talking about all of your business arrangements. Where do you draw the line between bonus compensation and regular compensation and other kinds of marketing deals and advertising sharing arrangements in the infinite variety of stuff that goes on?

I don't know how we deal with that.

MR. BELL: It's something we have to deal with all the time. I mean, it's a serious, it's a serious issue. It's not simple. We don't think it's simple.

I think what we're real calling here is a relatively limited thing is if we want markets to function more efficiently, we need to provide greater transparency.

And now, with the advent of the internet, we actually have the means to do that much more efficiently and economically than we've ever had. And our goal would really be to help consumers make apples- to-apples comparisons when they're shopping for air travel and minimize the hassle and the difficulty, the confusion and the deception.

MR. BRINDLER: And, to go back to something you said earlier. I mean, I guess you can say that, you know, there's a certain concept that the internet is easy to use. But, I mean, in our first research study, when we were kind of coming up with some of the defining principles for what we were going to look at on the web.

It did surprise us that people who were, you know, and that this study was done using social science methods. It was a survey of 1,500 adult internet users. When a group of folks like that, that's a pretty, you know, good sample. When 60 percent of them don't understand how search engines work.

I mean, I guess it's probably easy to use the internet but we seem to see in consumers that they may not necessarily understand exactly how it can be loaded from one particular end or another to direct them in a way that they may not necessarily want to go or that they are looking to go.

MR. RYDEN: Have you all done any control studies to ascertain how those types of consumers understand things like placement of stuff in grocery stores or placement of electronics in electronic stores? When you go in and say I need a radio that does this, this and this. Which do you recommend? Then one store says it's the Sony RX20 and another one -- I hope there is no such thing. And another one says, "Oh, Panasonic, hands down."

And you don't know what deals they've got or what kind of inventory situation they have or what marketing arrangements have been made.

MR. BELL: Right. I think -- no. We haven't done that type of study. I think, by and large though, you would find that most consumers are not aware of those type of arrangements. And we've reported on them in our magazine, particularly the supermarket shelf-space issue.

I think it'd be great if there was a retailer that wanted to get out there and explain to consumers how those arrangements really work.

We have to work on each industry and each opportunity as we come to it. And we think there is a major opportunity in the travel industry to make the results much better and more transparent for consumers.

And so that's what we're focused on here.

MR. RYDEN: Okay. Before I ask you just a few questions to clarify your, the recommendations that appear in Mr. Brindler's written version of your testimony, I want to ask one question that arises out of the Harrell Associates study.

On page 43, it makes a reference to flights and fares of an airline suddenly disappearing from screens as commissions are cut and other marketing arrangements remain unconsummated.

In most marketplaces that aren't regulated, when someone does something that -- if A does something that damages B, B can retaliate and often does. And this suggests that that's what happened in our marketplace, distribution marketplace.

Does that bother you if that's the kind of thing that goes on, that firms respond to adverse treatment by other firms? Would you regulate that or stop it? I mean, what do they do if they are affected by something other than writing nasty letters to the president?

MR. BRINDLER: Is the question -- I'm not sure I understand what the question is.

MR. RYDEN: I didn't ask it very well, so I'm not surprised. Let me try again.

The statement in the report suggests that something untoward happened. A marketplace move was made. Somebody took umbrage at it and responded to it by retaliating, in effect. Removing information from a display saying, "If you do that to me, this is the consequence."

That goes on in markets all the time, every day. Where firms are pushing and shoving and negotiating and cutting deals and retaliating in various ways. Sometimes directly, sometimes by going, cutting a deal with someone else.

Would you, in this industry, would your recommendations go into that behavior and say to people, "You cannot respond."?

MR. BELL: Well, I think at a minimum, actually, we'd like them to put a note on their site saying, "We've purged United from our system. So if you're interested in flying on United today, please consult one of the other sites."

You know, there is an issue of disclosure to the user, who may well think that United is still in the database on that particular day.

MR. BRINDLER: Yeah. I mean, I would say the same thing. It's more a matter of, as far as Consumer Web Watch is concerned on the web, it's disclosure of a particular situation. I mean, we would not advocate, we would not advocate for regulation, but -- I mean, actually Chuck put it perfectly.

MR. BELL: We want more transparency in the information practices. You know, tell us, tell us what's, what your database contains.

MR. RYDEN: All right. Then returning, to wrap up, to the six guidelines that are suggested in Mr. Brindler's statement. The third one says that sites should tell consumers if a given fare is exclusive to that site, exclusive to a particular carrier or affiliated carrier, or exclusive to the internet.

How would each given site necessarily know that? I understand they might have an agreement that covered it. But if they didn't have an agreement, how would they know? Or would this only apply to cases where they had an agreement, which they're, in effect, disclosing?

MR. BRINDLER: Exactly. This would apply to sites that used internet-only fares or sites that were talking about internet-only fares as a marketing tool or as a sales tool or as a consumer tool. Just, you know, this is an internet-only fare. We wanted to let you know that you won't find this fare anywhere else.

MR. RYDEN: So, if I went into Orbitz, let's say. Not that I would. But if I did, if I went into Orbitz and put in a query and up comes 400 options. And each one of those have to say Orbitz has an agreement of exclusivity, if they did, for this fare? And then the next one, there would be no footnotes, and so on. Is that how it would work?

MR. BRINDLER: Something like Orbitz' exclusive web fare could possibly work. I mean, I'm not necessarily sure, given the, you know, massive amount of scheduling material you get from Orbitz, whether there would be room to do that. But something on the order of, you know, an Orbitz exclusive web fare as a sort of logo to differentiate the fare from the others or to let the consumer know that they're only going to find that particular fare there.

MR. RYDEN: And if they -- not that they would. But if they made a representation, like happens in other industries. We've got it right here. One and only, the best, the lowest, the finest.

If they said that and it wasn't true, what would happen?

MR. BRINDLER: Well, we, you know, as I've sort of said, we don't seek to penalize. I mean, certainly, you know, stating the guidelines as we sort of say, here, we're saying to sites, these are the things that we think based on research and so forth that consumers believe are important. Down the road, we're going to rate your sites based on these criteria. So, you know, it's kind of a cumulative thing.

I mean, if somebody makes a mistake. But what we're really asking for, what we're really pushing for, is that, you know, if the site says, "This is the best." You know, if Orbitz says on a particular fare, "This is the best fare you're going to find anywhere on the internet, exclusive to us."

That's a good thing for the consumer if it's true. If it's true, you know, we support the consumer buying the lowest fare.

MR. RYDEN: All right. These definitions that you mentioned. Getting some kind of common terminology about what a connecting flight is and so on.

And it says -- and I understand now these are, these are like recommended practices. These are not, and your, your recommendation is not that these be enacted into law. These are --

MR. BRINDLER: Yes. You're correct.

MR. RYDEN: Okay. It says, "Sites shouldn't make claims of offering the lowest fare if later fees and so forth added to the price are such that a competitor's price or some airlines own branded site beats that fare."

I'm, I don't understand how that would work. How would you ever know that without yourself going and having some subsequent search done?

MR. BRINDLER: It's a disclosure issue. From the consumer end, what we are pushing for there and what we are hoping for is that there is some inconsistency among the sites. And not just the top six that we tested that I was talking about earlier. But really among the majors.

You get through your transaction. You book your flight and all that. And then you encounter different ranges of fares for whether you want a printed paper ticket or not or whether you want it overnighted to you.

We had seen some examples of low fares that were the same as other sites' advertised low fares, but then once you sort of completed the transaction and got all the way to the end, the stuff that you had to pay at the end resulted in what you had to pay to being more than what you'd get at another sites' advertised low fare, if that makes sense.

MR. RYDEN: Would your concern be the same about airline fuel surcharges on airline websites, where you don't find out about that until the end and it turns out the fare is actually more expensive than somewhere else?

MR. BRINDLER: Yes.

MR. RYDEN: Would that be the same problem then?

MR. BRINDLER: Yes. And we think that should be disclosed. If I'm going to, you know, book a ticket and at the end of the transaction, a fee is going to be added, we support those kinds of things being said more upfront, so that the consumer doesn't suddenly find his or herself in a position where they're paying more than they thought they would.

MR. RYDEN: Okay.

MR. BRINDLER: Not that they should stop charging them, but just get it up front.

MR. RYDEN: Right. My last question on this page, these, this topic and then there will be one more and I'm done.

Number five says, "The better sites will provide a 24-hour a day, toll-free help desk", and so on. I didn't understand the use of the word "will" there. You mean, should or is there some other statement you're making?

MR. BRINDLER: Yeah. It's really -- and actually, I appreciate you pointing that out to me. I mean, it's sort of not like, it's not an imperative saying you will do this. That was, that was more of our way of saying we realize that not every site, especially the smaller ones, is going to have the, you know, the money or the wherewithal or the business plan to provide a 24-hour help line or whatever.

You know, so we were sort of saying the better sites will do that. But at the bare minimum, we expect XYZ.

MR. RYDEN: Finally, you have, if I understand your testimony right, used the existing CRS rules as a bench mark that you would apply to the on-line, at least the on-line distributors of air travel services. You all were here when Orbitz described, this morning, its plans or its aspirations to become a CRS under no rules or very limited rules. And you know that they're owned by the five largest airlines on the planet.

Does that scenario cause you any concerns at all? Or is that neutral as far as you're concerned?

MR. BRINDLER: I guess the easy way out for Consumer Web Watch is to say if it became a CRS, then we wouldn't have to worry about it. But, no. We would be, I mean, we would be concerned.

MR. BELL: No. Absolutely. I think, you know, we have to watch marketplace developments with caution. We've been concerned about the size and scale and large amount of airline involvement in Orbitz and have urged the DOT to conduct an investigation of that.

So, yes. It is something and we would be concerned about what rules will apply under that scenario.

I think maybe also another way to look at it is that not every site that sells air travel services needs to be the large integrated travel website, such as Orbitz, Expedia or Travelocity. But those that are, are the ones that, you know, we think they should meet a common standard.

If there are other sites that want to just emphasize a few carriers, you know, I think as long as they're making that clear to the consumer, we would have much less of a concern.

But the concern now is you've got these three very large sites, at least three, that purport to provide the same type of unbiased service. And consumers are not aware of the potential commercial relationships that could bias or skew that service. And we think they deserve a greater level of protection.

MR. RYDEN: Thank you very much.

MR. WINSTEAD: Thank you. Other questions?

MR. ROPER: I just had, the last one. You focused on this, obviously the travel industry, because you thought, I heard you say it's a big ticket item. We heard the gentleman from Delta say that their average ticket fare is $258. A Plasma television is $5,899.

MR. BELL: Well, okay. I think also it's a very significant industry in that it's important for life events of consumers. You know, when you travel places, sometimes for emergency purposes, to be with your family, to go on vacation. I mean, I think travel, as a service, has great salience for consumers.

This is also one of the largest on-line segments of e-commerce. And so, therefore, from a consumer perspective, the rules that govern the sector are very important for the consumers that we serve.

MR. BRINDLER: Actually, it's the largest now, I think.

MR. ROPER: Do you know what the percentage of -- and I don't know this, so I'm not as good as some of our other Commissioners. It's not a leading question whatsoever. It's do you know how many people are actually flying, how many, how many people are actually flying?

MR. BELL: I'm sure we can provide the answer in writing. I don't know off the top of my head.

MR. ROPER: When you think about how many people are in the United States of America.

MR. MURPHY: It's about 500 million passengers a year.

MR. LAWSON: Is it your recommendation then that your recommendation is that the CRS rules should apply to the on-line travel rules? Is that what you're saying?

MR. BELL: Yes.

MR. LAWSON: From a consumer standpoint, that is your recommendation?

MR. BELL: Yes. And we've asked the Department of Transportation for that twice. And we would appreciate if you would ask them as well or take your, do your own investigation into this question and try to get some good results for consumers.

CHAIRMAN WINSTEAD: Great. Were there any other questions?

(No response.)

CHAIRMAN WINSTEAD: Great. Beau and Chuck, thank you all very much for taking your time and staying this late. And I'd like to call up, if I could, Stephanie Turner and Cynthia Tyo. I know that you all have to catch flights and we're going to take you all first if we could.

Thanks for sticking with us and testifying.

MR. TURNER: I was afraid you all were going to fall asleep.

I'm Stephanie Turner. I'm from Brentwood Travel in St. Louis, Missouri. And just to tell you a little bit about my background, I'd -- first I'd like to thank the Commission for giving a wee little travel agency opportunity to speak to you.

I often say I'm just a travel agent, but I guess sometimes I look at and I run a business that's worth several million dollars, 12 million dollars in gross revenues. And I think about the magnitude of that. And there are certainly companies that are larger and smaller. But I think we have had a very important place to play in the travel industry.

Brentwood Travel is a 45-year-old travel company. It was the eighth travel agency in St. Louis, Missouri. And at the time it was started, just a little bit of trivia, we couldn't open in Clayton, Missouri, which is, as Mr. Dunne would know because he's from St. Louis. Is the county seat of St. Louis.

We couldn't open in Clayton because there was already another travel agency in Clayton, Missouri. There were need clauses at that time. And from the very beginning, our destiny was controlled by airlines.

And so, my parents opened their business. And I joined the company 28 years ago. I was just a little kid. And 25 years ago, we opened our second office. We're now consolidated back to one office again. Really we did it not because of what's happening in the travel industry. It actually happened when the economy was so good, we couldn't find enough employees to staff two offices. And so it became a management issue.

We've been, I think, a very successful agency over the years. We've grown. We've adjusted. We've gone through deregulation. I often appear on television and radio in St. Louis.

During the days of TWA, I was often a

person who spoke for the carrier in the sense that because I realized how important this airline was to our city. That without having the hub and a major carrier for St. Louis, the city itself would be in much more difficult circumstances. So, when American Airlines stepped in last year to take over, I was not an unhappy camper.

I've dealt with American before. They're not the easiest carrier to deal with all the time, but they certainly were a strong, viable carrier in the industry.

We're pretty much a brick and mortar agency with 23 employees now. However, we do have a website. And we're constantly working it, trying to keep up with it. We're on WorldSpan, so it was interesting to hear WorldSpan speaking here. I've met Mr. Blackney before. And we have been on Sabre so I've had that experience. And we've just been involved really in a lot of segments of the industry.

So that's pretty much a little bit about our background, who we are. We're, I think, a pretty well-known, proactive travel agency in the travel industry.

I apologize that I don't have a written

text for you, although you will have it. But I really wanted you to not read, but to hear what I think some of my colleagues are kind of feeling the same way. We want you to listen to us and to hear what we have to say. Because I think the travel agents are, first of all, we're here to stay. You're not going to get rid of us that easily.

But, I have to say that without the travel agent, the travel industry would not be where it is today. We travel agents built this industry, one passenger at a time, over the years.

There were people flying, but we came out there. We dealt with these people. We marketed. And in spite of what the airlines have said over the years about us not being able to shift market share. When I listen to the numbers from the gentleman from Delta airlines, I realize that we've done a really good job of shifting market share.

Because if we're doing 70 to 80 percent of the business on airlines, and their numbers with us are 40 percent of the passengers and 60 percent of the revenue, then somewhere, we have shifted some of that business away from Delta Airlines.

And I didn't know that before today, but I think a little logic on those numbers will tell us that.

But we have worked hard to grow this business over the years. And I think we have been the one entity in the travel industry that has really represented the consumer.

Are we in business to make money? You bet. I got 23 people who just won't work for nothing. Don't know what's wrong with them, but they just won't. But they work for a whole lot less than a lot of people with their capability and intelligence in other industries. And for those of you who are not in the travel industry, you probably don't have a lot of people who would work at the salaries these people do.

But they're dedicated. They care about their customer and they realize that by good customer service and taking good care of the customer, they will get someone to come back to them. And that's the main goal.

And I know somebody's going to ask about our override situations. And yes, some of us have them and some of us don't. But that's never been the dictating force behind what we sell to the consumer. The interest for the consumer is who does a good job for us? Who makes life easy for the customer and doesn't create a lot of hassle? And who's going to make that customer want to come back and travel again?

So, that's sort of my prerequisite remarks. I do have some written remarks. I'm not good at reading things. I'm really better at just kind of talking, but.

You want to know how the current situation has affected us financially and how it's affected the customer and how the changes the airlines have made hurt the customer.

One thing is true for many of us. We really can't get out of the airline business, even though I know there are agencies that would like to. We took a long hard look at it and we made a decision that that's how our people get to where they're going. Whether they're going on a cruise, whether they're going on a leisure vacation, whether they're visiting, you know, Aunt Tilly and they need to pick up a car, whether they're going on a business trip, most of the time, they need to fly to get there.

We've all been greatly affected by the changes that have occurred starting in February of 1995 and culminating with zero commissions earlier this year.

Instead of benefiting the consumer in the long run, is this going to cause prices to increase?

In spite of the low fares that you're hearing about, eventually prices are going to go up. Don't be fooled by the low fares we're now seeing, due to a large extent to the current economic situation. These were further exacerbated by the situation that took place on September 11th, and the pure hassle encountered in today's travel environment.

The most obvious cost, of course, has been the fees that we travel agents are now charging. But there are some less obvious costs.

The consumer often thinks that he or she is getting the best fares on the internet. But I can tell you that we often find better routings and fares and save money at the same time. So there are times where, when we have the ability to look and dig, the lowest fare is not always the cheapest priced.

The attitude, though, of the airlines is to discourage the client from using us. I have to tell you. I don't even object to zero commissions. I'm not telling you I love it, but, you know, it's here. As much as the attitude purveyed by the airlines.

Since they no longer have to pay us commissions, why would airlines want to discourage the consumer from using our services other than the fact that travel agents are the best at finding consumers the best routings at the lowest fares?

Once consumers are weaned from travel agents, they will then be free to sell the traveler much higher fares. And eventually, this is what would happen.

Many of today's travelers are savvy shoppers. But unless they do the same routings over and over, they would have to spend much time to find what is best.

Travel agents also have the ability to problem solve for customers when there are schedule changes, which occur with great regularity. When schedule changes cause conflict with other parts of a business trip, a vacation or a vacation, such as later arrivals, which may cause missing a meeting, a cruise ship or a tour, the customer generally turns to an agent for help or else comes away with very negative feelings about travel, in general.

And this is when they decide it just isn't worth it anymore. When we can intervene on behalf of the customer, this really does help to assuage much of the stress and hostility the customer experiences. We do use web fares, but the present system is cumbersome.

And to Delta's comments, that they would have to pass along the charge of the credit card as Paul so aptly stated, this is a fee they would have anyway. And they're not doing us a favor by absorbing credit card charges. They're getting all of the revenue on an airline ticket. We, in effect, would now be paying them for their business.

The airlines are masters at playing games. I've noticed that many airfares go down after 5:00 p.m. Central Time or 6:00 p.m. Eastern Time. One day it's Northwest. The next day it's United. Fares increase by morning and this happens every day. I'll give you an example.

I booked my own daughter to New York. Each, she's a working girl, you know. She's a teacher, small budget. Every evening when I was working late, which is every evening, I would check the fares. The fares from St. Louis to LaGuardia, nonstop on American, were 256.50, up $20 from the previous week because I had bought a ticket the previous week.

I found a brand new fare of 174.50 on Northwest connecting in Detroit. I set it up for ticketing the next morning. And by morning, the fare was 263.

That evening, United had a fare of 216.50. I booked it and set it up for ticketing the next morning. I don't run tickets. I do still know how to book them but I don't run them.

By morning, the fare was up and I booked American again for 256.50. And this time, I had somebody run the ticket.

By Monday evening, the Northwest fare was, again, 174.50. I had my office void the American Airlines ticket and rebook the Northwest ticket. It was gone again.

Later in the week, my corporate supervisor found the fare again at 5:18 p.m., Central Daylight Time. We booked. We ran the ticket. And now, the American ticket was 236.50. I did call American to match the fare because sometimes they tell us we should let them know. But they wouldn't because it was a connection. But many times they do have the lowest fare in the market. Go figure it.

By the way, once you push a button on an internet site, the ticket's yours. So we do have a little more flexibility sometimes.

Changes to fares and flights occur all day long. Changes even occur in the middle of a reservation. The cost to airlines in underpricing the market far exceeds any commission they have paid us. They often reduce fares by 50 to $200 on a whim. We know they want to fill their planes and we could help them if we could work together.

All of us have a place in the future of travel. I have known for many years that someday, we would be at net fares. I just naively thought that we would have a wholesale price, just as other retail businesses do.

I never dreamed my price would be higher or noncompetitive with the one the consumer can purchase by going directly to airline websites.

Though many have predicted our demise, I'm here to tell you the need for travel agents is growing. The travel industry continues to expand. And more and more people will be traveling in the next 25 years. If we disappear, who is going to be the voice of the consumer?

We are among the lowest paid industries, but are definitely one of the most dedicated. The need for good qualified agents continues to grow. But the airlines want the consumer to believe that we are dinosaurs.

I can tell you that we are very busy and are charging fees for our services. But we are generally small to mid size companies. It's difficult to fight the companies that we are trying to promote and sell. All of these little ploys the airlines use has caused us, has caused cost to increase for consumers, whether in money or time.

The airlines are acting as if we are the enemy. Let me give you another example.

I purchased an American Airlines ticket for a trip to Europe. I called regarding my upgrade. I am a platinum card holder with American. American informed me that if I purchase my ticket directly from them, they could take care of the ticketing and the upgrade. But if I purchase the ticket from my travel agent, I would have to be inconvenienced and go to the airport to get my upgrade.

When I expressed my desire to use my excellent travel agent, they reminded me again of the inconvenience to me and how much better they could serve me.

Here, I, as the agent, sold the ticket on that particular carrier and they were trying to shove the travel agency out of the picture. We are the only major industry where the owner of the product we sell is bad mouthing its sales force.

When we need assistance to correct or have help with a problem, we're often treated with disdain. This industry has no regard for its customer unless you're in the top three percent.

The airlines, in general, treat their customers badly. I fly all the time. And customers are spoken to in a rude manner and with little concern for people's needs or feelings. When there is a delay or cancellations, customers do not get a good explanation of the problem.

As an agent, I am often defending the situations the carriers may be in, whether it's weather, mechanical or security related. After we take the time to explain things to the customer, he or she is usually mollified, if at least temporarily.

There are many fine people who work for our nation's airlines. But the attitude from the top down is generally one of disdain for travel agents. As I said, it is the travel agents who built this industry, one passenger at a time. We took the programs the airlines developed. We marketed these to our clients, often at our own expense. We've worked through strikes, airline strikes, weather situations and terrorism at no extra compensation.

You can say that those things were in the past and we must now work in the future. And I do agree that tomorrow is a different day. The airlines are still using us when it suits them. And you heard that today. And disregarding our importance the rest of the time.

We are the voice of the consumer. We do rely on repeat business. And that's our utmost concern, that people are satisfied with our service. It is imperative to us that our customers return.

To the airline, customers are only revenue for their stockholders. They do not see them as people who require personal service. As travel agents, we are concerned about customer service. It's what we're about and that creates a thorn in the side of most airlines. We do bring value to the equation as we encourage people to travel.

The airlines claim we don't shift market share or grow the business, but I'm here to tell you that's not true. My agency is two thirds leisure travel. And we're working every day to encourage people to travel. We encourage them to see the world we live in for leisure pleasure, for leisure pleasure, education and a better understanding of other people in the world.

We've worked hard to grow the industry and the airlines have made travel hard work for the consumer, even well before September 11th.

The travel industry is having a hard time recovering because it's shortsighted. In today's environment, between fears of terrorism and even more, the economy, the airlines would be smart to utilize the travel agent to help them grow their business.

We can, we do shift market share. And the airlines know it or there wouldn't be back end deals rewarding those who can and do. But the airlines must treat us all with respect. We do put bodies on their airplanes and account for a large portion of the passengers.

I think our revenues have decreased by 35 to 50 percent since commissions were lowered or eliminated, starting in February of 1995. We need to have access, equal access to web fares, particularly sites like Orbitz. Orbitz has become a way for the airlines to collaborate without being accused of antitrust. But travel agents can't do the same thing.

As fares are not, what difference does it make to these entities if we have access to sell and market these internet fares? In other areas such as debit memos, the airlines erect barriers to a solution. There are many times that airlines will refund a nonrefundable ticket to an irate customer and then debit our commission. Though they would not have allowed us to refund.

In talking to their finance departments, we're again, treated with contempt. Sorry. They have a cavalier my way or the highway attitude.

When September 11th occurred, Brentwood Travel had clients all over the world. At our own expense, we stayed with all of our clients until they were home, working with them each step of the way. Whether by train, plane, car rental, car purchase or whatever means we could find, we made sure they knew someone out there was concerned and cared about them.

We travel agents may be the little guy, but we do make a difference.

I thank you for the opportunity to allow us to represent my fellow travel agents and colleagues here today. As they say, this could only happen in America.

CHAIRMAN WINSTEAD: Thank you, Stephanie. Cynthia?

MS. TYO: Okay. My name is Cindy and I'm the General Manager of Travel Travel in Fargo, North Dakota. And yes, I've seen the movie.

We are a privately-owned travel agency that opened its doors in 1986 and currently has eight employees. And our owner's name is Dave -- .

I have been in the travel industry for 23 years, in which time I've been a travel agent, managed large corporate accounts, done the accounting, opened a new office and managed an agency.

I'm here to speak openly and honestly of issues that happened to me, as a manger, and to issues that happened to colleagues. And hopefully, with no repercussions from the airlines or CRS vendors towards the agency I now manage.

I believe now is the time we need to speak up. Prior to this date, we, as managers and owners, were restricted and/or frightened by guidelines set by ARC, airline contracts and GDS contracts, which were basically all owned by one in the same. Which scares me to think that the cycle is starting over again with Orbitz owning a CRS because we could spend a million dollars on a software program and they would somehow force me to come back to them.

And I know that happens because it happened to me. I was on a Sabre agency in a northwest city. And without being on WorldSpan, they basically forced me saying I couldn't have any incentives. I couldn't have sales support. And they offered different incentives to other agencies that could compete for the large corporate accounts or any type of accounts.

So, I've been in that. So it scares me when I heard them say that Orbitz now, being airline-owned, that this whole cycle is going to come right around again. Because that's where I am still at, is still being owned by airlines and the CRS vendor.

So, now definitely is the time to speak up. As you will note, through my testimony, we spent a lot of time disputing with the airlines. ARC debit memos and service fees. It is unfortunate that our agency, along with other agencies, have to spend so much research time proving the legitimacy of each fee that we sometimes come close to forgetting the most important part of our job. Taking care of the customer by making sure they receive proper and unbiased information.

Based on available evidence, Travel Travel believes the following to be true. ARC, which is the Airline Reporting Corporation, has the right today to share our information with each and every airline that is part of ARC. And imagine what could happen in other types of businesses that the same would apply. Not only do they know our market share, they work it against us and share it with other travel agencies down the street.

My colleague, who has managed and now owns a travel agency, was able to obtain information from her sales representative regarding her competitors' sales. Could you call that insider trading?

Travel agents have received debit memos from airlines with the reason stating commission deducted on the exchange transaction exceeds the amount allowed. After researching the memo, it was evident it was unwarranted. The tickets were exchanges. The original ticket was issued prior to the zero commission. However, the passenger canceled, leaving a credit towards another purchase with the airline.

Prior to zero commission, we would have exchanged the ticket and taken commission only on additional monies that were collected. After zero commission, we would do the exchange and take nothing. The airlines are now asking for the commission taken on the original ticket that was issued prior to zero commissions to be returned back to them.

Travel agencies are also receiving debit memos after 911, in which they refunded partial tickets. As the airlines received the monies from each and every taxpayer, they also recall the same monies considered lost.

Turning per Northwest ARC Addendum, Number 2, section 3B, per Northwest claimed that we received a debit memo for turning in canceled rebooking. In research, we found it was due to all the schedule changes that Northwest had done after September 11th and per their verbal instructions.

Our necessary research began by pulling PNR history through our GDS. And we were able to determine that we were not at fault. Again, Northwest charged a $50 fee to me for all the work that they had to do.

American announced on June 24th, it would stop issuing paper tickets for domestic flights by next March, and for international service by December, 2003. In the interim, as of July 2nd, American is doubling the amount it charges customers for requesting a paper ticket, when an e-ticket is available. The fee will increase to $20.

The announcement came through as I was working on my testimony. Is it American feels that they should be compensated for their own work?

We had a call from one of our clients the other day stating they couldn't understand why the airlines state how they are losing so much money and couldn't pay travel agencies anymore. They had to cut distribution costs.

When she went on UAL.com, she was finding her ticket at half price that we had quoted her. Later that day, I called my United Airlines sales representative and told him what our client had said. His answer, I don't know why. UAL.com is my competition.

With that, the airline sets my price. We have no choice what fare we have to sell. And when it's as much as half price, does our customer really have a choice to come through us when they're looking at a half price ticket? I would go.

In the year 1998, our gross airline sales were 2,532,362.64. And commissions, with revenues, of 175,192.64. In 1999, was 2,759,624.73, with revenue at 173,574.36. 2000 was 2,377,694.61, with revenue at 107,020. And at 2001, was 2,537,799.38, with revenue at 107,034.89. And starting from the year, Janaury 1st to June 20th, 2002, our sales were 1,157,254, with revenue at 22,709.20.

Based on our ARC's gross sales, you'll see we have solidly maintained our customer base and confidence with our expertise. We work hard for our customers and they've been loyal to us. However, in the last several months, they have been questioning prices that we quote them versus offered on airline websites, Orbitz and etcetera.

They feel that they don't have a choice. Even if they choose to come to us and pay us a service fee for what we do for them, they can't justify it in their budgets when they see such different prices. Even though the hassles of them having with accounting issues, maintenance and trying to figure out where their budgets are at.

And I'd also like you to note the continued decrease in revenue compared to the increase of the amount of work required.

An airline cannot expect us or expect to ask agents to enter into legal, binding contract, then set the change the level of capital an agent must have in the business. In -- rules covering accounting, selling tickets, premises, security, staffing and staff training and have open irrevocable access to agent's bank account for weekly ARC payment.

And for all of this, not expect to pay the agent for the work to be done on the carrier's behalf. If an airline wants cost recovery for this item, then the cost recovery rightly belongs in the fares set by the airline for passage carriage.

I believe we have earned the right and deserve to be treated fairly. What we're asking here and what I'm asking for is a fair playing field.

So, basically, to conclude, do the customers really have a choice?

And I really want to thank you, too.

CHAIRMAN WINSTEAD: Cynthia, thank you. You too, Stephanie. It was very, very informative. Not only about the history of payments and revenues, but, you know, what you're experiencing now and obviously you both do a great job with your clients. And that's why you're still with us.

I would, I would like to turn it over to the panel because I think there are probably some questions.

MR. ROPER: Are you both members of ASTA?

MS. TURNER: Yes.

MS. TYO: Yes.

MR. ROPER: Okay. And you're sort of here representing the, individually and also the industry. Do you both have a CRS and who is it?

MS. TURNER: WorldSpan.

MS. TYO: WorldSpan.

MR. ROPER: And if you were to change that CRS, what would it, does it cost you any money to change from one CRS to the other?

MS. TURNER: I'm under contract. This July will be three years. I have two years to go. With WorldSpan, obviously I'm in St. Louis now, which was a TWA city, is now an American Airlines city.

I will tell you that I had one office on Sabre and one office on WorldSpan. And when I finally was able to merge them together, the back end costs, which I negotiated my way out of to a large degree, still ended up costing me about $11,000. And WorldSpan did help to cover some of it.

But it's not easy to get out of these contracts. You know, we have two years to go. They would renew it for me, I'm sure, in a heartbeat and make me a deal. But if I suddenly wanted to go, get out of it, go with another CRS, you know, go strictly through the internet, I can't do it for at least two more years.

And when you let a contract run down, it seems to get more and more expensive. We, fortunately, have been able to maintain our segments. That's very important to us. Because I went through a period three years ago, where all the sudden from paying nothing on two CRSs in two offices, we were paying $25,000 a year. That's another employee plus.

You know, I mean, that's just expensive.

And so getting out of these contracts, it's almost self-perpetuating. It's almost like getting out of your car lease sometimes. I mean, it just goes on and on. So it is hard to get out of.

MR. ROPER: And do you get a rebate from the CRSs?

MS. TURNER: If we achieve the number of segments that is required in our contract, I'm sure everybody has, there's different deals out there. It may, for us we use the overage that we have to pay any bills that we have. I mean, we do have some bills associated with our CRS.

You can, sometimes you can take money, which is at a lower value. Or you can take travel credits, which are at a higher value. So, there is an incentive to book a lot through the CRS. I mean, every time you book through the internet site, it costs you money in that sense. And we do a lot of booking on the internet now.

MR. ROPER: Do you believe what our, the witnesses before you, are claiming that you should be telling each one of your clients that you're getting a rebate from the CRS?

MS. TURNER: You know, I just don't think it's realistic. I mean, I don't. And it's not that I have anything to hide. What difference does it make to my, really to my customer? That's a tool. And the more we use it, the better off. But it doesn't keep us from going to other places. I mean, why would my customer really care?

With the CRS, now if I'm getting a rebate or a back end or override on something else, maybe they would care.

And you know, and I'm honest with people. I say to them we have preferred companies that we use. And it's a two-way street. When you have a relationship with a company, it also helps you get more back for the customer. Where as when you use somebody only once in a great while, you don't have a relationship. And if there's a problem, and one out of three bookings has a problem, it's a lot easier to get it resolved with a company you have relationship with than the one you don't.

So, we're pretty straight on with our customers about that.

MR. ROPER: I would think that both of you being here it would be that way. But as we all know, not all travel agents. I mean, we read about it in the newspapers all the time, you know, the issues taking place.

I just had a last question and it's probably a follow up to the hearing that we had in Washington, D.C. You know, I've been in this industry for a number of years, hotels and convention bureaus, etcetera. To see the sort of disdain that's taking place between the travel agencies. And I don't know if it's driven by ASTA or it's driven by your individual experiences with the airlines. And you agree that the mode of transportation for most of your customers is by the airlines.

Wouldn't it make sense -- and I know you're probably trying this but I have to hear your answer to this. Wouldn't it make sense that you people try to get together again because the consumer -- if the airlines are talking about you on the inside or to you, I can only imagine. If I heard that from my boss all the time, I can imagine what they're saying to the consumer about the airlines. And boy, it just doesn't, it doesn't bode well for the future of travel in America.

MS. TURNER: You just hit the nail on the head.

I have to tell you. I have a very good relationship with American Airlines. I mean, I have to live with them and I have a sales manager who's much like her United sales manager. She's on my side. Unfortunately, her competition is at her own company.

So, I mean, we do overall coexist. However, you know, it's like, it's like Cynthia said. Everything's a battle. And everything -- they made a mistake but charged her $50 for the research. So, you know, it's got to be a two-way street.

The airlines would like to see us, I think, generally out of the picture. This has nothing to do with ASTA. I run a business. I have to look at the costs of running the business. And my costs continue to go up. And so I have to look at, you know, what's going to be the most cost effective thing for me.

And I have to just take issue with one thing. We all know that there are people in any industry that are not good as other people. And some of those people will disappear. But the majority of travel agents who are successful and will survive do a really incredible job. And you only get the news of the ones where there's a problem. But that's true everywhere.

So, I've come across, in 28 years, a lot of different travel agents and I have a lot of respect for the majority of them. There's some that don't deserve to be in business.

MR. ROPER: I just think that, my closing comment is that it's like being in a family where the mother and father are fighting all the time. I don't, I just, from what I've heard, I don't want to be a part of the family. I don't want to be a child in this relationship between the travel agents and the airlines. I think it's really sad. I mean --

MS. TURNER: But it's been this way actually for a very long time. And Cynthia, maybe you want to add.

MR. ROPER: It's very sad. For the consumer, I think that it's very sad.

MS. TURNER: It is.

MR. ROPER: Yeah.

MS. TURNER: Do you want to add something?

MS. TYO: No.

MR. LAWSON: I would be interested. Do you pay again your net? Because Orbitz' representative was saying that he wants to set you free.

MS. TURNER: The day has come. I hope he can.

MR. LAWSON: From all the CRS contracts

and whatnot. Are you currently paying for your CRS systems? Is that the net?

MS. TURNER: Mine costs me nothing right now.

MS. TYO: And for mine, mine's set up a little bit different. Quite a few years ago, we went ahead and bought our own hardware. So, in our contract, we do, after a certain amount of segments, we get money back. And it goes basically because I have to hire somebody else for a maintenance agreement and to buy all my hardware.

MR. LAWSON: But the net effect? Because Orbitz' charge was that all small travel agencies are having to pay for the CRS system.

MS. TURNER: That's not true. But, you know, I also, we own part of our equipment.

MR. LAWSON: So, what we're saying is that statement is not true --

MS. TURNER: Not totally true. The agencies that produce enough segments for their CRSs don't have to pay for it. However, it is again becoming a challenge as our business decreases and we're under contracts from, like for me, it's three years ago.

We do all have segment counts we need to meet.

MR. LAWSON: Well, I just wanted to make, clarify that. Because Orbitz was intimating that --

MS. TURNER: There are, I'm sure there are plenty of agencies that do have that problem.

MR. LAWSON: That they were here to save you.

MS. TURNER: I have a feeling they will cause some people to get on their toes and make some changes.

DOCTOR MITCHELL: I had a letter from an agent who had read that I was on the Commission, who was complaining about CRS contracts saying that since the change had occurred in the industry and that we, the agencies were no longer being compensated by the airlines, then the CRS contract should be null and void.

Her statement, I believe, was that this should, there's a law against slave labor. And listening to some of your testimony, it sounds like we almost are somewhat masochistic to even be in the business. But did you have any comment from your relationship with other agents that might have had some of the similar problems?

MS. TURNER: Well, when the last

Commission caps hit, we did decrease our number of lines. Not our number of pieces of hardware, but we reduced the number of lines leading in. We have a shared system in our office. We found a way kind of around. So, everybody has access. Being largely leisure, we don't, every agent doesn't need to have the airline system in front of them. But we do need to be able to use the system.

Actually, we're beginning to work our way around even the invoicing side of it through other means. But there are agencies that I'm sure this has greatly affected and yeah. I think when they went to zero commissions -- and I told Mr. Blackney he needed to call me. But I really think the time has come to give agents that option when the rules changed again.

I mean, going to zero commission was really sort of the nail in the coffin for a lot of agencies. You know, just as a side note. I'm in the process of looking to absorb some other agencies at this point in time because we moved to larger quarters and signed the lease on September 9th.

But, it's okay. But there are, in my hometown, five major agencies that have been strong competitors of mine that are now either on or looking to be purchased. They're either on the auction block, so to speak, or looking to be purchased.

And that, to me, I don't think you've begun to see yet what the effect of all this is going to be. I think a lot more agencies are going to go down the tubes. Just because, you know, you have to be able to make a living at it. I mean, we're not in this, it's not Hobby Lobby as my mother used to say. It's truly a business.

I raised three children and supported a family on this business. So, it's pretty serious stuff. And it makes me sad when some of my strongest competitors are thinking about getting out.

MS. CASTO: Stephanie, are they charging fees?

MS. TURNER: Oh, yeah. Everybody's charging fees. But you know what? Fees don't begin to make up what we've lost. And there's only so much you can charge a consumer. I think Cindy handled it really well when, you know, she talked about how much can you charge the customer?

They can handle whatever is the going rate in your hometown, but when it gets really way out of line and when you hit some of those deals where it's three, four hundred dollars. I mean, my own agents will go shopping on the internet for a fare for their families.

I mean, that's just way out of line. It's just way out of line. And no, no airline is going to convince me that their costs are that far apart from travel agent to website.

And what they didn't talk about are what are their costs? Somebody brought that up. Maybe it was you, Paul. Brought up what are the costs that are included in their airline ticket? That's why I naively thought that someday, if we went to net fares, we would have truly a net fare. They would add their markup on to theirs. We would add our markup onto ours.

But, so this is about controlling the marketplace. And, you know, I'd like us all to meet again in five years and see where we're --

MR. DUNNE: I have a question for you. Being from St. Louis and being a hub city. Could you explain why, being a hub city, costs us so much more, like 30 to 40 percent more?

MS. TURNER: Um-hum.

MR. DUNNE: What, what is that, what is that cost factor?

MS. TURNER: I used to defend the airlines on this one.

As my sales manager said the other day when I called about that Northwest connection versus the American, she said, "Well, nonstop service, you know, is more. You pay a premium for that because it's more convenient."

You get on the plane here. You get off the plane there. It also probably boils down to a thing called less competition.

We do have Southwest Airlines in our city. And you'll notice, anytime that they're in competition on a routing with Southwest, the fares are very competitive.

So, not all fares are 30 to 40 percent higher. I mean, right now, fares are very low right now. I mean, they truly are very low. But that's right now. We're in a different situation right now because of the economy and the whole -- it's not even terrorism that people are afraid of. People are afraid of getting stranded, number one, if there would be another terrorist situation.

And number two, they don't want the hassle. I mean, I went through the airport yesterday and I, I'm always pulled out of line. I mean, there must be something really suspicious about me. But it's, you know, it's not that I have anything to hide but I, like everybody else, want to get on and put my stuff in the overhead compartment. And so I've learned not to be first in line. Now I was third in line. I still got pulled out of line. Don't wear navy blue blazer. Don't wear khaki pants. I've got it all down.

But I think part of it is that St. Louis, there's no competition. And American Airlines truly controls probably 70 to 75 percent of the lift. So when you don't have competition, you know, it's easy to charge whatever you want.

MR. DUNNE: And then following up with that question. You really can't blame a consumer then for going to the net or internet to find a lower price.

MS. TURNER: I don't blame the consumer. That's not been our argument. I mean, we're a consumer too.

MR. DUNNE: Right. I understand that. Right.

MS. TURNER: Although, I don't want airlines to tell my, I don't want airlines to tell my customer, "Don't use a travel agency."

I mean, that's what's happening when you're on the phone. If you're ever of the phone with some of these people. And I want equal access to those fares.

MR. DUNNE: Well, this morning, I'm sure, and I believe you were sitting here when the gentleman from Orbitz made his testimony that they would be, if they're successful because of their new technology, that they would be able to, to somewhat -- the question I asked him was what, how they would regulate their fees? And they said that they would equalize their fee between the large and small agencies.

Do you think that's a reality or is that just a --

MS. TURNER: I think they're going to be forced into it. I think, depending a lot on what you all do as well. I really, truly believe that down the road -- I don't know how this thing ever came to be. I mean, I just don't understand it. I mean, what do I know? I'm just a travel agent.

But all I can tell you is that the five of us who are here today couldn't sit and have the discussions that I'm sure must go on at an Orbitz board meeting.

You know, will this bring about some positive changes? You know, everything that happens like this had a good side and a bad side.

So, because of it coming into the spotlight, I personally feel it could have some benefit to us. And maybe it will be able to finally push us, with all of us getting together, to have some accessibility to some of this information.

I don't fault any customer for going on the internet. I don't think people have all the information. If there's a schedule change on the internet, either sometimes they don't get the information. And we get that information all day.

If it's a misconnect. And you should see how these schedule changes come over. If somebody's going on a connection, sometimes the schedule change doesn't match up anymore. And, you know, try getting that resolved.

Sometimes they're going on a cruise and it doesn't match up to the, to getting to the ship on time.

So, you know, it's educating the consumer as well. And that's part of what we need to do is educating the consumer to what we bring to the table.

But, you know, we're the little business people overall. And it's different than the big corporate travel agencies. We handle all the leisure travel for Meritt's Travels corporate accounts.

They're in a whole different ball game. And I talk to the president of Meritts, periodically, through e-mails.

They're in a different ball game. They're dealing with a corporate traveler. They're on management contracts. We're dealing generally with the day-to-day consumer and smaller corporate accounts as a whole.

So, it's, you know, that constant communication. But the message is going out there from the airlines, from the websites, that we're dinosaurs. And I'm here to tell you, we're not.

MR. ROPER: We've heard through some of the testimony from Bill Maloney, etcetera, that the travel agents still control 75 percent of the tickets on, you know, which I think is great. So, that's why I don't think you're going away because, you know, there's, they obviously still need to work with you and probably fear you more than, more than you, than you think.

But, what I've been hearing over the last couple of testimony, that the travel agencies are, your revenues have declined. The airlines' revenues have declined. But we saw today that the CRS's keeps going up. Tell me about that. Why do you accept that, I guess, is the, why do you accept --

MS. TURNER: I have to tell you that's the first time I've, I've seen that.

MR. ROPER: But why would you accept that type of an annual increase from the CRS when your revenues are going down?

MS. TURNER: But it doesn't, but it doesn't come from us. I mean, that's an issue the airlines created the CRS. I mean, they created the monster, if you will.

And all of a sudden now, you know, these are the bad guys out there. They've created, actually, every situation that has occurred. And then when it doesn't work anymore, they want to take their marbles and go home.

MR. ROPER: So, shouldn't you and all of us be looking for a system, and I don't know what that is, that makes it easier on you and easier on the consumer?

MS. TURNER: You know -- go ahead.

MR. ROPER: Cost wise?

MS. TYO: Basically, for -- costs to the travel agencies today, I think are less to us than they've ever been. Because most of the travel agencies, if not, or at least some of them, and people are, they're buying their own equipment, which they used to supply all the time.

They used to supply the maintenance agreements that would come into your office and do it. So on behalf of the travel agency side, I mean, we moved away from, I mean, that was a huge cost for them. I mean, I know $30,000 of a computer I put in my office. And they don't have to do that anymore.

But they still state that, you know, the travel agencies, they're doing all this stuff for the travel agencies. They're really not. I mean, we're taking on more and more.

MR. ROPER: Yeah. And the last thing, Ted, and I heard two different things this morning. I heard that a vast majority of the smaller agencies are still paying for the CRS.

MS. TURNER: I think there are some that probably are. I could not tell you at all what those figures are.

But, you know, I want to say the CRS are probably the most competitive part of our industry because there are three, four companies, forgetting Orbitz at this point, who's really not a CRS.

You've got WorldSpan, Sabre, Gallileo and Amadeus. And they all come in and they all compete for your business. You know, if you've got any type of volume. Even in St. Louis, Amadeus was in there. So, you know, it does give us some negotiating power.

And when we buy our equipment, it lowers our segment counts. I mean, all of that, all those segments translate to dollars. We've lowered costs in some areas. We certainly have lowered their costs. But that's an issue, I think, that the, that the, I just think the CRS and the airlines, that's their battle. I think we've been dragged into that battle. But that's really their battle. But, you know, that's --

MR. LAWSON: Would you say that if the, on web fares, if you had access to web fares -- and for the sake of argument, the airlines charged you a surcharge for accessing those particular web fares in your GDS system in order to make up the distribution, what they claim is the higher cost of the CRS system. Would you say that would be a good solution, if you could pay $10 higher on a web fare?

MS. TURNER: I take the Fifth.

I don't know. I mean, I really don't know. I think it would depend on what kind of fares we were getting.

MR. LAWSON: Well, if your fare is $200

less. This is what I can't reconcile. If your fare is $200 less and the charge for the CRS is 10 to $15, there's a discrepancy here between the low web fares and the CRS charges. What I'm saying is if they would charge an additional surcharge for that for $15, but you could access this $200 less fare, would that be, is that something that you feel comfortable with?

MS. TYO: As long as they would let us have ownership of the PNR, the reservation, because --

MR. LAWSON: Yes. It would be through your CRS system.

MS. TURNER: It's a possibility. I mean, I wouldn't want to say a blanket yes or no at this point. But it certainly would be something worth looking at and discussing.

DOCTOR MITCHELL: Would you want to guarantee or have some kind of provision in that agreement that it would have to be fares that were X amount lower because as soon as all of those would then be made available to the travel agency industry, they might not be that good anymore?

MS. TURNER: That's why I'm saying, I mean, I'd have to really --

MS. TYO: Look at the whole picture.

MS. TURNER: And that's, that's like a --

it is something that I think we need to look at. I think we do need to find a way to have access to those so that we can incorporate them into our system so we can take ownership of our customer.

I mean, those are the things that concern me is these big companies. What they're interested in is your customer. And they're developing programs, they have so much information about us now. But, you know, the ability to scrape, get all that information, know the phone number, know the address, know what company. And go market directly to my consumer.

Do they do a certain amount of this now? Yes. But, you know, with e-mails today and direct access. I just don't want to be the one that's constantly providing this and getting no benefit back from it.

But, yeah. I would certainly consider looking at, at a way to create a relationship that we -- actually WorldSpan, and I don't work under it all the time, but WorldSpan does have some of that capability. They're working on programs for us to be able to go in and book internet fares.

MS. CASTO: There are some software products that's already out that you can use. And I can tell you that. Because I am using it now. I can book web fares. So, I mean, those are available.

MS. TURNER: Yeah. They gather them and search and --

MS. CASTRO: And it's very easy and it's very fast. That's available to us. We can sell web fares. So maybe that's something you could look at.

MR. MURPHY: If I could ask. First of all, both of you, pretty much appreciate your statements. Very forceful and from the heart and I appreciate that.

But if you had to make one or two recommendations to the Congress -- and we have to make some recommendations. What is it that each of you would suggest? Do you have anything you could call from that long list of issues that you brought up?

MS. TYO: Well, first of all, Orbitz. And I think we went over that. I just don't think, I don't think it's right that they should be able to do what they're doing or be around.

And to have access to all the same fares. We need to have access.

MR. MURPHY: Thank you.

MS. TURNER: And I would say I think, again, if we're going to be in a wholesale or net situation, it should be, I'm going to use the word level playing field. I don't think life is often a level playing field. But I certainly think that we ought to have access to a wholesale type of distribution system so that we can take that price and mark it up just as the airlines would take that price and mark it up.

And, I mean, they're playing games with our fares, with the fares generally. And, yes. Somebody said before about stirring it up and mixing it up for the consumer to keep them off balance. And that's been going on for years. And that's okay. That has made us a necessary part of the equation. I think it's gotten kind of out of hand.

But I think that's the one thing I would like to suggest is that airlines need to be able to provide all of their distribution system, whether it's the internet, which is here to stay. Their travel agents, their own sites, whatever. A realistic net pricing.

MR. MURPHY: Thank you.

MS. TURNER: Thank you.

MR. DUNNE: I've got one question to Cynthia. Something you just said there about Orbitz. They seem to be like public enemy number one, except there's three or four people doing it. Why are they catching the most heat? Because there's five airlines involved with them?

MS. TYO: And because they're airline-owned. And they are able to discuss. They're able to do, I mean, they're able to set the fares, not only for their own travel agency, they're setting it for us as well.

MR. DUNNE: But what about Travelocity? Who owns them?

MS. TURNER: Actually, American Airlines -- Sabre, yeah. It's actually -- I'm sorry. I should separate them.

MS. TYO: Sabre owns them or Sabre owns them, not the airlines.

MS. TURNER: And Expedia is Northwest Continental. I mean, there's ownership.

MR. ROPER: So, if we were to ask the question again, you really want them to all go away?

MR. TURNER: No. I mean, that' not really -- well, there's a big difference. No, there's a big difference because, because Northwest and Continental, first of all, do have a relationship. I mean, when this started, they were doing code sharing and, you know, they were working together.

But these are five airlines representing

80 percent of the marketplace, who own and control the distribution system.

MR. DUNNE: I understand it. But what I heard this morning, unless I heard something wrong, is that this company called Orbitz started under the premise of producing a higher grade technology platform to where they could distribute information, disseminate information, at a faster rate of speed or whatever they were doing. And solicit it. And then went and solicited the airlines.

Isn't that what I heard this morning or is it --

MS. TURNER: It's owned by the airlines.

MR. DUNNE: I'm saying, where are the originations? I'm talking about the origination of the idea. In other words, what you're saying is five airlines got together and they created Orbitz?

MS. TURNER: Actually, three. Three? Four airlines started it and then American Airlines came on. I mean, it didn't start with five. It started with three or four.

MR. DUNNE: But then, okay. So there's, let's say five.

MS. TURNER: There are five who own it.

MR. DUNNE: Well, what difference if

there's five or there's two? If two can get together and make a sweetheart deal, why can't five get together and make a sweetheart deal? Why can't three get together and make a sweetheart deal? Because that's the allegations I keep hearing is what, how terrible they are because there's five people together.

MS. TURNER: Well, first of all --

MR. DUNNE: It sounds to me like all of them that are together ought to get away from one another, including the CRSs, and start over.

MS. TURNER: Probably. It's my understanding that Travelocity and Expedia have, there's some ownership with the other companies, but they're not solely owned by those companies. And --

MS. ROUGE: There's no airline ownership of Expedia or Travelocity.

MS. TURNER: They just have a marketing relationship.

MS. ROUGE: Right.

MS. TURNER: They've cut a deal. Whereas Orbitz is -- well, that's different than I own the site. Orbitz is I own the site. I'm five airlines and I own the site. I control the site.

MR. DUNNE: Well, can somebody --

MS. TURNER: Why, when the travel agents years and years ago, wanted to put together a neutral CRS system, we weren't allowed to do it? I mean, we weren't allowed to do that years ago, before --

MR. DUNNE: No. I understand. I'm not trying to say anything against travel agencies --

MS. TURNER: No. No. I understand that.

MR. DUNNE: I'm just trying to say maybe we need to know the percentage of ownership of each one of these things. Because if there's a direct percentage of ownership, that'd be some different thing.

There's a lot of allegations and sort of like you say smoke screens and mirrors being presented to us as a, at least to me as a Commissioner. I'm not very bright. I'm not in the industry. But I am an industry that's regulated by the Department of Transportation and the Department of Justice.

And some of these veiled allegations, I get just a little bit concerned about, sitting up here as a Commissioner as to comment about something when, in fact, we don't really have maybe the true story of what percentage owned, too. And how this whole thing spins. And how, by the same token, that the travel agencies also get back rebates because based on their services and stuff. That is sort of glossed over. Especially with regards to CRSs. If you do so much, you pay. If you don't do so much, you pay a fee. If you do exceptionally good, you get a rebate.

So, you know, there's some things in here that are not quite clear to me. I mean, it's just what I'm, as I say, don't understand the industry. But I really get, you know, is I sort of, all I'm saying is if we're going to make the statement in the testimony, let's get rid of Orbitz. Then maybe we ought to give it all up and start over again. That's all I'm saying, that maybe that's basis which we need to be --

MR. ROPER: Well, I would ask for ASTA, you know, which you're part of. I mean, I'm not a membership organization, so I'm out there representing my organization. And every one of my members would know who owns a certain part of it, especially if you're going to come and testify on behalf of all travel agents.

MS. TURNER: Okay. I will agree with that.

CHAIRMAN WINSTEAD: Well, I, you know, and if Paul was here, I'm sure he would -- he was here, but, you know, I mean, I was a little, as confused as he was. And that was, you know --

MS. TYO: And one of the reasons I said it, he said if I could recommend it. And I guess, just by looking and -- I didn't put it in my testimony that I wanted to get rid of them. I just wanted a fair playing field.

But as an, as airlines together, it would be like saying all the car companies got together and discussed and talked about and set these, set one site that everything was sold. And they could sell it hundreds of dollars cheaper.

And that's why I'm more against them. Because you get a collective -- , sitting in one area and being able to discuss and set the prices and go from there.

CHAIRMAN WINSTEAD: We have one more panel. Stephanie, thank you very much. I think your answers were very, extremely helpful, too.

MS. TURNER: And they may be able to answer better than, they may be able to answer --

CHAIRMAN WINSTEAD: No. I think your testimony was very, very helpful to us and best of luck -- business.

MS. TURNER: We'll be around --

CHAIRMAN WINSTEAD: Great. I'm sure.

Devin Hansen, James O'Malley and John Craig. Can you all join us up front here? I apologize. It's a little after four, so thank you for sticking with us.

MR. CRAIG: The only thing we -- to answer your question about Orbitz.

CHAIRMAN WINSTEAD: Yeah. Jump right in. You've been hearing the debate all day. I do apologize for keeping you.

MR. CRAIG: Orbitz is controlled by the five major carriers. The five major carriers control 80 percent of the lift. There's a Board of Directors at Orbitz. Those are the Vice Presidents of the five major carriers. That's a bit troubling, that they can meet behind closed doors and discuss pricing issues.

-- Shell and Sinclair and Phillips 66 and do some gas deal, open some filling stations together. That's the only issue. I mean, that's some of my testimony. It's troubling about Orbitz, how they're put together, being owned by the major carriers.

I have the same trouble with -- Travel. There was a travel agency owned and funded by the major airlines. I have trouble with Orbitz. Will they go away? I don't know. I personally, -- testimony, I didn't think they should have ever been allowed to open. It's a clear-cut antitrust violation. But they scooted through Justice and Transportation. And here they are.

MR. ROPER: But John -- and you're helping us here. But the only thing we've heard, and the old man is coming back.

MR. CRAIG: Yeah.

MR. ROPER: Well, we've heard Orbitz, Orbitz, Orbitz. But what he, what Tom just brought up earlier was that there are other airlines involved in these other CRSs and we need to know whether there's, in my mind, whether there's a contrived focus on getting rid of Orbitz and not the others. I mean, as a Commissioner, I have to understand that.

MR. CRAIG: Travelocity is owned by Sabre and Sabre's a publicly traded company. American, I believe totally diversed away from Sabre. I thought Expedia was purchased by U.S.A. Network. Am I right?

MS. ROUGE: It was. Correct.

MR. CRAIG: So, it is publicly traded, U.S.A. Network is. So, those three major sites we're talking about, Expedia and Travelocity, has nothing to do with the major carriers except they have marketing deals and they're getting web fares just like everyone else is.

Orbitz is owned by the five major

carriers. And they're meeting behind closed doors talking about pricing. What else do you want to know?

MR. ROPER: Now, do you know -- is that factual? Because I don't know that. Is that factual?

MR. CRAIG: Yeah. That's pretty factual.

MR. ROPER: Okay. Okay. Good.

MR. CRAIG: See, it's anticompetitive. Sherman Antitrust Act. I learned about it in eighth grade, ninth grade, tenth grade.

MR. ROPER: No, no. I know the Act. I know the Act, but I'm saying is that, because that's, obviously it's against the law.

MR. CRAIG: I thought it was. But they're here.

MR. ROPER: But that takes place?

MR. CRAIG: It did. They're here. They're --

MR. ROPER: Setting prices. No, you said setting prices.

MR. CRAIG: I assume they're setting prices.

CHAIRMAN WINSTEAD: Jerry, I don't want to -- let me step in here for just a second. I appreciate you all waiting and I'm sorry it's so late in the day. But John, you want to start off and then

I know you all have some opening --

MR. CRAIG: Sure. I'll get started with my testimony.

CHAIRMAN WINSTEAD: And then we'll back in --

MR. CRAIG: I get fired up about Orbitz and stuff. I just --

CHAIRMAN WINSTEAD: Then we'll get back into the debate. But we want to make sure you all have the time.

MR. CRAIG: Is that -- can you hear me fine?

CHAIRMAN WINSTEAD: Yeah.

MR. CRAIG: Okay. Thanks for having me today. My name is John Craig and I own Pathfinder Travel & Cruises in Olathe, Kansas. It's a suburb of 100,000, 20 miles southwest of the Kansas City metropolitan area.

I opened my agency in 1989 with three employees, including myself, with zero sales. Started from scratch. I'm present 13 years later. I employ five full-time employees. We have two outside independent contractors. And I was forced to lay off one full-time employee due to the -- drop in sales after the September 11th tragedy.

My agency is a brick and mortar agency that does business in a vibrant strip mall in the southern part of my city.

As I sit before you, I believe I'm a fairly seasoned travel agent and a small business owner. I am also a damned good sales person and not a robotic order taker, that the airlines like to perceive most travel agents as being.

In my 13 years in the Kansas City area, I've seen four airlines go belly up, -- II, -- III, Eastern and Midway Airlines. I've seen six airline labor strikes that have caused great inconvenience and heartache for my traveling customer and I've seen airfare wars that have bordered on the bizarre with respect to price our airline vendors were charging.

Now that I've introduced myself and my agency, I'd like to get to the main reason why I'm here, to discuss the selling and distribution practices of our airline vendors with respect to retail travel agencies and the traveling public.

I will discuss three main points. Travel agency access to airline fares, the lack of meaningful communication with the airlines and the airlines and internet distribution.

First, I don't want any handouts. All I

want, and I think most travel agencies want and what was discussed earlier is a level playing field. Internet-only fares, I'm still baffled by this. When the airlines went to zero commissions in March, the facts, as they just sent to our office, they stated, especially Delta, they stated, in their press release, that they still value our contribution to their success. Then why do they not include the over 27,000 retail travel agencies that still exist out there -- each one, this is on average, of five sales people, sales people, mind you -- in the selling process?

If I was a supplier, if I was in the supplier side of this industry, I would sure try to utilize these many thousands of already established travel agent sales people. But instead, they exclude us by not offering these fares through our distribution channels, mainly the CRS.

In my agency alone, airline ticket sales are down 20 percent so far from last year. And the picture doesn't get any rosier.

Second, there seems to be a lack of communication between the travel agent industry and the major airlines. I would safely say now that most travel agencies now charge for some form of service or transaction fee for airline ticketing and other services providing.

Yet, for some reason, the airlines can't or won't get an additional box on the airline ticket to show our fees within the total ticket price.

Do you guys understand what I'm talking about. I believe it was discussed in D.C.

This is probably our biggest complaint from our customers. They don't mind paying the fee. They would like just one charge on their credit card, base fare, tax, service fee, total price, all on the charge. I don't believe this is too much to ask of our airline vendors. If they truly value our contribution to the sale of their product.

If they wanted to do this, they could. What I mean by that last statement is we've have many new taxes. And I've always been baffled. Several new taxes, from security fees, PFCs, XFs, ZPs. And ARC and the airlines seem to figure out a way to get it in the box on the ticket.

If they wanted to, and we've asked for many years, since February of '95, when they dropped, started cutting our commission. They've been clipping away at it ever since '95. All we ask is for a box so we could put our service fee in one price. And they -- I don't know why. But they say they can't do it, won't do it. It's going to be a cold day in H-E double hockey sticks before it happens.

So, that's number two.

Third, airlines and internet distribution. Not a week goes by that one of my agents in my agency is contacted by a consumer that had a less than desirable experience with an internet airline purchase, in which we are asked if we can help fix, start over or just plain purchase a new ticket with the correct time, date or whatever problem has been caused by their purchase.

My opinion, the airline, the airline internet distribution channels, mainly Orbitz, in their own websites, has done the following: Alienated their customer base, alienated the distribution channels, created some of the lowest average ticket prices in the history of commercial aviation and has contributed some of the most mind-boggling losses in airline, ever in the history.

I guess my point on that is, and I've told my sales rep and I've talked to my consumer, or my clients about it, is the internet is a viable product that's here to stay. It does breed a budget-minded shopper when it comes to travel sales. I ask customers that I have lost, who buy on the internet now, I say, "You purchased your tickets on the internet? How much do you pay to go to Denver?" Because that's a big market, Kansas City, Denver, out of my -- I go, I usually get it for 154. I go do you ever pay more? If I don't get my 54, I don't go.

What I'm saying is that it's breeding a different type of consumer. And that's why I pride myself as being a sales person and not a, not a order taker. I feel we do, we have a worth there. We are pretty darn good sales people. And I think the major airlines are forgetting that.

In closing, I would like to bring three quick points. I won't say it just with Orbitz. I already discussed it and how I feel about it. I just think they're an illegal entity and I'm surprised they were even open with that airline ownership. The fact that they're selling their own product and they're owned by the five major airlines.

My second, my second point is a question. Do you find it almost obscene that Congress is considering a bill, HR1734, called the Passenger Bill of Rights, which has 49 co-sponsors. To among other things, force the airlines to provide better service and be held accountable when they make mistakes in selling their product.

As a business person, I find it appalling that the federal government might have to pass a law to make sure the carriers service their customer in a proper way.

My last and closing point is a statement to my airline vendor partners, or ex-partners now, as it pertains to shifting distribution channels from the travel agent to their internet sites or Orbitz. It is a quote from my grandma, who said, "Be careful what you ask for. You just might get it."

CHAIRMAN WINSTEAD: Thank you, John.

MR. CRAIG: Um-hum.

MR. O'MALLEY: It started with good morning, but not it's going --

CHAIRMAN WINSTEAD: Now it's --

MR. O'MALLEY: My name is James O'Malley and I'd like to thank ASTA for inviting me to testify today at the the National Commission to Ensure Consumer Information and Choice in the Airline Industry.

I'm a partner, along with my brother, Mike, in the Diplomat Travel Agency. We're located at 6835 West Higgins, right here in Chicago, which is on the northwest side, near O'Hare Airport.

Diplomat Travel has been in business for

39 years. I've worked at Diplomat since I was ten years old. I turned 49 in January.

My parents started the business in 1963, at the urging of my uncle, who, at the time, worked for American Airlines.

We are, what you call, a ma and pa agency. In 1973, after serving two years in the United States Army during the Viet Nam Conflict, my parents asked me to join them on a full-time basis. That same year, my older brother, after serving five years with the Air Force, came into the business full time.

In 1974, my father had a massive stroke and couldn't work anymore. My younger brother, Mike, started working part-time in the business while he finished school at Loyola University. Jack left the business and Mike started working full time when he graduated.

Mike and I purchased the business from my mother in 1985. Presently, we have eight full-time employees, one part-time, one outside agent.

While we are no longer considered a ma and pa agency, we consider ourselves a family business. Diplomat Travel is a strictly brick and mortar agency. And at this time, we do not have a website.

From the very start, Diplomat travel has always been a leisure agency. We pride ourselves on our expertise in vacation travel. And our business is 70 percent leisure, 15 percent business, 15 percent group travel.

On September 11th, 2001, it hit us very hard just like everyone else. The employees were scared of what was going to happen to them. Mike and I believe that our employees are like family, so we made the decision not to lay anybody off or cut any hours.

These people needed their jobs and paychecks to survive. We needed the help so we could accommodate stranded passengers, process refunds and rebook canceled trips. Diplomat Travel was available 24 hours a day, seven days a week to help, not only our customers, but other companies' customers, people who booked on the internet.

We lost a lot of money in the year 2001. While business was losing revenue, our expenses such as health insurance premiums, real estate taxes, all utilities went up.

2002 started as a great year. Sales were up. The phones were ringing and people were booking trips. Then Delta announced zero commissions and I knew the other airlines would follow. I just didn't know how quickly.

There was a doom and gloom in the agency by the employees again. It was, once again, time to give everybody a pep talk, how we were survivors.

The internet and Orbitz are two of our biggest problems. My competition used to be the agency down the street or across town. It was easy to compete. We were all on a level playing field. But the game has changed. The rules have changed. And the field is no longer a field, but a hill. And we're standing at the bottom of it.

The airlines are their own worst enemy. They look at market share without looking at profit potential. The airlines believe their problems are in the distribution system, not in how they do business. They believe that Orbitz and the internet are the way to do business.

The airlines believe they need to offer extremely low airfares to get people to travel. The airlines have convinced the public that the airlines should either be free through mileage plus programs or cheap, that you can't stay at home.

Last January, I had six people who were interested in going to Italy. We sat down, went over ideas and came up with an itinerary. The airfare was about $790 round trip. They thought 790 was a good price and they were ready to buy.

On the way home, they had heard a commercial on the radio about airfares and they should check the internet. So, after spending three hours on the computer, they finally found a cheaper fare on American's website. It was ten percent cheaper than the one I offered them.

So, they quickly bought the ticket over the internet. They saved roughly $69 per person times six people. That was a lot of money. American still paid for my segment fees for the reservation that I had made.

The point here is that customer was willing to pay $790. American would have received a higher revenue for the transaction. And this is not an isolated case.

Just yesterday, I had a client interested in going to Tucson. I made the reservation, quoted a price of 328.50, plus the $25 service fee. The client checked Orbitz and their price was 236, plus a $5 service fee. The total difference without service fee was $92.50. Once again, American paid segment fees and sold the ticket for a lesser price. And this is where they're getting into the segment fee.

Whether we end up writing the ticket or not, they get charged segment fees. And when you take a look at how they are buying the business on the web fares, where their yields on the fares are not there. They may have 20 percent of the business, but they don't have the high yields that we're giving them on the fares.

I was talking to a friend of mine who owns a car dealership. He asked me how the airlines were able to sell tickets at a cheaper rate through Orbitz than through a travel agency. I didn't have an answer.

Then he told me about the Robinson-Packman Act. He told me that because of the Robinson-Packman Act, that the auto manufactures, such as General Motors and Ford, had to sell a car at the same price to every dealership. That way, every dealership worked with the same pricing structure and it was on a level playing field.

The dealership could choose if it wanted to, to make money or to lose money on a transaction. He asked, "If Orbitz was a travel agency" -- and it is. He said, "How come they don't have to abide by this particular law? How are they allowed to work in an antitrust environment?"

He said, "It looked to him, that the airlines were trying to make Orbitz into a monopoly, restraining the trade of the travel agent."

And then I have an enclosure in there for you to look at about the Robinson-Packman Act.

In an interesting side note, if the customer does not a computer or a credit card, then that customer cannot book at ticket on the internet. Is this a discriminatory pricing? Are the people who have no credit or bad credit forced to pay higher price tickets because of their situation?

I have a long-time client who is going to Las Vegas for a bachelor party. He booked his airfare and paid 290, round trip. His brother, an accountant, also wanted to go. They thought 290 was too much money. They were going to get it cheaper on the internet.

As a side note, these two individuals are doing very well financially. And they were going to Vegas, but they wanted it to be cheap.

So, once a week, Jack would call to check the fares and telling me how he had been checking five websites everyday, trying to find a cheaper fare, almost like a game. Because of the airlines' advertising, he believed that the airfare should be cheap.

Well, one day Jack calls in a panic. He was checking the internet and the airfares were well over $600. How could this be? Airfares are to be cheap. He ended up booking a FunJet charter flight because he needed to be in Vegas for the bachelor party.

The point here is, he would have paid the 290 if the airlines didn't keep promising, through their advertisements, that airfares are cheaper on the internet.

The other point is, he wasted a lot of time and the airlines' computer time, checking these fares on a daily basis. Search time has to cost the airline something. That adds to the cost of distribution.

Three weeks ago, I had a client who booked a Caribbean cruise. The price of the airline ticket, $279. Not bad for a price, round trip, to Fort Lauderdale. She said she was going to check with a corporate travel agent to see if she could get a cheaper fare because she gets a discount, both on American and United Airlines.

She called back and said the corporate agency was able to give her fare for $149, round trip, not a web fare. This was a regular airfare, discounted because of their situation with their corporation.

I think it's great that large companies get volume discounts, but I think a 45 percent discount is pretty ridiculous.

The point here is that maybe the airlines should stop giving the tickets away at a cheap price. She would have to have paid 279 if that were the only fare in the market. The airlines lost $130 dollars a ticket, times four. This is an ongoing problem. And we see, with United, yesterday, asking for two billion dollars of guaranteed loans.

Large corporations get large discounts. Small companies get nothing. They're forced to find ways to be creative so they can compete in a global economy. They are willing to stay over a Saturday night in order to get a cheaper price on a ticket. They also know about back-to-back tickets as a way to save money.

Two weeks ago, Diplomat Travel received a stern warning from United Airlines about back-to-back ticketing. This was a standard form letter. The letter stated that United now has the technology to track back-to-back tickets, and debit memos will be issued for the full fare.

After reading the letter, I realized this was another way to push the customer into using the internet for airline tickets. That customer could book a round trip ticket on American and then a round trip, let's say, on United Airlines over the internet. The customer now has done a back-to-back ticket.

The customer, on a trip to Los Angeles from Chicago, could save $2,000 by doing this. If an agency got caught doing this, they'd be liable for the full cost of both tickets in the form of a debit memo. To the customer on the internet, nothing.

According to the airlines, you must either pay or lose your plates, no ands, ifs or buts. The point here is the rules are not applied fairly. There is no level playing field.

Since I'm on the topic of debit memos, I need to tell you this story. Last November, we had a client going from Madison to somewhere in Texas on American. The cost of the ticket was around 600. American canceled the flight out of Madison. The client needed to drive to Chicago to board the flight.

An American reservation agent told us we needed to refund the original ticket and issue a new ticket. So that is what we did. Total compensation for both tickets to us was $35. We received a $200 debit memo.

The reservation agent said to refund, we thought, through the IAR. No one said this had to be mailed into American Airlines. And the client needed to pay for another $600 ticket, while he waited six to ten weeks for American to mail him the refund. This was a cash transaction.

The point here is, even if you think you're doing something correctly, you're probably not. And the airlines, especially American, is going to send you a $200 debit memo. I think this is American's new revenue source to make up for the money they're losing for the tickets on the internet. If American makes a mistake, they just shrug their shoulders.

Last year, we had some debit memos with American that were in dispute. Two of the debit memos were because of an incorrect fare quote in the Apollo system. This is what we call an autofare system. We put it in. We hit a button. The computer does it automatically. We have no way of changing this.

American sent us a debit memo. It was sent to Apollo, who said they were responsible for it. Don't pay these until we are told to by Apollo. We are working it out with American because Apollo doesn't want to give money to American because they won't get it back.

American decided they wanted their money or they'd pull our plates. A check was sent because we were scared. It was received by American Airlines, in cash. Two weeks later, American turned off our ability to make reservations. This was done without warning.

At first, we thought we had a problem with our Apollo system. Only after seven frustrated hours, did American tell us they had a made a mistake and would correct it the following day. All the reservations that were booked and ticketed that day, they would not honor. We had to start from scratch the next morning when our system was working. If the inventory wasn't there for those tickets, oh well. You paid the higher fare.

The point here is the airlines have all of the power. And if they choose to, they can make your life miserable as an agent.

During the June 12th hearing, both American and Northwest testified government should leave matters to a free market. If they want matters to be left to a free market, why did they accept money from the federal government and now seeking low-cost loans?

Yesterday, United asked for two billion dollars. If this is a free market, then the airlines should sink or swim on their own. If the airlines want financial help from the government, then the airline industry is saying we can't do it on our own. We need help.

As a taxpayer, baling out the airline industry, I demand a regulated industry, where government assures everyone is on a level playing field.

I would like to remind everyone that the airline distribution system, known as GDS, was built by different airlines under different brand names. System One, Sabre, Apollo, -- .

United Airlines sold off Apollo. During their ten year of ownership, United made a lot of money from the Apollo system. They also made a lot of money when they sold it.

American still has ownership in Sabre and also in WorldSpan. They are still making money off segment fees.

Once again, the airlines have created their own problem.

As I said before, I have been in the travel business a long time. An interesting point, Walt Disney World never paid a commission to travel agents. Then one day, Disney realized that travel agents were a great source of unbiased information, a great distribution channel. They started to pay us commission. As we know, Disney can make money working with travel agencies.

I have two points left to make. I know everybody is tired about hearing about Orbitz. Kathy Kup brought up some interesting information on the cost of booking fees through Orbitz as opposed to Gallileo. I have to believe Kathy.

Enclosed is a copy of an article from the Chicago Tribune about Orbitz IPO. It makes you wonder how their cost to book travel is so low when they are losing so much money. Are the airlines trying to bring the customer into the Orbitz website so they can show an increase in ticket sales to make the stock worth more?

After the partners in Orbitz get their money from the IPO, will the stockholders suffer? Will the airlines still price tickets lower? Maybe Orbitz is trying to justify their existence by incorrectly stating their costs. We all know what

Enron did. And there's an enclosure with the Chicago Tribune.

The travel industry is changing. And we, as travel agents, need to change with it. I've seen many changes in the past 30 years. My prediction is, while there are some agencies that will go out of business, 20 years from now, Diplomat Travel will still be doing business on Higgins Avenue and we will be a viable business.

I ask your help in doing this by making sure that there is level playing field. With a level playing field, the customer will be the winner.

Thank you.

CHAIRMAN WINSTEAD: Thanks, Jim. Appreciate it. Devin?

MR. HANSEN: Hi. Good afternoon. My name is Devin Hansen. I'm the Vice President of Operations at Sunflower Travel. I have a mother and I also have a tour wholesaling company called A & D Tours.

I began my travel career in 1986, even though basically I grew up in the industry because my mom got into it when I was born in 1965.

Our business mixture is basically 50 percent leisure, 25 percent groups and 25 percent corporate travel. We have 11 employees. We are a brick and mortar agency. And we also have a website that allows us, or allows our customers to book fare, hotel and car reservations.

I appreciate the opportunity to appear before the Commission today to discuss several critical issues relating to the travel agency distribution system. And Sunflower Travel's inability to access and sell some of the most economical airfares.

Over the last two years, my office has seen a significant decline in air sales and the income generated from those sales. We feel that the decline of sales is primarily due to the fact that we are not able to access all fares to offer our clients. We hear it pretty much every day.

We also feel that consumers perceive the airline fares we sell are higher when purchased through our agency because of the fees we charge. This is unfortunate because over the years, our clients have come to rely on us for unbiased airfare information. Otherwise we wouldn't have been in business for the 33 years that we've been, well, Sunflower's existence anyway.

Since we are not able to offer this information to them lately, they have been booking elsewhere. A quick glance at our numbers over the last two and a half years will prove this. And if airlines are allowed to continue keeping us from obtaining these fares, we will continue to lose the business.

I had submitted some written testimony that I guess you all will be receiving. And basically I outlined the chart that shows in the year 2000, we had 3.2 million in domestic ARC sales, with revenues of 179,000. 2001, it dropped to 2.1 million, with 117,000 in income. And year-to-date, through May 31, we've only $700,000 worth of sales. And our income from those sales is 33,000.

Since the airlines have gone to zero, we can pretty much assume that that revenue figure is not going to change. I'd just like to point out that it's about $140,000 drop in two years. That's a lot for a small business.

We are, sometimes, given the opportunity to book tickets outside of our GDS system over the internet with the different carrier's websites. But at that point, we lose control of the records. We do do it, but we have had instances where there's been schedule changes. We weren't notified. And that creates a very unhappy client.

If the airlines were to put these internet fares into the GDS system, we probably wouldn't have this problem because we would be notified of these changes.

Also keep in mind that it costs our agency money each and every time the airlines decide to change a flight time or a flight number. And we are not compensated for this extra work that they create for us.

So, ultimately, we're asking for your help so that the entire industry will have free and fair access to all published fares by all methods of distribution. It's that simple.

It says today, as I'm writing this testimony -- well, it's been a week, but -- America West notified us that they were introducing the ability to view most of their web fares through our GDS. Not all of them, but most. We welcome this opportunity and thank America West for being so bold to offer this as a way to enhance our capability to offer the lowest fares to our customers.

We can only hope that the other airlines take notice of this and do the same. This is a very good initial step and we challenge each and every one of the airlines to do the same.

Basically, they dump their fares in on a Tuesday and you have to ticket them by a Thursday. But however, they are there. We can view them and we can ticket them.

Another issue we'd like to bring to your attention, which you don't want to hear about, is the unfair practices of the airlines within the guise of Orbitz. I know you're sick and tired of hearing about it, but it's a good reason that it's brought up over and over.

In my opinion, any company that's allowed to control both the content and the carriage of that content will abuse the power by not allowing competition to foster. Airlines have been accused, time and time again, of predatory pricing and anticompetitive behavior.

What's to stop Orbitz, or should we say the owners of Orbitz, from raising fares once all their competition has been destroyed?

I don't know if you've ever traveled in and out of Wichita, Kansas, but we have had some of the highest airfares in the nation. As a matter of fact, I think we ranked number seven for awhile.

Two months ago, Air Tran entered our market. Prices fell anywhere from 75 to 80 percent.

What was once a $1,200 ticket to New York is now $210. Matter of fact, prices to Chicago on United were about 880. I was able to get one for $195.

The reasons we have these lower fares is because of competition. The point I want to try to make is that Orbitz, which is actually the carriers, will ultimately raise fare levels to what they deem the market will bear. In the end, consumers will lose big time because there will be no one else to compete against them. And there will be nowhere to go for unbiased travel information.

The carriers will own it all from the top to the bottom. The fares, the access to the fares.

I've submitted more detailed information to you in written form regarding the other critical issues my agency is facing and I urge you to read what they are. I won't get into detail with them today.

This Commission was created to evaluate the financial condition of small travel agencies and investigate the marketing practices of airlines that now, or may in the future, impair consumer access to comparative information that consumers need to optimize choices when buying air travel.

We believe our company was an ideal candidate for reporting this information to you considering the length of time we've been operating and the qualifications as a small travel agency. Even though we are small, we are extremely active within our ASTA affiliation as well as our local community. We feel that we have the first-hand knowledge of what our clients want in regards to choices within our industry. And that's, once again, why we've been chosen to appear before you today.

We do care about this industry and we care about our ability to compete fairly.

In conclusion, I'd like to say that there's no better work force than America's travel agents for the system that is currently in place. We advocate fairness and give out unbiased information. If we go away, all consumers will suffer -- . Airlines have proven, time and time again, they will not keep their word when it comes to lowering airfares. And it's time that Congress steps up to protect us all from their unfair practices.

Please use your power to help create a winning situation for all airlines, consumers and travel agencies.

Thank you.

CHAIRMAN WINSTEAD: Thank you all. I appreciate it. John, Jim and Devin, you certainly, I think your businesses have a lot of history and family-owned and obviously you've done a great job in growing them.

I'm a little disturbed because what I've been hearing about the no commission or post no commission, is that everybody -- and not everybody. But everybody is trying to move in these other segments, you know, with Disney trips or cruise trips. But what you've set out in your chart and in the data, it certainly seems that that's a huge gap to try to pick up. And I would, I -- maybe you could comment, Paul. But it seems, you all are probably on the larger scale, are you not, of ASTA members, or --

MR. CRAIG: You mean size of our agencies or --

CHAIRMAN WINSTEAD: Yeah. In terms of employees.

I guess my question, my question again, all of you all seem to be, you know, very engaged, looking at marketing niches, developing your client base, servicing them through them through the problems of travel in the last seven, eight months. But there still doesn't appear, unless you can, you can find a way to access the fares, that your clients are now picking up the phone for the website, to get right after they leave your office.

It's going to be very, very hard to pick up those other segments of business. I mean, you know, it's just so much -- is that an accurate statement?

MR. HANSEN: I think it is.

CHAIRMAN WINSTEAD: I mean, it's certainly reflected in those numbers. I mean, you know, the gaps of where the 100,000 less revenue --

MR. HANSEN: Well, it's true. Before the last Commission met in Washington, Orbitz put out a press release and they actually quoted an article that was in the Wall Street Journal that was done about our agency. And basically, it said, "In the brick and mortar world, many travel agents, like Sunflower Travel, recently cited as a success story by the Wall Street Journal, are adapting and thriving by delivering value to consumers in the form of innovative niche services and high touch care."

It says, "The journal, according to the Journal, Sunflower Travel experience shows that new technologies can open doors for entrepreneurs with the courage to walk through them."

And what they're getting at to, is more of our tour wholesaling company that we have now on-line, that people can access and book. And leave the commissioned travel agents for that.

But, they're kind of sidestepping the issue, in my opinion, once again, in that, you know, they're not, we're talking about airfares here and access and for consumers. And they're talking about what I'm doing in a tour wholesaling business, which really is irrelevant.

CHAIRMAN WINSTEAD: Right. Jim, the other thing that I was, I found somewhat amazing in your testimony was the whole, you know, the cases that you kept listing about what was happening because of the zero commission and what it was forcing your clients to do.

And then, in your, you know how the business has been in your family for 30 years. You have good employees. You're obviously a good team leader. But, the debit memo issue, to me, just seemed to be absolutely abominable. I mean, what, how can, how can --

MR. O'MALLEY: Did you have to use my name when you talked about debit memos? Because the airline is vindictive about that.

CHAIRMAN WINSTEAD: I know, but my point is -- I understand that. But how can an agency of your relative size deal with those kind of administrative challenges constantly?

MR. HANSEN: You either pay or --

CHAIRMAN WINSTEAD: And still, and still end up doing business and bringing clients in and servicing them. I mean, I mean you, it should --

MR. HANSEN: I have another one in my written that you'll see. It's a copy of a memo from Northwest Airlines for $118. We booked four people on a record. The lady that purchased it was going to take three of her friends. And so, stupidly, we used her first name, last name and then TBA, to be decided, to be announced, times three.

Well, that is considered fictitious and speculative. And so, the booking was canceled. And so now Northwest has sent me a memo for $17, per leg, for each one of the four people plus a $50 administrative fee. They're saying that they've been harmed $118.

When I speak with Sabre about it, they say that credits are issued once segments are canceled, unless it's like the day of.

So, therefore, the net effect on it is about 15 cents. They wouldn't give me the exact number because that's somewhat proprietary information.

However, Northwest Airlines was not harmed $118. And keep in mind, I didn't get the booking. And I wouldn't have made a damn dime on it anyway. So here I am, paying $118 or lose my ticketing ability. And I have not paid the memo at this point. I haven't decided what I'm going to do. Because at this point, I really have nothing to lose in a zero environment. It's just one less, you know, airline for me to sell and one less headache.

CHAIRMAN WINSTEAD: Well, you know, I find not only the data and the stories you've laid out extremely challenging. My hat is off to you. I mean, but I'm sure that it's generated a lot of questions of the Commission so I'll open it up.

MR. LAWSON: Do you all pay for your CRSs?

MR. HANSEN: I don't.

MR. O'MALLEY: Well, we have a contract.

MR. LAWSON: But do you have a monthly payment that you have to pay the CRSs?

MR. CRAIG: I do. I pay for, in WorldSpan, I'm in a contract where I get my CRS free, but I have to pay $20 per set for an enhancement called Bargain -- what do you call it? Powershopper. So I pay $120 a month.

MR. LAWSON: Do you all pay for yours?

MR. HANSEN: Well, yes and no. I do have a $600 a month charge associated with my systems. However, I create enough bookings to offset that.

MR. LAWSON: So the net affect is none of you really pay for your CRS system?

(Chorus of "corrects".)

MR. LAWSON: I'm still going back to that comment that everyone --

MR. CRAIG: That was a pretty wild blanket statement. You know, if you're asking our opinion about that statement, it was a little bit out there.

MR. LAWSON: Do you all view that you represent the consumer and therefore, if you all go away, the consumer would be harmed? Is that your position?

MR. O'MALLEY: Most definitely.

MR. HANSEN: Actually there would be less choices for the consumer.

MR. LAWSON: I guess my real question is do you represent the airlines or do you represent the consumer?

MR. CRAIG: My customer, first and foremost, 110 percent of the time, without blinking an eye. Because if they don't come back, I'm done.

MR. LAWSON: So you're really a consumer advocate in the marketplace?

MR. CRAIG: I have been since I opened. I've been to Washington, D.C., 11 years in a row, for the -- with ASTA and I have not, I have not been a self-serving travel agent on the clock for. As curious as it may sound, in the early years, in the 90s, I fought for lower fuel taxes for the airlines and busted my tail for them. Paul knows this. I mean, we were one for all and all for one in those early years. And we were partners, pre February, 1995.

So, no. I can sit here and sit with a straight face and say I've fought for my consumers. And I've fought for the airlines, cruise lines to open up more ports to help them sell their product and give more unique itineraries. So, I have no problem with that.

But my customer comes first.

MR. LAWSON: And I do remember Diplomat Travel. When I was in Chicago, working for the airlines, I used to call on you, a long, long time ago.

MR. HANSEN: Mr. Lawson, I'd like to add to that, too, in that we are definitely consumer advocates because if a consumer calls us, we can give them choices on several airlines versus just one. And obviously, you know, they're searching for the lowest fare. And we can give that to them -- to our systems that we have.

MR. CRAIG: And there's still a lot of people there that look on the internet. Do all the work on the internet and come in, print out the internet schedule and have me book it. So I guess I would be an order taker there. But they just don't trust it for some reason.

MR. LAWSON: Wasn't Topaz the audit firm? Didn't they come out with an article that said that the majority of the time, the traditional travel agents were coming out with better airfares, though?

MR. CRAIG: Sure, yes. Several studies have come out where they've done tests and things. I believe Travel -- seems to do one of those every year also. And the travel, retail travel -- seems to win every time.

MR. LAWSON: If you could help the airlines, the airlines have lost a lot of money. If you could help the airlines, what would your recommendation be?

MR. O'MALLEY: They've got to get away

from market share thinking and get to profitability. And when you go with that and you compete head on with a Southwest Airlines and you keep driving your prices lower and so Southwest has to go lower. If you try to not have anybody make any money, the big guys feel they can outlast the small guys.

We have to get back to a point where if you want a bargain basement airline, you pay for that. If you want a little bit of service, you'll pay for that.

And we have seen, in the travel business, that people do pay for service. We have to stop the public from thinking that everything that has to do with a trip has to do the money. There's a value on the service and getting there unfrazzled.

MR. LAWSON: Okay.

MR. CRAIG: I would try, for the airlines real quick, I'd try to have an open mind and sit down with retail travel agents and listen to our idea about putting the service fee within the ticket, utilizing the 27,000 locations that are out there. I mean, I tell, my customers look at me and go, "Why would the airlines go to zero commissions?"

I mean, in essence, it's like firing 27,000 sales people, or location. How many -- that's a 150,000 travel agents. They're saying, ah, we don't, I mean, to zero commissions.

MR. LAWSON: Could that possibly have opened the door for their very competition, their low-cost competition, that they were fearing the most, by getting rid of their, their traditional sources?

MR. O'MALLEY: I think so. I mean, I think they've opened the door to their own demise. And we, I'm just hoping we don't guarantee the taxpayers' money while they're going down the tubes.

MR. CRAIG: Yeah, that was tough to stomach.

MR. HANSEN: You know, I think, too, that like, agencies like mine that have lost significant amount of revenue from airline ticket sales. We have been concentrating in other areas to make up for it, not necessarily service fees, but cruises and tours like everybody else.

CHAIRMAN WINSTEAD: Devin, could you give the percentage? I'd just like to, for your business, how that breaks down between cruises, tours, airline.

MR. HANSEN: Okay.

CHAIRMAN WINSTEAD: I think you, when you gave, you gave business versus pleasure.

MR. HANSEN: Right. I think -- well,

obviously, over the last five years, we've been purposely trying to get away from airfares. And that's also bad for consumers, too. Because we are advocates of it but at the same time, if we're not getting paid for it, why do we want to do it. So that kind of, I don't know, it's kind of a self-serving interest. But hey, we want to be paid, all right? Just like everybody else.

But, I'm trying to think, that the numbers through the year 2000, or 2001, we've managed to come from, well, in years past, from about 80 percent ARC to 20 percent non ARC, to a point now where we are about 42 percent ARC.

So, we have made the swing. And I can tell you it is, and it's a lot more fun to sell a vacation package and a dream to people than it is a point-to-point airline ticket.

I can tell you that nine out of ten problems that we have are with airline tickets. The whole experience has just become an extreme hassle. And I don't have an answer for it, but I do think, too, that the carriers are very shortsighted. And then, like John said, they basically fired all of us because, you know, at this point, it's bad for us to be up here trying to talk about what we're doing for consumers and at the same time, we don't care what these airlines do because they've alienated us so much.

We need to get that focus back together and work together again. And that way, everybody will win.

MR. ROPER: Well, Devin. I'm sort of the Commissioner of love, peace and harmony as Stephanie has found out.

You're all members of ASTA and, again, with my background in the business, but again, not a leading question because I don't know. Aren't the airlines members of ASTA?

MR. O'MALLEY: Not anymore.

MR. ROPER: They're not?

MR. HANSEN: One of them was kicked out and the rest of them just basically I think dropped out. I don't know. Paul?

MR. RYDEN: Most of them are not members anymore. Some are, but --

MR. ROPER: Their choice or your choice?

MR. RYDEN: It varies. A couple of them were thrown out for acting in the, not in the best interest of travel agents. And others have chosen simply to go away.

MR. ROPER: So, I'm coming back to this, being a part of this family that I don't really want to be a child in this family any longer, very dysfunctional.

So, how in the world can a organization like ASTA represent you if the airlines have been kicked out of it? I don't think that this is a, this doesn't sound like to be a federal regulation issue. This sounds like -- as you said, Devin. We ought to get together and work this out.

MR. HANSEN: Right.

MR. ROPER: But I think what we're wishing for, as somebody's relative said, you're going to be wishing for more regulation that's going to tell the airlines that they have to cooperate with you. And the airlines are going to come back and say, "No. They have to cooperate with us."

I don't know whether that's our issue.

MR. CRAIG: They want free market, but they want free money. They want government-backed loans.

MR. ROPER: Yeah, but you're not --

MR. CRAIG: We've got bills in the House telling them how to treat their customers.

MR. ROPER: And I understand that. But

I'm talking about, you know, things like the debit memos and the, you know, all these kind of things just sound like, you know, day-to-day operation things.

MR. O'MALLEY: I don't think we're asking you to take care of our debit memos as much as we wanted to get back on a level playing field. That at least we can go ahead and have -- you know, we're fighting for our existence on one side and then fighting again for our existence on the other side. We've never had to do it from both sides before.

MR. ROPER: I, as I say, Jim, you're the one that kept bringing up debit memos. You don't want to be known as that, but I mean I just kept hearing that. And, you know, I go right to simplify that and say, "Okay. You know, you want to call me as the member of the Chamber, who has a couple airlines. I mean, I'll be glad to represent you.

MR. O'MALLEY: I guess I'm saying, go ahead and enforce debit memos equally. If you're going to hit me for them --

MR. ROPER: I see.

MR. O'MALLEY: -- then hit your employees for them and Orbitz for them and hit the customer for them. Say if you do something that I don't like, we're going to have to send you a debit memo, too.

MR. RYDEN: Jerry, would you indulge me for one minute on the subject of debit memos. Because I don't want there to be a misunderstanding about this.

The subject of debit memos keeps coming up because it is a symptom of market power being exercised by large firms against very small firms. Just look at the one case of American Airlines $200 debit memos for the mistake of processing a conceded refund. There was never a dispute about these refunds. In fact, many of them were effectively ordered by American Airlines because they canceled the flights.

American's policy was that those refunds had to be processed directly back to American, not through the normal ARC process that every other airline uses.

A number of agents, having talked to American personnel on the phone, in some cases not, made the terrible mistake of just routinely processing those conceded refunds back through ARC.

American Airlines was never going to make any money on those tickets because the flights were canceled. The agent wasn't going to probably end up making any money because American was and did recall the commissions.

The punishment meted out unilaterally, without discussion and without relent, after repeated requests from us, was $200 a ticket. At the then commission rate, it would have taken ten maximum sales at the CAP commission rate to recover the debit memo price for just one those. And we know of agencies who had five, six, seven, eight of them, $200 a piece.

It's not about this Commission or the government of the United States getting in and regulating debit memos. It's the language that activity exemplifies the abuse of market power. And that's what the Orbitz thing is about and that's what all the rest of this stuff is about. And it's market power that ultimately abuses consumers. And that's why it's so prominent in all the witnesses' testimony. It's ultimately about consumers.

MR. MURPHY: Mr. Chairman, could I, could I jump in only because I have to run to the airport. I just wanted to make one statement before I left.

I spoke to United Airlines, as I know you did. And they just want it on the record the fact that they were very disappointed, and for a lot of reasons, they were unable to testify. And today, although they were here all morning. And they're hoping they might be able to come back before the Commission at one of our future hearings and they asked --

CHAIRMAN WINSTEAD: We talked to them about the two days.

MR. MURPHY: And they appreciate your comments. And thank you. And I want to thank you for your statements. And I have to run off to the airport.

CHAIRMAN WINSTEAD: Thanks, Pat. We'll miss you. I hope you don't circle like you did coming in.

MR. MURPHY: We'll see you in San Francisco.

CHAIRMAN WINSTEAD: All right.

Let me ask you, just before we go to other questions. You said 42 percent of your revenues was still ARC.

MR. HANSEN: 42 percent of our gross sales, not revenues.

CHAIRMAN WINSTEAD: Gross sales, I'm sorry. How about the similar figure for --

MR. O'MALLEY: We're about 55 on our, our people.

MR. CRAIG: 50, about 50.

I'd like to make one quick statement, too, about I was amused that Delta was talking. I noticed the Southwest person is leaving, but --

MS. ROUGE: She's coming back.

MR. CRAIG: Delta was making comments that their competition is Southwest and they were putting the reason for their losses is because of the distribution cost of us. And I'm sorry, but any major airline out there, going head-to-head with Southwest on any ticket or route. It's like going to a gunfight with a knife. They're not going to win.

CHAIRMAN WINSTEAD: And since the, since the March decision on the Commissions. You know, I know you get the segment. Are you, how successful have you been on convincing your customers to go with a new service approach adding on instead of --

MR. CRAIG: Corporate-wise, pretty successful. There's been some leisure tendencies because we have to CAP our service fees, usually at three people. You know, I can't a family of five, going to Orlando, on a $170 fares, to pay, you know, 30 bucks a head times five. That's $150 extra on top of the airfare. I usually cap it at three people or four people.

And there has been some hesitance there

for leisure clients. Corporate still wants our management.

CHAIRMAN WINSTEAD: Right. And the leisure client, you know, when that's happening, they certainly are aware of it because it's showing on your bill.

MR. CRAIG: Yeah. It's a line on a bill.

CHAIRMAN WINSTEAD: And so they see that and ultimately, I mean, they're willing to pay because you got a great service and you have a good client relationship. But ultimately, that's going to drive them again, looking at the websites. And they go --

MR. HANSEN: That's what's happened to me. Yeah. Get their credit card bill and they look at it. Then they think about it the next time they go. Otherwise, you know, I wouldn't have lost a million dollars of sales in a year. You know, we don't treat everybody that bad.

CHAIRMAN WINSTEAD: Let me, I'm sure there's some other questions.

MS. CASTO: Just a question. Were you charging a service fee before the zero commission?

MR. CRAIG: Ten bucks. Had to go to $25 to stay in business when -- ticket.

MS. CASTO: Okay.

MR. DUNNE: You had to go from ten from 25 after?

MR. HANSEN: In some cases, mines even a little higher.

CHAIRMAN WINSTEAD: Tom?

MR. DUNNE: I had a question and I guess you can help me with this a little bit.

I've heard about Orbitz and the unfair practicing of what they're doing. And you brought it out earlier. Everything that they do, they end up lowering prices. Okay? Considerably lower. And so, I guess that's where, you know, I have a little heartburn with that. But they do lower their prices.

Yet, Mr. O'Malley, you said that the, you think the prices should have been higher and to O'Malley or to -- excuse me. Should have been higher. What did you base that on?

MR. O'MALLEY: Well, that the airlines aren't making any money or turning a profit. So, ultimately, either the airline goes out of business and we lose another airline that we don't have competition.

I mean, competition is fine to a point. But when you're selling it for less than it costs them to fly the passenger, it doesn't make sense to do that. You're competing with a demon. And you can't do that.

So, at some point, you have say it cost us $225 to fly somebody to Orlando. And this is the price we're going to charge. And we're going to give you good service. And we're not going to lock you on the planes or not tell you about why you're being delayed.

You -- it the 175 and you stop making money, it doesn't make sense to fly the passenger.

MR. DUNNE: Okay. I see your point. Now, then let me ask this. With regards to the other, the other conglomerates, Travelocity, Expedia and what have you. Do they do the same thing? Have their prices generally been lower than what you quote, can quote?

MR. O'MALLEY: On some things. I mean, the thing you have to look at is when we look at, when Expedia first came out, they were buying the business. Losing money. That's the big thing about Orbitz. They haven't made any money either.

So, they've gone one full year without making money. They're now in another year, not making money. They're going to go into IPO. And their big thing is is we buy the business. And this is the five big airlines talking. If we buy the business, we'll be able to sell this IPO, turn around and regain the 127 million dollars we have invested into this thing.

MR. DUNNE: By jacking the prices up later on.

MR. O'MALLEY: Right. They have to do it. Sooner or later, you have to pay the piper.

MR. DUNNE: Okay. I was trying to get, get a full handle on this whole thing.

There's another industry that sort of parallels this and it's called the gas industry. And do you think they get together and -- on their pricing. When all of a sudden, you wake up in the morning and the pump price goes up eight to ten, or twelve or fifteen cents? How do they manage to do that? They don't, there are not any cross ownerships there, aside of some mergers that went together. Do you think, do they get together somehow or do you think that's the free market. That one raises --

MR. CRAIG: I don't know what you're talking about. You mean, like Shell or I go into a Texaco station?

MR. DUNNE: Exactly.

MR. CRAIG: That's one, my point about the anti competitive part is it's Texaco. So I suppose if they're going to, whatever the market will bear, that's what they're going to get for gas, depending on what they're paying for their supplier or what it costs to produce the gas from crude to gasoline.

Orbitz is owned by the five major carriers, and the control 80 percent of the lift in this country. I know I keep repeating that, but --

Texaco and Shell and St. Clairs are getting together and doing a little joint venture and opening up some gas stations and selling gas. But the major carriers aren't.

MR. DUNNE: Well, the gas carriers --

MR. O'MALLEY: Excuse, Mr. Dunne, before you go on. There's a very good example with the gas company. And that is, 20 years ago, every gas station had somebody to come out and fill your tank with gas. Every gas station would fill your air with tires and you could get a flat fixed.

Now, you can't get anything done. You could get a candy bar. Right. You can get water. But you can't get any service.

MR. DUNNE: You're right.

MR. O'MALLEY: And there is a perfect analogy of the airline industry. We're going to go to just the ticket. That's all there is to it. There's no service. Take it or leave it. And that's what they do with gas, coming up to Fourth of July. They've already broadcast it's going to raise six or eight cents. Every station is going to do it. You don't like it, don't travel. Don't buy gas.

MR. DUNNE: Well, I understand. That's why I say I say, the analogy, that's why you use the gas company. You have no service whatsoever left.

MR. O'MALLEY: No service.

MR. DUNNE: But the only thing I'd say is that it's not just Orbitz. It looks to me like it's the whole system that needs to be redone or renegotiated or retalked to. I mean, you people get together.

MR. O'MALLEY: But we laws to stop that. We have laws that don't allow monopolies. But it doesn't seem to help. Somebody has to enforce them.

CHAIRMAN WINSTEAD: Let me ask a question. I know ASTA has been very active on your behalf in Washington for decades. And certainly, Paul and your other members in the Commission have done a great job in helping us address this issue.

I ask, I had a practical experience. I was head of Maryland Department of Transportation for a term and was responsible for the highways in

Maryland. And I was always Triple AAA is supposed to be representing the interest of the motoring public. And they usually have metropolitan chapters. And I'm sure Chicago has one. We had one in Washington, Baltimore area.

And I was always very frustrated because the issues of highway capacity have very extensive legal -- review processes and signed of by state and federal agencies. It's a very, six, seven year process, to get a new highway or additional capacity.

And yet, I saw the issue of mobility and congestion go from maybe being a concern to the public, ten percent, to being 38 percent last time they were polled. 38 percent of the people in the Washington metropolitan area are more concerned about congestion than they are about taxes or anything else.

And what we always had a really rough time doing, because we couldn't, we couldn't do it. Triple AAA could do it. Is converting the knowledge of the concern and how you address it. Be it access to low fares and level playing field to the people that were benefiting from it, the customer, your customers.

And I just ask the question, you know, you represent a lot of people. I mean, 70 percent of air travel goes through travel agencies. And yet, the frustrations that you're reflecting and the concerns you're reflecting, you know, it was like my frustration of trying to get all the commuters in Washington to show up for a hearing about a new road that was desperately needed. When all I would get would be, you know, three environmental groups in the neighborhood where the alignment went through.

And it's kind of, you're somewhat in the same situation, aren't you? You're dealing with a public that is dependent upon you and you know what's coming. You see these problems and you see the numbers. But it's very hard to convert the consuming public and leverage them into this issue because it's -- is that not the case?

I mean, you've got ASTA and you go to the Hill every year and you speak about your business. To how successful have you been conveying these concerns through your customer?

MR. CRAIG: It's similar to people on the Hill unless it affects them directly.

CHAIRMAN WINSTEAD: Yeah, they really don't get engaged.

MR. CRAIG: You're not going to get someone at your hearing unless it's going through their neighborhood.

CHAIRMAN WINSTEAD: Yeah. So, you've encountered the same.

MR. CRAIG: Sure.

CHAIRMAN WINSTEAD: It's the same issue. And yet, you all look at it as interested parties. You're up there with, you know --

MR. RYDEN: Mr. Chairman, not withstanding Consumer Union, which periodically shows up with an issue of one sort or another. These are the consumer advocates right here, in this industry.

CHAIRMAN WINSTEAD: Right. Right.

MR. RYDEN: Because the traveling public, if you looked at hotel taxes, you would see dramatically the capacity of local governments to impose local taxes on people who don't vote in their communities.

And air travel has had the same thing happen to it, which is one reason why John was in Washington. And we were in Washington, saying, "Please don't overtax this product anymore."

The traveling public has no other advocates, besides these folks.

MR. HANSEN: I have a question for Paul.

Several years ago, something major was going on and they asked all the ASTA agents to do a grass roots campaign and hand out letters, preprinted letters, and have our client sign them and turn them in.

How many letters did you all end up with? Do you remember?

MR. RYDEN: A few thousand.

MR. HANSEN: Oh, is that all? Okay.

MR. O'MALLEY: But I find it hard to ask a client when they're coming in on an upbeat, to buy a trip. To talk about something downbeat. Well, I may not be in business here unless you sign this letter. Huh. I better go to another agency that's going to be in business.

You know, you can't, you can't go ahead and ask the same person you're trying to convey that you're doing well in your business and you're going to be around for years, to say, "Well, unless you write to your Congressman, I'm not going to be around."

DOCTOR MITCHELL: On that same subject, we've heard many times and we all, being in the business, know it and the airlines know it to. That we sell anywhere from 65 to 75 percent of the airline tickets. When commissions began dropping in '95, the percentage of tickets sold by agents didn't go down. It went up. And even in today's environment, we still sell a huge percentage of the tickets.

If we all went away, the airlines could not accommodate the distribution.

In your opinion, do you think that they not only don't think we're going to go away, they know we're not? So, it really provides them, or do you think it does, provides them cover to do what they're doing that may not be in their own best interest?

You know, certainly the internet should be taken advantage of in any way possible. And consumers should be as active as possible. But in your opinion, do you think that the airlines are acting in their own best interest?

MR. HANSEN: Well, they know we're not going to go away. So, it's been proven every time it's cut, been cut or capped. You know, we continue to sell more. And, you know, but that's why we're here is for the consumers and the traveling public.

So, you know, they know it and they know they can get away with it. And they do it because they can.

MR. O'MALLEY: In any retail business, if you went ahead and you named a Walmart or, you know, a drug company. If they could distribute their product for ten percent or less of the value of that product, they would have a phenomenal distribution system. And we do do it with that product for less than ten percent consistently.

MR. CRAIG: Even with CRC.

MR. O'MALLEY: Even with $179 airfare we do that. When once you had a $400 airfare, we're sitting down at 2.5 percent distribution. That's unheard of in any industry. Yet it's too high for them. And they keep talking about Orbitz is going to lower their distribution costs by 75 percent. 75 percent of what?

MR. CRAIG: You forgot to mention that by the way.

MR. O'MALLEY: Give me a figure that you can honestly tell me, well, as he said, well, you can pay up to three percent for credit card transactions. When was the last time Delta Airlines paid anything more than one percent for a credit card transaction? It doesn't happen.

DOCTOR MITCHELL: And in your business, if there is a charge back, does the airline pick up that cost or do they send it back to you?

MR. O'MALLEY: No, not in my lifetime.

MR. HANSEN: No.

MR. O'MALLEY: So, I look at, I look at we have to -- when the next time you ask the airlines, don't tell them to give you percentages. Ask for actual prices and ask after their rebates. Just as you asked us about our CRS system. I pay $86,000 a year for my CRS system in my office. How much do I pay extra? Nothing. Okay. Well, it sounds like I'm going under, paying $86,000. But that's what my contract says.

So they're giving me $86,000? Really? No. I don't think so. Maybe it's worth half of that. But that's their inflated price that they then give me money off of, an inflated amount.

MR. CRAIG: And -- oh, I'm sorry. I was just going to say Mr. Lawson, where you were talking about rebates from the CRS a little bit and stuff. And, you know, really we need to talk about it or tell it. An analogy of that is like any time you go to Walmart or K-Mart or any retail establishment, I don't think they have to put up a wall what they're -- is for their products they buy. Because that's all about retail. I was in retail ten years before I got in the travel business. And I'll tell you, it is what you charge for your product and what you make. But it's the turn. You got to turn the product. And it's what you get on -- , how long you can use their money to sell your retail product.

So, I mean, whether I make maybe a dollar a segment, or something like that, extra, you know. That's fine. I need all the revenue I can get in a zero commission environment. So, if I'm making two dollars a segment, fine. I earn it in the system they've given me.

This CRS thing that everyone's whining about was started, produced, invented and stuffed down our throat by the airlines. I didn't ask for this. This is the system I've been given. And I'm operating the best I can in it.

MR. RYDEN: If I could ask a question about something that I'm not even sure who mentioned it at this point. But two or three people did refer to a number of what I'll call problem situations that arise when you sell airplane tickets and that you have to deal with to get it fixed.

And, I think it was Stephanie talked about the value of preferred supplier relationship. That it's not just an extra commission. It's also a relationship that enables these problems to be solved. But what I'm thinking is if the ratio of problem tickets to other tickets is one out of three, one out of four even. And you were not solving those problems. Someone else will have to. And it would have to be the airlines, themselves, who would have to do it.

So that when we look at the question of what does a travel agent cost. There's an out-of-pocket cost and there's also, I guess it's called by economists, a reverse opportunity cost or something. I don't have to spend a lot of time hiring people and money, hiring people. And having them spend their time doing this because I've got somebody else to do it.

And that's a value that has, it's difficult to put a dollar figure on it. But it is a value.

MR. HANSEN: It's just like their schedule changes as well.

MR. RYDEN: That's --

MR. HANSEN: You know, they create them. They happen every single day. We've worked, you know, 50 to 100 of them. But they expect us to do it. You know, we didn't create that change. They did. And if we don't let the consumer know about it, they may show up and the flight left a half hour before.

And that's what happens with some of the internet bookings, too. I think one of the Orbitz sites made reference to their customer care. But they said only the people that sign up for it. Well, that should be automatic, shouldn't it? Because obviously, if somebody can access a computer and buy a ticket, then they have the ability to communicate.

And why should a consumer have to sign up for customer care just to know if there's a schedule change?

MR. RYDEN: If they're one of those people who has to do it down at the library.

MR. HANSEN: It's our turn.

MR. O'MALLEY: The other question that needs to be asked of United Airlines or any of the other reservation systems is they're getting an unprecedented number of calls to their call centers. Even though we do have the internet.

So, people who are booking on the internet are still calling for other things. So, you can't look at an exact cost. They're saying the distribution system of the internet ticket is X. But if they're calling the airlines to ask a question once or twice, they can't factor that in. All of those calls to United Airlines direct are put their regular ticketing calls.

It's impossible. So, when you ask them to break it down, how do they assign those extra calls?

CHAIRMAN WINSTEAD: Do we have any other pending questions?

MR. ROPER: I guess the bottom line is what do you really want?

MR. O'MALLEY: I'd like to retire.

MR. CRAIG: I'd like a place for our service fees on the box, where it's in one deal. That would be nice.

Somewhat level playing field, net fares that are true, wholesale net fares, I suppose. Those would be my two big wish list in a zero commission environment when I'm competing with all these particular internet sites. I think I'd guess, that'd be my two biggest wish-list things.

MR. DUNNE: What does somewhat mean? A level playing field?

MR. CRAIG: Well, I suppose just let me have 80 percent of the internet fares. Not maybe all of them, but just a few. Give me a few bones. I'm a pretty good sales person.

MR. DUNNE: No, I understand that. I'm just trying to figure what somewhat means in respect to a level playing field?

MR. CRAIG: I've asked for less and gotten less. So, I guess I'm just not trying to be greedy. I'm just trying to ask for a little, a few deals.

MR. CASTO: But John, do you want it on your CRS system? Is that what you're here --

MR. CRAIG: In my current environment, it'd have to be, yes. That's what, that's the program -- I'm sorry. That's what I've been, that's the tool that I have now on my desk. I'm in within that contract and that's what I have to sell the product on.

MR. LAWSON: So, what you're saying is you all could be satisfied then if the quote web fares, and that's becoming a little mystique within itself.

MR. CRAIG: Right.

MR. LAWSON: If you had access to those fares, even if the, in your CRS system. And again, this is the same question I've had before. Is because the airlines are saying it's your a more expensive distribution channel, which in my estimation, it's ten to 15 dollars maximum. I don't even think it's that.

But, if they had a surcharge for you to have web fares on your CRS system of ten or 15 dollars, do you think that would be a level enough playing field for it to work?

MR. CRAIG: Well, it'd probably have to be a case-by-case basis, depending on what my lowest CRS, lowest CRS fare in a market is to what the lowest internet fare is. I would guess that would be --

MR. LAWSON: Well, what you would do, and just hypothetically, is that if it's a web fare and designated a web fare and it would have a slight surcharge --

MR. CRAIG: If it was sold through the CRS?

MR. LAWSON: Yeah.

MR. CRAIG: I suppose. Yeah. That would be a step in the right direction. I mean, I don't prefer an extra surcharge. But, I mean, if it would get me some form of access to those deeply discounted internet fares, it at least gets me on the right track to compete.

MR. HANSEN: I'd probably echo John's statement, too, about a box on the ticket. And maybe to just reiterate, because obviously we've offended some Orbitz people here. If we don't understand it, I guess that is our problem. What I would like to see is probably the airlines get rid of their ownership within that company. Because if it a means to distribute the product at a lower cost, that's great. All right. And that should happen.

But I just think it's really, it's scary to me to know that the airlines have the majority ownership in this. And whether it does or does not happen, you know, people can think and do what they want. But, my thoughts are that, you know, I envision this table where these old guys are sitting around, you know, deciding what fares they want to charge. And that may not be the case.

But the only way for us to, you know, to know that that's not happening, is for them to give up their ownership in it.

MR. LAWSON: But you have no problem with their own sites. Because after all, that's their --

MR. HANSEN: That's correct. Yeah. That's their own stuff.

MR. CRAIG: That's their own site. They can do anything they want.

MR. HANSEN: I think, you know, if they do go public and it's, you know, owned by stockholders and they do not have majority shares in it and can't control the day-to-day operations. When they let the, you know, the people that they hire do that and they do it better and cheaper, that's great. But I just think that the ownership interest is just really what scares me. And I think that's what a lot of people --

MR. LAWSON: I think in their IPO, I think they're stating that they will still exercise complete managing --

MR. CRAIG: That's for sure. And if I'm wrong about the antitrust stuff, I apologize. I didn't mean to offend anyone back there from Orbitz. I'm just confused about the whole makeup of the ownership. And from what I've learned in school and college and everything, it seems a bit funny.

MS. CASTO: No. I think I just included on the service fee included in the ticket.

CHAIRMAN WINSTEAD: Alrighty. Well, listen. Thank you all very much. We're close to 5:30 here. You were great to stick with us. I know you were here this morning through the afternoon. But we thank you for your testimony and will continue to digest it and consider your recommendations.

(Whereupon the meeting concluded at 5:30 p.m.)