

**Before the  
National Commission to Ensure  
Consumer Information and Choice  
Washington, D.C.**

Comments of the Airlines Reporting Corporation

July 23, 2002

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The Airlines Reporting Corporation (“ARC”) hereby respectfully submits these comments before the National Commission to Ensure Consumer Information and Choice. The American Society for Travel Agents, Inc. (“ASTA”), alleges in testimony before this Commission by Chief Operating Officer William A. Maloney that airlines, ARC, and others, “...are also parties to other actions...that are intended to and have the effect of raising travel agent costs, impairing travel agency efficiency, and interfering with travel agents’ client relationships. These same practices are intended to and, if allowed to continue, will have the effect of impairing consumer access to travel agencies and travel agencies’ access to consumers.<sup>1</sup>” (Testimony of the American Society for Travel Agents, Inc., before the National Commission to Ensure Consumer Information and Choice, June 12, 2002 at 16-17.) As the following comments will demonstrate, ARC has worked diligently to develop new products and services to help its stakeholders, travel agents and carriers, reduce costs through the automation of services, improve efficiency by reducing paperwork, and provide opportunities for travel agents to earn additional revenue in new and innovative marketplaces. ARC also strives wherever possible to foster positive relationships amongst its stakeholders.

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<sup>1</sup> Mr. Maloney also testified in a footnote 4 that ARC ceased reporting commission data after March 2002 because “[commissions] were so small as to be no longer ‘statistically valid...’” This statement does not accurately reflect ARC’s rationale. ARC ceased reporting commission data in its monthly statistics after determining ARC-accredited entities did not report commissions to ARC in a consistent and reliable manner that would render the published information “statistically valid.” ARC did not deem it prudent to inquire further about commissions since such matters are expressly excluded from ARC’s scope of authority.

## I. Background

ARC is a Delaware “close” corporation established in 1984.<sup>2</sup> Its shareholders include the principal scheduled airlines of the United States. ARC provides four primary core services to the travel industry: (1) an accreditation program for designating competent, responsible travel agents in the United States for the sale of worldwide air transportation; (2) uniform, standard tickets and other traffic documents necessary for the issuance of tickets and other ancillary services (e.g., tour packages, surface transportation, hotel accommodations, other ground arrangements, etc.); (3) a computerized system through which ARC-accredited entities report sales and remit the proceeds thereof; and (4) a repository of transactional information and data. ARC-accredited entities report, and remit the proceeds of, all weekly sales, thereby facilitating the use of air and rail transportation by the traveling public. ARC’s services are utilized by 130 air carriers and three railroads throughout the world and by more than 15,000 ARC-accredited travel agents operating through 31,471 authorized locations in the United States. ARC strives to be the premier transaction processor in the travel industry, as well as a data resource to all its participants.

## II. ARC Provides Substantial Benefits to the Travel Industry

ARC services provide substantial efficiencies and cost savings to the travel industry. ARC supplies accredited entities with standard traffic documents – at no additional charge. These standard documents are accepted by all ARC participating carriers, which includes

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<sup>2</sup> The Civil Aeronautics Board (“CAB”) removed antitrust immunity from the operations of ARC’s predecessor, the Air Traffic Conference of America (“ATC”), effective December 31, 1984. ARC was established as an alternative industry program when it was determined ATC could not continue to operate the program in its existing format without the protection of antitrust immunity.

domestic as well as foreign air carriers. Use of standard ARC traffic documents eliminates the need for ARC-accredited entities to obtain ticket stock from each airline.

Likewise, rather than report sales to each airline, ARC-accredited entities submit a single report to ARC each week including all sales made on ARC traffic documents during the week. ARC, in turn, remits the proceeds of the sales to the respective airlines. ARC's standard reporting and remitting system eliminates the need for ARC-accredited entities to report sales and remit proceeds of sales to each airline. ARC provides a weekly hardcopy sales summary to each ARC-accredited entity (ARC recently introduced an electronic version as well) – at no additional charge. ARC also provides a sales summary of all sales made by that entity to the affected carrier. ARC's year-to-date total of items processed through the area settlement plan, including tickets and related travel documents, is 99,000,000 items.

### III. ARC's New Products and Services

ARC has expanded its core services since 1984 to include new products and services to meet the needs of the travel industry. A brief description of several new products and services follows.

#### A. Interactive Agent Reporting System

ARC introduced Interactive Agent Reporting ("IAR") (formerly known as Interactive Sales Reporting) in 1997. Currently, 29,320 ARC-accredited entities report through IAR. IAR allows ARC-accredited entities to report sales electronically to ARC with a Computer Reservations System ("CRS"), Global Distribution System ("GDS") or via Internet access – at no additional charge. Each entity's sales are transmitted from its CRS/GDS nightly into IAR. IAR collects the data and electronically prepares a sales report specific to that location on a daily

basis. IAR verifies each transaction, as it is received, identifies errors and allows the entity to make changes. Each week, the ARC-accredited entity authorizes the sales report and submits it to ARC electronically. Travel agents that report via IAR have sent ARC numerous testimonials advising of the cost and time savings realized, as well as increased productivity. One travel agent stated: “IAR is fantastic. It cuts our processing time down and reports are done faster than before.”

Conversely, preparation of the paper sales report, i.e., manual processing reports, is more labor intensive. The travel agent must organize the paper coupons of all sales, exchanges and refunds made during the week into credit sale and cash sale batches, as applicable, in numeric sequence by ticket/document number. Each batch should not include more than 50 documents. The travel agent must then generate an adding machine or computer printout indicating the total transaction amounts. The batches must be in the same order that they appear on the tape or printout. The tape or printout must be error free and may not contain handwritten corrections or deletions. Finally, the travel agent must prepare a Sales Report Settlement Authorization Form and mail the documents to ARC. In comparison, the virtually paperless IAR process is an efficient alternative to the manual reporting system because it saves the travel agent both in time and costs.

B. ARC COMPASS<sup>SM</sup> Document Retrieval Service

ARC introduced its new ARC COMPASS<sup>SM</sup> Document Retrieval Service in December 2001. This Service is available to all ARC-accredited entities that report through IAR – at no additional charge. The Service provides ARC-accredited entities with electronic access to a compilation of data (approximately two years’ worth) relating to the individual entity’s ticketing

and other transactions reported weekly through the area settlement plan. ARC-accredited entities that utilize this Service realize additional cost savings through the elimination of the contractual requirement to store agent's coupons for two years. This Service also provides ARC-accredited entities with ready access to an electronic system that enables them to provide better customer service, e.g., requests for passenger receipts, refunds, etc., and resolve debit memos.

The Service has received favorable reviews from travel agent users, including one travel agent who stated: "The ARC COMPASS<sup>SM</sup> Document Retrieval Service has made my life so much easier! We turned off agent coupons in January 2002. Since then, ARC reporting time has dropped from 8 to 12 hours a week to 2 hours. We can also e-mail and fax passenger receipts to clients right from our desktops. We have moved our corporate clients to a paperless environment, saving postage, ticket and paper expense. I never have to search through boxes to get information – it is available at my fingertips. The ARC COMPASS<sup>SM</sup> Document Retrieval Service allows us to focus on client care instead of reporting."

C. Program Expansion

ARC expanded its accreditation program in 1998 to include corporate travel departments ("CTDs"). ARC-accredited CTDs are purchasers of travel, not sellers of travel as in the case of travel agents, and issue ARC traffic documents to its own employees and related entities in support of its business functions. The ARC Agency List includes 121 CTDs as of May 2002.

ARC has also introduced various new location types to meet the changing needs of ARC-accredited entities. For example, a travel agency location that issues electronic tickets<sup>3</sup> (“e-tickets”) only may apply for status as an “Electronic Office” and will be relieved of its contractual obligation to comply with the ticket security rules. Travel agents that issue e-tickets should realize time savings in ticket preparation and cost savings in reduced ticket delivery charges. The Ticketing Fulfillment Location (“TFL”) allows travel agents to print tickets at an approved centralized branch location, thereby reducing the costs associated with maintaining a ticket printer. The Centralized Service Location (“CSL”) allows travel agents to centralize agency functions, such as reservations, sales, ticket issuance, sales reporting, etc., through one location, thereby reducing overall operating costs. ARC also modified location requirements to permit travel agents that meet defined criteria to share premises. Travel agents that share agency premises should realize savings through reduced operating costs.

D. Certified ARC Specialist (“CAS”)

The ARC CAS program is designed to help improve travel agency operations through demonstrated competence in ARC-related business functions, including, for example, ticketing, refunds, exchanges, and ARC settlement operations. A travel agency that employs an individual who has passed the CAS exam should realize cost savings and efficiencies through better document security, fewer errors and better customer service. ARC created the CAS program in response to travel agent concerns about finding experienced personnel.

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<sup>3</sup> ARC upgraded its processing system in 1995 to provide travel agents the capability to report and settle electronic tickets.

E. Transaction-based Fees

ARC's new fee structure reflects a shift from its historical location-based fee structure to a transaction-based fee structure.<sup>4</sup> The new fee structure was prompted by changes in the industry, including increased usage of the Internet as a travel distribution model, and ARC's desire to allocate costs on a more equitable basis. So-called "web-based" travel agents generally operate with fewer physical locations, if any, but may process volume similar to travel agents operating from multiple physical locations, i.e., "brick and mortar" agents. ARC believes the new fee structure is a fairer allocation of costs because it is based on both the number of transactions the travel agent processed and the number of authorized locations<sup>5</sup> rather than solely on the number of authorized locations. (See Exhibit B: *Mutén, ARC's Board of Directors Meets to Review Shifting Paradigms – New Agent Fee Structure Adopted for 1002*, ARC PRESS RELEASE 01-72, December 6, 2001.)

F. TravelBUYARC

TravelBUYARC is an innovative service initially introduced in 1998 as the ARC Vendor Program. TravelBUYARC allows ARC-accredited entities to process the sale of non-airline

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<sup>4</sup> ARC sponsored several open forums to solicit comments from the travel agency community regarding the new fee structure, including ASTA. Most travel agents supported the new fee structure. (See Exhibit A: Milligan, *Seeking fairness in ARC fees*, TRAVEL WEEKLY, December 17, 2001, at cover.) (Note: The per-transaction fee for IAR travel agents is .004 cents, not .4 cents as reported in the aforementioned article.) However, ASTA challenged the new fee structure, specifically the 50 percent allocation of costs to travel agents that continue to use the manual reporting system, and filed an appeal with the Independent Arbitration Panel ("IAP"), the forum designated to hear appeals on any and all matters affecting agents and ARC. The IAP concluded in its final decision that the fee structure for manual reporting travel agents was fair and reasonable and denied the appeal. See Exhibit C: In the Matter of Non-interactive Agent Reporting Fees, Independent Arbitration Panel (November 15, 2001) (final decision).

<sup>5</sup> The current annual, i.e., per-location, fee of \$130 is less than the \$150 annual fee travel agents paid in 1985 when ARC commenced operations.

related travel products and services through ARC's area settlement plan – at no additional cost. The service currently hosts 22 travel products and services that offer ARC-accredited entities the opportunity to generate additional revenue while still benefiting from the economies of scale realized by using ARC's settlement system as well as timely and reliable payment directly to the entities' designated ARC bank accounts.

G. Payment Processing System (“PPS”)

PPS is another innovative service launched in December 2001 that facilitates payments to travel agents from airlines for web ticket sales – at no additional cost. ARC-accredited entities may also establish relationships with non-airline suppliers through PPS and process the transactions through ARC's area settlement plan. PPS is another ARC service that offers ARC-accredited entities the opportunity to generate additional revenue and receive timely and reliable payment directly to the entities' designated ARC bank accounts.

H. Travel Agent Service Fees (“TASF”)

The TASF program, introduced in 1995, allows the travel agent to collect service fees for professional services rendered and to process the fee through ARC. ARC is unable to release statistics regarding usage of this program due to contract confidentiality restrictions; however, there has been significant growth each year since the release of the TASF program. A recent survey conducted by ASTA found that 88 percent of ASTA travel agent members charge service fees (see Exhibit D: *ASTA Releases Results of 2001 Service Fees Report*, ASTA NEWS RELEASE, May 18, 2001). As indicated in the news release, travel agents reported the implementation of the fees made very little difference in the size of their respective client bases.

IV. Conclusion

Through their funding of the major share of ARC's operating expenses over the past 17 years, ARC's airline owners have authorized the development of several new products and services that provide significant cost savings and revenue generating opportunities for travel agents, as well as increased productivity. ARC is committed to working with its participants, both travel agents and air carriers, to provide high-quality financial processing and settlement services and to facilitate the distribution of travel products and related information.

Respectfully submitted,

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