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Appendix A

PUBLIC LAWS OF THE UNITED STATES OF AMERICA

[This document is U.S. Pub. L. 106-181, which became law April 5, 2000. In the *Statutes at Large*, it begins at 114 Stat. 61.]

AT THE SECOND SESSION

Begun and held at the City of Washington on Monday, the twenty-fourth day of January, Two Thousand

AN ACT

To amend title 49, United States Code, to reauthorize programs of the Federal Aviation Administration, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) Short Title.--This Act may be cited as the "Wendell H. Ford Aviation Investment and Reform Act for the 21st Century".

SEC. 228. NATIONAL COMMISSION TO ENSURE CONSUMER INFORMATION AND CHOICE IN THE AIRLINE INDUSTRY.

(a) **Establishment.** --There is established a commission to be known as the "National Commission to Ensure Consumer Information and Choice in the Airline Industry" (in this section referred to as the "Commission").

(b) **Duties.** —

(1) **Study.**--The Commission shall undertake a study of--

(A) whether the financial condition of travel agents is declining and, if so, the effect that this will have on consumers; and

(B) whether there are impediments to information regarding the services and products offered by the airline industry and, if so, the effects of those impediments on travel agents, Internet-based distributors, and consumers.

(2) **Small travel agents.**--In conducting the study, the Commission shall pay special attention to the condition of travel agencies with \$1,000,000 or less in annual revenues.

(c) **Recommendations.** --Based on the results of the study under subsection (b), the Commission shall make such recommendations as it considers necessary to improve the condition of travel agents, especially travel agents described in subsection (b)(2), and to improve consumer access to travel information.

(d) **Membership.**—

(1) **Appointment.** --The Commission shall be composed of nine members as follows:

(A) Three members appointed by the Secretary.

(B) Two members appointed by the Speaker of the House of Representatives.

(C) One member appointed by the minority leader of the House of Representatives.

(D) Two members appointed by the majority leader of the Senate.

(E) One member appointed by the minority leader of the Senate.

(2) **Qualifications.** --Of the members appointed by the Secretary under paragraph (1)(A)--

(A) one member shall be a representative of the travel agent industry;

(B) one member shall be a representative of the airline industry; and

(C) one member shall be an individual who is not a representative of either of the industries referred to in subparagraphs (A) and (B).

(3) **Terms.**--Members shall be appointed for the life of the Commission.

(4) **Vacancies.**--A vacancy in the Commission shall be filled in the manner in which the original appointment was made.

(5) **Travel expenses.** --Members shall serve without pay but shall receive travel expenses, including per them in lieu of subsistence, in accordance with subchapter I of chapter 57 of title 5, United States Code.

(6) **Chairperson.**--The member appointed by the Secretary of Transportation under paragraph (2)(C) shall serve as the Chairperson of the Commission (referred to in this section as the "Chairperson").

(e) **Commission Panels.**--The Chairperson shall establish such panels consisting of members of the Commission as the Chairperson determines appropriate to carry out the functions of the Commission.

(f) **Staff.**--The Commission may appoint and fix the pay of such personnel as it considers appropriate.

(g) **Staff of Federal Agencies.**--Upon request of the Commission, the head of any department or agency of the United States may detail, on a reimbursable basis, any of the personnel of that department or agency to the Commission to assist it in carrying out its duties under this section.

(h) **Other Staff and Support.**--Upon the request of the Commission, or a panel of the Commission, the Secretary of Transportation shall provide the Commission or panel with professional and administrative staff and other support, on a reimbursable basis, to assist the Commission or panel in carrying out its responsibilities.

(i) **Obtaining Official Data.**--The Commission may secure directly from any department or agency of the United States information (other than information required by any statute of the United States to be kept confidential by such department or agency) necessary for the Commission to carry out its duties under this section. Upon request of the Commission, the head of that department or agency shall furnish such nonconfidential information to the Commission.

(j) **Report.**--Not later than 6 months after the date on which initial appointments of members to the Commission are completed, the Commission shall transmit to the President and Congress a report on the activities of the Commission, including recommendations made by the Commission under subsection (c).

(k) **Termination.**--The Commission shall terminate on the 30th day following the date of transmittal of the report under subsection (j).

(l) **Applicability of the Federal Advisory Committee Act.**--The Federal Advisory Committee Act (5 U.S.C. App.) shall not apply to the Commission.

Appendix B

MEMBERS OF THE COMMISSION

David L. Winstead

Chairman

David Winstead has been named by Secretary Norman Mineta as Chairman of the Commission. Mr. Winstead is a partner/attorney with Holland & Knight LLP, and served as Maryland's Secretary of Transportation from 1995-1999. In this capacity, he served as Chairman of the Maryland Aviation Commission and oversaw the expansion and operations of Baltimore-Washington International Airport. During the reauthorization of TEA-21, Mr. Winstead was President of the American Association of State Highway Transportation Officials (AASHTO) and actively involved with Congress and the U.S. Department of Transportation in national transportation policy.

Maryles Casto

Maryles Casto is President and CEO of Casto Travel in Santa Clara, CA. She began her career in travel as a flight attendant for Philippine Airlines, quickly moving up the ranks to become Manager of In-flight Service. Coming to the United States after her marriage, she became the manager of a major travel agency in the San Jose area. In 1974, Maryles and a partner founded Casto Travel. Today, Casto Travel ranks 38th in size among travel agencies in the United States. She was appointed to the Commission by Secretary Mineta.

Thomas P. Dunne, Sr.

Mr. Dunne is Chairman, CEO and President of Fred Weber, Inc., a highway construction firm in Maryland Heights, MO. He holds a Bachelor of Science, Civil Engineering from Washington University in St. Louis. He is a Registered Professional Engineer in Missouri, and has 37 years experience in the construction industry. He was appointed to the Commission by House Minority Leader Richard Gephardt.

Ted R. Lawson

Mr. Lawson is President and CEO of National Travel, Inc., in Charleston, WV, which is ranked in the top one percent of travel agencies located in the United States, with annual sales of \$50 million. He is a graduate of the University of Charleston. He began his travel career in sales and marketing positions with USAir. He was appointed to the Commission by Senator Jay Rockefeller, pursuant to delegation by Minority Leader Tom Daschle.

Dr. Ann B. Mitchell

Dr. Mitchell is President and Owner of Carlson Wagonlit Travel /Travel First Inc. in Starkville MI. She holds a Ph.D. from the University of Alabama and was previously Dean of Students at Mississippi University for Women. She has been a member of the Carlson Wagonlit Travel Associate Advisory Board, has held positions on various national committees of the American Society of Travel Agents and has earned the designation of Certified Travel Counselor from the Institute of Certified Travel Agents. She was appointed to the commission by Majority Leader Trent Lott.

Patrick V. Murphy, Jr.

Patrick V. Murphy, Jr. is a partner in the consulting firm of Gerchick-Murphy Associates of Washington, DC where he provides consulting services on domestic and international aviation and transportation matters. Prior to joining Gerchick-Murphy Associates in September of 1999, Mr. Murphy served for 12 years as the U.S. Deputy Assistant Secretary of Transportation for Aviation and International Affairs. He also served as Acting Assistant Secretary for two years. Mr. Murphy joined the Department of Transportation in January of 1985, after serving at the Civil Aeronautics Board (CAB) since 1971. At the CAB, Mr. Murphy held several key positions including Associate Director, Bureau of Domestic Aviation, and Chief, Essential Air Services Division. Mr. Murphy was appointed to the Commission by Secretary Mineta.

Joyce Rogge

Ms. Rogge is Senior Vice President-Marketing for Southwest Airlines. Ms. Rogge is responsible for Southwest's national advertising programs in all media, including television, radio, newsprint, billboards and the Internet, as well as for all of Southwest's marketing strategies. Prior to joining Southwest in 1988 as the Manager for Promotions, Ms. Rogge was Vice President-Account Services for an advertising agency in New York. She holds a Bachelor of Fine Arts and a Masters Degree in Business Administration from Southern Methodist University in Dallas, TX. She was appointed to the commission by Majority Leader Trent Lott.

Gerald J. Roper

Mr. Roper is President and Chief Executive Officer of the Chicagoland Chamber of Commerce, a business organization that serves more than 2,600 members in the six-county Northeastern Illinois region. Mr. Roper became President and CEO of the Chicagoland Chamber of Commerce in 1993 following a nine-year career with the Chicago Convention and Tourism Bureau. While at the Convention and Tourism Bureau he served as the head of marketing and sales before being elected the Bureau's President and CEO in 1988. He was designated for the Commission by Speaker of the House Dennis Hastert.

Paul M. Ruden

Mr. Ruden is Senior Vice President for Legal and Industry Affairs for the American Society of Travel Agents. His responsibilities include all of ASTA's internal and external legal activities, industry policy issues, state and federal legislation, consumer affairs and extensive media activity. Mr. Ruden served as Acting Chief Operating Officer of ASTA for periods in 1992 and 1998-1999. Prior to joining ASTA in 1990, Mr. Ruden was in private law practice in Washington, DC for nineteen years. He worked as a Trial Attorney at the Civil Aeronautics Board from 1967 to 1969. Mr. Ruden graduated with honors from Yale University in 1964 and earned a J.D. degree from the Harvard Law School in 1967. He was appointed to the Commission by Speaker of the House Dennis Hastert.

Appendix C

Almost All Agencies are Small Businesses of Special Concern to Congress

Our governing statute requires that, as part of its deliberations, the Commission pay special attention to the condition of travel agencies with \$1 million or less in annual revenue [Section 228(b)(2)]. The Commission has determined that almost 95 percent of all agencies meet that standard, and, therefore, are subjects of special concern to both Congress and the Commission. Only agencies that primarily deal with corporate travel earn more annual revenue.

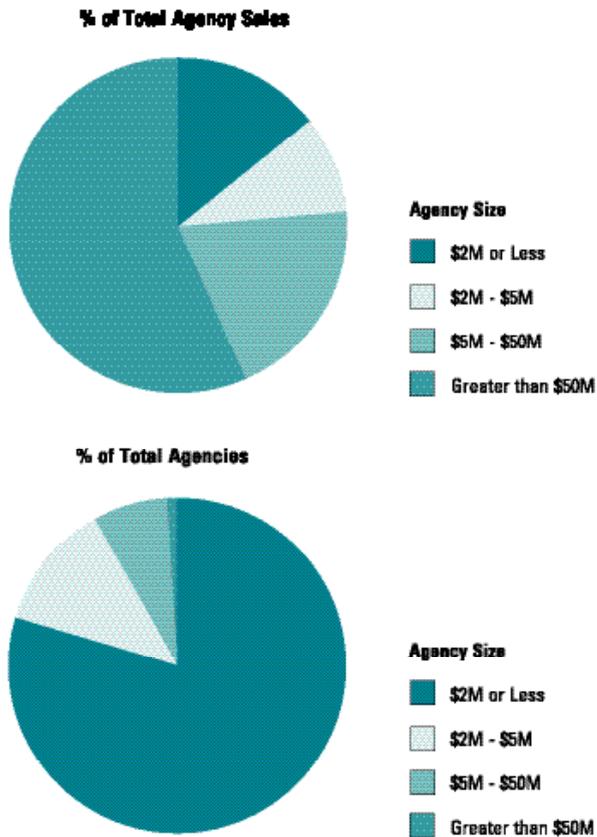
The statutory standard appears to be derived from the definition of travel agents as small businesses in the North American Industry Classification System (NAICS). At the time our governing statute was passed, the NAICS standard for travel agents to qualify as a small business was \$1 million or less in annual revenue – the same figure used in our statute. On May 31, 2002, the Small Business Administration amended the standard, increasing it to \$3 million (67 F.R. 38186). The SBA noted that, based on 1998 data, 95 percent of all travel agencies were small businesses under the \$1 million standard, and that the amendment to \$3 million would increase coverage to 98 percent. The SBA conclusions are substantiated by our analysis of more recent industry data provided to us by Airlines Reporting Corporation (ARC).

The only data that can assist us in making this calculation is provided by ARC, but is limited to air transportation revenue. The NAICS standard measures the agent's actual commission and fee revenue, and not the gross value of airline tickets that it sells. Since the average leisure agency derives slightly more than 50 percent of its revenue from commissions and fees for sale of airline tickets, the ARC data, which shows total air revenue by size of agency, must be adjusted to obtain a clear picture of the agent's actual revenue. Thus, an agency with \$1 million in revenue would have slightly over \$500,000 in revenue from airline sales.

Analysis of the ARC data shows that most agencies are truly small. In 2001, for example, 93.9 percent of all agencies (17,293) generated \$5 million per year in airline revenue (and thus \$500,000 or less in

commission and fee revenue). The remaining 6.1 per cent of agencies (1132) are much more heavily involved in providing travel management services to large companies, generating 71.5 percent of all ARC revenue. Appendix G analyzes ARC revenue and commissions by size of agency.

Agency Airline Sales and Number of Agencies as a Percentage of Total (2001)



Therefore, Congress should understand that, except for the largest agencies specializing in corporate travel, almost all agencies are of special concern under the statute. The Commission has followed the statutory mandate in its considerations, but has not attempted to draw a formal distinction between small agencies and all others in the course of this report.

Appendix D

WITNESSES BEFORE THE COMMISSION

June 12, 2002 - Washington, DC

William A. Maloney
Executive Vice President and
Chief Operating Officer
American Society of Travel Agents

Mark Brown
Executive Vice President
AAA

Kathy Cupp
Senior Vice President and General Counsel
Gallileo

Robert McGurk
National Business Travel Association

Michael Thomas
President and CEO
OneTravel.com

David A. Schwarte
Senior Vice President and General Counsel
SABRE

Michael MacNair
President
McNair Travel Management
Alexandria, VA

George A. Nicoud, III
Associate General Counsel
American Airlines

Al Lenza
Vice President, Distribution and
E-commerce
Northwest Airlines

June 26, 2002 - Chicago, IL

Gary A. Doernhoefer
Vice President and General Counsel
Orbitz

Scott Yohe
Senior Vice President, Government Affairs
Delta Air Lines

Beau Brindler
Director
Consumers Web Watch

Chuck Bell
Director of Programs
Consumers Union

Paul Blackney
President and CEO
WorldSpan

Devin Hansen
Sunflower Travel Corp.
Wichita, KS

Cynthia Tyo
General Manager
Travel Travel
 Fargo-Moorhead, ND

James M. O'Malley
Partner
Diplomat Travel Agency
Chicago, IL

John A. Craig
Owner
Pathfinder Travel & Cruises
Olathe, KS

Stephanie Turner
Brentwood Travel Service
St. Louis, MO

July 11, 2002 - San Francisco, CA

Michael Mulvagh
Vice President, Industry Affairs
and Communications
American Express

Brian Barth
CEO
SideStep

Daniel Ko
CEO
Qixo

Les Ottolenghi
President and CEO
Agentware

David L. Rojahn
President
DTR Travel
Englewood, CO

Robert Kern, Jr.
President
PNR Travel
Los Angeles, CA

Steve Hewins
President
Hewins, Carlson/Wagonlit Travel
Portland, ME

George Delanoy
Owner
Brea Travel
Brea, CA

July 31, 2002 - Washington, DC

Alex Wasilov
President and COO
Rosenbluth International

John H. Caldwell
President
Caldwell Associates

Robert W. Joselyn
President and CEO
Joselyn, Tepper & Associates

Lorraine Sileo
Vice President-Information Services
PhoCusWright

David Butler
Assistant Professor
Department of Economic Development
University of Southern Mississippi

Kenneth Button
Professor
Center for Transport Policy and Logistics
George Mason University

Appendix E

SUMMARY OF VIEWS

Congress directed the Commission to determine the financial condition of travel agents and the resulting impact on consumers. It also asked us to determine if travel agents and consumers face barriers in obtaining information on airline services and products.

The witnesses fell primarily into two camps — travel agents and CRSs on the one hand, and airlines and Orbitz on the other — with additional presentations by academic, consulting and consumer representatives. Their testimony concentrated on a half dozen key subjects, which the Commission has summarized below: commissions, booking fees, the Internet, web booking tools, Orbitz and regulation. In essence, testimony from travel agents and CRSs suggested that airlines are creating a new distribution system intended to bypass them and harm consumers. The airlines answered that they are trying to make distribution more efficient using Internet technology.

COMMISSIONS: The reduction in airline-paid base commissions was a key agent issue. The American Society of Travel Agents (ASTA) testified, "As airlines have continued to reduce and then eliminated agency commissions, many agencies have been forced out of business. Those that survive are inevitably being forced to charge higher service fees, placing travel agent services beyond the means of millions of consumers. . . . The airlines' long-run goal is the effective disintermediation (bypass) of independent travel agencies as an effective national economic force, offline and online." Also, the organization found no evidence that claimed cost savings from reduced commissions "were passed on to consumers through better service or lower ticket prices." ASTA sees the commission reductions as part of a multi-faceted airline strategy to take effective control of distribution away from independent parties, making it possible to reduce information available to the consumer, and thereby raise prices.

The American Automobile Association (AAA) added that commission reductions "have had more than a ripple effect on consumers. . . . They lose (in) three ways—(higher) cost (because of fees), expertise and service." AAA added that "service fees do not adequately cover the processing cost of selling an airline ticket."

Brentwood Travel declared, "Zero commissions (imposed domestically in March, 2002) have caused prices to increase rather than benefiting the consumer. . . . The most obvious cost has been the fees that we travel agents are now charging, but there are some less obvious costs. The consumer thinks that he or she is getting the best fares on the Internet (instead of using an agent), but we can often find better routings and

fares and save money at the same time. But the attitude of the airlines is to discourage the client from using agents."

Delta, which initiated commission reductions in 1995, responded. "(Fixed, industry-wide) Base commissions are a vestige of the days of airline regulation. . . . After deregulation, airlines could pay whatever they wanted to travel agencies. . . . The elimination of (domestic) base commissions allows consumers to make their own choice" between going directly to airlines that do not add a service fee to tickets purchased directly from them, or seeking help from agents, who do charge fees.

Airlines do continue to pay override, or incentive, commissions, which were initiated after deregulation. However, Consumers Union raised questions about the reasons for one form of overrides, those paid to online agencies. It asked, "What promises are made by the online sites (Expedia and Travelocity) to airlines and other travel suppliers as part of marketing and incentive agreements, and how do such agreements affect the listing of flights and fares?" It concluded from tests of the online market and evidence of such payments that "consumers really need to shop around." It also suggested that "calling a travel agent is also a method of shopping for air fares that we think is important."

Rosenbluth International thinks that, before the cuts, commissions had become too high. It believes that all distribution channels should levy transaction fees and let consumers choose among them. This would include airlines, which do not now charge a separate transaction fee. "There is no such thing as an electronic transaction that doesn't have a cost associated with it. . . . Let the different distribution channels, including the airlines, compete in an open market. . . . Those who have the lowest distribution costs should offer the lowest transaction fees, which (we) believe is in the best interests of the consumer."

BOOKING FEES: Airlines are also trying to reduce CRS booking fees, which they claim have risen excessively. Elimination of these fees has meant bypassing travel agents, because they traditionally have used CRSs to make passenger bookings. Airlines encourage bypass by offering low fares, perceived to be available only on the Internet, at their own sites and from online agents, including Orbitz, which they own..

CRS testimony elicited differing opinions on booking fees. Galileo, one of four CRS vendors, told the Commission that, "over the past 17 years, the basic fee for the simplest booking transaction in the Galileo system has hardly increased at all. In late 1984 the basic segment fee was \$1.85 and today it is \$1.95. . . . [The] average booking fee has remained constant as a percentage of the average air fare."

But Worldspan, another CRS, agrees with airlines that booking fees "have risen over the years," due to "dramatic technological advances." Moreover, it said, "through booking fees, travel suppliers support a disproportionately large number of (CRS) activities." As a result, it "recognizes that unless travel suppliers believe that GDSs (CRSs) provide an efficient and cost-effective service, they will turn to other channels — such as the Internet — to distribute their products. This process has already begun."

Some agents said they were willing to help reduce CRS fees. The owner of Hewins Travel, Portland, ME, said, ". . . if that (the CRS fee) is the only issue involved in making web fares available to Hewins Travel, then I'll gladly pay" the difference between the CRS fee and non-CRS distribution.

American Express said, "We are trying to figure out why the airlines do not give full access to their (web) air fares. If it's cost, we want to address the cost issues and we want to remove that barrier." Amex offered options to airlines, including "subsidization of the GDS (CRS) fee; some of those (options) included the outright full absorption of the fee." But airlines declined, suggesting they may be concerned less with cost than with marketing or customer control. If so, said Amex, "then we don't know how to compete with that."

As for the airlines, Northwest said, "(We are) trying to harness (CRS) booking fees, which are the fastest growing distribution expense." American explained that this has been the case for some time. "The Department of Transportation found in 1992 that the booking fees charged by the major CRS vendors were substantially above their costs. The situation has only gotten worse since (then). . . ." American pointed out that government rules require all airlines to participate in all CRSs, which "frustrates the ability of airlines to bargain with CRSs (i.e., go from one to another) over the level of CRS fees." And, because agents generally do not pay CRS fees, agents "lack normal short-term market incentives to subscribe to lower-cost CRSs."

American also noted that lowering CRS fees is a part of its effort to compete with low-fare carriers. Both American and agents selling its tickets "expose themselves to a competitive threat, as consumers increasingly patronize those airlines that offer lower fares in part because they enjoy lower overall distribution costs."

Orbitz offered a broad assessment in answer to numerous witness complaints about its role. "The high CRS booking fees are now a major problem for travel agents. Agents have lost control over the cost (CRS fees) of the service they sell to airlines, and until they get some of that control back, they will not have much control over their own fate. "Orbitz represents price competition for the CRS booking fee. . . . The CRSs are not happy with this competition and they think the government ought to guarantee them

the ability to excessively price their product. . . . Travel agents are now paying the price for the failure of the CRS rules to find a mechanism that would keep CRS booking fees from being so high." If CRSs and web sites matched Orbitz' fees, it suggested, "this would make selling through travel agents a far more attractive proposition for airlines."

INTERNET: Both agents and vendors complained that the airlines encourage Internet sales, making low fares available only online, particularly through Orbitz, but not through CRSs.

The National Business Travel Association (NBTA) said that the airlines' creation of a "cartel-driven distribution channel (Orbitz) fails to adequately grant impartial consumer information and choices." ASTA added, ". . . a joint airline-owned instrumentality (Orbitz) is positioning itself to completely dominate the retailing of air transportation produced by its owners and their partners."

CRSs and travel agents both testified that airlines are attacking booking fees by withholding web fares from the CRS systems. But, Sabre warned, "a key component to continued growth and consumer gains in the travel market — (for) both online and brick-and-mortar (agencies) — is fair access to information from travel suppliers and access to travel suppliers' lowest fares, corresponding inventory and selling tools. . . . Consumers and business (travelers) should have the freedom to choose to deal with a travel agency independent of the airlines. . . and they should not be forced de facto to deal with the airlines' company store."

The size of agent had little bearing on feelings toward web fares. American Express told the Commission, "With respect to our franchise operations, I can only tell you that they are feeling the pressure of not being able to compete with fares (online) that are not available to them." MacNair Travel testified that its "customers believe there are two worlds for fares, the Internet world, where everything is free and cheap, and the expensive travel agent world." The agency says that it saves its customers money, but "if we're not allowed to access those fares or are blocked access to certain Internet fares . . . then that value that we bring may be harder to justify."

North Dakota-based agency Travel Travel testified that a client complained about finding a fare on United's web site that was half the price the agency had quoted to her. "UAL.com is my competition," the agency complained. In Chicago, another agency, Diplomat Travel, lost the business of a six-member group that it had already booked on American for a trip to Italy. The group heard a radio advertisement suggesting that people check the Internet for fares. They did, found an American fare 10 percent lower than the agency had quoted, and booked the trip directly. Diplomat wonders how airlines can afford to lose that extra revenue. "The airlines are their

own worst enemy. . . . The customer was willing to pay (American's higher fare)." Hewins Travel Consultants asked, "If selling web fares is so important to the airlines, why do they not make them available to the largest non-paid sales distribution system in the world?" The agency agreed with other agencies, saying, "We have no problem competing against other sales outlets but we cannot compete against the airlines themselves."

ASTA added, "To allow the airlines to destroy the agency distribution system through denial of information (web fares), collective practices and interference with agency adaptation is unfair to the people who have served the consumers all these years." The president of DTR Travel, Englewood, CO said that the problem is not the existence of Internet and web fares. Instead, he said, "The real issue is allowing major competitors to own and drive one distribution channel. . . . He who controls and limits the distribution channel for their products ultimately wins, not the consumer."

As for consumers, AAA contended that "currently, airline web sites or airline-owned web sites do not provide the consumer with the ability to comparison shop fully. Travel agents are able to do this." OneTravel said it was unable "to access and sell the best (airline web) fares." To solve that problem, NBTA wants "all of the information (fares) to be in the GDS (CRS)."

Delta summed up the airlines' feeling about Internet sales. "The e-commerce revolution has dramatically improved the access of every consumer to air travel information. Consumers now have more options than just calling an individual airline reservation system or using a travel agent in order to obtain airline tickets. . . . Today, anyone with a connection to the Internet has direct access to every airline's schedule and published fares — information that is as sophisticated and complete as that delivered through the old (CRS) systems."

WEB BOOKING TOOLS: The Commission heard testimony from some companies that have developed software allowing travel agents and consumers to access and book web fares. These tools are described in more detail in Appendix F.

However, travel agents and the software developers expressed mixed feelings about the practicality and efficiency of the tools. American Express said that it uses fare search engines and regards them as helpful but time-consuming, because the search tools use different technology from that of the CRSs. "In a business that's very transactionally driven, this adds an enormous amount of process time. . . . our profitability goes down. . . and the efficiencies are lost. . . . the technology solutions are really not the best option but we really have no choice at this point."

AgentWare said the airlines "are not interested in seeing agencies get a full view by making it easy to access the data. . . . In the absence of our three companies (referring as well to SideStep and Qixo, who also testified), the alternative is to surf for a number of hours across the Internet." SideStep warned that travel information on the Internet must follow the "Internet principle": distributors must make information available publicly and ensure that it remains publicly available.

Qixo described the problem of some airlines and online agents trying to prevent use of web booking tools, known as screen-scrapers. These allow agents and consumers to view numerous fare sites. The company said that "technology can never prevent a web site from being searched and booked" by a screen-scraping tool. But recently, American Airlines and Orbitz were taking or threatening legal action to prevent their use while leaving open the possibility of coming to an agreement on the conditions of use.

During the Commission's post-hearing deliberations, factors that impact web fare access and the search tools discussed above were changing. American Airlines announced EveryFare, a program through which agents could gain access to its web fares, and book in their own names, if they will sign a five-year contract requiring them to pay CRS booking fees on all American fares. Northwest Airlines is now letting agents book directly on its web site, in their own names, and letting them process their bookings through the ARC.

ORBITZ: Discussion centered on several key issues: ownership, favoritism in fare distribution, cost differences between Orbitz and other outlets, and regulation.

Ownership — The five largest U.S. airlines own Orbitz, whose list of charter associates includes another 37 non-equity-owning airlines from the U.S. and abroad. Orbitz had announced plans to broaden equity ownership to investors outside the industry, but has not taken the public offering to market.

ASTA asserted that even broader ownership was insufficient to satisfy its concerns. It noted that Orbitz told the Securities and Exchange Commission that even after an initial offering, the five founders would retain management control. ASTA says that would allow the five largest U.S. airlines to "jointly plan their retailing strategies under guise of managing Orbitz."

Orbitz responded that the Federal Trade Commission and the Department of Justice issued guidelines in 2000 suggesting how joint ventures among industry competitors could ensure their legality, and that it has fully complied with the guidelines. Had there been evidence of antitrust violations, DOJ would have acted. Orbitz added that if competitors simply meeting together was sufficient to constitute illegality, not only

Orbitz' board of director meetings, but those of numerous aviation industry organizations, would also be illegal.

Favoritism: Traditional and online travel agents said that Orbitz receives lower fares than do other outlets because of agreements established to govern Orbitz. They claim that, in practice, the clauses allow Orbitz to offer exclusive fares, a practice which denies traditional agents fair and open access to web fares.

Sabre and other witnesses said that two clauses in particular buttress these claims. The first is the so-called most-favored-nation (MFN) clause, mandating that if Orbitz' 42 charter associates offer fares on their own or others' web sites, they must also give the fares to Orbitz. The second clause relates to marketing support, or in-kind marketing clause.

Most-Favored-Nation Clause — OneTravel, an online agency, testified that MFN "significantly reduces competition. Special deals between the Big Five airlines and online agents were commonplace before Orbitz but are now virtually nonexistent. . . . A disproportionate number of bookings on its (Orbitz') owner airlines are due to the MFN clause and its exclusive access to deeply discounted web fares."

According to ASTA, the clause means that an airline "agrees in advance that it will not withhold the lowest fares from Orbitz, while it may withhold them from other retailers and is induced to withhold through the in-kind promotion arrangement. . . . The most-favored competitor clauses insulate Orbitz from the uncertainty that the revenue stream from charter associate airlines will be cut off. That uncertainty faces every other retailer. . . (the revenue stream) creates a floor below which Orbitz' compensation. . . will not fall. . . ." The organization suggests, "There is no apparent reason that all the publicly attractive benefits claimed for Orbitz could not have been obtained through contracts not containing the most-favored competitor clauses."

Galileo also opposes MFN. "Each airline should be free to act unilaterally to offer fares to competing web sites without being required to give the fares to an airline-owned consortium." NATA warned that MFN eliminates the incentive for airlines to negotiate special deals with other distribution outlets.

Sabre testified that MFN mandates that Orbitz charter associates must give Orbitz all "published" fares, not just web fares. To Sabre, that means they cannot have unique sales, or run special promotions at online competitors. Expedia said charter associates cannot undercut the fares listed on Orbitz, which diminishes the ability of independent sites to compete.

Delta explained that its "contract with Orbitz is not exclusive and Orbitz has no

unique access to Delta's web fares. Any travel agent can book any Delta web fare via the Delta Online Agency Service Center."

Northwest responded, "The two largest sites (Expedia and Travelocity) complain about the MFN clause in the Orbitz agreement, yet they are unwilling to commit to matching Orbitz' supplier-friendly proposition with respect to costs and (display) neutrality."

Orbitz noted that airlines have the right to choose their distribution channels but they choose Orbitz because it offers lower costs than distributing through CRSs and traditional travel agencies, and that agents do have web fare access, but not from their CRSs. "The arrangement Orbitz has to get the web fares is strictly non-exclusive. Orbitz gets the web fare, but the airline remains free to also sell that fare through any other outlet it wishes."

Orbitz added that other online sites advertise exclusive fares, saying it has not complained when they did so because there is nothing improper or illegal about them. Delta explained that it "has traditionally offered many different special prices through privately negotiated arrangements. Web fares are just one more way for airlines to market their products."

Northwest said, "Northwest's decision to publish targeted offers in certain channels or distributors is not a new idea in the industry. (Even) Before the Internet, airlines used specialized agents to sell inventory to target market segments which are not available in public retail channels. . . . When Northwest evaluates where to publish targeted offers . . . we look at a number of factors (including cost of distribution by channel)."

Northwest also informed the Commission that it had encountered bias from Travelocity and Expedia. It wanted to offer low fares to Europe, but both companies refused to list the fares because they conflicted with preferred supplier agreements each already had with rivals.

Northwest said airlines are willing to sign agreements with Orbitz competitors when they match Orbitz' distribution costs. "Nothing in the Orbitz agreement prevents Northwest from filing any fare in any channel."

Marketing Support — A second clause requires participants to supply Orbitz with in-kind marketing support equal to the value of each carrier's share of sales on the Orbitz site.

OneTravel, an online agency, testified that airlines can fulfill their in-kind marketing obligations in several ways: ". . . one means of meeting this obligation is to provide

fares exclusively to Orbitz. There are also additional incentives in the agreement that are designed to result in exclusive fares. . . . Orbitz is dominated by Orbitz-only web fares. Its lower fares derive from these anti-competitive contractual provisions." The agency concluded that the reason Orbitz grew so quickly is that it could offer a lower fare due to exclusive fare discounts.

Sabre has interpreted the Orbitz in-kind clause as follows: "Each participating carrier (was) obligated to provide Orbitz with substantial in-kind promotions, which can run into the millions of dollars, for the first 12 months of the agreement. In-kind promotional obligations can be satisfied by offering exclusive promotions or fares available only on the Orbitz site or the participating airline's own Internet travel site. Orbitz also has the right mutually to develop the exact terms of the in-kind promotional plan and to determine how such obligations will be satisfied by smaller carriers, and can withhold certain rebates if the carrier and Orbitz fail" to develop such a plan, and/or if the carrier does not adhere to it.

Orbitz responded that it "is not entitled to any exclusive fares from any airlines, nor so far as we are aware have we ever had an exclusive fare. . . . to the best of our knowledge every fare ever displayed on Orbitz has also been displayed somewhere else." Second, Orbitz suggested that its search engine technology is broader and more flexible than those used by other distributors, which enables it to offer lower fares much of the time. Others discounted this, noting that Orbitz' search software is available commercially.

Costs: There is considerable disagreement over whether Orbitz offers its charter associates lower distribution costs, in practice, than do traditional agents through their CRSs.

Galileo said, "Orbitz' claim that it offers lower distribution costs than CRSs is incorrect. . . . Orbitz passes on to its customers a fee it has negotiated with Worldspan and also charges a service fee to the carrier in connection with each booking. The distribution cost is approximately \$14 for an average trip of 2.5 segments on Orbitz while it is \$5.83 for the same trip on Galileo."

OneTravel said that, because it no longer receives a commission from airlines, it costs airlines only \$7.50 to use its site, less than what it estimates airlines pay Orbitz. However, "Orbitz requires its airline participants to pay transaction fees of (\$6.37) per ticket to Orbitz. . . . The airlines also pay booking fees to Worldspan, the CRS used by Orbitz." Despite the lower fee, OneTravel said it cannot compete because fares on Orbitz are much lower than it is able to negotiate.

ASTA says airlines could have chosen other ways of reducing booking fees without creating Orbitz. "Prior to American's acquisition of TWA, two Orbitz investors owned a combined 74 percent interest in Worldspan (Orbitz' transaction processor) and, it would seem, could have caused Worldspan to reduce booking fees at any time." Under the CRS rules, those reductions would have had to apply to all Worldspan users. . . . other GDSs (CRSs) would almost certainly (have) had to reduce (their booking) fees as well. The impact, then, would have been market-wide."

ASTA suggested that airlines using Orbitz may so far have saved \$6 million in booking fees, quite small compared to Orbitz' founding goal. The organization concluded that ". . . the airlines' savings (from Orbitz) are dwarfed by the benefit that could be achieved by simply selling the fares on each airline's own web site rather than on Orbitz."

Sabre concluded that "Orbitz' road map is each year it will shift to consumers an ever-increasing portion of the cost of distributing the airline tickets of its owners."

Delta Air Lines testified, "Orbitz earned the right to sell Delta's web fares because it offered Delta (and any other airline who chose to participate . . .) significant rebates of the expensive GDS (CRS) booking fees. Delta has recently signed similar deals with Expedia and Travelocity. The beneficiary in all this is the consumer who is willing to shop in these low-cost channels."

The Orbitz agreement guarantees airlines about a one-third rebate of the CRS booking fee for every transaction. Orbitz said it is a "price competitor on the largest cost to an airline of selling through a travel agent, the booking fee charged the airline by the CRS. It compared distribution costs for a standard CRS transaction in the past and today. "Fifteen years ago, (an) airline would have paid about \$30.25 in total distribution costs (for a \$250 ticket); the CRS (would have received) about \$5.25 as a booking fee and the agent about a \$25 commission. . . . (Today) the airline would pay the CRS about \$12 as the booking fee, would pay the agent nothing in base commission and, on average, about \$5 in other kinds of commissions."

Northwest responded that its CRS booking fees increased by the lowest percentage in 15 years. It believe the lower booking fee increase results from the competition Orbitz provides, and that it saved \$2 million in fees in less than one year by using Orbitz.

Airlines do incur costs when they receive an Orbitz reservation. Orbitz charges airlines a per-transaction fee of approximately \$6.50, which is guaranteed to decrease gradually over the next nine years.

Carriers also pay Worldspan a booking fee of approximately \$4.25 per segment; Worldspan rebates part of that to Orbitz, which then returns about one-third the amount to airlines. But Orbitz recently launched Supplier Link, which connects directly to airline inventory. For this technology, Orbitz is charging \$4.00 per ticket plus a transaction fee of \$6.44.

REGULATION: Some witnesses sought regulatory solutions for their complaints, and felt that all fares, including web fares, should be available from all distribution channels.

OneTravel said, "The Commission should recommend to Congress and the DOT that legislative and/or regulatory steps be taken to prohibit Orbitz, by virtue of its joint airline ownership, from enforcing its MFN clause, and from entering into arrangements that allow it exclusive access to web fares."

Some also said Orbitz should be required to comply with the CRS rules initiated in 1984 and amended in 1992. They say this is particularly important since online sales are an estimated 15 percent of total airline sales, and climbing steadily. Sabre told the Commission, ". . . it is nonsensical to say that stringent rules (banning bias and discriminatory practices) are essential elements of public policy in the case of the four traditional CRSs. . . but that a ticket distribution system like Orbitz that is backed by the combined strength of the five biggest airlines gets a regulatory free pass. . . . Sabre has expressed concern over the consumer harm and competitive implications of DOT not taking action while Orbitz implements a business plan predicated on exclusive access to the lowest fares of the five largest carrier(s)."

ASTA, too, said, "DOT should promptly take the steps needed to apply in the case of Orbitz and its owners the same regulatory safeguards that it found long ago were necessary to protection competition in the case of traditional airline-owned CRSs."

Galileo suggested that "DOT should prohibit airlines from agreeing among themselves, through MFN provisions or otherwise, to make fares available only through airline-controlled ventures." NBTA felt that information on "airlines' web sites and sites like Orbitz" is misleading and that DOT should address the matter.

Orbitz countered that CRSs and online agents "are trying to make Orbitz an issue (and induce regulation) because Orbitz brings new price competition to the booking fee, and Expedia and Travelocity never wanted to compete on it but have been forced to because of Orbitz. . . . A (governmentally imposed) remedy should be adopted only if it benefits both travel agents and consumers, if it makes the partnerships involved in making travel a viable sector of our economy work better than they do today, and if it is pro-competitive."

Delta added that the changes produced by e-commerce "are forcing airlines and travel agencies alike to find new ways to deliver value to consumers at a lower and lower cost. Competition can be hard for competitors who fail to meet the competitive challenge, but competition is good for consumers. Any regulatory intervention that blocks these changes or restricts this competition will inevitably result in less choice and higher prices for consumers."

American suggested not regulating Orbitz but "modify(ing) the CRS rules in ways that would introduce some normal market forces to the setting of CRS booking fees." It suggests eliminating the mandatory CRS participation rules "so that a carrier could bargain with CRSs. American has asked the DOT to adopt the zero booking fee rule recommended by the Department of Justice."

Appendix F

TRAVEL AGENT ACCESS TO WEB FARES

The following is excerpted from a report prepared for the Commission by Transportation Group International, of The Woodlands, Texas.

3.1 Overview

Airline fares shown on the web come through different channels. Most of the fares shown will be the same as fares found by travel agents in the GDSs. However, airlines also sell fares directly at their web sites that they do not give to the GDSs. These fares are the most contentious since they are only available at the airline site or at Orbitz. There are also fares that airlines have provided to consolidators who market directly to consumers or through travel agents. The agents get these fares from web sites or by phone; these sites are often not available to the public.

Many types of suppliers offer airline information on the Internet. The major types, showing an example of a site, are:

- GDSs (Worldspan.com)
- Airline web sites (aa.com)
- Online travel agencies (Expedia.com)
- Search engines that examine web sites (Sidestep.com)
- Consolidators (airlineconsolidator.com)
- Travel agents with online capabilities (rainbowtv.com)
- Bid based sites (Priceline.com)
- Portals (travel.yahoo.com/)

There are hundreds of web sites providing airline information. Only those recognized as providing a significant tool are discussed.

3.2 Web site characteristics

Each type of supplier has features that distinguish them and the way they operate. This section describes the characteristics that differentiate web sites. These characteristics will be discussed individually by web site. The characteristics are:

- Ownership — Airlines or other parties own the sites. Airline sites attract direct bookings thereby eliminating the need for the airlines to pay travel agency

commissions¹, CRS fees and other expenses. Non-airline sites make money by taking a percentage of the transactions cost, advertising, service fees or markups taken on the products sold.

- Information requirements — All sites require the input of travel dates and origin and destination. Most will ask if price or schedule is the most important factor in your selection. Before making a reservation all sites require credit card information. Some sites allow the input of information on passenger preferences for seating and meals and a frequent flyer identification number. Some sites offer to check alternative dates and airports for lower fares.
- Method of operation — the search engines that are described below operate by screen scraping, through an application program interface (API) and in some cases through an electronic data interchange (EDI). In screen scraping the user receives a picture of what was 'on the screen' when it was visited by the search engine. With API and EDI you are working with structured data and if the target system changes their processing you have the option of accepting or requesting a change to your API to include the new data elements or you can continue your business activity with no disruption. If you are screen scraping and the target system makes a change, you have to make a change in your scraping program or your whole capture could be trash. The biggest advantage offered by an API over screen scraping is end user independence.
- Business model — the distribution of airline information on the Internet uses traditional and new business models. While most sites operate on conventional business models, there are a few who are unique such as Priceline. The models used typically involve brokerage services, advertising, and merchant or manufacturer models. Often there is a combination of models used in the generation of revenue.
- The functionality provided to the user — there are differences in the underlying applications and how that affects the collection of data and in terms of the ability provided to the user.
- Sources of information — most rely on airline web sites or GDS systems. There are variations such as including the use of consolidators.
- The level of transparency in the information provided to the customer about the supplier, departure time or fare rules prior to purchase.

1. While most airlines have adopted a zero commission policy, they all still pay agents who move traffic for them. Arrangements are made individually between two parties.

3.2 Description of companies that provide access to web fares

3.2.1 GDSs

GDSs communicate with travel agents through their own communications networks as well as through leased ones. They provide information collected from the OAG, ATPCO and the airlines. The GDSs also allow agents to access to the Internet. The GDSs do not have the airline web fares or consolidator fares as part of their standard offering. They are in the process of assisting agents find lower fares on the web by developing their own software applications or by using third party software to do this. A description of what each GDS is doing follows. The GDSs would like to have access to airline web fares through ATPCO so that they could be displayed and fully integrated into their other pricing offerings. So far, America West is the only airline that makes it web fares available.

In the preparation of this report each of the GDSs was asked a series of questions. The questionnaire is shown as Attachment 1, Attachments 2, 3, 4 and 5 show Amadeus', Galileo's, Sabre's and Worldspan's responses.

3.3.1.1 Amadeus

- Amadeus is introducing the ability to display and book fares not stored in the Amadeus Central System through corporate and agency channels. This will be done through the integration of third party web search tools within our corporate booking engine (e-Travel Aergo) and through our agency portal product (AgentNet).
- Such facility will be charged by Amadeus to the channel customer (agency or corporate).
- Bookings will be performed within the airline web sites or online travel agents selected by the third party web search tool. In order to avoid any interference or confusion by end-users with Amadeus own booking, pricing and ticketing rules, such bookings will not be copied or mirrored within the Amadeus PNR (passenger name record — the generic record containing passenger itineraries) nor within the Amadeus Interface Record (AIR — used to transfer data to third party systems like agency back-office, corporate ERP).
- As a result, no booking fee will be charged to the airlines, and the agency will not receive booking credits (incentives).

- The first release of web fares will be provided by e-Travel, within the corporate self-booking tools (Aergo), starting in September, 2002.

3.3.1.2 Apollo/Galileo

- Galileo is conducting tests to determine whether it should integrate one or more of the third party Internet software products into its GDS service for travel agents. They are currently in pilot tests with two such providers. The hardware will be the agents' current GDS hardware. These pilots will be evaluated for another 30-60 days. If modifications are found to be necessary they would be made and beta tested. Implementation would occur after that was finished.
- The training session for one of these software products is estimated to be a one and one-half hour training module on the web.
- Galileo has not finalized its policy regarding booking credits.
- Galileo has not finalized its policy regarding charges to agents using third party software.

3.3.1.3 Sabre

- Sabre is currently testing a web application that they expect to have available in the third quarter of 2002.
- Sabre agents will be using a web based application and will input the origin and destination information, preferred date and time, class of service and the airlines to search in a Web based input screen (similar to any airline web site) to initiate a search. Training requirements will be minimal.
- The response (including both Sabre host and web fares) is formatted in HTML and displayed to the user in his/her browser. The presentation is handled by eVoya (Sabre's web based application).
- The web fares will be queried through a service (called an aggregator) that goes out and searches the airlines' websites for information on the search parameters requested by the agent. The results will then be displayed along with the fares from the Sabre system in one page.
- The agency will not get credit for the booking made on the airline web site.

- Sabre is planning to charge a fee for booking made on airline web sites, the amount of the charge is still being determined.
- On July 18, Sabre announced its new Corporate Connect pricing program for agents and corporations. Agents who choose this program will forgo booking fee incentives on the airline(s) they designate. The airline gets a 50 percent lower booking fee for bookings made through Sabre's GetThere tool by the corporations that agent serves.

3.3.1.4 Worldspan

- Web fares are currently available through a proprietary product that allows an agent to view information from multiple web sites. They estimate that about 25 percent of available web fares can be found. Familiar entries are used to access this information. Web-based fares are returned along with an indication of their source.
- They are working with airlines to have them file fares with ATPCO so that they can be incorporated into all responses. Standard entries will be used when this is available.
- Existing hardware and communications are all that is necessary now or when fares are made available through ATPCO.
- Both current and future products are intuitive and do not require additional training.
- They currently access fares directly from the airlines' websites. If airlines file their fares with ATPCO, Worldspan picks them up in the normal ATPCO downloads.
- Worldspan gives booking credits only when they receive a booking fee from the airline. There is no fee being paid now.
- Currently the service is free to the agents. Worldspan's policy is under review and they may charge in the future.

3.3.4 Search Engines

3.3.4.1 SideStep

- Owner – privately owned.
- Method of operation – passenger requests city pair, system searches airline web sites for schedules and fares. When passenger selects it delivers them to that Web site to make the booking. The site often offers bonus frequent flyer miles as an incentive for use.
- Business model – searches websites for price and availability. Delivers the requester to the site where they may directly book trips. Receives a fee for bookings made.
- Significant functional abilities – allows user to download their fare comparison system. Sidestep will then operate in tandem (on a separate screen panel) with the other system the user has chosen for a web fare search. It will provide its responses shortly after the other system has finished. Requires that user be very liberal in what they will accept on their PC in the way of cookies and ActiveX applications.
- Sources of information – searches 130 airline and other supplier web sites.
- Information provided – transparent except from some consolidators.

3.3.4.2 FareChase

- Owner – Privately owned.
- Business model – Search agent and booking engine. Licenses its software to other portals such as Orbitz, Sabre and Outtask so users do not have to switch portals to conduct Internet searches. It also provides information to publications.
- Significant functional abilities – Licensees can integrate FareChase's software into their system to provide customers with the ability to book Web-based flights, hotels and car rental inventory while still allowing for full customer retention and support by integrating transaction data into existing GDS and back office systems.

- Sources of information – airline and other supplier web sites.
- Information provided – for requested city-pairs provides availability and fare displays, processes booking at web site. Can keep track of fares searched for future reference.

3.3.4.3 AgentWare

- Owner – AgentWare, Inc. is a privately held software company headed by Mr. Les Ottolenghi.
- Method of operation – Searches 29 web sites for price and availability. Links directly to the booking page of a web site when a customer is ready to book, and can link into the back office systems for billing or tracking purposes.
- Business model – Search agent and booking engine. Charges users a monthly license fee; it also gets a fee from some suppliers when a booking takes place. The company has agreements with ASTA and Galileo as a preferred provider.
- Significant functional abilities – a Web-based tool for travel agents that searches airline and consolidator Web sites in real time. Use of a consolidator Web site allows the travel agent to mark up the price before advising the consumer of the final price. In international markets this can be a significant advantage. Allows integration of data into some important back office systems. Creates a passive booking in the agent's CRS for record keeping.
- Sources of information – web sites.
- Information provided – what is available on Web sites that are selected.

3.3.4.4 QIXO

- Owner – privately owned, founded by Daniel Ko.
- Business model – Search agent and booking engine which makes the reservation. Charges consumer \$5-25 for each reservation.
- Significant functional abilities – agents can access customer information about bookings made on QIXO, can establish their own service fees which

are built into the record, can export PNR and billing info to some back office systems such as TRAMS. Accesses information with an API interface.

- Sources of information – Searches 23 sites (but not Expedia.com and aa.com for legal reasons).
- Information provided – anything available on the site.

3.3.4.5 TRX

- Owner – privately owned.
- Business model – search agent and booking engine designed for use by travel agents. Yearly contract with a fee per hit.
- Significant functional abilities – automatically launches with low fare searches in a GDS, integrated with GDS, creates a passive booking in GDS for record keeping, integrated with their own back office system.
- Sources of information – currently searches ten airline and related web sites. Appears to use an API interface.
- Other – the site is still in beta testing, customers expected to come online in August 2002.

Appendix G

NUMBER AND PERCENT OF AGENCIES BY AGENCY SIZE (2001)

Agency Size*	Total Agency Sales of Airline Tickets	% of Total Agency Sales	Number of Agencies	% of Total Agencies
\$2M or Less	9,078,614	14.2%	15,523	84.2%
\$2M - \$5M	5,359,568	8.4	1,770	9.6
\$5M - \$50M	12,816,638	20.1	1,015	5.5
Greater than \$50M	36,463,646	57.2	117	0.6
Total	63,718,467		18,425	

Note: *Measured by sales of air transportation.

Source: Airlines Reporting Corporation

DECLINE IN AGENT SALES AND COMMISSIONS Between Second Quarter 2001 and 2002

Agency Size	Change in Total Sales %	Change in Total Commissions %
\$2M or Less	-32.4%	-58.5%
\$2M - \$5M	-26.0	-38.9
\$5M - \$50M	-19.2	-37.9
Greater than \$50M	-9.6	-47.4
Total	-16.3%	-45.6%

Note: Data includes online agencies.

Source: Airlines Reporting Corporation

NUMBER OF TRAVEL AGENCIES BY SIZE CATEGORY

Agency Size	1995	1997	1999	2001
\$2M or Less	19,851	19,226	17,855	15,523
\$2M - \$5M	2,356	2,803	2,482	1,770
\$5M - \$50M	1,059	1,277	1,236	1,015
Greater than \$50M	77	107	117	117
Total	23,343	23,413	21,690	18,425

Source: Airlines Reporting Corporation

SHARE OF TRAVEL AGENT SALES BY SIZE CATEGORY

Agency Size	1995	1997	1999	2001
\$2M or Less	25.3%	20.6%	16.9%	14.2%
\$2M - \$5M	13.5	12.8	10.7	8.4
\$5M - \$50M	24.8	24.5	22.5	20.1
Greater than \$50M	36.4	42.1	49.9	57.2

Source: Airlines Reporting Corporation

ANNUAL TRAVEL AGENCY SALES OF AIR TRANSPORTATION BY AGENCY SIZE

(In thousands)

Agency Size	1995	1997	1999	2001
\$2M or Less	13,251,243	13,480,650	11,805,604	9,078,614
\$2M - \$5M	7,090,777	8,391,055	7,452,003	5,359,568
\$5M - \$50M	13,028,514	16,013,844	15,691,956	12,816,638
Greater than \$50M	19,082,327	27,506,719	34,837,165	36,463,646

Source: Airlines Reporting Corporation

SIZE AND GROWTH OF TRAVEL AGENCIES 1995 - 2001 All Agencies

AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets* (in Thousands)	Number of Agencies
1995	\$52,452,860	23,343
1996	60,056,631	22,827
1997	65,392,268	23,413
1998	67,037,493	22,525
1999	69,786,728	21,690
2000	76,204,991	20,133
2001	63,718,467	18,425
2002**	30,957,062	16,470

ANNUAL PERCENTAGE CHANGE IN AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets*	Number of Agencies
1995		
1996	14.5%	-2.2%
1997	8.9	2.6
1998	2.5	-3.8
1999	4.1	-3.7
2000	9.2	-7.2
2001	-16.4	-8.5
2002**	-16.0	-10.6

AGENCY SALES AND SIZE INDEXED TO 1995 (1995 = 100)

Year	Total Agency Sales of Airline Tickets*	Number of Agencies
1995	100	100
1996	114	98
1997	125	100
1998	128	96
1999	133	93
2000	145	86
2001	121	79
2002**		71

Note: * Agency sales include online agencies such as Travelocity, Expedia, and Orbitz.

** 2002 data includes only the first 2 quarters of 2002. In the "Annual Percentage Change in Agency Sales and Average Size" table, 2002 Total Agency Sales are compared to the first 2 quarters of 2001 Total Agency Sales.

Source: Airlines Reporting Corporation

**SIZE AND GROWTH OF SMALL BUSINESS TRAVEL
AGENCIES 1995 - 2001**
(Agencies with \$5 Million or Less in Air Sales)*

AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets (in Thousands)	Number of Agencies
1995	\$20,342,020	22,207
1996	21,969,182	21,527
1997	21,871,705	22,029
1998	20,780,705	21,134
1999	19,257,607	20,337
2000	17,634,335	18,752
2001	14,438,182	17,293
2002**	\$6,297,943	15,436

ANNUAL PERCENTAGE CHANGE IN AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995		
1996	8.0%	-3.1%
1997	-0.4	2.3
1998	-5.0	-4.1
1999	-7.3	-3.8
2000	-8.4	-7.8
2001	-18.1	-7.8
2002**	-25.9	-10.7

AGENCY SALES AND SIZE INDEXED TO 1995 (1995 = 100)

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995	100	100
1996	108	97
1997	108	99
1998	102	95
1999	95	92
2000	87	84
2001	71	78
2002**		70

Note: * Agencies with less than \$5 million in air sales are presumed to have total revenues of less than \$1 million, which historically the Small Business Administration has classified as small businesses.

** 2002 data includes only the first 2 quarters of 2002. In the "Annual Percentage Change in Agency Sales and Average Size" table, 2002 Total Agency Sales are compared to the first 2 quarters of 2001 Total Agency Sales.

Source: Airlines Reporting Corporation

SIZE AND GROWTH OF TRAVEL AGENCIES 1995 - 2001

Agencies with \$1 Million or Less in Air Sales

AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets (in Thousands)	Number of Agencies
1995	\$6,969,073	15,321
1996	6,499,588	13,605
1997	6,467,684	14,211
1998	6,169,357	13,740
1999	5,856,196	13,589
2000	5,322,346	12,684
2001	5,018,389	12,604
2002*	2,241,778	11,563

ANNUAL PERCENTAGE CHANGE IN AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995		
1996	-6.7%	-11.2%
1997	-0.5	4.5
1998	-4.6	-3.3
1999	-5.1	-1.1
2000	-9.1	-6.7
2001	-5.7	-0.6
2002*	-25.4	-8.3

AGENCY SALES AND SIZE INDEXED TO 1995 (1995 = 100)

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995	100	100
1996	93	89
1997	93	93
1998	89	90
1999	84	89
2000	76	83
2001	72	82
2002*		75

Note: * 2002 data includes only the first 2 quarters of 2002. In the "Annual Percentage Change in Agency Sales and Average Size" table, 2002 Total Agency Sales are compared to the first 2 quarters of 2001 Total Agency Sales.

Source: Airlines Reporting Corporation

SIZE AND GROWTH OF TRAVEL AGENCIES 1995 - 2001

Agencies with \$1 to \$2 Million in Air Sales

AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets (in Thousands)	Number of Agencies
1995	\$6,282,169	4,530
1996	7,120,389	5,129
1997	7,012,967	5,015
1998	6,587,899	4,706
1999	5,949,408	4,266
2000	5,185,324	3,706
2001	4,060,225	2,919
2002*	1,685,860	2,356

ANNUAL PERCENTAGE CHANGE IN AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995		
1996	13.3%	13.2%
1997	-1.5	-2.2
1998	-6.1	-6.2
1999	-9.7	-9.3
2000	-12.8	-13.1
2001	-21.7	-21.2
2002*	-29.1	-19.3

AGENCY SALES AND SIZE INDEXED TO 1995 (1995 = 100)

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995	100	100
1996	113	113
1997	112	111
1998	105	104
1999	95	94
2000	83	82
2001	65	64
2002*		52

Note: * 2002 data includes only the first 2 quarters of 2002. In the "Annual Percentage Change in Agency Sales and Average Size" table, 2002 Total Agency Sales are compared to the first 2 quarters of 2001 Total Agency Sales.

Source: Airlines Reporting Corporation

SIZE AND GROWTH OF TRAVEL AGENCIES 1995 - 2001

Agencies with \$2 to \$3 Million in Air Sales

AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets (in Thousands)	Number of Agencies
1995	\$3,237,686	1,343
1996	3,925,853	1,623
1997	4,100,993	1,686
1998	3,828,437	1,585
1999	3,522,250	1,452
2000	3,269,412	1,348
2001	2,443,107	1,004
2002*	1,052,013	846

ANNUAL PERCENTAGE CHANGE IN AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995		
1996	21.3%	20.8%
1997	4.5	3.9
1998	-6.6	-6.0
1999	-8.0	-8.4
2000	-7.2	-7.2
2001	-25.3	-25.5
2002*	-26.0	-15.7

AGENCY SALES AND SIZE INDEXED TO 1995 (1995 = 100)

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995	100	100
1996	121	121
1997	127	126
1998	118	118
1999	109	108
2000	101	100
2001	75	75
2002*		63

Note: * 2002 data includes only the first 2 quarters of 2002. In the "Annual Percentage Change in Agency Sales and Average Size" table, 2002 Total Agency Sales are compared to the first 2 quarters of 2001 Total Agency Sales.

Source: Airlines Reporting Corporation

SIZE AND GROWTH OF TRAVEL AGENCIES 1995 - 2001

Agencies with \$3 to \$5 Million in Air Sales

AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets (in Thousands)	Number of Agencies
1995	\$3,853,091	1,013
1996	4,423,352	1,170
1997	4,290,062	1,117
1998	4,195,011	1,103
1999	3,929,753	1,030
2000	3,857,253	1,014
2001	2,916,461	766
2002*	1,318,292	671

ANNUAL PERCENTAGE CHANGE IN AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995		
1996	14.8%	15.5%
1997	-3.0	-4.5
1998	-2.2	-1.3
1999	-6.3	-6.6
2000	-1.8	-1.6
2001	-24.4	-24.5
2002*	-22.0	-12.4

AGENCY SALES AND SIZE INDEXED TO 1995 (1995 = 100)

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995	100	100
1996	115	115
1997	111	110
1998	109	109
1999	102	102
2000	100	100
2001	76	76
2002*		66

Note: * 2002 data includes only the first 2 quarters of 2002. In the "Annual Percentage Change in Agency Sales and Average Size" table, 2002 Total Agency Sales are compared to the first 2 quarters of 2001 Total Agency Sales.

Source: Airlines Reporting Corporation

SIZE AND GROWTH OF TRAVEL AGENCIES 1995 - 2001

Agencies with \$5 to \$10 Million in Air Sales

AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets (in Thousands)	Number of Agencies
1995	\$4,344,041	623
1996	4,663,877	683
1997	5,002,031	723
1998	5,028,030	731
1999	4,778,384	692
2000	4,693,296	679
2001	3,794,129	554
2002*	1,741,374	493

ANNUAL PERCENTAGE CHANGE IN AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995		
1996	7.4%	9.6%
1997	7.3	5.9
1998	0.5	1.1
1999	-5.0	-5.3
2000	-1.8	-1.9
2001	-19.2	-18.4
2002*	-20.8	-11.0

AGENCY SALES AND SIZE INDEXED TO 1995 (1995 = 100)

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995	100	100
1996	107	110
1997	115	116
1998	116	117
1999	110	111
2000	108	109
2001	87	89
2002*		79

Note: * 2002 data includes only the first 2 quarters of 2002. In the "Annual Percentage Change in Agency Sales and Average Size" table, 2002 Total Agency Sales are compared to the first 2 quarters of 2001 Total Agency Sales.

Source: Airlines Reporting Corporation

SIZE AND GROWTH OF TRAVEL AGENCIES 1995 - 2001

Agencies with \$10 to \$50 Million in Air Sales

AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets (in Thousands)	Number of Agencies
1995	\$8,684,472	436
1996	10,078,376	521
1997	11,011,813	554
1998	10,856,853	547
1999	10,913,572	544
2000	11,457,539	570
2001	9,022,509	461
2002*	4,372,016	433

ANNUAL PERCENTAGE CHANGE IN AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995		
1996	16.1%	19.5%
1997	9.3	6.3
1998	-1.4	-1.3
1999	0.5	-0.5
2000	5.0	4.8
2001	-21.3	-19.1
2002*	-16.8	-6.1

AGENCY SALES AND SIZE INDEXED TO 1995 (1995 = 100)

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995	100	100
1996	116	119
1997	127	127
1998	125	125
1999	126	125
2000	132	131
2001	104	106
2002*		99

Note: * 2002 data includes only the first 2 quarters of 2002. In the "Annual Percentage Change in Agency Sales and Average Size" table, 2002 Total Agency Sales are compared to the first 2 quarters of 2001 Total Agency Sales.

Source: Airlines Reporting Corporation

SIZE AND GROWTH OF TRAVEL AGENCIES 1995 - 2001

Agencies with over \$50 to \$500 Million in Air Sales

AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets (in Thousands)	Number of Agencies
1995	\$7,134,545	72
1996	9,902,775	91
1997	11,393,770	101
1998	11,894,627	105
1999	12,928,922	108
2000	14,515,895	119
2001	13,169,233	105
2002*	6,568,954	96

ANNUAL PERCENTAGE CHANGE IN AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995		
1996	38.8%	26.4%
1997	15.1	11.0
1998	4.4	4.0
1999	8.7	2.9
2000	12.3	10.2
2001	-9.3	-11.8
2002*	-13.7	-8.6

AGENCY SALES AND SIZE INDEXED TO 1995 (1995 = 100)

Year	Total Agency Sales of Airline Tickets	Number of Agencies
1995	100	100
1996	139	126
1997	160	140
1998	167	146
1999	181	150
2000	203	165
2001	185	146
2002*		133

Note: * 2002 data includes only the first 2 quarters of 2002. In the "Annual Percentage Change in Agency Sales and Average Size" table, 2002 Total Agency Sales are compared to the first 2 quarters of 2001 Total Agency Sales.

Source: Airlines Reporting Corporation

SIZE AND GROWTH OF TRAVEL AGENCIES 1995 - 2001

Agencies with over \$500 Million in Air Sales

AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets* (in Thousands)	Number of Agencies
1995	\$11,9471/02	5
1996	13,442,421	5
1997	16,112,949	6
1998	18,477,279	8
1999	21,908,242	9
2000	27,903,926	13
2001	23,294,413	12
2002**	11,976,775	12

ANNUAL PERCENTAGE CHANGE IN AGENCY SALES AND AVERAGE SIZE

Year	Total Agency Sales of Airline Tickets*	Number of Agencies
1995		
1996	12.5%	0.0%
1997	19.9	20.0
1998	14.7	33.3
1999	18.6	12.5
2000	27.4	44.4
2001	-16.5	-7.7
2002**	-9.9	0.0

AGENCY SALES AND SIZE INDEXED TO 1995 (1995 = 100)

Year	Total Agency Sales of Airline Tickets*	Number of Agencies
1995	100	100
1996	113	100
1997	135	120
1998	155	160
1999	183	180
2000	234	260
2001	195	240
2002**		240

Note: * Agency sales include online agencies such as Travelocity, Expedia, and Orbitz.

** 2002 data includes only the first 2 quarters of 2002. In the "Annual Percentage Change in Agency Sales and Average Size" table, 2002 Total Agency Sales are compared to the first 2 quarters of 2001 Total Agency Sales.

Source: Airlines Reporting Corporation