



Executive Summary

Congress directed the Commission to study two distinct issues – first, the current state of the travel agency industry, and the impact of changes in the industry on consumers; and, second, the potential for impediments to distribution of information to cause injury to agencies and consumers. We have examined those issues in detail and herewith deliver our report, focusing on the causes for the severe decline in the number of industry participants, the impact of such changes on consumers, and the proposals we have received that might alleviate their difficulties.

This report arrives in a world undergoing tumultuous change, unprecedented in the business sector known as "travel distribution." Perhaps no other industry has suffered as much in the last two years as air transportation and its affiliated businesses, including the travel agency industry. Aviation's problems, created by the recession, were compounded by the tragedy of September 11th, and the responses to it. As a result, no other business sector has been as directly and negatively affected as air travel. And through it all, the Internet revolution has profoundly enhanced consumers' access to travel information, and changed long-standing industry processes.

Travel distribution, powered by advances in technology and the growth of e-commerce, is changing in ways that none of the interested parties — legislators, regulators, travel industry participants, and consumers — can possibly predict with accuracy. That fact of business life lies at the heart of the Commission's approach to its task, and has guided its hearings, deliberations and conclusions.

First among the Commission's conclusions is that consumers have benefited greatly from the changes in travel distribution. The Internet provides extensive information on a multitude of subjects, including travel. This gives consumers more, and more efficient, access to travel information than ever before.

Because the entire reservation transaction can be accomplished online, consumers also have more ways to book, and more distributors competing for their business. Historically, they were limited to purchasing travel directly from suppliers or through travel agents; now airline

web sites and online agencies are vying for their business. More distribution channels and the information-rich Internet translate to concrete advantages for consumers — lower fares and greater convenience in purchasing tickets.

For travel agents, however, the picture is not so rosy. Since a 1994 peak of 24,000, one of every three agencies has disappeared. Agents sold \$83.5 billion worth of air transportation in 2000, but dropped 16 percent to \$69.9 billion just one year later.

Very tangible factors contributed to this decline: shrinking airline commissions beginning in 1995, and continuing into 2002; migration of travel purchasers to the Internet; the airlines' practice of encouraging travelers to bypass agents, including the advent and proliferation of web-only fares; and sharp reductions in travel spending, tied to the recession and the post-9/11 environment.

We are deeply concerned about the harm these factors have done to travel agencies. The data on agency attrition and loss of sales cited above are sobering. However, the government as a rule does not intervene in how suppliers distribute their products. Moreover, several changes in the distribution system, particularly with respect to web fare access for agents, occurred during the course of the Commission's deliberations. Such changes are the nature of the marketplace — especially a segment as dynamic as travel — and they make intervention impractical. Nor is it government policy to shield private businesses from downward swings in the business cycle or from marketplace shifts in demand for their services.

Thus, the Commission concluded not to recommend new legislation or regulations that would attempt to reverse the trend towards agency consolidation. To be considered worthwhile, any proposals should help all parties concerned, including consumers.

Though the Commission stopped short of recommending legislation or regulation, it does have concerns related to online agent Orbitz, which dominated several of the Commission's hearings. Owned by the five largest airlines, Orbitz has been the subject of investigation by the Departments of Justice and Transportation almost since it was announced in November, 1999. This Commission sat for only six months, could not match the two departments' resources and, unlike

them, had no subpoena power. However, the Commission recommends that the government immediately consider whether Orbitz should be allowed to maintain its most-favored-nation clause.

The Commission also does not support mandating that web fares be made available to all distribution channels. Airlines have traditionally segmented fares among various distribution channels; if they lose their flexibility in choosing channels, they may well withdraw some fares altogether. Doing that would harm consumers more than it would help agents. Moreover, agents do have access to web fares, though at present generally not through their CRSs. And even that situation was evolving as the Commission's mandate was drawing to a close: several new web fare programs were being discussed with the travel agency industry.



But the Commission did recommend several less radical actions that could help agents do business more efficiently.

(1) To ensure that DOT is more responsive than the five-year CRS review shows it to have been, DOT should be required to report to Congress every two years on distribution issues.

(2) The Travel Agent Arbiter program should be amended and strengthened. Agents should be protected from the arbitrary actions of airlines in debit memo disputes. The Arbiter could serve

as the neutral party so clearly needed to relieve this burden. By including the adjudication of debit memo disputes through paper submissions, the program could inexpensively and fairly rectify this thorny doing-business issue.

(3) The industry should provide travel agents a special box on tickets to include their service fee charges. The Commission believes that this feature would be more efficient for agents, and would provide consumers better information on the elements comprising their ticket purchases.



To ensure these last two suggestions are carried through, Congress should direct DOT to convene airline and agency representatives, and to report back within six months on their progress.

Despite the decline in the number of travel agencies, the Commission believes they do and will continue to provide valuable services to consumers. Travel is increasing. The availability of travel information has exploded. Yet, that explosion has created complexity and confusion. Thus, while traditional agents have lost market share to online purchasing, expert advice from travel advisors will remain a vital service in the marketplace.

In fact, many agents have begun to capitalize on the new business environment; others will do so, as all successful businesses must. Those able to change as the system evolves will capitalize on the new distribution systems, and prosper.

Still, the government must be vigilant to ensure that the services of travel agents remain available to consumers. It must also ensure that future changes in distribution do not deprive consumers of the benefits they have already received from the development of the Internet.

