

By Kevin Mitchell

Rumblings In Brussels

For most people in the travel business, a Computerized Reservations System (CRS) is like your plumbing. It's there in the walls and beneath the floors and you don't really need or even want to know how it works - unless something goes wrong. In that case, you need to become an instant expert.

In hindsight, most people remember hearing strange rumblings and wish they'd listened more closely, before it was too late.

Well, if you're listening closely, that plumbing under the floors in Europe has been making some pretty strange rumblings of late.

The European Commission, which writes and enforces most of the rules in the soon-to-be 27-nation European Union, has proposed to axe - or at least scale back - a rulebook that has governed the CRS industry there for the past 18 years.

Your plumbing is in jeopardy.

The officials in the Commission's transportation department (called DG-TREN) have said the rules are no longer necessary because times have changed and there are better ways to keep order in the industry than via a prescriptive set of rules. The Commission is conducting an impact assessment in advance of a proposed revision of the rules sometime next year. That proposal would still need to be approved by the European Parliament, a process that could take another two years, but the initial thinking that will be crucial in shaping any revision to the EU's rules is being done *now*. The pipes haven't burst yet. But they're making a *lot* of noise.

This affects you because most regulatory decisions made in Brussels affect people worldwide. In this case, the EU's CRS Code of Conduct affects anyone booking business or leisure travel within Europe.

For the past 18 years, these rules have mandated that the travel information provided by CRSs is free from bias, and represents the full spectrum of flights available at any given time in a fair and non-discriminatory manner. In theory, and usually in practice, the fare information on the first screen of a search query in Europe is the information *you* have requested - *not* what a CRS wants you to see.

That's not the case in the United States and other markets where CRSs aren't regulated and therefore are free to strike preferential deals with individual vendors. But then, those markets are fundamentally different than Europe - which is why Europe still has the CRS Code in the first place. This difference is the reason why rules are still needed and why corporate travel managers should endeavour to become informed on the issues.

The Genesis Of CRSs

Also known as global distribution systems, or GDSs, CRSs (we'll stick with the Commission's wording for the purposes of this article) are the back-end databases of schedules, pricing and inventory of the world's airlines, hotels and rent-a-car companies. The CRSs aggregate the data and provide them to travel agents and online travel agencies to facilitate the purchase of travel services. There are several CRS operators - the principal ones being

Amadeus, Galileo, Sabre and Worldspan.

Originally, CRSs were owned and operated by airlines. Sabre started as part of American Airlines; Galileo with United (and later Swissair, KLM, Alitalia and British Airways); Amadeus with Lufthansa, Air France and Iberia; and Worldspan with TWA (and later Delta and Northwest).

In the mid-1970s, some airlines began extending the capabilities of their internal reservations systems to independent travel agencies, giving agencies their first automated means of creating airline reservations electronically. The outgrowth of airline systems into the agency environment gave birth to CRS industry - the world's first networked infrastructure for electronic commerce.

Airlines also began selling their CRS services to other airlines that did not have the critical mass to install their own reservations system in travel agencies. This enabled non-CRS-owning airlines to electronically distribute their services to automated agencies. By the late 1980s, nearly 100 percent of U.S. travel agencies were automated by these systems, and the CRS had become the primary vehicle through which thousands of air and non-air travel suppliers distributed and sold their products and services.

The use of a CRS offered travel agency subscribers significant advantages in terms of marketing and selling airline

tickets through improved access to up-to-date information. Travel agencies began using CRSs not only to make bookings, but also to issue tickets and maintain financial and administrative records.

Leveling The Playing Field

The problem was that CRS-owning airlines soon began manipulating on-screen flight and fare information to create a competitive advantage over their non-CRS-owning competitors. For example, most airline CRS owners had informally titled “Departments of Bias,” whose job it was to continually seek ways to disadvantage non CRS-owning airlines. If an airline was in “the club,” it would be charged a 50-cent segment fee while non-clubmembers, such as New York Air, would be charged \$4 dollars per segment.

What’s more, CRSs frequently biased screen displays used by travel agencies by listing the flights and fares of the owning carriers on the screen first. The flights and fares of competing airlines, even if superior from the consumer’s point of view, were relegated to later screens where they were far less likely to be seen and sold. Additionally, experience showed that whenever locally strong airlines had an ownership position in a CRS, those airlines had the means and the incentive to coerce travel agencies to use the CRS the airline owned -- and would inevitably do so unless such conduct was expressly forbidden by law.

As the U.S. Department of Justice later confirmed, airline-CRS ownership created both the means and the economic incentive to bias CRSs and otherwise distort the marketplace in favour of their airline owners, resulting in supra premium business airfares and reduced service choices. Consequently, U.S. and EU authorities quickly introduced rules in the 1980s to ensure that airline-owned CRSs couldn’t discriminate against other airlines and that the airline owners of CRSs could not discriminate against other CRSs or the travel agencies that used those other CRSs.

These rules required, for example, that information offered through CRSs be objective and unbiased and that participation in each CRS be open to all carriers on a non-discriminatory basis. The rules also required that information and booking functions provided for each airline be as reliable and current as they were for a CRS-owning airline, a provision known as “equal functionality.”

The EU’s CRS Code of Conduct arrived in 1989 and has been revised twice, including in 1999. A core tenet of these rules, known as “mandatory participation,” stipulates that airlines owning CRSs have to participate equally and fairly in competing CRS systems. That means Lufthansa has to participate in the Galileo and Sabre systems even though it owns a significant stake in the Amadeus system. Otherwise, travel agents in Germany would have no choice but to use the Amadeus system.

Worldwide, CRS rules have always remained in place as long as airlines owned stakes in CRSs. Underlining the influence a CRS-owning airline can have over the practices of a CRS, in the U.S. the threshold for the application of the rules for airlines was a 5 percent ownership stake. The U.S. deregulated the CRS industry completely in 2004 — but only after U.S. airlines sold their last stakes in their former CRSs. At the time, in the US Federal Register, it was stated that “The major predicate for the rules has always been the systems’ control by airlines.. The US airlines’ divestiture of their airline ownership interests has eliminated that basis for the rules.”

That doesn’t mean there’s now a free-for-all in the U.S. market. The major CRSs have all struck similar deals with each of the main U.S. airlines, giving them access to the full range of those airlines’ flight and fare information for the next five years – in exchange for steep discounts in the booking fees that the CRSs charge the airlines.

In Europe, by contrast, Amadeus, the largest CRS, is still 46 percent-owned by Air France-KLM, Lufthansa and Iberia. That means the airline owners have every incentive to steer business towards Amadeus – and vice versa. The only thing preventing them from doing so on a massive scale is the CRS Code of Conduct.

Red Tape & Rules

Why, then, does the European Commission want to change the rules of the game? For one, the people running the Commission these days equate “rules” with “red tape” and think many of them should be scrapped as a matter of principle.

Some parts of the CRS Code are truly outdated. For example, proposals to liberalise the existing CRS rules could reasonably include the repeal of the non-discriminatory booking fee and the requirement

that fees for airlines and agents be related to costs. The Coalition for Fair Access to Reservations in Europe (C-FARE) is working closely with ECTAA (an association of travel agents and tour operators in Europe) and GEBTA (the Guild of European Business Travel Agents) to promote reasonable reform to the CRS Code. BTC is a founding member of C-FARE, which represents bricks-and-mortar travel agencies, online travel agencies, corporate travel managers, business travel groups and CRSs alike.

A complete deregulation, however, is premature as long as major European airlines continue to own stakes and nominate executives to Europe’s largest CRS. Under current circumstances, the CRS Code is all that restrains the inevitable propensity of parent carriers to discriminate against competing airlines as well as disloyal travel agencies and travel managers by biasing travel information in their favour.

Of course, all businesses and consumers would benefit from a deregulated EU CRS industry, but only under the right market structure, i.e. there must be complete divestiture of airline ownership stakes in CRSs. Such a divestiture could usher in a new era of CRS market efficiency and consumer benefit. Broad support is likely for legislation that would “sunset” the Code of Conduct once complete divestiture is accomplished, thus obviating the need for the EC to reopen the issue.

The bottom line is, the travel distribution industry in Europe needs to be able to deliver choice — to make the lowest fares and best routing options available — for both leisure and corporate travellers. Travel agencies and corporate travel programs currently provide an efficient one-stop shop where customers benefit from travel expertise and purchasing leverage, and in the process enjoy a complete and unbiased range of options, terms and conditions.

The effects of deregulation of the CRS industry in the U.S. are still emerging following nearly three years of an industry-sanctioned transition period embodied in agreements between individual CRSs and airlines. Deregulation put CRSs’ relationship with airlines on to a more commercial footing. Airlines have received huge discounts on CRS booking fees in exchange for full access to airline fare information, including so-called “web only” fares that airlines initially introduced at least in part as a competitive

lever against CRSs — to the determinant of corporate travel managers eager to avoid a need to search multiple sources for the best fares. CRSs, meanwhile, are investing heavily in Internet technologies in order to cater to today's increasingly wired leisure travellers.

Putting U.S. Lessons To Work

One key lesson learned from U.S. travel distribution system reform was that corporate travel managers, in particular, were insufficiently informed on travel distribution system issues to fully participate in the debate that preceded substantial industry change.

This time, in order to prevent another *fait accompli*, a massive education cam-

paign is getting underway. A series of 3 BTC Radio shows this winter is intended to provide a no-nonsense guide to what's happening in Europe and how corporate travel managers can get involved. The Radio Shows will be broadcast on Jan. 15 and 29, and on Feb. 14.

In the meantime, corporate travel managers who want to stick up for travel choice can sign the petition that C-FARE has posted on its website (www.c-fare.org). The petition will be submitted to the European Commission in the course of its upcoming consultation. More than 100 travel industry participants have already signed.

That's proof: some people are hearing the strange noises emanating from Brussels

and want to protect their CRS plumbing against a burst. Don't be the one who ignored the warning signs! **BTE**

Kevin Mitchell founded the Business Travel Coalition in 1994, with the mission of lowering the long-term cost structure of business travel. BTC seeks to bring transparency to industry and government policies and practices so that customers can influence issues of strategic importance to them. Besides being a founding member of C-Fare, BTC has also founded the Full Content Commission (FCC). (See <http://BusinessTravelCoalition.com> for details about the Commission, C-FARE and BTC Radio.)

