

Associations Internationales sans but lucratif

Ref: IL12-196/941622

By E-mail

M. Hubert DE BROCA
Head of Unit
DG COMP.F1 – Antitrust: Transport,
Post and other Services

Brussels, 29 October 2012

Dear Mr. de Broca,

Re: New air ticket distribution model fixed by IATA

ECTAA and GEBTA wish to alert you about a programme launched by IATA to radically change distribution of air tickets and ancillary services in all channels, including via travel agents. This programme is called New Distribution Capability (NDC).

An IATA resolution n°787 was adopted on 18 October 2012 by an IATA Conference composed of airlines only (see the adopted resolution enclosed). The IATA resolution prescribes a new distribution model, which IATA airlines shall have to apply when distributing enhanced content through multiple channels (see the introduction of the resolution). Enhanced content refers to the development of ancillary services in addition to the air fare (e.g. for baggage, access to lounge, meals, etc.). The new model could also cover the distribution of other travel services than air services by airlines.

This project has arisen in a context where there is an issue with the availability of ancillary services developed by airlines in computerised reservation systems (CRSs) used by travel agents. Airlines tend to claim that CRSs are not able to display and distribute their ancillary services, while other industry stakeholders suggest that airlines deliberately withhold information on ancillary services from CRSs to show a lower fare on the CRS neutral display and to force travel agents to access airline systems directly without a CRS. Several large airlines have indeed attempted in the last years either to transfer their CRS costs onto travel agents or to circumvent CRSs by pressing travel agents to connect directly to the airline's inventory system. These individual attempts have been mildly successful so far.

NDC is a collective project set up through IATA by a small number of airlines. It is presented as aiming at enabling airlines to provide personalised offers and ancillary services in the framework of a single standard for all distribution channels. We are very concerned that this objective is not ensured by the IATA resolution, while the chosen model has many other implications and likely detriments for industry stakeholders and consumers.

Main lines of the project

A salient point of the project is the way airlines would provide information on their products and prices. Currently, airlines upload their fares through the Airline Tariff Publishing Company (ATPCO) in computerised reservation system (CRSs). Travel agents have access in CRSs to the fares uploaded by each participating airline. The EC Regulation 80/2009 on CRSs ensures that fares are displayed neutrally in CRSs. This enables an objective and efficient comparison between air services.

Differently, the NDC project foresees that airlines would no longer pre-file fares. Instead, it would only be possible for a consumer or travel agent to obtain information on an airline's offer after sending a specific request to the airline. The request would have to specify information on the passenger, including historical data based on previous transactions (see §1.2.5.1 and 1.2.5.6 of the IATA resolution 787). The airline would determine its offer depending on this information. CRSs may continue to play a role in this model, as aggregators of the various responses made by different airlines to a given request.

The standards shall enable any approved 3rd party channel to access the airline content directly from the carrier (see §1.2.3 of the IATA resolution 787), which is likely to have an impact on airlines' ability to cut out CRSs/aggregators from the distribution market.

The standard has no constraints for backwards compatibility (see § 1.2.4 of the IATA resolution 787), which is likely to create costs for industry stakeholders to conciliate distribution under the current model and distribution under the NDC model.

Method to determine the new model

IATA and a small number of large airlines have worked on this project rather confidentially for one year and have determined all the main principles of the new model. These principles form the basis of the resolution adopted on 18 October 2012. A few other industry stakeholders were invited in July 2012 in a working group on the technological means to implement the NDC principles. The travel agent community became aware of the project in June 2012 and asked to be involved. IATA only accepted to engage with the travel agent community since September 2012, at a stage where all the main principles were already determined.

The IATA resolution 787 provides in its Attachment A the terms of reference of the IATA group that will manage the development of NDC and is composed of 15 airlines.

Outline of the concerns raised by NDC

The current distribution model does not derive from an IATA resolution, but is market driven. IATA, the biggest airline trade association across the world, with a monopoly on the multilateral programme for air ticket distribution via travel agents, is setting a new distribution model. IATA airlines that do not distribute "enhanced content" will not be obliged to adopt this model. But IATA airlines that distribute "enhanced content" have an obligation under the IATA resolution to apply NDC. Considering that enhanced content is a heavy trend in the airline industry to maximise revenues, a number of airlines will be required to switch to NDC. The use of a single distribution model for airlines to distribute "enhanced content" will stiffen

competition between airlines and will give airlines enormous leverage against other industry stakeholders affected by the NDC model, including travel agents.

Airlines are arguing that the single NDC standard will promote efficiency, better service and transparency with more complete offers through all channels.

But the resolution 787 adopted by IATA airlines does not ensure that more products will be distributed in all channels; the resolution provides indeed that content distribution across all channels is “subject to the terms and conditions determined by the airline distributing the content” (see § 1.2.6 of the IATA resolution 787). The commercial policy of each airline will prevail. Any airline will be able to determine that it will not distribute certain fares and ancillary services through certain indirect channels, as airlines currently do to favour distribution through their own websites, and could further do to favour direct connections with travel agents (without a CRS).

The NDC model however has very far reaching implications, which can be detrimental to consumers and other stakeholders, without any evidence that this model is necessary to reach the stated objectives of distributing more content through all channels. In particular:

- ▶ ***The end of pre-filed fares, which currently enable full spectrum comparison shopping in CRS neutral display; Instead, consumers and distributors could only compare on the basis of case-by-case personalised offers.***

Considering that airlines would provide under NDC personalised offers depending on the passenger, travel agents and passengers would have no possibility to check if the price proposed by an airline in answer to a specific request is the lowest available price. Differently, the current model enables such search among all pre-filed fares. EC regulation 80/2009 on CRSs even refers to the possibility of choosing in the CRS a display ranking by price.

IATA acknowledges that NDC is a move away from commodity based prices and a way for airlines to shelter from commodity-based price competition. Tony Tyler, IATA CEO, expressly stated in a speech on NDC on 16 October 2012 (see the speech enclosed):

“For the 60% of air travel that is sold indirectly via travel agents using Global Distribution Systems (GDSs), [the current] model is focused only on finding the lowest ticket price. This has resulted in the commoditization of air travel. Airlines are trying to escape the commoditization trap through differentiation, and merchandizing, such as offering a low, mid and high price point for every offer”...[With NDC], we will move from the mass commoditization of air travel to what one analyst called “mass customization”.

Moreover, despite the IATA resolution 787 stating that NDC will facilitate a transparent display of products and enable comparison among different products (§ 1.2.5.4), there are serious doubts that this is compatible with the main objective of NDC to support differentiation between airline products. If each airline unbundles air services in its own manner and each airline proposes different ancillary services, we believe that it will be impossible to compare apples to apples. NDC may even compromise the possibility to display air services neutrally, even on CRSs.

The impossibility to check the lowest price on the market and the difficulty to compare offers between them will make the market less transparent for consumers and will pave the way for air service price increase.

Besides, so-called personalisation of airline offers could in practice be discrimination between passengers. For instance, a person with reduced mobility would have no possibility to check if an airline is not responding to a request for a flight despite availability because the passenger is a PRM, or to check if the price is higher than for a

non-PRM (practices prohibited by EC Regulation 1107/2006 on persons with reduced mobility travelling by air, Articles 3 and 10). Similarly, passengers would have no possibility to check that the personalised offer they receive from an airline is not discriminating them on the basis of their place of residence or the travel agent's place of establishment (practices prohibited by EC Regulation 1008/2008 Article 23(2)).

► ***Direct connection between airlines and travel agents without aggregators (CRSs) seems to be tied into NDC principles***

While NDC is presented as applying to all channels, including via a data aggregator between the airline and the travel agent, it also makes direct connection between airlines and travel agents more systematic (see § 1.2.3 of the IATA resolution 787: “*The standards shall enable any approved 3rd party channel to access the airline content directly from the carrier*”). Once the direct connection is established between each airline and travel agent participating in NDC, airlines may be in a position to force travel agents to use the direct connection, rather than the aggregator.

Direct connection have not been favoured by most travel agents so far, because they entail a multiplication of costs and complexity for agents to connect to each airline's systems, rather than going through one centralised CRS. They also entail a loss of price transparency, because multiple direct connections make price comparison more difficult and they may escape the neutral display obligations deriving from EC Regulation 80/2009 on CRSs. The attempts of individual airlines to pressure agents into using direct connections have been mildly successful until now. Through NDC, airlines have collective leverage to impose direct connections across the industry.

Airlines may therefore use a collective dominant position to cut out CRSs/data aggregators and make comparison shopping more difficult.

► ***The collection and retention by airlines of information on travel agents' customers seems to be tied into NDC principles***

Currently, travel agents only communicate to airlines information on the passenger that is necessary to perform the flight. They do not communicate the extensive information foreseen in the NDC model (see §3.1.1.2 of the IATA resolution 787). Such collection of information on customers booking through a travel agent raises serious concerns about airlines' use of customer data to market the customer directly. This is something that an airline could hardly obtain through unilateral negotiation with an agent (including due to potential issues with regard to legislation protecting personal data). Airlines collectively gain leverage through NDC to impose this across the industry.

Moreover, travel agents currently maintain during the period before the flight the Passenger Name Record (PNR) in their own system. This enables agents to make quick and efficient changes to a booking when requested by their customer. IATA has indicated that the technical standards to implement NDC will deal with the location of the PNR, in view of locating all PNRs with the airline, even for bookings made by travel agents. This would highly impact travel agents' processes for bookings and changes to bookings. It would imply extensive cost to redevelop travel agents' tools and processes and may entail a loss of efficiency for agents to get access to a PNR located with the airline when making a change to a booking.

► ***No regard to compatibility with the current model***

NDC has no constraints driven by any requirement for backwards compatibility (see § 1.2.4 of the IATA resolution 787).

However NDC would co-exist with the current model, considering that NDC would only apply to airlines that distribute enhanced content through multiple channels. This is confirmed in §1.2.9 of IATA resolution 787, which provides that “*any cost attributable to the new business model will not be incumbent on IATA airlines who do not wish to adopt it.*”

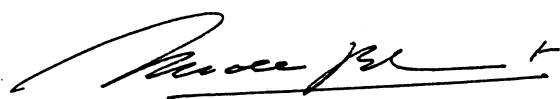
We foresee numerous issues to make the current model and NDC co-exist, especially if NDC is not driven by compatibility with the current model:

- Difficulties to distribute code-share or interlining tickets involving an airline participating in NDC and an airline not participating in NDC. We have raised the question with IATA, which answered that this is not yet addressed and may not be fully addressed by the NDC standard in the end.
- Difficulties to ensure neutral display in CRSs according to EC Regulation 80/2009, of offers under the current model compared to new enhanced offers.
- Complexity and costs of developing new tools and processes in travel agents mid and back office systems.

An NDC standard with no regard to compatibility with the current model would be putting the onus on travel agents and CRSs to work with both models, invest in establishing some common processes and possibly lose productivity to manage with both models. It also entails the risk that the level of service available to consumers decreases, notably with regard to interlining and code-share possibilities.

We consider that NDC is raising numerous competition concerns with a high impact on the distribution of air tickets and we would like to meet you at your earliest convenience to discuss these concerns.

With kind regards,



Michel de Blust
Secretary General