Written Testimony of Thomas Klein, President, Sabre Holdings

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INTRODUCTION

Mr. Chairman, Congressman McDermott, and Members of the Committee: thank you for the opportunity to testify today about the potential benefits of a services liberalizing agreement. My testimony will cover some of our challenges as an international company competing globally, as well as the role travel can play as a services export for our country.

My name is Tom Klein and I am the President of Sabre Holdings based in Southlake, Texas. We are a software and electronic distribution services company serving the global travel industry. We employ about 10,000 people (4,500 in the United States) and do business in 135 countries around the world. We are a leader in the airline software business, a top player in hospitality industry software after just seven years in that business, the largest processesor of global reservations between travel agents and suppliers, and we own Travelocity.com, a leading online consumer travel brand.

We are a mid-sized company, and representative of the mid-sized sector in the United States. We have great people, innovative products, and a belief that we can compete with anyone in the world. We have worked hard to earn that position and I will try to outline a bit of our story. But to be clear, the international playing field is not always level. It is often tilted, and in those cases we find it difficult if not impossible to compete.

While our business cuts across a broad swath of the travel and technology sector, I will focus my remarks today on Sabre Airline Solutions, our airline software business, and opportunities there for international growth, services exports, and job stimulation.

BACKGROUND ON SABRE AIRLINES SOLUTIONS

Sabre Airline Solutions sells the world's broadest suite of airline-specific software – from reservations and airport departure control, to airline websites, pricing and revenue management, to flight operations and crew management – and more. We help airlines be more efficient and make it easier for travelers around the world to visit the United States, where tourism and business travel dollars work to strengthen our economy – and count as exports.

In 2001, after selling an $800 million airline technology business that focused on hardware and network technology services primarily in North America, we recast our strategy, keeping our software portfolio and setting out to be a truly global provider of these high value services. At the time, we had just 12% of our revenues coming from international markets.

When we tried to expand internationally we learned quickly that we were viewed as a U.S.-focused supplier trying to do business in an increasingly global marketplace. Many international customers did not think our systems, most of which were developed in the United States, effectively took into consideration their unique needs. So while we had innovative, ground breaking solutions we often lost business to international competitors that "looked" more international. Amadeus, a Madrid-based company formed by Spanish, German, and French partners is one example; Lufthansa Systems in Germany is another. These companies had a head start selling into the global aviation industry, supportive partners commercially, and sometimes, local governments willing to help them in their efforts. Over the course of several years Sabre invested heavily to build out global capabilities and our own international "look." We set up global development and delivery teams, we increased our local sales and account support coverage, and most importantly, we started to build software that was more flexible and responsive to the needs of the global marketplace. It took time and it took money – and we started to see results.

Over the past several years we have effectively sold our systems across the globe. We have provided major technology implementations in Vietnam, Saudi Arabia, Indonesia, Russia, the UK, South Africa, Ethiopia, Brazil, Mexico, and many more places. Our current yearly international revenues – export dollars for the United States – are over $320 million, representing 65% of our total revenues today. The majority of our future growth is projected to be outside the United States, with international revenues increasing to $600 million by 2015 – 75% of $800 million in total projected revenues. China is an obvious example of incredible growth in business and consumer travel, as well as infrastructure. There are 82 new airports being built and 101 airports being expanded around that country, and airline passenger volumes are projected to grow at 7 to 10% for the foreseeable future.

We are meeting this global demand by creating many new high-paying jobs. Since the beginning of 2010, we have added over 1,400 positions globally, with more than 800 of these jobs based in the United States, where we currently have 450 openings to fill. The average American technology worker at Sabre makes $87,000 per year.

Once challenged by the global marketplace, we adapted, and we are succeeding. Yet as innovative and world-class as our software services have become, we often face significant challenges in markets abroad that hinder our ability to sell and grow, which limits our export and job-creating potential. Despite the explosive growth in the Chinese travel market, for example, in some service categories, there is no opportunity for American firms to compete. We are simply blocked from selling our services to Chinese companies.

We recognize the value of strong government leadership in addressing barriers like these while working to promote American businesses and workers with partners that are willing to compete. In 2008, when Sabre was competing for a contract with Vietnam Airlines, the U.S. government, led by the Department of Commerce, worked closely with us to ensure we had the best possible opportunity to secure that contract – and we did. That next year, our revenue from Vietnam increased by $4 million, and we added 20 new jobs and 10 of those in the U.S.

An international services agreement that opens markets and levels the playing field for U.S. businesses like ours competing overseas would create the right kind of opportunities for us to expand our international sales even more.

SERVICES LIBERALIZATION

We need a new international services agreement. The World Trade Organization (WTO) agreement providing the framework for global trade in services – the General Agreement on Trade in Services – is over fifteen years old. And efforts to negotiate a new, comprehensive WTO agreement through the Doha Round have stalled. In the meantime, we have seen the travel services industry change dramatically. More than ever, individuals are searching for and booking travel online, and the biggest growth in consumer-driven travel is outside the United States.

Yet, the trade rules have not kept up, and as a result, governments take advantage of this vacuum to erect artificial barriers and other protectionist measures that stymie competition. An international services agreement is a strong step in the right direction. Taken at its fullest potential, a high-standard agreement will lower barriers in important markets, create much-needed pressure on other countries that are not participants, like China, and help generate momentum toward liberalization more broadly at the WTO.

An agreement has the potential to help our company in a number of ways, such as addressing discriminatory licensing practices, increasing transparency, and protecting the flow of data across borders.

Discriminatory Licensing. Countries often indiscriminately deny operating licenses to foreign companies in order to protect their own domestic or state-owned enterprises. China's state owned travel distribution monopoly, TravelSky, for example, is the only company licensed to provide passenger reservations systems and airport departure control systems in that country. Foreign competitors, including Sabre Travel Network, are not allowed to provide global distribution system services to Chinese airlines and Chinese travel management companies.

The U.S. Commerce Department, in conjunction with Director General for Trade in Europe, has for the last five years urged the CAAC, the Chinese transportation ministry, to create an opportunity for U.S. and European travel distribution companies to engage in talks that would include technology demonstrations and discussions about the benefits to Chinese aviation of market opening. The CAAC has been unwilling to engage, and progress toward market opening has been painfully slow.

A recent development, however, is worth mentioning. The CAAC has recently adopted limited regulations that purport to allow individual foreign airlines and individual Chinese travel agencies to sponsor a foreign global distribution system (GDS) for the limited purpose of distributing international trips to and from China (but not for domestic travel). There are very significant administrative burdens associated with this scheme, but it appears to represent a small step forward. The Chinese domestic travel market, however, remains completely off limits to us.

We recognize that China is not part of the current services talks. But we believe that a multilateral services agreement that includes strong protections against discriminatory treatment is a strong step forward toward ensuring that American companies and workers can compete on a level playing field.

Transparency. Another important benefit that a services agreement may offer is increased transparency. The more countries play by the same rules, and the more we know about and have input into those rules, the easier it is to do business – and resolve disputes when they arise. U.S. free trade agreements (FTAs) have traditionally included strong transparency provisions – for example, requirements that countries publish regulations in a clear and timely manner and consult with stakeholders. Replicating these successes on a larger scale would only benefit American companies, small and large alike, doing business overseas.

Data Flows. One challenge for our industry today is what we call "Big Data" – how to store, search and access huge amounts of data in a way that is timely and useful for consumers. Consider this: just two years ago, enterprises around the world stored more than seven Exabytes of new data – equivalent to about 28,000 times the amount of information that is stored in the Library of Congress. And this does not even account for the amount of data generated through social media.

In a global environment, having control over how this data is stored, distributed, and used is critically important to our business – and our customers. If we know, for example, that if 100 people searched for a 6am flight to Houston, where only an 8am flight existed, an airline might consider adding a 6am flight to meet the demand. An agreement that ensures data can flow freely across borders would be a powerful tool.

A TALE OF TWO COUNTRIES

The value of trade agreements to U.S. companies is proven by Sabre's dramatically different experience in two South American countries: Venezuela, where no such agreement exists and our ability to do business suffered enormously, and Chile, where a free trade agreement facilitated our market presence and at least on one occasion, dramatically came to our rescue.

In Venezuela, U.S. companies have a challenging time doing business. We are subject to arbitrary and politically driven applications of local laws and to restrictions on repatriating money to the U.S. earned in that country. After years of building our market presence in that country, for no legitimate reason, the Venezuelan government nullified Sabre's valid contracts with local travel agencies, claiming that they were anticompetitive. This finding surprised even our local lawyers since it was obviously in clear contravention of applicable local laws. This necessitated making contract modifications in order to placate agency officials and re-signing some 600 existing customers. This took much time, expense and effort in order to be able to continue Sabre's local operations.

The currency control issue further exacerbates the difficulties of doing business in Venezuela. Our contracts requiring payment in U.S. dollars for services rendered by Sabre to local airlines, for example, are typically delayed due to a required but inconsistent approval process by a Venezuelan government agency. Trade agreements addressing these and similar issues would give Sabre national treatment status and would make doing business much more rewarding for us, our customers and the balance of trade.

In Chile, the story is completely different. The U.S.-Chile Free Trade Agreement gives companies like Sabre national treatment status and we have had spectacular success in that country, including with LAN Airlines, which recently chose Sabre as the airline's reservation and operational systems solutions provider and entered into a multi-year, full content distribution agreement with us. This contract resulted in at least 50 new technology jobs in the U.S.

Our presence in Chile before the FTA was much smaller, with a European competitor dominating the market. After the FTA was signed, a major Chilean government agency put out an RFP for travel agency services and required that any bidder use our European competitor's automation services. We brought this violation of the FTA to the Department of Commerce's attention. Within a matter of two days, Commerce assembled a team from the State Department, the United States Trade Representative and embassy officials in Santiago, which communicated the concern of the U.S. Government to the Chilean authorities who acknowledged the violation, and the tender favoring our competitor was promptly abandoned. It was breathtaking how well the process worked.

Existing U.S. free trade agreements have made important progress on addressing services barriers and ensuring protections for American companies doing business overseas. Replicating these successes on a larger, more global scale – such as through a more expansive services agreement with willing WTO partners – would help to strengthen our position as a global leader and provide important economic benefits.

TRAVEL TO THE U.S. AS AN EXPORT

While today's hearing focuses on a possible services agreement, it is important – as this Committee looks at numerous ways to grow international trade – to put travel in the broader context of U.S. exports. Money spent by foreign travelers counts as exports from the U.S. and creates travel industry jobs in the U.S. And those are jobs that are staying in the U.S.

The last year has seen an explosion in travel around the world, for business, pleasure, medical reasons, education, and family events. In 2011, travel was among the top 10 industries in 48 states and the District of Columbia, supporting a total of 14.4 million jobs. Travel-related spending totaled $813 billion, leading to $124 billion in tax revenue for federal, state and local governments. Additionally, the industry accounted for 2.7 percent of our nation's GDP.

However, from 2000-2010, the U.S. share of international travel dropped from 17 percent to 12.4 percent, despite an overall 40 percent increase in international travel globally. At the same time, travel to the U.S. from the majority of U.S. FTA partners increased. The number of visitors from Australia, for example, doubled in the seven years after enactment of the FTA, increasing from an average annual growth rate of 3.4% before the FTA to 10.6% after.

Regaining our lost share of international visitors will give our economy a much needed boost and lead to economic growth well beyond the travel industry. A return to 17 percent would attract 98 million more international visitors, create an additional 1.3 million jobs by 2020, and generate $859 billion for the U.S. economy. An international services agreement would only help as we work to reach these goals.

In an era of hesitant economic recovery, the story around international travel has been a bright spot over the past several years. 2011 featured the largest trade surplus for travel and tourism ever for the United States, at $43 billion dollars. Growth rates throughout 2012 continue to outpace 2011 numbers.

This growth is in part due to significant enhancements by the Department of State in visa processing. For instance, in the first half of 2012, visa demand in Brazil was up 48% over 2011. Visa demand in China was up 38%. By expanding personnel (paid for by visa fees), expanding consular service periods, and waiving repeat interviews for low-risk travelers, these increases have been achieved while visa interview wait times have gone down significantly. While these times vary, generally visas can be obtained in these high demand countries in less than 10 days.

In addition, the launch of advertising campaigns in key travel markets like the United Kingdom is sparking additional demand for travel to the U.S. There has been a 14% increase in the number of British nationals who intend to travel to the U.S. after the initial marketing campaign this year.

However, the fact that the U.S. is no longer losing ground in the race for international travel does not mean that our policy problems are solved. There are a number of enhancements to the visa and entry process that should be considered which would generate significant increases in the number of international travelers and the jobs that support their travel. Among these issues include:

- *Expansion of the Visa Waiver Program (VWP):* Two-thirds of international travelers coming from beyond the Northern Hemisphere arrived in the U.S. under the VWP which allows visa-free travel for up to 90 days for business or pleasure for citizens whose countries sign bilateral agreements with the U.S. to cooperate on a series of stringent counter-terrorism measures. Congress enacted temporary changes to the program in 2007 that allowed the Bush Administration to negotiate the entry of nine new VWP countries, most notably South Korea. However, new legislation is needed to shift the VWP's eligibility criteria to focus on visa overstays rather than visa refusals, which would allow countries such as Brazil, Poland, Croatia, Chile, and Israel to be considered for admission. Enacting H.R. 5741, the "Jobs Originated through Launching Travel Act of 2012," would represent a very important jobs bill – it is worth noting the VWP language is also included in the FY13 Department of Homeland Security appropriations bill in the Senate. The Congressional Budget Office has reported that the JOLT Act would not result in any increase in federal spending.

- *U.S. Customs and Border Protection staffing*: CBP is struggling to fulfill its counter-terrorism and facilitation duties due to significant shortfalls in its budget for front-line CBP officers. This shortfall is in part due to reductions in CBP fees received during the economic downturn in 2008-2010 that would have been used to hire and train more officers. However, it is also due to a provision in the 2011 U.S. - Colombia Free Trade Agreement. This agreement increased immigration fees on travelers from Canada, Mexico and the Caribbean, but instead of using the additional revenue to support CBP, the agreement dedicated those fees to deficit reduction to offset the loss of tariff revenue from Colombia. This $110M annual shortfall is having a major impact on CBP's ability to keep wait times manageable.

- *International Trusted Traveler Programs*: CBP has created the very successful Global Entry program with over 1,000,000 Americans eligible for expedited processing upon arrival in the U.S. The growth of Global Entry as a bilateral agreement with foreign governments to offer similar services in other countries has seen important but insufficient growth. Currently, CBP operates bilateral programs with Canada, the Netherlands, Mexico, and South Korea, and limited pilots with the United Kingdom, Qatar, and Germany. CBP has signed joint statements to develop future trusted traveler arrangements with Australia, Israel, New Zealand, and Panama. However, other than Canada, the volume of international applicants is very small, and this list does not include some of the largest in-bound travel markets such as France, Brazil, Japan, and Italy. The international aspect of Global Entry needs rapid expansion, as well as offering enrollment to selected populations of individuals affiliated with international organizations with whom the U.S. maintains significant relationships. CBP also needs to implement the 2011 law that will allow the U.S. to participate in the Asia-Pacific Economic Cooperation Business Travel Card program.

- *Coordination with Domestic Aviation Security*: Currently, foreign members of Global Entry's bilateral programs with Canada, the Netherlands, South Korea and other countries are not eligible for the Transportation Security Administration's Pre✓ "Trusted Traveler" program despite their successful background check. TSA should expand Pre✓ benefits to international members of these programs, while maintaining the randomness factor that may subject Pre✓ travelers for additional screening on any flight. We understand that discussions are underway that might allow Canadian members of the NEXUS program into Pre✓ as part of the "Beyond the Borders" initiative which would be an excellent first step.   TSA should also expand Pre✓ to cover outbound international flights.

- *Reducing Redundant Baggage Screening*: The House of Representatives recently passed legislation, the "No-Hassle Flying Act of 2012" (H.R. 6028) sponsored by Rep. Joe Walsh (R-IL), that would remove the requirement that TSA rescreen luggage already screened at one of the 15 U.S. "pre-clearance" locations (nine in Canada, four in the Caribbean, and two in Ireland if TSA certifies that the screening meets U.S. standards.) We applaud this passage and hope that the Senate will consider the legislation soon.

On behalf of our employees in the United States and around the world, I thank the Committee for its leadership role on international trade issues. I look forward to your questions.