
Office of Inspector General

Audit Report

*Report on Travel Agent
Commission Overrides*

Office of the Secretary

Report Number: CE-1999-060

Date Issued: March 2, 1999





**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

Memorandum

Subject: **ACTION**: Report on Travel Agent Commission Overrides
CE-1999-060

Date: March 2, 1999

From: Lawrence H. Weintrob
Assistant Inspector General for Auditing

Reply To
Attn Of: JA-2

To: Assistant Secretary for Aviation and International Affairs

This report presents the results of our audit of Travel Agent Commission Overrides (overrides). Our objective was to evaluate the U.S. Department of Transportation's (DOT) regulatory approach to overrides. Commission overrides are incentive payments made by some airlines to some travel agencies in return for the agencies' meeting specified sales quotas on particular routes or overall sales levels. The payments are in addition to the base commissions that are usually established as set percentages of ticket prices.

Overrides influence consumers' travel options and decisions. Unless the consumer specifically requests his or her carrier of choice, the travel agent's carrier selection may be based on financial incentives from the airlines rather than schedule and service considerations, and even, potentially, price. The infrequent traveler may not realize the complexities of fare and schedule structures and fail to insist on receiving all information pertinent to the travel decision. The use of overrides, intended to increase air carriers' market shares, may also influence airline competition by contributing to increased market concentration by major carriers, higher fares, fewer choices in routes and scheduling, and other potential anti-competitive effects.

BACKGROUND

The use of overrides has developed since the Airline Deregulation Act of 1978. The Act moved the domestic commercial airline industry toward a competitive, market-driven environment by removing restrictions on the entry of new carriers, the routes on which carriers may offer service, and pricing for those routes. The changes resulting from deregulation have affected travel agencies as well as consumers and the airlines.

Prior to deregulation, the number of carriers and their route systems were relatively static. Pricing was similarly static and consistent among carriers flying similar routes. In that environment, the majority of air travelers purchased tickets directly from the airlines.

Deregulation allowed the development of complex and frequently changing fare structures. In response, travelers have increasingly relied on travel agents, with access to broad-based flight and fare information, for travel information and ticketing. As a result, the number of travel agencies increased. It is estimated there are 33,500 agency locations, and their annual revenues from all sources total \$126 billion.¹ Travel agencies now facilitate 80 to 85 percent of airline ticket sales.

Airlines have recently sought to reduce their ticket distribution costs by decreasing the commissions paid to travel agencies for the sale of their tickets. They have done so by decreasing the base commission rates paid and establishing caps on base commission payments. During the period from 1995 through 1997, most airlines decreased the base commission rates paid to travel agencies for domestic travel from 10 percent of ticket fares to 8 percent and established maximum commission payments of \$25 per one-way fare and \$50 per round-trip fare. These changes reduced travel agencies' primary revenue source and accelerated agency changes toward product specialization, operational efficiencies, and the establishment of some fees directly to consumers.

Additional commission reductions have recently occurred. During November 1998, United, Delta, American, Continental, and Northwest Airlines capped commissions on international fares at \$50 one way and \$100 round trip; large airlines now often pay online, internet travel agents only a 5 percent commission with a \$10 cap, reduced from a \$25 cap.² These domestic and international commission restrictions have reduced travel agent revenue and increased the importance of overrides to travel agents.

SCOPE AND METHODOLOGY

We reviewed DOT regulations, and conducted interviews with program officials and with representatives of travel agencies, air carriers, industry experts, and trade associations. We requested voluntary disclosure of override agreements, with explicit assurances of confidentiality, from 10 major airlines. Four airlines

¹ Travel Weekly's "1998 U.S. Travel Agency Survey," p. 14. This survey is a biennial market survey in which Louis Harris and Associates selects and interviews a stratified random sample of 704 travel agency locations (2.1 percent of total 33,500) based on dollar volume, region (East, Midwest, South, and West), and size of market.

² The Wall Street Journal, October 20, 1998, Section B, p. 1.

provided partial information and six furnished no information. We also requested voluntary disclosure of override agreements from several travel agencies. All the agencies declined to provide the names of airlines with which override agreements existed or the terms of any such agreements. We also observed a demonstration, conducted by a travel agency, of various types of enhancement software for computer reservation systems.

We discussed with representatives of the U.S. Department of Justice (DOJ) the results of its investigation from 1994 through 1996 concerning the antitrust aspects of overrides. DOJ had obtained override commission payment information from airlines. However, it was unable to show a direct anti-competitive effect of overrides and terminated its investigation. (See Appendix A for more information.)

In light of DOJ's efforts and results, we did not attempt to quantify the effects of overrides on airline competition. Such analysis is extremely difficult, if possible at all, since it requires isolation of the effects of overrides from all other marketing tactics.

This audit was conducted from June 1998 through February 1999 in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.

RESULTS IN BRIEF

Travel agents act as ticket distribution agents for the airlines. Because their costs of ticketing are paid by the airlines through sales commissions, they are seller's agents for the airlines. Base commissions provide no incentive for agents to bias the airline options they present given that base commissions are a standard 8 percent throughout the industry. Therefore, if there were no overrides or other financial incentives based on ticket sales, consumers would likely have little concern that a financial bias affected the flights or fares offered, or that travel agents were steering them toward a particular airline.

We concluded that overrides change the relationship among passengers, travel agents, and airlines. Overrides or other financial incentives, such as free tickets, transform the role of travel agents from that of neutral seller's agents toward one of a direct distribution agent for a particular airline—a relationship of which passengers are likely to be unaware. As a result, overrides may encourage travel agents to provide incomplete information to the passengers and are thus detrimental to consumer interests if not revealed to the consumer.

Travel agencies have the means to change the arrangement and presentation of air carrier flight and fare information, furnished by computer reservation systems, by using software “system enhancements” readily available and marketed by independent developers, vendors, and others. While these system enhancements provide operating efficiencies, they can also be used to emphasize sales on preferred, override-paying airlines through restructured screen displays or through highlighted or “pop-up” reminders to agents.

In spite of the anecdotal evidence provided by various parties during our evaluation of overrides, we received no direct evidence that travel agencies have misled clients on the purchase of airline tickets. Nevertheless, overrides do create incentives and the potential for bias in the provision of information to consumers. DOT, however, has not evaluated the impact of overrides on air carrier competition or consumer interests and has not regulated their use.

Requiring travel agents to disclose the existence of overrides and other financial incentives from airlines would provide consumers with the information they need to protect their own interests. Other options for addressing the problem of overrides include the elimination of overrides or the complete elimination of the commissions and other payments from airlines to travel agents for distribution services. The former would restore the neutral agency relationship of travel agents between the consumer and the airlines. The latter would transform travel agents into buyer’s agents by severing any financial ties between agents and the airlines. Fees would have to be set directly between consumers and travel agents for their buying services. However, the latter two options are much more intrusive into the private market. In our opinion, disclosure is a fairly simple step that would produce most of the same benefits to consumers.

We recommend the Assistant Secretary for Aviation and International Affairs devise a means to provide consumers with the information they need about overrides to protect their interests. One option for consideration is establishing a rule that requires travel agencies to disclose to consumers, before booking reservations or finalizing flight purchases:

- *the existence of potential override commissions,*
- *the existence of other ticket sales-based financial incentives from airlines, and*
- *the use of computer reservation system enhancement software that is designed to bias screen displays toward the flight information of an override carrier.*

FINDINGS

COMMISSION OVERRIDE AGREEMENT INCENTIVE STRUCTURES

Commission Override Agreements provide clear incentives to favor the flights of the carrier paying the higher commission. Overrides are awarded based on: absolute sales targets; comparisons with the sales achievements of “peer agencies” (groups of agencies determined by the carrier to be comparable for incentive purposes); an agency’s fare sales in specific markets, city-pairs, or fare classes; or all the agency’s sales for the airline. There are often escalating reward levels that, as an agency approaches target levels, make additional ticket sales for the override carrier highly profitable.

Some agreements contain comprehensive terms and conditions while others may simply announce fixed-price awards for bookings on specific routes. Some carriers offer several types of incentive agreements. An override agreement may exclude some fares from the override calculations, such as governmental and military fares, business fares negotiated directly with corporations, various discounted fares, and any other items designated by the agreement. Taxes and charges paid by the passenger may also be deducted to arrive at the amount on which the override is calculated.

Override agreements between the airlines and participating travel agencies generally contain non-disclosure clauses and are, thus, confidential under the terms of the agreements. As a result, industry information about the terms and conditions of override agreements and agencies’ override earnings is scarce and sometimes contradictory. Four airlines provided partial information that is detailed below.

An override agreement provided by one carrier contains a complex formula based on the carrier’s market share relative to other carriers, the travel agency’s sales of that carrier’s fares, and its market share relative to peer agencies. The percentage of the override applied to an agency’s sales rises as the sales rise above target levels. The higher percentage at each level is applied to all sales for the period, not just those beyond the target. As a result, there can be a potential high return to the travel agency for a small increase in sales to reach the next percentage target, and, therefore, strong incentives to increase its sales for the carrier.

The agreement also specifies that the carrier’s internal data take precedence over the travel agency’s or any other data for determining whether overrides are due. The carrier may terminate the agreement immediately if the terms of the agreement become known, for any reason, to anyone outside the agency’s or the carrier’s organization.

A second carrier provided brief descriptions of its several override programs. Each program emphasizes a different measurement of travel agency performance, such as sales goals, market share achievements, peer group sales, or its performance in specific markets. Sales of high-yield or international fares may receive special consideration. Overrides may be based on payments per trip after target levels are attained or on overall qualifying sales figures. The carrier works with each travel agency to determine which program is mutually beneficial.

A third carrier structures its override program by dividing its market into groups of city-pairs within which participating travel agencies with carrier sales higher than the group average may earn overrides. To earn any overrides, the agency must qualify in at least two city-pair groups. All calculations are based on the carrier's records, and a requirement for confidentiality is included. A fourth carrier offers overrides based on percentage increases over sales target figures stated in the agreement.

We received from a non-carrier source an example of an "on the spot" override offered by an air carrier to pay an extra cash incentive for each one-way or round-trip ticket sold in three specific markets within a specified 2-week period. Several travel agents indicated that similar market-specific, short-term overrides are often offered.

We also requested voluntary disclosure of override agreements from several travel agencies. The agencies, due to the confidentiality provisions, declined to provide the names of any airline with which they had override agreements or the terms of any such agreements. Several agency representatives indicated overrides are offered primarily by the largest airlines to the larger travel agencies, and several provided anecdotal comments.

OVERRIDE INCENTIVES AND AIR CARRIER COMPETITION

Although, as noted previously, we did not attempt to quantify the effects of overrides on airline competition, we did receive anecdotal information from small carriers, travel agencies, and other interested parties regarding how overrides are used to influence market share. One small carrier indicated it recently announced new service to begin in a specific market. On the same day, the competing major carrier dropped its fares to match those of the announced new service and issued an "on the spot" override offer for that market.

An executive of a small carrier noted the major carriers dominate their markets through the use of overrides, frequent flyer programs, and other marketing tools. He estimates overrides are more prevalent in competitive markets than in markets with one dominant carrier. A representative of another small carrier was told by a

travel agent that a number of its routes had been targeted, through overrides, by a certain large carrier. The agent would not divulge details of the overrides due to non-disclosure provisions in the agreements.

Another small carrier indicated the major carriers insist each travel agency develop a “directional selling program” in conjunction with the override arrangements. Under this program, the agency either instructs its employees to offer the preferred airline first or modifies its computer reservation system displays to show, at first, seats only on the preferred carrier. The employee can then say of a particular flight “it’s the only one showing on my screen.” Another source stated that 85 percent of ticket sales are made from the first screen displayed, an indication that the order of carrier presentation may be a meaningful steering method.

Another small carrier representative reported strong bookings when her carrier opened a particular new route, but that bookings decreased sharply after a few weeks. When she asked travel agency contacts about the decrease, she was told the other airlines had gone to the travel agencies to discuss the changes in bookings relative to their override goals.

An industry publication³ reported that one carrier used marketing information data to track travel agency bookings on competing carriers and offered incentives and upgrades to at least one agency to rebook passengers on its own flights.

One travel agency representative indicated that a large travel agency specializing in corporate travel and working primarily with one carrier will not solicit the business travel of a company using other airlines to avoid disturbing the agency’s relationship with its primary carrier. A large agency in a close relationship with its primary carrier would presumably be positioned to obtain overrides and other incentives that it would choose to protect by continuing to concentrate its business with that carrier.

As the above information indicates, a number of small carriers (as well as some travel agencies) believe that overrides have been targeted to influence their market share and competitive position. However, establishing competitive impacts is difficult because of the confidentiality provisions of override agreements and the payments made under them, and because of the influence of other marketing and operational factors.

³ Travel Distribution Report, March 27, 1997, p. 2.

COMPUTER RESERVATION SYSTEMS PROVIDE AIRLINES WITH THE INFORMATION TO ESTABLISH AND MONITOR OVERRIDE AGREEMENTS

Air carriers, unlike firms in other industries, have access not only to their own sales data but also to data of their airline competitors. Further, they have access to the sales by each of their distributors (travel agents) for not only their airline, but sales for those of their competitors as well. This unique opportunity exists because air carriers have access to extensive marketing information available from computer reservation systems (CRSs). The CRSs capture details of ticket sales including data on carriers, travel agencies, city-pairs, and fares. Those data, which can be purchased by the airlines, provide carriers with the means to develop detailed information concerning all CRS-facilitated ticket sales and ticket prices, including each travel agency's ticket sales on other carriers and each carrier's CRS-related ticket sales.

As there are four primary CRSs and each CRS contains data only from bookings it has processed, preparation of meaningful market information requires the purchase of data from all four CRSs (see Appendix B). Sabre, the largest CRS, indicated the price for its domestic market data is approximately \$60,000 per month. Worldspan, a smaller system, indicated its monthly price at approximately \$17,000.

The data are unusable until they have been arranged in accordance with the purchaser's specifications. Sabre indicated processing costs for its data add another \$10,000 to \$20,000 per month to its basic price. DOT rules specify that each CRS shall make available to all U.S. participating carriers all marketing, booking, and sales data.⁴ However, cost considerations may restrict data acquisition to the largest airlines.

Whereas marketing strategies of most businesses are based on their own proprietary data plus estimates and assumptions concerning their competition, air carriers can obtain specific data about their competitors and distributors and can alter their strategies to maximize their results.

SYSTEM ENHANCEMENTS PROVIDE TRAVEL AGENCIES WITH THE TOOLS TO ACHIEVE OVERRIDE GOALS

Although the early CRSs, developed by the airlines, included biases in favor of the CRS's sponsoring airline, current DOT rules specify neutrality of CRS information arrangement and presentation furnished to travel agencies. However, the user travel agencies are not prohibited from making their own changes. Software "system enhancements" are readily available and are marketed by

⁴ 14 CFR Part 255 § 10(a)

independent developers and vendors, CRSs, and the technology group of at least one travel agency. At least one airline has marketed software.⁵ Further, DOT rules require CRSs to make available non-proprietary structural information to developers of third-party hardware and software on commercially reasonable terms to enable developers to create enhancement products.⁶

Various system enhancements, also referred to as “customizing software,” “biasing software,” or “add-ons,” have been developed to improve travel agencies’ operating efficiencies. They may provide accounting and quality control functions, automate customer service functions, improve agent productivity, and otherwise improve operating results. However, they can also be used to emphasize sales on preferred airlines through highlighted or “pop-up” reminders to agents and through restructured screen displays. The screen displays may be modified to show, at first, seats only on the preferred carrier. Costs quoted by one independent provider range from approximately a \$100 fee plus \$75 monthly payment for less complex software, to \$7,000 to \$10,000 for more complex systems designed to ensure business travel is performed in accordance with corporate policies. In short, while overrides can provide the incentive to bias information given to consumers, add-on software can provide the tools to do so.

OVERRIDES INFLUENCE CONSUMER TRAVEL DECISIONS

There is general agreement in the aviation industry that overrides provide incentives for agencies to ticket consumers on preferred airlines. Travel Weekly’s 1998 U.S. Travel Agency Survey noted 52 percent of domestic travel agencies received overrides during 1997, and 69 percent of the agencies receiving overrides indicated they usually or sometimes book a specific airline to get overrides.⁷ In a 1996 report, Airline Deregulation: Barriers to Entry Continue to Limit Competition in Several Key Domestic Markets, GAO noted that in discussions with 9 of the 10 largest travel agencies, most estimated the customer defers to the agent about 25 percent of the time, and in those cases overrides tend to be the “tie-breaker.”

The methods of influencing customers toward airlines with which the agency has override arrangements may vary with each agency. One representative noted agencies purchased special software that identifies flight information on preferred airlines only and does not display other airlines. As noted above, software that can bias CRS displays is readily available to travel agents. In a simpler method, a

⁵ Northwest Airlines filed a complaint against American Airlines and Sabre for alleged violations of the CRS Rules (Document OST-1995-430-1); summary judgment was granted American and Sabre on the basis the action was not prohibited by CRS rules. The judgment was appealed and a decision is pending.

⁶ 14 CFR Part 255 § 9(c)

⁷ Travel Weekly’s “1998 U.S. Travel Agency Survey,” p. 142.

sales manager may frequently remind employees to “sell” a particular airline. An agent may enroll a leisure traveler (who had not previously participated in a frequent flyer program) in the frequent flyer program of the agency’s preferred carrier, which provides incentives for the traveler to request that carrier for future flights.

Another agency representative said some travelers, both leisure and business, will switch to the agency’s preferred carrier simply because an aisle seat is not available on their first choice carrier. Another noted that it is difficult to identify examples of overrides causing consumers to be steered to noncompetitive fares because there is no paper trail – a choice is made on a screen and nothing is recorded to show how that choice was made or what the passenger requested.

Despite the anecdotal evidence described above, we received no direct evidence that travel agencies have misled clients on the purchase of airline tickets. Nevertheless, overrides do create incentives and the potential for bias in the provision of information to consumers.

**DOT HAS NOT DIRECTLY EXAMINED THE IMPACT OF OVERRIDES ON
COMPETITION OR CONSUMER INTERESTS AND HAS NOT REGULATED
THEIR USE**

DOT has not directly addressed the issue of overrides in its regulations. DOT has initiated two proposed rulemaking procedures mentioning overrides but not focusing on them. One concerns CRS rules and notes that DOT does not plan to focus on the competitive effects of override commissions. The other addresses unfair exclusionary conduct by airlines and notes DOT will consider overrides in conjunction with unfair competition against new entrants. Neither includes an intention to examine the effect of overrides on consumer interests.

On September 10, 1997, DOT issued an advance notice of proposed rulemaking entitled “Computer Reservations System (CRS) Regulations” (Docket No. OST-97-2881, Notice No. 97-9). Its purpose was to determine whether DOT should continue or modify its existing rules governing carrier-owned CRSs (14 CFR Part 255), which were to expire on December 31, 1997. However, its language noted “...we do not plan to focus in this proceeding on such issues as the competitive effects of override commissions or code-sharing, notwithstanding the potential importance of those issues.” DOT subsequently amended its CRS rules by changing their expiration date from December 31, 1997, to March 31, 1999, keeping the current rules in effect while DOT carries out its reexamination of the need for CRS regulations.

On April 10, 1998, DOT issued a request for comments entitled “Enforcement Policy Regarding Unfair Exclusionary Conduct in the Air Transportation

Industry” (Docket No. OST-98-3713, Notice No. 98-16). It noted DOT would consider the use of overrides in ways that appear to target new entrants as possible indications of unfair competition against new entrants. Both rulemaking procedures continue in process.

Several bills concerning consumer access to travel information were introduced in the last Congress, although none were considered prior to adjournment. One of those bills, H.R. 4742, addressed the disclosure of commission overrides to consumers.⁸ It would direct the Secretary of Transportation to conduct a rulemaking proceeding to require a ticket agent for air transportation to disclose verbally to prospective consumers, all forms of commissions paid to the ticket agent or agency by all air carriers serving the markets of interest to the prospective consumer.

OVERRIDES CHANGE THE AGENCY RELATIONSHIPS AMONG AIR CARRIERS, PASSENGERS, AND TRAVEL AGENCIES

Travel agents act as ticket distribution agents for the airlines. Because their costs of ticketing are paid by the airlines through sales commissions, they are seller’s agents for the airlines. Base commissions provide no incentive for agents to bias the airline options they present, since base commissions are a standard 8 percent throughout the industry. Therefore, if there were no overrides or other financial incentives based on ticket sales, consumers would likely have little concern that a financial bias affected the flights or fares offered. However, overrides or other financial incentives, such as free tickets, disturb this relationship of neutral seller’s agents and move travel agents toward the role of a direct distribution agent for a particular airline.

Overrides have different effects than distribution incentives provided to retailers by producers and wholesalers in other sectors of the economy. The key distinction is whether consumers directly observe and select their purchases from among all the options available. Where consumers directly purchase the product, they have the full price comparison information between brands in front of them. If a distribution incentive to the retailer results in fewer brands offered, the consumer, seeing the limited selection available, would know to shop elsewhere for comparison.

An agency relationship entrusts to a third party the work of determining consumption options. This separates the consumer from direct access to the relevant information on those options. The consumer entrusts the agent with obtaining all the options and assisting the consumer in a decision. If fees to the agent are set by agreement between the buyer and agent with no additional

⁸ Aviation Consumer Right to Know Act of 1998 (H.R. 4742).

financial considerations provided by the seller, then the agent would be a true buyer's agent and could be assumed to be working in the buyer's interest.⁹

Where payment for services comes from the seller, however, the agent is a seller's agent and should be assumed to be acting in its and the seller's best interest. Where all sellers abide by the same payment schedule, the buyer may expect no agent bias toward a particular seller; where they do not, the agent may be inclined toward the more remunerative seller.

For example, a prospective real estate buyer may assume that a real estate agent represents the interests of the buyer, rather than the interests of the seller, in the absence of a written agreement to the contrary. If the buyer is aware the agent legally represents the seller, the buyer might decide to place less reliance on the agent's information and comments. If the agent were receiving a higher percentage commission from some sellers than others, the buyer may be wary of being steered toward those properties.

**DISCLOSURE OF THE EXISTENCE OF OVERRIDE AGREEMENTS AND OTHER
FINANCIAL INCENTIVES WOULD GIVE CONSUMERS THE INFORMATION THEY
NEED TO PROTECT THEIR OWN INTERESTS**

The concept of a deregulated, competitive, market-driven environment includes the assumption that consumers act in their best interests and make rational choices when in possession of the facts and circumstances concerning those choices. Disclosure of pertinent information provides the consumer with the opportunity to evaluate alternatives fully and to choose the most advantageous.

Overrides change the relationship of the travel agent from a neutral distribution agent for all airlines to a seller's agent for a specific airline. This is important and relevant information for consumers in making their travel choices. Lack of disclosure of an override agreement deprives the consumer of full information to evaluate travel options and potentially impacts the fare, the carrier, and the itinerary of the traveler.

Requiring travel agents to disclose the existence of overrides and other financial incentives from airlines would provide consumers with the information they need to protect their own interests. On learning that a travel agent has incentives to book a particular carrier, a purchaser can either accept the options provided or seek confirming information from another agent that does not receive overrides from that same carrier.

⁹ Of course, for agents of all types, buyers must assume that agents are also working in their own interests as well as the buyer's.

Other options for addressing the problem of overrides include the elimination of overrides or the complete elimination of the commissions and other payments from airlines to travel agents for distribution services. The former would restore the neutral agency relationship of travel agents between the consumer and the airlines. The latter would transform travel agents into buyer's agents by severing any financial ties between agents and the airlines. Fees would have to be set directly between consumers and travel agents for their buying services. However, these options are much more intrusive into the private market. In our opinion, disclosure is a fairly simple step that would produce most of the same benefits to consumers.

RECOMMENDATION

We recommend the Assistant Secretary for Aviation and International Affairs devise a means to provide consumers with the information they need about overrides to protect their interests. One option for consideration is establishing a rule that requires travel agencies to disclose to consumers, before booking reservations or finalizing flight purchases:

- the existence of potential override commissions,
- the existence of other ticket sales-based financial incentives from airlines, and
- the use of CRS enhancement software that is designed to bias screen displays toward the flight information of an override carrier.

MANAGEMENT COMMENTS

On February 19, 1999, the Deputy Assistant Secretary for Aviation and International Affairs provided us with verbal comments on the draft report. He agreed with the findings in the report and with the intent of the recommendation, but expressed concern about the potential difficulties in enforcing a rule requiring disclosure.

ACTION REQUIRED

Please provide written comments within 30 days on specific actions taken or planned. We appreciate the cooperation and assistance provided by your staff during the audit. If you have any questions, please call me at (202) 366-1992, or Mark Dayton at (202) 366-2001.

APPENDIX A

U.S. DEPARTMENT OF JUSTICE

The U.S. Department of Justice (DOJ) conducted an investigation into the anti-trust aspects of commission overrides from 1994 to 1996. The investigation was terminated in 1996 because the data analyzed did not indicate conclusive correlation between overrides and an effect on airline competition.

During its investigation, DOJ used its subpoena powers to obtain override commission payment information from airlines. It obtained data from Airlines Reporting Corporation (ARC), which performs agency accreditation and settlement of amounts due carriers by agencies. It built a database and statistically analyzed the information. It also conducted telephone surveys in the form of test calls to specific agencies to determine whether an agent would steer toward a preferred carrier and not disclose a lower fare. As noted, the results were inconclusive.

Whereas DOJ's investigation was directed at anti-trust issues, this report addresses DOT's regulatory approach to overrides and overrides' potential effects on customers' selections of air carriers.

APPENDIX B

CRS OWNERSHIP

The CRSs were originally developed by airlines to facilitate ticket distribution for themselves and by travel agencies. In recent years, the airlines have reduced their shares in the CRSs through partial sales to other airlines or restructured them as subsidiaries. Ownership information of the primary domestic CRSs listed below was derived from the airlines' Forms 10-K, 1997 annual reports to the Securities and Exchange Commission, except ownership of Sabre which was derived from AMR Corporation's Form 10-K, 1997:

- Sabre (The Sabre Group Holdings, Inc.), since 1996, 82.2 percent owned by AMR Corporation, the primary owner of American Airlines, Inc.
- Galileo/Apollo (Galileo International, Inc.), since 1997, owned by: a subsidiary of United Airlines, Inc. (32%); a subsidiary of US Airways, Inc. (6.7%); and foreign carriers.
- Worldspan (Worldspan, L.P.), owned by: Delta Air Lines, Inc. (38%); a subsidiary of Northwest Airlines, Inc. (32%); Trans World Airlines, Inc. (25%); and Abacus Distributions Systems Pte Ltd. (5%).
- System One/Amadeus (System One Information Management, L.L.C.), since 1995, owned in equal shares by: a subsidiary of Continental Airlines, Inc.; Electronic Data Systems Corporation; and Amadeus (owned by European airlines).