

ORAL TESTIMONY OF MATTHEW V. SCOCOZZA, ASSISTANT SECRETARY
FOR POLICY AND INTERNATIONAL AFFAIRS, UNITED STATES
DEPARTMENT OF TRANSPORTATION, BEFORE THE COMMITTEE ON
THE JUDICIARY, SUBCOMMITTEE ON ANTITRUST, MONOPOLIES
AND BUSINESS RIGHTS, DECEMBER 10, 1987

Good morning, Mr. Chairman, and Members of this Subcommittee. I will summarize my written testimony this morning but a full text has been made available to this Subcommittee.

The CRS industry is composed of five major vendors. These systems are controlled by several large air carriers. In my view, two factors are primarily responsible for the increasing role of CRSs in the air travel industry. First, deregulation has brought forth a proliferation of fare and service offerings. Computers are really the only way this vast amount of rapidly changing information can be made available in a cost-effective manner to agents and the traveling public. Second, computer technology has continued to develop at a rapid rate, thereby increasing the capability of computers to store, process, update, and retrieve large amounts of data quickly and efficiently.

While CRSs are an indispensable component of the air travel industry, they have also been used in the past to adversely affect airline competition. The Department is currently engaged in a study of the CRS industry.

Mr. Chairman, your staff has asked me to address certain questions relating to "booking practices," "booking fees," "barriers to entry," "incentive programs," "access to marketing data," "CRS and

airline market concentration," and "divestiture." Given that our study has not been completed, I am afraid that I will not be able to answer your questions in detail, but I will be responsive as best I can given the information available.

As to booking practices, there is no question every vendor believes that it will receive additional business if an agent adopts its system, although there is no clear answer on whether the vendor-subscriber relationship is more important in influencing booking patterns than commission overrides, which can be offered by all airlines and targeted to high-volume agents.

Display bias in booking practices consists of arranging flight information shown on the CRS display so what appears to be objective information really favors the CRS vendor's flights. In the past, vendors did have CRS display rules which tended to favor their own flights. Voluntary action by the vendors and new rules by the Department have, we believe, effectively eliminated overt display bias.

A great deal of concern has also been expressed that the level of booking fees may have long-term adverse implications for competition in the airline industry. We are in the process of completing our analysis of the profitability of the various CRSs. After we have completed our research, we will be in a better position to assess what action, if any, the Department should take regarding booking fees.

On the question of entry barriers, Mr. Chairman, each vendor except Delta incorporates liquidated damage clauses in some form in its current standard contract. Clauses providing for recovery of lost booking fees are clearly the most controversial. As noted, the Department will be reviewing the nature of the contractual relationship between vendors and agents, as well as the outcome of pending court cases, to determine if our rules governing this relationship should be modified.

Incentive programs come into play when travel agents receive volume incentives, that is, override commissions, from airlines. To some degree, these commissions can be used to overcome any excessive influence a CRS vendor has over a subscribing agent or to promote entry into new markets. Thus, these commissions can enhance competition in the sale of air transportation. However, some parties have claimed that a vendor can use override commissions to deter competition by other CRS vendors and to enhance its CRS market position. The Department will be examining this claim in its study. I think it is important to remember that there are approximately 29,000 travel agents, and that there is intense rivalry among agents for customers -- competition that compels agents to meet their customers' travel needs.

Mr. Chairman, under the Department's CRS rules, vendors are required to make available to all participating carriers on non-discriminatory terms all marketing, booking, and sales data that it elects to generate from its system.

With regard to the question of divestiture, I think we should proceed with extreme caution. Competition among vendors for agents has encouraged them to invest hundreds of millions of dollars in computer software and other system enhancements. One must question whether these same incentives would exist if CRSS were divested from their airline owners.

Mr. Chairman, this concludes my prepared remarks. I would be glad to answer any questions.