



International Air Transport Association

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M E M O R A N D U M

PTC COMP 0503

TO: Members Participating in Tariff Coordinating Conferences

FROM: Director, Tariff Services

SUBJECT: Composite Meeting of Passenger Tariff Coordinating Conferences
Montreal, 19-23 July 1999
Composite Minutes - Remuneration to Agents

Attached are the Minutes covering Remuneration to Agents as discussed at the Composite Meeting of Passenger Tariff Coordinating Conferences held in Montreal, 19-23 July 1999 under the Chairmanship of Mr P Murphy (IATA).

Members should note that this Memorandum has not been circulated to US-based TC Members.

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Industry Tariff Affairs

**COMPOSITE MEETING OF
PASSENGER TARIFF COORDINATING CONFERENCES**

MONTREAL, 19-23 JULY 1999

M I N U T E S

REMUNERATION TO AGENTS (EXCEPT USA/US TERRITORIES)

- 1 The agenda for the Composite Meeting of Passenger Tariff Coordinating Conferences included proposals on remuneration to agents. US-based TC Members were prohibited by their authorities from participating in such discussions and they were therefore not present for this part of the agenda.
- 2 The discussions were conducted under the Chairmanship of Mr P Murphy (IATA).
- 3 TC Members were prohibited from discussing commission levels for countries in the European Economic Community and Resolution 004d provided only recommended commission levels and any carrier was free to establish their own levels. As a consequence, discussions had no relevance in these countries.
- 4 Traditionally, airlines are not identified in the minutes covering commission issues.
- 5 The Attendance Record is at Attachment 'A'.

BACKGROUND

- 6 At the 1998 Composite Meeting Members had been advised that IATA had applied to the European Commission for an individual exemption to provide the anti-trust immunity required for the Agency Programme to be conducted in EC Member States. It had been established that one of the conditions of DGIV would be that airlines enter into a preliminary dialogue with the European travel agents through their representative groups in order to understand their concerns in the marketplace and in order to develop a proposal to the Commission for this application that reflected those concerns. As a consequence, one of the recommendations of the final application to the Commission was the establishment of a formal dialogue group between the European travel agents and IATA - the European Agency Programme Joint Councils Supervisory Board (EAJCSB) or "Euroforum". This Group had met twice prior to the 1998 Composite Meeting.

- 7 The Chairman recalled that the 1998 Composite Meeting had decided that no action (except the removal of Canada) could be taken on Resolution 016a as this could be detrimental to this effort and the discussions between IATA and the European agents. However, that decision had been taken on the basis the Euroforum would provide a report to a Special Composite Meeting to take place in early 1999.
- 8 Developments had taken longer than anticipated and the Special Composite Meeting planned for early 1999 could not take place as intended. The Euroforum had been reconstituted as the New Millennium Task Force which had not meet until May 1999. Members were provided with the Terms of Reference for this Task Force, its membership and an extract from the Minutes of the Passenger Agency Conference held in May 1999 concerning the Task Force. It was noted that the Terms of Reference focussed on establishing the correct relationship for the new Agency Programme. In any event, the level of commission remained the sole prerogative of the Passenger Tariff Conferences.
- 9 The New Millennium Task Force had held discussions with DGIV and would present a report by the end of 1999; the next PAC would be in May 2000. The application for an individual exemption remained outstanding. While this did not have a direct bearing on Resolution 016a, Members should consider the possible ramifications if Resolution 016a was rescinded.
- 10 It was against this background that the Conferences addressed the three notices of rescission placed on Resolution 016a.

RESOLUTION 016a - COMMISSION FOR IATA APPROVED AGENTS (EXCEPT USA/US TERRITORIES)

Rescission of Resolution

- 11 One Member believed that more and more airlines required the ability to set their own commission structures for their agents and this development had resulted in carriers no longer being able to agree to the percentage in Resolution 016a. In more and more markets there had been a decrease in the standard agent commission and, in their view, it was likely that other forms of rewards for agents would be introduced in the future. Unless the Conferences were able to develop revised wording which would allow carriers to determine the commission themselves, the Member placed a notice of rescission for the earliest possible effective date.
- 12 Another Member considered that Resolution 016a was no longer reflective of the situation prevailing in many areas. The application of this Resolution had already been modified with respect to a major route of direct concern to them and, for these reasons, the Member gave notice of rescission of Resolution 016a. If however, the Meeting considered that there was value in retention of this Resolution, they proposed that New Zealand be removed from Resolution 016a.

- 13 A third Member also had placed a notice of rescission on Resolution 016a. They considered that this Resolution no longer reflected the industry requirement as an increasing number of countries were excluded from it. Due to the dynamic and effective development of electronic distribution of airline products, the rate of commission as stipulated in Resolution 016a had become unrealistic and should be authorised by the carrier providing the transportation. The Member believed that the retention of Resolution 016a would open up dispute between travel agents and airlines. If the 1999 Composite Meeting endorsed the retention of Resolution 016a, they proposed that Hong Kong SAR be removed from Resolution 016a.
- 14 Concern was expressed regarding the adverse impact on medium and small airlines if the framework provided by Resolution 016a was lost. In particular, KM wished to highlight some concerns regarding rescission of Resolution 016a. Firstly, one of the reasons given for placing a notice of rescission had been that, with electronic developments, the role of travel agents had been changed. They continued to believe that electronic ticketing and internet bookings/ticketing were still in their infancy in many parts of the world. Small and medium sized airlines still depended on travel agents' support and they feared the complex situation that would arise without a global standard resolution or guidance on travel agents' commission particularly in the BSP environment and when interlining was involved. How could airlines expect a travel agent to deduct commission on a ticket issued for a multiple sector journey involving two or more carriers with which different levels of commission had been agreed? Would airlines expect travel agents to work out the prorata share for each carrier involved in a journey and deduct the appropriate commission? Finally, they reminded Members that the Agency Programme required the support of the travel agent community in order to obtain the individual exemption from the European Commission. In reply to these questions, the Secretary advised his understanding that the agent would receive the commission payable by the ticketing carrier and the ticketing carrier would then settle with its interline partners in accordance with their agreements.
- 15 Although suggestions were made regarding possible amendments to the Resolution, one proponent advised that they were not prepared to consider any amendment to the Resolution unless the percentage was removed.
- 16 After further discussion, a proponent indicated that they would only be prepared to consider an effective date for their notice of rescission of 1 August 2000. This would allow the Task Force time to complete their work and enable Members to take the necessary preparatory steps prior to the rescission. The proponent would also require a Special Composite Meeting to take place following the PAC if further consideration was required. Another proponent supported this suggestion. They had been in attendance at the PAC May 1999 and were confident that the work of the Task Force would result in a dramatic change in the way airlines conducted business with agents. However, they insisted that in the meantime action be taken to remove New Zealand from the area of application of Resolution 016a. The third proponent took a similar stance and required the removal of Hong Kong SAR. These two requirements were addressed separately under Resolution 002p.

- 17 A show of hands on Resolution 016a ceasing to be effective from 1 August 2000 revealed 14 carriers in support and 11 carriers opposed. It was understood that the opponents objected in principle to the notice of rescission but Members were reminded that unless the proponents agreed either to withdraw their notices of rescission or to another course of action, Resolution 016a would cease to be effective 180 days after the close of the Composite Meeting unless a later date was agreed. Related Resolutions would also cease to be effective from the same date.

PROPOSED COURSE OF ACTION

- 18 On the basis of these discussions, the Conferences accepted the following package:

- Resolution 016a would cease to be effective from 1 August 2000.
- Consequently the following Resolutions would also cease to be effective from the same date:
 - 002ff Special Amending Resolution (Malawi)
 - 002h Special Amending Resolution (Canada)
 - 002p Special Amending Resolution (Central America/Panama/Hong Kong SAR/New Zealand)
 - 002r Special Amending Resolution (Australia/New Zealand for Trans Tasman)
 - 004d Special Commission Resolution EC Member States (in respect of its reference to Resolution 016a)
- The report of the New Millennium Task Force would be addressed at the Passenger Agency Conference in early 2000. Should this require the issue to be re-addressed by the Composite Meeting, the Secretary, in consultation with the Passenger Tariff Conferences Steering Group, would determine whether the issue could be dealt with at the July 2000 Composite Meeting or whether an earlier Composite Meeting was required.

- 19 KM reiterated their concern with the rescission of Resolution 016a. They viewed this decision as anti-competitive. As a small airline with no global distribution system they had no means to appoint all IATA travel agents as their agent or to inform them of their commission rate for interline purposes. They therefore intended to consider what action could be taken regarding Resolution 001 to ensure that in future they would not be placed in a similar position.

COMMISSION

EFFECTIVE 1 SEPTEMBER 1999

RESOLUTION 002p - SPECIAL AMENDING RESOLUTION

New Zealand

- 20 Against the background of a major route out of New Zealand having already been removed, a Member required that New Zealand be removed in total from the area of application of Resolution 016a. There was no objection and Resolution 002p reflected that Resolution 016a would not apply in New Zealand.

Hong Kong SAR

- 21 With a limited number of TC Members in South East Asia, one Member found themselves at a competitive disadvantage and required that Resolution 016a no longer apply in Hong Kong SAR. In the absence of any opposition, this amendment was reflected in Resolution 002p.

Central America and Panama

- 22 A Member proposed to reduce the commission paid to IATA accredited agents in Central America and Panama to 7%. The actual 9% commission had been established decades ago based on different components or services offered by agencies: providing product information, quoting fares, booking, ticketing, and steering business, to mention some.
- 23 With the technological advances in the last decades the selling of airline tickets had been simplified and, with electronic ticketing available, the time an agency spent in such tasks had been reduced. The lower agent compensation moved in the direction the travel industry is taking, e.g. US railway companies and US and European airlines.
- 24 At the request of the Member, the proposal was amended to a rate of commission of 6% for transportation sold in Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama. This was agreed and included in Resolution 002p.

Adoption of Resolution

- 25 In the absence of opposition, the Resolution was adopted for effect 1 September 1999.

**Composite Meeting
Montreal, 19-23 July 1999**

ATTENDANCE RECORD

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