

BEFORE THE
U.S. DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

DEPT. OF TRANSPORTATION
DOCKET SECTION
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QA 29499

Petition of)
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 AMERICA WEST AIRLINES, INC.)
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 for Amendment of Part 255 of the)
 Department's Economic Regulations to Limit)
 CRS Vendor Charges to Booking Fees for)
 Actual Travel and Permit Termination of)
 Passive Bookings by Participating Carriers)
)
)
 Advanced Notice of Proposed Rulemaking)
)
 COMPUTER RESERVATION SYSTEM (CRS))
 REGULATIONS)
)

Docket No. OST-97-2881-45

COMMENTS OF ICELANDAIR

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December 9, 1997

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COMMENTS OF ICELANDAIR

Icelandair submits these comments in response to the Department of Transportation's Notice of November 7, 1997 requesting comments on the Petition for Rulemaking filed by America West Airlines proposing two new rules governing Computer Reservation Systems ("CRS"). Icelandair believes that immediate action under 49 U.S.C. § 41712 is required to stop the unfair and deceptive practices resulting from abusive bookings. Accordingly, Icelandair strongly supports the rules proposed by America West, which would provide much needed relief for participating carriers from the impact of the CRS vendors' enormous market power over participating airlines which enables them to unilaterally impose charges for abusive booking practices that distort inventory, harm the travelling public and provide no

benefit to the airlines. Specifically, Icelandair urges the Department to immediately issue a notice of proposed rulemaking for the two regulations suggested by America West which would: (1) limit CRS pricing practices to charges for bookings that result in actual travel; and (2) enable a participating airline to prohibit CRS vendors from allowing travel agents to make passive bookings on their airline.

Icelandair is the flag carrier of Iceland and has performed scheduled air service to the United States since 1948, when it inaugurated service between Keflavik and New York. Since that time, Icelandair has provided safe, efficient and economical air transportation between its homeland and the United States, and has established itself as one of the low-price leaders in Transatlantic travel. In marketing these services Icelandair, like other participating carriers, is extremely dependent on travel agent bookings made through the CRSs.

Since 1992, Icelandair has witnessed a dramatic increase in its CRS costs. In response to these increases, Icelandair has purchased and analyzed BIDT tapes in an effort to control and monitor the activity of all travel agencies booking on Icelandair. It is clear from Icelandair's review of these tapes that agencies generate a high volume of abusive transactions for which airlines are compelled to pay under the unilaterally

imposed CRS participation agreements. Icelandair has calculated that it is required to pay thousands of dollars to the CRS vendors each month for bookings which do not result in any revenue to the airline. The abusive booking practices which impose the greatest costs on Icelandair include passive bookings created for itinerary or administrative purposes, passive bookings where the ticket is issued in a lower class than the active booking, duplicate bookings, fictitious bookings, speculative bookings and booked/cancelled/rebooked types of bookings (churning). A particularly frustrating passive booking is the "UC" code (Unable to Confirm), generated when a travel agent books a seat on a flight, but the airline is unable to confirm the seat because the flight is full and replies accordingly to the travel agent. The airline is required to pay a fee for this "booking" even though it could not sell a seat in the transaction. None of these transactions are authorized by Icelandair and none provide value to its customers. Indeed overall, consumers are directly harmed by these practices which raise costs, and distort seat availability on the airlines low-fare services.

Icelandair believes it should not be required to pay for bookings that are not connected to any actual passenger travel and do not bring in any revenue. However, as the Department has recognized on many occasions, including in the recently issued

parity clause rule, the CRS vendors are in complete control of this relationship. 62 Fed. Reg. 59785, November 5, 1997.

As also experienced by America West, these abusive bookings have a significant negative impact on Icelandair's inventory control, since considerable inventory is falsely consumed by duplicate and fictitious bookings, as well as passive bookings which cause flights to become overbooked. Through no fault of its own the carrier may have legitimate customers turned away while a flight departs with unsold seats or alternatively a legitimate passenger is bumped by a passenger with an improperly issued ticket. In such cases, Icelandair is subjected to high costs for denied boardings and re-routings, its passengers suffer inconvenience, and the carrier must spend increased time and resources to try to address these problems. Overbooking problems resulting from abusive bookings can be particularly severe for the passengers of Icelandair and the airline itself, in view of the fact it is in many cases the only carrier providing service in the markets where it operates. Significantly, these practices negatively affect customer goodwill although they are totally beyond the control of the airline. Establishing a rule which would allow carriers to terminate passive booking functionality would help reduce overbooking incidents which result from these booking practices.

Icelandair urges the Department to immediately take action to help carriers counter the abusive booking phenomena. This action is compelled by the purpose of the CRS regulations, which is to:

set forth requirements for the operation by air carriers and their affiliates of computer reservations systems used by travel agents so as to prevent unfair, deceptive, predatory, and anticompetitive practices in air transportation.

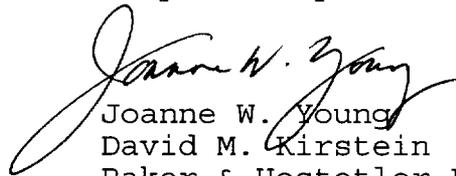
14 C.F.R. 255.1. (Emphasis added.)

Icelandair submits that requiring carriers to pay for abusive bookings is exactly such an unfair and anticompetitive practice within the terms of the regulations and 49 U.S.C. § 41712, the statute requiring the Department to take action to prevent any "unfair or deceptive practice or... unfair method of competition in air transportation or the sale of air transportation." Furthermore, CRS vendors abuse of their market power is inconsistent with the public policy objectives of the Airline Deregulation Act to prevent unfair, deceptive, predatory or anticompetitive practices in the marketing of air transportation and to avoid excessive market domination and monopoly power which exclude competition. See, 49 U.S.C § 40101(a).

Small carriers such as Icelandair which compete with the large carrier owners are particularly vulnerable to the anticompetitive practices of the CRSs. Adopting the regulations proposed by America West is without doubt a pro-competitive measure which is in the public interest, as it will help participating carriers reduce unfairly imposed distribution costs.

The Department has a public interest obligation to limit CRS vendor abuse of their market power. Therefore, it is essential that the Department issue a notice of proposed rulemaking to (1) limit CRS pricing practices to charges for bookings that result in actual travel; and (2) enable a participating airline to prohibit CRS vendors from allowing travel agents to make passive bookings on its airline. In view of the significant financial impact abusive bookings currently have on airlines, Icelandair urges the Department to issue the NPRM immediately rather than wait for the completion of its overall review of CRS regulations.

Respectfully submitted



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