

## Key findings of Brattle Group Report (October 2003)

C-FARE very much welcomes the conclusions of the Brattle Group (BG) Report, which we believe were well researched, comprehensive and clearly argued. The Report confirmed our own firm belief and the observations of the US DOT and DOJ<sup>1</sup> that airline ownership of CRSs contaminate the incentives of airlines when they own CRSs. The BG Report concluded that:

“Absent regulation, the incentive to abuse market power would exist under almost any airline-CRS vertical arrangement, not just ownership. Thus, airline divestiture of CRS ownership does not eliminate the risk of competitive abuse if the two entities maintain a sufficiently strong relationship—particularly one involving redistribution of profits. Nevertheless, on balance, direct airline ownership of a CRS poses a greater risk than a contractual relationship.

- Amadeus and its owner-airlines—Air France, Iberia and Lufthansa—have a market presence that borders on “double dominance” in the carriers’ respective home markets (France, Spain and Germany). Thus, the concerns raised about the potential for competitive abuse absent the mandatory participation and non-discrimination requirements are not frivolous.”  
*BG Report, viii (October 2003).*

In critiquing the Commission’s draft proposal of November 2002, which would have eliminated the ‘mandatory participation’ requirement and other safeguards (i.e. total de-regulation), the BG Report noted that:

“elimination of the mandatory participation and non-discrimination requirements on parent carriers raises serious concerns about the potential for anticompetitive conduct. Under this option, no less than under Option 1, Amadeus and its parent carriers would have an incentive to engage in CRS abuse in the carriers’ home markets. Thus, although this option should inject added competitive pressure into the setting of booking fees, it also could allow for a resumption of targeted exercises of CRS market power. Granted, competition authorities could monitor the situation closely. But abuse would be difficult to detect, and enforcement action could take years. **On balance, the costs of this option probably outweigh the benefits as long as the largest European CRS remains airline-owned.**” *BG Report, viii (October 2003) (emphasis added).*

Consequently, given the risks that continue to exist in Europe due to the remaining ownership stakes of Air France, Iberia and Lufthansa in the Amadeus CRS, the BG Report recommends the Commission propose rules targeted at these risks. The Brattle Group report describes an “elegantly simple solution” that would maintain for the parent carriers of Amadeus the obligation of mandatory participation in their respective home markets, the so-called “option 3”. Option 3 would:

- Require parent carriers (including airlines that market a CRS) to abide by the mandatory participation requirement in their home markets; and
- Require airline-owned CRS vendors to provide any improvements in service to all participating carriers on equal basis in the owner-airlines’ home markets.

<sup>1</sup> See “Key observations of US DOT” & “US DOJ comments to US DOT” available on C-FARE download page