Imagine if the federal government published a regulation to require Apple to sell its entire product line through third party retailers. It could still sell via its own Apple stores and apple.com, but every product also would have to be made available for sale wherever competing products are sold.

Sound impossible? An unwarranted governmental intrusion into the marketplace?

Substitute “airlines” for Apple and you have a very real situation that could happen if the US Dept. of Transportation moves forward with a proposal to force every airline that sells tickets through the global distribution systems to make all of their product offerings available through that channel. That includes optional services such as airport lounge access or expedited boarding—regardless of whether the GDSs are capable of selling them.

Those pushing for the rule argue it is necessary to enable online and traditional travel agencies—which use GDSs—to provide consumers with access to transparent airline offers they can purchase in real time.

But that’s really just a smokescreen.

Despite the altruistic talk, the GDSs and their allies are asking the government to intervene to protect their distribution duopoly from competition. Today, two companies control 92% of the US GDS market, through which around 60% of ticket sales by revenue occur. Changes in the marketplace are threatening that dominance. Rather than evolving with the market, they are asking the government to step in and protect them against new entrants. Their allies in this fight include some travel agencies that depend on millions of dollars in GDS “incentive” payments (that originate in fees paid to GDSs by airlines).

It is in all airlines’ interest to sell their products and services through as many channels as possible. But airlines need the freedom to choose the channels that best meet their customer needs. Pre-internet, the GDSs powered the only feasible channel to sell airline tickets on a global basis in real time. Taking advantage of their market dominance, GDSs have raised transaction fees to airlines by an average of 7% per year since time immemorial, despite declining telecommunication costs and little investment in technology to support emerging airline retailing trends.

The internet challenged this model. By selling to consumers directly via their websites, airlines were able to slash costs to $3-4 per transaction versus the $12 or more average cost of a GDS transaction. Furthermore, airline website displays support personalized product offerings not
possible within the GDS distribution model. Most travel agencies are already adapting to this new world by booking ancillary services through airline websites—a recent study by PhoCusWright found that nearly 95% of corporate agents and 70% of leisure retail agents have booked air ancillaries over the past year.

Naturally, this challenges the GDSs’ leverage during airline price negotiations—which is why they are asking the government to put its thumb on the scale. But requiring airlines to sell all their products through GDSs will discourage new entrants and make it easier for GDSs to ignore airline concerns about rising costs and inadequate technology. The ultimate losers will be air travelers as airlines are forced to recoup rising distribution costs in ticket prices.

The market is about to change again. This year, the International Air Transport Association will release the foundation standard for an internet-based distribution capability, enabling non-traditional travel channels to offer an airline’s full suite of travel products and services. Passengers will be able to select personalized fully-transparent airline products and services while on their favorite website. Imagine being able to book travel with friends without leaving a social media site such as Facebook.

This standard will also allow customers to easily compare and contrast offers and bring on the intense competition that historically has resulted in lower prices for consumers. GDSs have been invited to participate in this effort. They are free to decide whether or not this aligns with their commercial interests. Airlines should have the same option.

DOT should resist the effort by GDSs to tip the scale in a commercial relationship in the name of the consumer. The market provides consumers with choice and competition. DOT should let it work.