

**For information
on 29 March 2010**

Legislative Council Panel on Economic Development

Reduction in Commission for Travel Agents by Airlines

Purpose

At the request of Members, this paper sets out the Government's position on the concerns about the impact of the reduction in commission for travel agents by airlines on travel agents and the possible implication on consumers' interest.

Background

2. At present, the scheduled air services provided by airlines between Hong Kong and other areas are governed by the Air Services Agreements (ASAs) that Hong Kong has entered into with its aviation partners. Generally speaking, according to the ASAs, the tariffs to be charged by the airlines for air services (including the rate of commission paid to an agent in respect of air tickets sold for carriage on scheduled air services) shall be those approved by the aeronautical authorities of both contracting parties. For Hong Kong, the Civil Aviation Department (CAD) is the relevant aeronautical authority.

3. Air France and KLM Royal Dutch Airlines have obtained approval from the CAD to reduce the rate of commission payable to travel agents from 3% to 0% with effect from 16 April 2010.

Impact of Reduction in Commission on Travel Agents and Consumers

4. Individual airlines will set their tariffs, including the rate of commission for travel agents, based on their own circumstances. The impact of a reduction in the air ticket commission on travel agents and consumers depends on whether the airlines will alter the modes of distributing and selling air tickets, travel agents' responses to the change, channels for consumers to buy air tickets as well as the choices of airlines and flight routes available to consumers.

5. Furthermore, it is a commercial decision of individual travel agents as to whether they would impose a service charge on consumers following the reduction in the rate of commission by airlines. If they do decide to charge so, it would be up to the travel agents and the market force to determine the rate. Consumers may then choose to purchase air tickets through travel agents or other channels (such as through the airlines direct) as they see fit.

6. With the advent of internet shopping, it appears to be a global trend for the role of intermediaries in all industries, including the tourism industry, to change. The commission level is also subject to the commercial agreements between the airlines and travel agents. The Government and the TIC have been monitoring the situation in view of the challenges faced by the travel agents. We have liaised with the trade to encourage them to find ways, such as to develop new products, value-added services (e.g. tailor-made itinerary planning and related services), or new clientele etc., to improve its operations under the ever-changing business environment. The TIC is also looking at ways to encourage the trade to provide more value-added service and explore new source of income thus stay competitive in the business.

7. Travel agents are competing keenly amongst themselves in respect of the sale of air tickets on behalf of airlines. How the zero commission policy adopted by the two airlines is going to impact on the travel agent trade or the air tickets market remains to be seen.

8. Members are invited to note the content of this paper.

Commerce and Economic Development Bureau
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