

**Legislative Council Panel on Economic Development  
Meeting on 29<sup>th</sup> March 2010**

**Reduction in commission for travel agents by airlines**

**Purpose**

This paper sets out the position of the Travel Industry Council of Hong Kong (TIC) on the reduction in commission for travel agents by airlines.

**Background**

A total of 22 airlines have either reduced or announced reduction of agency commission since July 2008. Except for Air France and KLM who are paying an agency commission of 3% at the moment and are going to reduce it to zero on 16<sup>th</sup> April 2010, 20 airlines have reduced or are going to reduce agency commission from 7% to 5%. There are, nevertheless, a number of airlines still paying a 7% commission to travel agents.

**Passenger Sales Agency Agreement**

Clause 9 of the Passenger Sales Agency Agreement (Agency Agreement) which the International Air Transport Association has entered into with individual travel agents on behalf of its member airlines has stipulated that “for the sale of air transportation and ancillary services by the Agent under this Agreement, the Carrier shall remunerate the agent in a manner and amount as may be stated from time to time and communicated to the Agent by the Carrier. Such remuneration shall constitute full compensation for the services rendered to the Carrier” (emphasis added).

**Legal Point of View**

According to the Senior Counsel advice that the TIC has obtained, carriers are required by the Agency Agreement to pay a non-zero amount of commission. Any

purported elimination of commission by the carriers would be a breach of the Agency Agreement. As such, the TIC is of the view that the act of Air France and KLM to eliminate agency commission on 16<sup>th</sup> April 2010 is a blatant infringement of the rights that the Agency Agreement has given travel agents.

Apart from that, the Agency Agreement stipulates in no unclear terms that a nominal amount of commission will also fail to meet the requirement of “full compensation” for the services rendered by travel agents. In this regard, the existing commission rate of 3% implemented by Air France and KLM may border on a breach of the above-mentioned requirement because such a rate of commission can hardly compensate travel agents fully for their services rendered to the two airlines.

### **Impact**

The zero commission policy will adversely affect not only the livelihood of travel agents but also the interest of the consumers because, without any remuneration from the airlines for the services rendered, travel agents will have no choice but to levy service fees from the travellers.

### **TIC’s Position**

Travel agents should be reasonably compensated for the sales efforts and services they render to airlines.

**Travel Industry Council of Hong Kong**  
**March 2010**