

LIMITATION OF PREPAYMENTS: VIEWS OF TUI, EXPEDIA, AIRFRANCE - KLM



FOREWORD

The COVID 19 pandemic has severely hit the travel industry, bringing it to a halt and questioning the legal framework in which this industry is operating. It is however fair to acknowledge that no ecosystem can be designed to prevent all unexpected events. Therefore, in a context of recovery, the resilience of the travel industry has to remain a priority in the interests of the companies, the employees and the customers.

On 21 March, ECTAA co-organised a workshop in the European Parliament with the support of MEP István Ujhelyi. The purpose of this meeting was to present, with various representative of the tourism value chains (Tour operators, Online Travel agents, Airlines) the payment flows in the travel industry to MEPs, Permanent Representations and interested parties and enter a dialogue with them.

You will find hereafter the main takes of that discussion.



TUI is the world's largest integrated tourism company, serving around 27 million customers in more than 180 countries. TUI covers a wide range of activities including tour operating, cruises, airlines and hotel management. TUI has therefore a unique and global view on the payment cycles in the tourism value chain.

- Prepayments allow advantageous rates on the room and the flight for the consumers while also securing the needed capacities for the high season, again benefitting the consumer.
- Prepayments obtained from consumers are reinvested into the entire tourism ecosystem, both in source and destination markets:
 - Prepayments are passed on to hotels, who use them to maintain and upgrade their facilities before the season, as well as retain and hire staff.
 - Prepayments are also used to secure additional flight capacity for the summer, and to perform the intense winter maintenance on TUI's own planes.
 - Third party travel shops receive an advance on their commission.



Expedia is a leading online travel agency. Expedia does not own the services it intermediates and only offers real time, dynamic packages from a wide variety of suppliers.

- Consumers will choose the different services on the website and then pay in full at the checkout.
- Expedia bundles certain products and gets more favourable prices from the airlines or hotels if they are bundled.
- Suppliers have to be paid within a couple of days.
- This money is reinvested by the services suppliers to cover their fixed costs and maintain the fleets or facilities at the destination during low season.
- Expedia therefore does not hold the money.



Air France - KLM is a major leading European airline, member of SkyTeam. The group is the result of a merger between two airlines: Air France and KLM.

- Airlines business model is based on the management of the capacity of their planes.
- At least 90% of a plane need to be filled to be profitable.
- Pricing in airline industry is a precarious balance between attractive prices to fill the capacity and high prices to be profitable.
- Prepayments are necessary to ensure travellers' commitment, which in turn guarantees the plane occupancy.

CONCLUSION

**Prepayments are a vital part of the tourism business model.
Limiting them in the Package Travel Directive would have adverse consequences ...**



... FOR INTERMEDIARIES

- Package travel sector is highly competitive and functions on very low profit margins.
- Limiting them will eventually lead to a riskier financing scheme and higher prices for consumers.
- Higher prices will drive consumers to opt for loose and component-based travel, less protected than package travel.
- Competitive disadvantage for EU undertakings when they operate outside of the EU market.
- It would particularly hit an industry composed at 99% by SMEs and drive many of them out of the market.



... FOR AIRLINES

- Prepayment ensures that passengers commit to their booking, otherwise they could cancel at any time.
- Flights can't be empty. It is difficult to fill a plane at last minute because prices are higher and time is scarce.
- The only solution to lower the 90% capacity threshold is to increase prices.
- Less passengers on an airplane = more carbon emissions and higher environmental impact.