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Southwest Holds Line On Fares Amid Route Development

After reporting a record net income of \$1.1 billion for 2014 on Thursday, Southwest Airlines appears prepared to hold steady on fares as it continues to boost capacity and add routes this year.

Southwest in 2015 plans to increase available seat miles about 6 percent, following a 2.4 percent year-over-year increase in capacity during the fourth quarter. The carrier particularly has grown from Dallas Love Field, where available seat miles increased 80 percent year over year in the fourth quarter following the expiration of the Wright Amendment, as well as from Ronald Reagan Washington National Airport and its newly converted international routes through the integration of AirTran's network, Southwest president and CEO Gary Kelly said in an earnings call on Thursday.

Revenue passenger miles during the fourth quarter, meanwhile, were up 4.3 percent, and fourth-quarter load factor increased 1.6 percentage points year over year to 82 percent. CFO Tammy Romo said the load factor on most new nonstop flights from Dallas was at or above 90 percent.

"Our business has been strong and steady despite having a large percentage [of routes] under development," Kelly said.

Even while working to build these new routes, Southwest's average fare increased 1.3 percent year over year to \$158.06 during the fourth quarter, and passenger revenue per available seat mile increased 2.6 percent.

During the first quarter of this year, Southwest projects passenger-revenue growth will keep pace with capacity, which a research note by Cowen and Co. called "very encouraging."

Virgin Hotels opens debut property in Chicago



Richard Branson's Virgin Group has launched its four-star Virgin Hotels brand in Chicago.

Its flagship property, the 26-storey Virgin Hotels Chicago, opened yesterday.

Located in the Old Dearborn Bank Building at 203 N Wasbash Avenue, the hotel contains 250 guestrooms, including 40 one-bedroom suites and two penthouse

suites.

Branson said: "It's been a long-held dream to start beautiful, comfortable, fun hotels for guests and give them what they want and need while being gentle on their wallets."

The hotel features three meeting spaces — The Manor, with seating for up to 108 people; The Sandbox, which seats up to 72; and Founder's Room, which seats 12. There is also a rooftop bar (opening in the spring), The Commons Club "social" venue with a menu by chef Rick Gresh.

A ground floor diner called Miss Ricky's will be open 23 hours a day, while Two Zero Three bar will serve coffee in the day and wine at night. Both will open in February. A spa is scheduled to open in the spring.

An app called Lucy will allow guests to book stays, check in and out, make requests and use their phone as a TV remote. Free wifi with unlimited bandwidth will also be available.

There are no early check-in fees, late check-out fees, room service delivery charges, nor business centre charges.

All guest rooms are divided into two spaces by sliding doors, each with a peephole, while bathrooms include an "extra-large" shower with a bench.

Virgin Hotels Chicago was first announced in 2011 and was originally scheduled to open in autumn 2013 (see news, October 2011).

The next properties to open will be in Nashville next year and New York in 2017.

Emirates ups capacity to Chicago

Emirates is upgrading capacity on its Chicago service by replacing the B777-200LR aircraft that currently plies the route with a B777-300ER.

The carrier said the change of aircraft, which is scheduled to take place on May 1, will result in an additional 88 economy class seats on each daily flight.

The number of first class suites and business seats, eight and 42 respectively, will remain the same.

Emirates launched its Dubai to Chicago O'Hare route in August 2014.

Daily flight EK235 departs Dubai at 0940 and arrives in Chicago at 1530, while return flight EK236, leaves Chicago at 2030 and lands in Dubai at 1910 the next day.

Airline profits are high, fuel prices low but don't count on fare cuts

By Joe Brancatelli, *The Business Journals*

Oil prices are plunging and have reached four-year lows on world markets. Gasoline prices have fallen below the \$3-a-gallon plateau and the AAA says average prices may drop another 5-15 cents in the weeks ahead. Jet-fuel prices are 15-20 percent lower than they were a year ago.

Inquiring business travel minds want to know: So when are airline fares coming down?

The answer is never. Fares will never fall so long as you keep buying tickets at prevailing prices.

Before the deep-dive analyses and mind-numbing numbers and before you shake your fists in rage at those price-gouging airlines, can I make an obvious observation? As business people we understand that there is no incentive to lower prices when your product is in demand and you're selling all of the inventory you're manufacturing.

So why be angry because the airlines are doing what good businesses do? Maximizing profit by keeping fares at the highest level travelers are willing to pay makes impeccable business sense. Since

when is any business required to pass cost savings onto consumers, especially when those consumers are lapping up the product at prevailing prices?

I get the confusion, though. Airlines haven't acted much like normal businesses for decades, so it's disorienting to see them acting rationally now. In the not-so-different past, fast-falling fuel prices would have led to swiftly slashed fares. But a new generation of managers — who talk persuasively about return on invested capital and market discipline — run airlines now. They're not about to pass along lower fuel costs on to you unless you prove to them that you're not buying at the posted prices.

"In a strong demand environment, we don't plan to go off and just proactively cut fares," American Airlines Group president Scott Kirby told security analysts late last month during the company's third-quarter earnings call.

Now that you understand where airlines are coming from, some of those mind-numbing numbers I promised.

The average domestic airfare was \$396 in the second quarter, according to

statistics compiled by the Department of Transportation. That's 2.5 percent higher than the second quarter of 2013 and 17 percent higher than the adjusted-for-inflation, Great Recession low of \$334 in the second quarter of 2009. Airlines are also raking in billions in ancillary fees for checked bags and ticket changes. The fees and unbundled ticket prices makes an apples-to-apples comparison difficult, of course, but it's hard to claim your price to fly has skyrocketed when you consider that the average fare in the second quarter of 1999 was an inflation-adjusted \$472.

My back-of-the-envelope math suggests that the average fare plus today's extra fees are about equal to the bundled price we paid in 1999. It's hard to think of any other non-digital product that costs no more in 2014 than it did in 1999. (And a disclaimer: Average fares are specious because literally no traveler pays the "average" fare, but it's hard to talk rationally about airline prices without using some benchmark. I know that your

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United Adds More Leeway In Status Match Program

By Michael B. Baker, *Business Travel News*

United Airlines on Thursday will loosen some rules related to its corporate status match program, including lengthening the period during which travelers can maintain their matched status.

Among the changes to United's program, which offers matched status to employees of United corporate customers from more than 40 frequent-flyer programs, employees who meet requirements now will maintain their status for 22 months

rather than 12 months, according to the carrier. Additionally, United reduced the reapplication period—the time employees must wait since they last received a MileagePlus status match—to three years from five years.

United's program also now allows travelers to earn a lower level of status if they are unable to meet travel and spending requirements within the 180-day trial period. For example, if a traveler

receives a matched gold status but travels with United during that trial period only enough to meet silver status requirements, that traveler still will earn silver status with MileagePlus. Travelers still are unable to earn a higher level than their matched status, however.

Platinum and Premier 1K-level members also will be able to earn regional and global premier upgrades when they meet usage requirements.

Marriott stops blocking guest wifi hotspots

Marriott International has reversed its decision to block guests from using personal wifi hotspots.

The turnaround comes three months after the company was fined \$600,000 by the US Federal Communications Commission (FCC) after a customer complained that it was jamming mobile hotspots at its Gaylord Opryland Resort & Convention Center hotel in Nashville.

Marriott said it had only blocked devices in its meeting rooms and did so to protect

guests' online security, a defence dismissed by technology experts.

Following widespread criticism, the hotel has now announced it will cease blocking mobile devices.

The hotel group said in a statement: "Marriott International listens to its customers, and we will not block guests from using their personal wifi devices at any of our managed hotels."

An FCC investigation found Marriott was monitoring guest-created wifi hotspots

and deactivating them, while charging conference attendees between \$250 and \$1,000 per device for online access.

In its statement, the firm added: "We will continue to look to the FCC to clarify appropriate security measures network operators can take to protect customer data, and will continue to work with the industry and others to find appropriate market solutions that do not involve the blocking of wifi devices."



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TSA tactics and airplane photo ops: 5 things to know about travel today

By Joe Brancatelli, *The Business Journals*



Business travelers are, by definition, smart cookies. After all, companies value what we know enough to spend tons of money sending us on the road and we've all compiled a long list of tactics and strategies for surviving as we weave our way from Point A to Point B via Point C and an inevitable plane change in Chicago or Atlanta or Dallas.

But there's plenty of stuff we don't know about life on the road. Stuff that maybe we should know, but never understood or never took the time to think about. Here are five things you really should know.

TSA agents are not law enforcement officials

Thirteen years after the Transportation Security Administration was created in haste after the 2001 terrorist attacks, the TSA is the very model of a modern government bureaucracy. Worse, TSA's what-we-say-goes attitude has alienated a huge slice of the traveling public. The TSA's response: get even more officious and try to bamboozle fliers into believing TSA agents are something they are not.

And what they are not are law-enforcement officials. TSA agents do not have the power to arrest you, cannot carry firearms and have no policing powers in any traditional sense.

But what about the police-like uniforms, the name tags that say "officer" and the shiny gold badges? It's all for show.

In 2008, TSA bosses thought new outfits and dime-store stars would imbue airport screeners with a certain gravitas. All it's done, however, is make real cops angry. And if you want to see how little authority the agency actually has, watch one well-informed traveler ignoring dumbfounded TSA "officers" as they ineptly attempt to detain and screen him after a flight because they screwed up.

None of this is to say you should be nasty or abusive to TSA agents. Respect them and the job they are trying to do. All but one or two of TSA agents I've dealt with at airport checkpoints over the years have been decent folk — and much more rational than the pompous, power-obsessed bosses for whom they work.

My suggestion is to know your rights and your responsibilities — and print out the relevant pages from the TSA website. Have the rules at hand at the checkpoint if things get confusing. Politely stand up for your rights and don't be bullied. And, if things really go south, demand the TSA agent call for an actual law-enforcement professional.

Smartphone cameras don't have inalienable rights

Almost every business traveler has a smartphone with an array of cameras. But that doesn't mean you have the inalienable right to snap pictures and shoot video of anything and everything you see on the road.

Ironically, one place where you can take photos is at a TSA checkpoint. The agency has been at pains to discourage you from doing so, but you can legally document your interaction

with TSA agents.

But other key places we visit on the road? Not so much.

Aircraft, for example. Airlines are private corporations and private companies have property rights — or, as Mitt Romney once so eloquently explained, "corporations are people, my friend." They have the right to bar you from taking pictures of their planes. And many do. At least officially. The restrictions are widely ignored, of course, but if a fussy budget flight attendant doesn't want you taking pictures on a flight, you can't do it. Don't push your luck, either. A blogger was unceremoniously tossed off a United Airlines flight last year when he thought he could snap away at will.

As for airports, rules differ. When you return from an international flight, you aren't allowed to use your mobile device in the Customs and Immigration area. Many visitors, including our Canadian friends, find that weird, especially now that you can use your phone after the plane lands and before you disembark. But trust me: I've been firmly told more than once to shut it down while waiting to clear the customs/immigration area.

Many airlines say you can't take pictures of their airport facilities such as check-in areas and boarding gates. Some airports are rather prickly, too. One example: the Port Authority of New York & New Jersey, which operates most airports in the New York Metropolitan area. "The Port Authority reserves the right to restrict videotaping and photography at its airports," its policy says.

Of course, if you're taking a selfie or shooting something innocuous like an airport meal, you probably won't have problems. But try to avoid documenting crucial facilities or taking photographs that could be construed as "casing" an airport for nefarious purposes.

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US and Germany agree to pre-clearance immigration



US Customs and Border Protection has agreed a reciprocal arrangement between its US Global Entry programme and Germany's Easy Pass. Both schemes allow expedited clearance for pre-approved, low-risk travellers.

The Customs and Border Protection (CBP) Global Entry programme is available at 42 US airports and 12 pre-

clearance locations, has more than 1.8 million members enrolled and approximately 50,000 new applications are filed monthly. Global Entry members are also eligible to participate in the TSA (Transport Security Administration) expedited screening programme.

US Border control

Germany's Easy Pass is an automated border control system available to registered third-country nationals when entering Germany. Easy Pass uses e-gates as a simple, quick and convenient alternative to traditional border controls.

US citizens, US nationals and US lawful permanent residents may apply for Global Entry, along with citizens of certain other countries with which CBP has trusted traveller arrangements. These include Mexico, the Netherlands, Panama, the Republic of Korea and now Germany. (Full list here, although

note the UK is not included.) Canadian citizens and residents enrolled in Nexus (a Canada-US border clearance scheme) may also use Global Entry. German citizens must first register with the German Federal Police at an Easy Pass enrolment centre in their home country. After, the German Federal Police will notify CBP that the applicant is eligible to apply for Global Entry using the Global Online Enrolment System (GOES).

There is a non-refundable fee of US\$100 for a five-year Global Entry membership, with applications made online. If the request is approved, the applicant will schedule an interview with a CBP officer to determine the applicant's eligibility. German citizen Global Entry members will have to re-register for Global Entry with the German Federal Police after their second year of membership.

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Hotels block phone signals

Marriott International was busted last week and fined \$600,000 for what communications industry insiders call "jamming," the nasty practice of disrupting cellphone signals so you'll have to buy Internet access from the hotel. (Or, in years past, so you'd have to make calls from overpriced guestroom phones.) As the Federal Communication Commission Marriott order explained, no one can block legal mobile signals being sent to or from legally approved mobile devices.

The days of hotels blocking mobile calls or the personal WiFi hotspots of individual guests are mostly over. But as the Marriott case shows, some hotels still attempt to profit from rapacious rates for Internet access in convention facilities and conference, meeting and function rooms. If you're arranging an event, make sure that the contract stipulates your right to use hotspots and mobile signals — or, better yet, gives free hotel WiFi to all attendees.

Airlines and hotels own your frequency points

Not only do airlines and hotels reserve the right to change the terms and conditions of frequent travel plans on a unilateral basis, they also claim ownership of the points and miles you accrue. They can close your account without warning and confiscate your earnings without an explanation.

And don't bother making a federal case about it: The Supreme Court has already sided with the travel industry. The Justices unanimously ruled earlier this year that airlines and hotels have the hammer — and the right to hammer you whenever or however they see fit. Or, as one airline lawyer argued, customers have no right to "superimpose the duty of good faith and fair dealing" on the travel industry.

The decision by the Supremes concerned a traveler who'd reached elite status in the Northwest Airlines WorldPerks program. Northwest executives summarily revoked his status, closed his account and took his points. The airline never claimed he'd done anything against the published or unpublished rules of WorldPerks. Northwest's bosses just didn't like the fact that he was a frequent complainer as well

as a frequent flier.

No tickets to paradise

Eddie Money, the 1970s rocker who masqueraded as a travel agent in recent GEICO television spot, knew nothing about airlines then and knows nothing about them now.

He couldn't possibly have two tickets to paradise. Or anywhere else for that matter. Why? Because airline tickets aren't worth the paper they're no longer written on.

If you read an airline contract of carriage— and you should because you agree to one every time you purchase a ticket — you'll realize that carriers guarantee nothing. Not the time of your flight, the day of your flight or even your destination, be it paradise or Paducah.

Don't believe me? Then consult Rule 3 of the Delta Air Lines contract, a fair representation of the verbiage that all airlines employ: "Delta may without notice substitute alternate carriers or aircraft, and may alter or omit stopping places shown on the ticket in case of necessity. Schedules are subject to change without notice. Delta is not responsible or liable for making connections, or for failing to operate any flight according to schedule, or for changing the schedule or any flight."

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SPG launches 'Double Play' promotion

Starwood Preferred Guest (SPG) members can earn double points when staying at a Starwood Hotels & Resorts property for two or more nights.

The Double Play global promotion runs until April 15 and is valid for stays of two or more consecutive nights at more than 1,000 participating hotels worldwide.

Members can also earn 1,000 bonus points for every five nights they stay, up to a maximum 4,000 bonus Starpoints. The five nights do not need to be consecutive.

Only the base two-Starpoints-per-dollar earnings are doubled — the elite-level extra Starpoints earnings and other bonuses will not be doubled. There is no limit on the number of bonus Starpoints that can be earned during the promotion period.

Register by March 31, 2015 to begin earning more at over 1,000 participating Starwood hotels and resorts January 5 through April 15, 2015.

United to fly Chicago to Rome this summer

United Airlines will launch a non-stop service from Chicago to Rome next summer.

The route will operate five-times weekly between May 16 and June 3, daily from June 4 until August 17, and then six-times weekly between August 18 and September 23.

The airline will roster a B777 aircraft — with eight seats in Global First, 40 in Business First and 221 in economy, including 104 in Economy Plus — on the route.

Outbound service UA970 will depart Chicago O'Hare at 1800 and arrive at Rome Leonardo da Vinci-Fiumicino airport at 1030 the next day. Return service UA971 will take-off from Rome at 1245 and land in Chicago at 1620 the same day.

A statement from United said: "Schedules may vary slightly on some days."

Brian Znotins, United's vice president of network, said: "United operates more non-stop transatlantic service from Chicago O'Hare than any other airline."

TACTICS CONTINUED

mileage — and your fares — may differ.)

Given the fact that airlines aren't really reaping more sales dollars per ticket, it's understandable that they have tried to reduce costs. They've done it any number of ways: cheapening or eliminating their service, stuffing more coach seats onto aircraft and driving down employee wages and benefits.

But energy costs can wipe away almost all of those savings. When oil hit \$147 a barrel in the spring of 2008, the prevailing estimate was that energy costs alone consumed as much as 40 percent of a ticket price. It also drove a record number of airlines out of business.

But with the price of oil now around \$80 when I began writing this on Tuesday morning — energy costs are probably "only" 20 percent of an airline's expenses. Since airlines aren't cutting prices, every dime of that saving flows to their bottom lines, which shattered records in the third quarter.

Airlines also manufacture less of their product now, better matching supply to

demand. Estimates vary wildly, but the capacity of the nation's airline system shrank dramatically during the Great Recession and never fully recovered. Carriers now routinely fill more than 80 percent of the seats they fly. They are being very careful about adding additional capacity. And they face a nasty backlash from hawkish analysts when and if they do add seats, so much so that executives at Delta Air Lines, the nation's most profitable airline, lashed out at ultra-conservative stock watchers during a recent earnings call.

But the bottom line is, as it always has been, demand. If travelers fly less, airlines are forced to lower fares. But there's absolutely no indication that fliers are balking at current prices. All of the carriers are bullish on fourth-quarter demand, too. So lacking a reason to cut fares to induce fliers to book tickets, the airlines are holding the line on prices. In fact, several even managed to nudge fares upward in October.

There's one other bit of analysis worth considering: Now is a nearly perfect time to launch a new airline and new carriers are guaranteed to bring lower prices and new ideas to the market.

Airline start-ups have been rare since the terrorist attacks of September 11, 2001. And the only notable one, Virgin America in 2007, is just now generating quarterly profits in front of its initial public offering. It's been a long dry spell for entrepreneurs looking to launch the next JetBlue Airways, which was created in 2000 and remains the very model of a not-by-the-book domestic carrier.

Yet conditions for new airline start-ups are extremely favorable: passenger demand is strong, fuel prices are down, airline profits are high, existing carriers are circumspect about adding flights and passengers (rationally or not) expect fares to be cheaper.

Just in the last week, I've heard from four groups looking to start airlines and investors are sniffing for opportunities in a market where the three "legacy carriers" — Delta, United and American/US Airways — and Southwest Airlines control 70 percent of the domestic traffic.

"It's a great time to be in the airline business," a veteran investor told me in an email. "When was the last time we saw robust demand [and] the chance to lower fares and still make a profit?"