

17 December 2008

Mr Wolfgang Mayrhuber
Chairman and Chief Executive Officer
Deutsche Lufthansa AG
Airportring
60546 Frankfurt

Dear Mr Mayrhuber,

As major Lufthansa customers headquartered in Germany and around the world, we are writing to express our anger over your airline's imposition of an indirect fare increase of tens of millions of Euros through your Preferred Fares Program (PFP), which will include increased VAT and credit card costs as well as travel management company (TMC) handling fees.

Worse, your PFP surcharge will undermine our existing highly efficient corporate travel procurement processes by requiring customers to create new infrastructure and workaround procedures. We will be forced into an expensive and inefficient case-by-case analysis of which fare is more economical to purchase -- either a PFP fare with a surcharge and a TMC handling fee, or a standard fare offering.

Lufthansa is attempting to substitute its judgment for our clearly articulated preferences. Without collaboration, you are forcing a choice between a highly inefficient process for us and our TMCs, or paying significantly higher fares. This is a bad choice and we do not welcome your unilateral approach. Corporate travel managers, in close collaboration with their TMCs and technology partners, have developed a professional and productive travel procurement environment that must not be poisoned.

The marketplace for commercial air transportation services is now highly transparent as a result of this longstanding and mutually beneficial collaboration. Complete fare information and point of sale functionality are now on one screen for both TMC agents and travelers utilizing automated booking tools. Now, travel managers can use this advanced purchasing process to drive business to preferred airline partners down to the city-pair level.

Your initiative to damage the existing TMC channel and its supporting technology partners; undo our progress in developing efficient, best-practice processes; and once again endeavor to dominate the point of sale is a flawed strategy strongly rejected by your very best customers. We need to find ways to strengthen our preferred channel, not weaken it.

Such negative actions on your part will make it more difficult and expensive for our companies to continue purchasing your product. Our companies, with air travel needs in markets where you are strong, and in markets where you seek to grow, will direct future business to airlines that build their distribution programs around our preferences. As the

attached comments from many of us directly to you reinforce, and you are no doubt aware, we do have a choice in air travel.

We urge you to promptly forge distribution agreements that are equitable for all distribution system participants, including the corporate buyer, and that preserve the efficiency of the present TMC channel. We hereby ask you to eliminate the PFP program and rededicate Lufthansa to achieving our mutual success.

Sincerely,

German Business Travel Association (VDR)
Institute of Travel Management (ITM)
Scottish Passenger Agents Association (SPAA)
Business Travel Coalition (BTC)
Merck KGaA
SAP AG
Deutsche Bank AG
BMW AG
ABB Ltd
Philips
Ingersoll Rand
Munich Reinsurance Company
German Armed Forces - g.e.b.b.
Carl Zeiss AG
Panasonic Electric Works Europe AG
AMB Generali Group Germany
TUI 4U
OTTO (GmbH&Co. KG)
Honeywell
ConocoPhillips Germany GmbH
Roche Pharma AG Deutschland
Baxter Deutschland GmbH
Johnson & Johnson
Dow Europe
Toyota Motorsport GmbH
NetJets Europe
Novartis Pharma GmbH
Olympus Europa Holding GmbH
Otto Bock Holding GmbH & Co KG
Telefónica o2 Germany GmbH & Co. OHG
SAS Autosystemtechnik Verwaltungs GmbH
TravelBoard GmbH Bayer AG
Schaeffler KG
SCHOTT AG
SAS Institute GmbH
Perot Systems Corporation
Assurant
AT Kearney, Inc.

Ball Packaging Europe Holding GmbH & Co. KG
Bavaria-Lloyd Reisebüro GmbH/BMW AG
Atos Origin
August Storck KG
Beiersdorf AG
Berlin-Chemie AG
Sanofi Pasteur MSD GmbH
Hannover Rückversicherung AG
SIG Combibloc GmbH
Logwin Logistics
Vattenfall Europe AG
Roche Diagnostics GmbH
Linde
Maschinenfabrik Gustav Eirich GmbH & Co KG
Medis Medical Imaging Systems bv
Travelagency M45
eBAECO NV
BEUMER Maschinenfabrik GmbH & Co. KG
Business Traveller Africa
DC
Francotyp-Postalia GmbH
ProSiebenSat1. Media AG
Wieland-Werke AG
Yale University
ZDF
AAA Allied Group, Inc.
Adolf Würth GmbH & Co.Kg
Agencia de Viajes Escamilla
All About Travel, Inc.
Alstom Deutsche Gruppe
Amway Travel
Anthony Travel, Inc.
Arcandor AG
Derpart Reisebüro Koch Übersee GmbH
Diehl Stiftung & Co. KG
DMR Touristik

ECE Projektmanagement G.m.b.H. & Co.
KG
EnBW Energie Baden-Württemberg AG
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EnBW Energie Baden-Württemberg AG
Endress+Hauser AG
Medis Medical Imaging Systems, BV
Ingenics AG
Innovative Business Concepts
J. Eberspächer GmbH & Co. KGjetamel
Loos International GmbH
Novelis AG
Oerlikon Textile GmbH & Co. KG
BJI, Inc.
Boscov's Business Travel
Boyd Consulting
Bucyrus International
Cadence Design Systems, Inc.
Caldwell Travel, Inc.
Casto Travel
Center for Creative Leadership
Cereal Chillers Inc.
CHAMELEON GLOBAL
CI Travel
CorpTrav
Country Functions / Shared Services
Cox Enterprises, Inc.
Cresta World Travel
Eton Travel
Eton Travel Agency Limited
Graphic Packaging International, Inc.
HealthCare California
International Brotherhood of Teamsters
Just Travel Inc
Kendle International Inc.
Liberty Global Europe
LIMRA International
Lubrizol Limited
LVMH Travel/Linden Travel Bureau
LXR Travel LLC

Matrix Travel Management
NetApp
Norseman Travel
Corporate Travel Partners Limited
P&P Associates Ltd
International Travel Management
Pearson
Precision Power Labs
Procurement
Sapient Corporation
SEB AG
SICPA SA
SMS GmbH
Software Solutions
Sony Europe GmbH
Tanger Factory Outlet Centers, Inc.
Teplis Travel Service
The Arvai Group, Inc.
The Corporate Travel Partnership
The University of Texas at Austin
Thermo Fisher Scientific
TMD Friction Services GmbH
Town & Country Travel
Travel Management Alliance and Austin
Travel, Inc.
Alexander Anolik, A Professional Law
Corp
Travel Time Travel Agency, Inc.
Uniglobe Normark Travel Inc.
Travel Leaders
Warner Bros. Entertainment Inc.
QA Business Travel
Red Lion Hotel on the River
Ricoh Americas Corporation
RMIC Corporation
Sanmina-SCI

Comments From Signatories to the Lufthansa Letter

In A Word!

- “It's a nightmare!”
- “This is a divide and rule strategy.”
- “Wrong!!!”
- “This is pure bull**** without any service or customer relations.”
- “This idea should be abolished.”
- “Why is Lufthansa not honest?”
- “We totally support BTC's position.”

Immediate Harm

- “This is a hidden price increase.”
- “This is an indirect increase of rates - additional costs for corporates.”
- “This is a big increase of process costs and loss of transparency.”
- “LH is again raising fares with this means and the companies have no real option but to pay.”
- “Additional costs - no actual cost overview by LH (hidden cost-transfer strategy).”
- “We will see a decrease in business travel to our area if the airfares continue to climb for any reason.”
- “PFP is negative for corporate clients.”
- “It is another hidden rate increase and makes administration processes unnecessary complicated.”
- “The new model is not acceptable, it will lead to an increase of both direct and indirect costs.”

- "I can't understand why Lufthansa makes a price rise that difficult. These new processes make much more work for all of us. It costs a lot of time and money. Bull****!"
- "Hidden cost increase and (much more important) PFP is damaging our processes."
- "This is a way to increase prices and keeping the structure of how a ticket is build up non-transparent."
- "That we lose our "level playing field" on the GDS. It's already become more difficult. The cost we see and quote is not the cost to passengers anymore."

Abuse of Dominant Position

- "It will massively increase the costs to the travel industry, create more work and produce less transparency on fare costings. The industry is being bullied into submission."
- "It is a de facto fare increase on the consumer, driver of inefficiencies in the travel industry and there is no value add to the consumer. This is solely the work of an airline taking advantage of (or abusing) its dominant market power."
- "As the model is highly inefficient for all but one market participant, and creates no additional value besides cost for the final customer, I see it as an inadequate measure to change existing market rules. Process costs will be driven up in addition to the primary cost in this model. There are certainly more intelligent solutions on the table also taking into consideration GDS incentive payments to TMCs. The fact that this model is launched in the home markets of LH/LX is obviously driven by the opportunity to play with pure market power in an oligopolistic situation."
- "This is yet another airline scheme to defragment a consolidated travel program. We will be forced to pay higher fares, higher fees or lose visibility and reporting if booking online at LH."
- "By implementing this programme, Lufthansa forces the market to increase prices. We are the loser!!!"
- "Fare increase and unfair treatment of customers and several distribution channels. Unilateral approach of LH to force this idea on the customers and GDS providers."
- "Open channel for fares is critical to any organisation. No supplier can be allowed to establish a quasi monopoly position at the expense of the consumer."

- "Market power misuse of home carrier. Adds complexity and costs to travel agents. Creates price disadvantage to LH.com."
- "Lufthansa forces the Business Travel Centers to only use the airline's sales channel. No price transparency given GDS like Amadeus (most important and biggest within Germany and Europe) must pay, others - like Sabre and Travelport - must not pay. Discriminatory! Combination of an official and hidden price increase."

Setting A Dangerous Global Precedent

- "It is a precedent that should not be set."
- "The effect this would have on the bigger picture with other carriers following suit is frightening."
- "If LH is successful, the rest will follow suit and, God forbid what air prices and fare options would ultimately look like. The carriers have been yearning for the past 30 years to get back to their halcyon days when 70% of their business were direct purchases. Can you imagine First Class and Full Coach fares as the only options for the business traveler, or, at minimum, a situation where the GDS fares were higher than what the carriers sold themselves? It wouldn't take too long for them to start squeezing their best customers. The carriers cannot serve the general public much less corporate travel programs that offer all the conveniences of 1-stop shopping, negotiated discounts, and preferred supplier relationships. They're not intent to build a better mouse trap but rather destroy the only one that works!"
- "My concern is the precedent this change would put in place."
- "It will instigate further backdoor increases across the airline network."

Brave Resistance

- "Again Lufthansa is behaving in a monopolist's manner. We will certainly take more efforts to avoid flying them."
- "I do not agree with this strategy and am not willing to accept it."
- "The processing costs for me and my travel agency will explode and LH tickets will be far too expensive. The solution for me is to actuate my flight volume to alternative carriers like Air Berlin, Germanwings and Tuifly! My travel policy will support it because I have to buy the cheapest fare which applies. I will not take part at the preferred fares program so LH will be a lot more expensive than other airlines!"

- “This is an indirect fare increase and this means, on top, much more work. In times where everybody has to reduce costs this program is not bearable and it leads to book other airlines.”
- “It is a disguised way of pushing GDS and other fees to agents and customers. 100% unacceptable; I will sell away from LH if it moves forward with this.”
- “It is a scheme which would drive me away from using Lufthansa again.”

Attempting To Destroy the TMC Channel & Managed Travel Programs

- “This is not in the best interests of the corporate travel industry.”
- “Increase in cost to work through a TMC.”
- “It will cause confusion and dilute buying power by splitting the procurement channels.”
- “Lufthansa is complicating the processes and is trying to own the point of sale, after they identified that the tools from GDSs and online technology providers can bias the purchasing display in a way which has an impact on Lufthansa yield structure.”
- “Short sighted and damaging to our mutual clients. Distribution costs should be built into the fares for web and GDSs alike. Do not penalize your customers who use TMCs.”
- “Undermines the distribution system and raises costs.”
- “The Lufthansa Preferred Fares Program is adding a lot of unnecessary complexity and cost to travel programs. It is also disappointing that LH implemented this program without having consulted any of their customers in the industry (corporates and agencies). PPF puts a huge pressure on our managed travel program, and this by a 'partner' of our program; totally unacceptable.”
- “The current distribution system works very well. It is efficient, low cost, and fair to all. Other industries understand that distribution is part of the cost of doing business and the customer understands that it is currently included within the ticket cost.”
- “Travel fares have been confusing enough without adding this additional level of complexity. Eventually, our TMC will get to the least expensive option for the customer, but the time involved in doing so will doubtless increase the costs of the services they offer their customers.”

- “This is a price increase for end users, either companies or private customers, which are not compensated through a decrease of the airline fare. The customer end fare goes up and the only choice for the customer is to accept the fare increase a) 30Euro plus or b) 4,90 per transaction. The customer gets sandwiched between the interest of the GDS provider and airline.”
- “PFP is a solution looking for a problem. When compared to nearly any other industry the current distribution system is in actuality highly efficient, lower in cost, and reasonably fair to all concerned parties. Many industries would benefit to replicate--not destroy--what is already in place.”
- “As LH does not reduce the airfares and puts the additional fees on top, it is not appropriate. Especially in these times, it is not fair to hand over the costs to the customers. But this is not the only sector. What about fuel and security surcharge??? The prices become more and more intransparent and this has to be stopped.”
- “I don't agree with it at all and think it should be abolished. It's nonsense passing all your costs to the customer and then charging them airfare as well, In all other industries you pay the price for your goods full stop. You don't then pay all the costs associated with the manufacture of those goods as well. It's a total cop out by LH!”
- “This PFP from Lufthansa is yet another example of how airlines simply pass on their distribution cost as a surcharge to the end consumer. There should be equal and fair distribution amongst all channels.”
- “If Lufthansa has increased costs in logistics they have to calculate their prices accordingly. We are only interested in complete price calculations and are not willing to pay any extras for other services. Market comparison prices, which include everything, are necessary as to our opinion.”
- “Extremely against! Inefficient processes for TMCs and companies!! Cost increase for GDS fee, TMC processes and company processes, communication and IT solutions. Lack of understanding for such a difficult method.”
- “The total process cost will negate the reduced price and add complexity that is only for the benefit of LH and to the disadvantage of CRSs and the end customer.”
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- “I am looking for Lufthansa to be a fair business partner for all stakeholders and consumers.”
- “Lufthansa is penalizing their best customers, who typically pay premium fares already.”
- “I think in this economy, it is an insult to the integrity of our industry.”
- “Don't make the cost of travel less attractive than it already is with more punitive fees.”
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- “Fuel costs have dropped radically. The increased costs were what prompted many of the actions the airlines were taking. How do you justify taking this position?”
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