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July 11, 2014

The Honorable Calvin L. Scovel III  
Office of the Inspector General  
Department of Transportation  
1200 New Jersey Ave. S.E.  
7th Floor  
Washington, DC 20590

Dear Mr. Scovel,

I am writing to request an investigation into unfair and deceptive practices in frequent flyer programs. Your mandate includes the authority to investigate, pursuant to Section 41712 of Title 49, United States Code, "(1) unfair or deceptive practices and unfair methods of competition by domestic and foreign air carriers and ticket agendas."

Frequent flyer programs are prone to manipulation by the airlines that control them. In 2005, *The Economist* estimated that the value of all outstanding frequent flyer miles is approximately \$700 billion, equivalent to the value of all currency in circulation. Miles are listed as liabilities by airlines. They are bought and sold by banks, hotel chains, credit card purveyors, and rental car companies. Some economists have observed that frequent flyer mileage can function as a 'virtual currency'.

If these are virtual currencies, however, the sovereign issuers are not central banks, but airlines. Airlines establish the rules, the terms, the value, expiration dates, and the sales pitches. Most notably, the airlines determine the inflation rate. Frequent flyer miles are also being used as a financial product, independent of any actual travel. As industry research firm *Ideaworks* put it, "During 2010, approximately 62 percent of American AAdvantage miles were sold for cash, with just a third actually accrued by members flying on the airline." That same year, Delta Air Lines apparently received \$1.6 billion from its SkyMiles program, the vast majority of which came from American Express.<sup>1</sup> Airlines also sell miles directly to customers, for cash.

Consequently, devaluing frequent flyer miles is profitable for the airlines, and costly for the consumer. The practices detailed above are unacknowledged in advertising. Moreover, devaluation often takes place little or no warning to the consumers.

As an example, Southwest Airlines recently reduced the redemption value of its "Wanna Get Away" points by roughly 8 percent. Not only does this reduce the value of frequent flyers held by Southwest customers, it also implicitly reveals deception in advertising and sales practices. As one observer noted:

"To put this in perspective, the current **50,000-point sign-up bonus** on the Southwest Premier Visa will get you about \$833 toward Wanna Get Away fares. After March 31, 2014, you're only looking at ~\$715. Still a lucrative offer, but less valuable."

American Airlines, United Airlines, Delta Air Lines, Virgin America, and British Airways have all noticed or implemented various devaluations of frequent flyer programs and awards. These changes include raising limits on checked baggage fees, restricting seats and flights available to consumers, making complex alterations in the number of miles awarded for flights, and shifting the number of points or miles required to redeem awards. Again, such changes sometimes have been implemented with little or no notice.

Mandi Woodruff of *Yahoo Finance* summed up this problem well. She wrote, "Despite the fact that collecting coveted airline miles has never been easier, the frequent flyer game is only getting more difficult for the little man."

If an airline wants to charge more money for its services, it should do that transparently and reflect that change in its advertising. Changes should never be arbitrary, and always with ample notice. The airlines are not doing so, and consumers are unwittingly paying the price for this behavior.

I encourage you to investigate these programs, and determine if they are violating any laws against unfair and deceptive practices.

Thank you for your attention to this matter. If you have any questions, please contact my staffer Matt Stoller at [matt.stoller@mail.house.gov](mailto:matt.stoller@mail.house.gov).

Regards,



Alan Grayson  
Member of Congress

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<sup>1</sup> Ideaworks, 2011, "Loyalty By the Billions" <http://www.ideaworkscompany.com/wp-content/uploads/2012/05/2011LoyaltybytheBillions-report.pdf>