

Fees' ability study

Here, McBreen & Kopko's Margaret Giugliano ponders on the raft of charges that today's air passenger faces – and asks whether travel priorities are changing.

As most commercial airlines continue to de-bundle their services in order to raise revenue, passengers are now faced with an almost dizzying array of choices, including whether to pay extra for priority boarding, the choice of a window or aisle seat, a sanitized and pre-packaged pillow and blanket, or to check in their bags. If a passenger decides to check in his baggage, most carriers are now charging fees ranging from US\$25-50 per bag, each way, depending on whether the flight is domestic or international.

For a family of four taking a week's vacation overseas and carrying at least two bags each, these fees can add up to several hundred dollars over the cost of the air transportation itself. And with over 787m passengers choosing air travel in the US alone last year, these fees have contributed significantly to the air carriers' revenue. Because US regulators do not require air carriers to break out the source of revenue from ancillary fees, it is difficult to determine the portion that fees for checked baggage contribute to the overall increase in revenue. However, the US Bureau of Transportation Statistics estimates that fees from checked baggage for the whole of 2010 amounted to approximately US\$3.395m in additional revenue for the top 20 air carriers.

To further add to the changes in the industry, the United States Department

of Transportation has recently adopted regulations that would require US and foreign air carriers that operate scheduled passenger service to and from the US (using any aircraft with 30 or more seats) to adopt a 12 pronged customer service plan no later than August 23, 2011. These plans must address the question of delivering checked bags on time and the refunding of fees for misconnected, delayed, or lost bags. The new regulations also require US and foreign air carriers to disclose fees for all optional services and to disclose changes in bag fees, including information regarding free baggage allowances, for three months prior to putting such changed fees into effect.

These new developments will have a secondary effect on the ground service industry. Some US carriers are finding that the number of checked bags per passenger level is dropping, as passengers try to avoid additional fees. American Airlines recently reported a decrease in the average number of checked bags to less than one per passenger, compared with

the average prior to the imposition of added fees. A reduced level of checked baggage will undoubtedly affect the volume of business handled by ground service providers.

The good news is that the busy summer travel season is expected to continue at significantly higher levels than last year, and passenger loads on all flights are at historic highs. The US Air Transportation Association reports revenue increases in all long haul flights during May 2010 over the same period in 2009, including a 13% increase from trans-Atlantic routes, a 12% increase from trans-Pacific routes, and a 26% increase from routes to Latin American and Caribbean areas. However, the revenue trends for the ground service industry bear watching.

In the meantime, the industry should continue to leverage its services by negotiating with air carriers to share the additional revenue from checked baggage in return for reliable or improved service - and assuming some of the corresponding costs for delayed or misconnected baggage.



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