

BusinessWeek

January 14, 2010

U.S. Airlines May Raise Fares, Fees Further in 2010 Profit Bid

U.S. airline passengers, already paying higher checked-bag fees and fuel surcharges in 2010, should brace for more increases

By Mary Schlangenstein and Mary Jane Credeur

IdeaWorks contributed information to this article - - see italics.

(Bloomberg) — U.S. airline passengers, already paying higher checked-bag fees and fuel surcharges in 2010, should brace for more increases as the industry tries to return to profit.

Delta Air Lines Inc., United Airlines and Continental Airlines Inc. are raising the cost to check a first and second bag this month. The higher fees follow last week's \$20 increase in the round-trip fuel surcharge on flights between the U.S. and Europe by the five biggest carriers with international service.

Raising fees or surcharges eliminates uncertainty linked to fare increases, which carriers will rescind unless competitors match the higher rate. UAL Corp.'s United added the first bag charge in February 2008, joining airline fees that were already in place for getting meals or snacks, specific seats, blankets and pillows or to speak with a reservation agent.

"With these fees, they can just unilaterally implement the new charge and realize a windfall of cash," said Jay Sorensen, a consultant at IdeaWorks in Shorewood, Wisconsin, and a former Midwest Airlines executive. "They're using bag fees as a lever against cost increases, namely oil."

Airlines collected at least \$2 billion through so-called ancillary charges in 2009's third quarter, according to the Bureau of Transportation Statistics.

The nine largest U.S. airlines had combined net losses of about \$3 billion through the first nine months of 2009. U.S. carriers increased fares on a broad basis 4 times last year, compared with 15 in 2008 and 17 in 2007, according to Rick Seaney, chief executive officer of ticket researcher FareCompare.com.

Increases Considered

"Passengers will face higher prices as we go through this year," said David Swierenga, president of consultant AeroEcon in Round Rock, Texas. "The airlines recorded a big loss again in 2009, and they were unable to raise prices through most of that year."

The Bloomberg U.S. Airlines Index of 13 carriers rose 3.2 percent yesterday to its highest level in the past year. The index climbed 41 percent in the three months ended yesterday.

The latest fuel surcharge increase brought the total of such fees to \$280 on competing U.S.-Europe flights and \$242 on routes between the U.S. and the U.K., airlines said.

AMR Corp.'s American Airlines and US Airways Group Inc. said they are studying whether to join in increasing the price for a first checked piece of luggage to \$23 from \$15 and to \$32 from \$25 for a second. The change applies to online check-ins only, with airport transactions \$2 more for the first bag and \$3 more for the second.

'Free Money'

"They look at it as free money and they will continue hiking them," said Steve Cosgrove, owner of Dynamic Travel & Cruises Inc., one of the largest leisure travel booking agencies in the Dallas area. "As long as the other carriers match it, that means it's good, let's go for another round."

Most U.S. airlines had charged at least \$15 for online check-in of a first bag and \$25 for the second. Southwest Airlines Co., the biggest discounter, is alone among the six major U.S. carriers in letting fliers check two bags for free.

Southwest's decision not to charge bag fees is winning passengers for the Dallas-based carrier, Chief Executive Officer Gary Kelly said on Jan. 11, without providing data. Traffic, or miles flown by paying passengers, rose 1.3 percent on Southwest in 2009 even as it trimmed capacity 5.1 percent.

Avoiding Bag Fees

"They very much appreciate the no bag fees," Kelly said. "We're able to grow our traffic in a shrinking pie in the U.S. We're flying less than we were a year ago, yet we're carrying more passengers. There's a remarkable share shift that has occurred."

U.S. carriers have reduced capacity each of the past two years to better match demand and help gain pricing power. As travel demand returns, crowded planes will allow airlines to boost prices further, Swierenga said.

"They will run off those that won't pay higher fares," he said. "It's not going to cost them anything as long as they can continue to fill those airplanes at higher prices. They are desperate to have this happen with two years of losses. This has to happen for the industry to really survive."