

Targeting airlines for ancillary fees and alleged lack of transparency, while piling on more taxes has become sport in Washington DC.



AIRLINEBASHING

BY KAREN WALKER

"We are taxed like a vice, which discourages consumption."

**Doug Parker,
American Airlines
chairman and CEO**

Speaking to a Washington DC audience in September, American Airlines chairman and CEO Doug Parker noted a dichotomy with which US airlines are battling. "The industry is doing better than it ever has done and it feels like everything is going better until you come to Washington DC. Here in our nation's capital it often feels like the opposite. We are over-taxed, over-regulated and under-served," Parker said.

Parker, who was addressing The Future of Flight Aviation Policy Summit, said there was a lot of good news about the US airline industry, which is profitable and demonstrating all-time highs in trackers such as on-time performance and bag handling.

Yet Congress, the government and a band of self-described pro-consumer advocates in Washington seem ready and armed to reverse that hard-won success.

Parker pointed to 17 federal taxes and fees that equate to 21% of the average \$300 airfare; the only other industries being taxed to a similar degree being tobacco and alcohol businesses. "We are taxed like a vice, which discourages consumption," Parker said.

At the center of some of the controversy is the US Department of Transport-

In the United States, Airline Marketing and Customer Service Are Subject to a Greater Degree and Scope of Government Regulation than Other Key Service Industries

	Airlines	Hotels	Rental Cars	Cruises	Antrak	Buses	Cable	Telecom
Service Delivery Reporting	✓	No	No	No	No	No	No	No
Full-Fare Advertising (incl. taxes)	✓	No	No	No	No	No	No	No
Ancillary Revenue Reporting	✓	No	No	No	No	No	No	No
24-Hour Purchase Refundability	✓	No	No	No	No	No	No	No
Detailed Reporting of Demand	✓	No	No	✓	No	No	No	No
Detailed Reporting of Costs	✓	No	No	No	No	✓	✓	✓
Reporting of Average Prices Paid	✓	No	No	No	No	No	✓	✓
Operational Contingency Plans	✓	✓	No	✓	✓	✓	✓	✓

Relative to Most Goods/Services (and Airlines' Costs), Air Travel Remains a Bargain
U.S. Inflation, U.S. Incomes and Airline Costs Have Sharply Outpaced the Price of Air Travel

	Product (Unit)	2000	2013	% Δ
Real Increase	Public College Tuition & Fees (Net of Grant Aid and Tax Benefits)	\$1,020	\$3,120	205.9
	Gasoline (Gallon, Unleaded)	\$1.51	\$3.53	133.8
	Cable TV (Monthly)	\$31.22	\$65.07	108.4
	Walt Disney World® (One Day Pass, Adult)	\$46	\$95	106.5
	Major League Baseball Game (Nonpremium Ticket)	\$16.22	\$27.48	69.4
	National Football League Game (Nonpremium Ticket)	\$48.97	\$81.54	66.5
	Prescription Drugs (BLS Index)	285.4	442.58	55.1
	Movie Ticket (One Adult)	\$5.39	\$8.13	50.8
	Disposable Personal Income per Capita (Annual)	\$26,206	\$39,515	50.8
	Food & Beverage (BLS Index)	168.4	236.966	40.7
	Single-Family Home (Existing)	\$143,600	\$197,100	37.3
	U.S. Consumer Price Index (CPI-U) ¹	172.2	232.957	35.3
	Air Travel (R/T Domestic Fare + Ancillary) ²	\$316.95	\$385.54	21.6
Real Decrease	Air Travel (R/T Domestic Fare Only) ²	\$314.46	\$363.07	15.5
	Apparel: Clothing/Shoes/Jewelry (BLS Index)	129.6	127.411	(1.7)
	Television (BLS Index)	49.9	4.581	(90.8)

1. Bureau of Labor Statistics "measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services."
2. AAA analysis of data collected by BTS for the year ended 3Q 2013 – excludes taxes; "ancillary" includes revenue from reservation changes/cancellations and baggage

tation's (DOT) notice of proposed rule-making (NPRM) on airline passenger protection and ancillary fees on which it is seeking comment. The NPRM led the Travel Technology Association to join forces with the American Society of Travel Agents, the Business Travel Coalition and other travel-consumer advocates in early September in a press conference calling for DOT to require ancillary fees to be more transparent and transactable regardless of where customers buy their ticket.

Travel Tech director of communications Philip Minardi summed up the coalition's standpoint. "Consumers have the fundamental right to know the upfront cost of their entire trip, and not be surprised at the airport with extra fees from the airlines. In the final analysis, we think it's imperative and frankly way overdue that DOT takes action in this regard. It's time for the DOT to require airlines to make ancillary services available to consumers when they purchase a ticket," he said.

The coalition pointed out that more than 50% of airfares sold in the US go through travel intermediaries

where ancillary fees are not displayed and cannot be purchased. Similarly, customers may be entitled to perks such as a free checked bag if they are a member of an airline's loyalty program, but they won't be able to see that if they do not book direct on the airline's website.

"Consumers rely heavily on our members to provide them with the ability to comparison-shop the ever-expanding array of travel options. It's time for the DOT to require airlines to make ancillary services available to consumers when they purchase a ticket," Minardi said.

He also attacked the principle of ancillary fees. "Airlines have begun to unbundle fees that were once a critical part of the service; it's a market distortion," he said, adding that US carriers earned more than \$6 billion in 2013 from checked bag and ticket change fees.

Consumer survey

Andrew Weinstein, executive director, Open Allies for Airfare Transparency, said a survey of more than 1,000 US consumers conducted by the coalition showed that consumers were "very frustrated and confused" by ancillary fees. "Four out of five consumers say fees are unfair or deceptive. We found a lot of confusion. They want to see the price of the ticket and purchase it as well," he said.

Charlie Leocha, chairman of Travelers United, was more damning of what he called a battle for data. "Airlines are withholding data from passengers. It's unfair and deceptive," he said.

These types of statements, of course, have attracted a lot of media and congressional attention. Coupled with a summer in which there was a run of high-profile "seat recline" incidents in the US, with some airliners forced to divert because of passengers who became disruptive when the person in front wanted to recline their seat, and a potential move by Congress that could further increase taxes on airlines, and it's easy to see why Parker and other airline CEOs feel targeted.

Ironically, US airlines' new-found profitability—largely based on sound management, strict capacity control and, yes, ancillary fees—is brought up again and again as proof that airlines are raking it in at the expense of their customers.

But as United Airlines VP-eCommerce and merchandising Scott Wilson pointed out at the Aviation Summit, "this is still only a 'just healthy' industry' with thin profit margins that do not satisfy many investors.

Wilson also emphasized that airlines, despite US de-regulation, operate under rules that do not apply to other service industries and which can hamper their ability to be customer friendly.

"I would argue that airlines have the greatest transparency. Every time an airline makes a pricing decision, all the GDSs see that in real time. I don't know of that happening in any other business," he said. We won't be able to be as consumer friendly as we want to be if we have to operate by these old rules."

As an example, he pointed out that hotels and rental cars unbundle their product offerings and it's an accepted way of business in those markets. "When you turn up to a hotel and park your car, you understand that you will have to pay for that parking because the hotel pays rent for that garage. And if you don't bring a car, then you don't expect to pay for parking. It's important for people to understand that airlines are offering choices, just like hotels and other service businesses," he said.

North American airline association Airlines for America (A4) told *ATW* that it believes some of the proposals being called for in the DOT's NPRM "overreach and limit how free markets work and will needlessly inhibit market innovations that are developing to meet customer demand for customized information."

Another part of the equation, brushed off by the Travel Tech coalition, is that GDSs have been slow to invest in the IT and software that would enable their sites to show and offer airline ancillary products. Unbundling started around 2008, but GDSs did not heed the wake-up call.

IATA's New Distribution Capability (NDC) program is developing an XML-based data transmission standard to address that gap and would provide the type of cross-comparison shopping that Travel Tech says is needed. Airlines would be able to show and sell their products, including ancillaries, across travel sites. Some in the industry, however, are concerned that if some of the DOT NPRM proposals are implemented, it could hurt NDC development. One proposal, for instance, would require GDSs and airlines to comply with potential new "transparency" rules within one year, whereas NDC needs about three years to fully implement.

"Our argument is that the market is not broken. [US] Airlines were deregulated and we should trust the market," said IATA SVP, members and external relations North America Doug Lavin. "We want airlines to be able to dynamically price ancillaries."

As United's Wilson put it, different airlines offer different types of service—everything from Spirit Airlines' or Ryanair's extreme low-cost offerings, where bottled water and carry-on bags can be charged separately, up to more full-service models.

"American, United, JetBlue, we are not the same thing. We offer different services and we want to be able

to do that. We are not a commodity and to commoditize us would be a very slippery slope that would take us the wrong way," Wilson said.

The other often over-looked fact is that US airline base fares, adjusted for inflation, are going down.

"What some may not realize is that air travel is one of the best bargains out there," A4A senior VP, global government affairs, Sean Kennedy told *ATW*. "Between 2000 and 2013, base fares dropped 8% after adjusting for inflation. There is no better value product on Earth in the travel market."

IATA adds that this is true not just of the US, but globally. The average base one-way fare worldwide (without ancillaries) was \$239 in 2013 (in 2014 dollars), down 6.4% versus 2012's \$256, an IATA spokesman said. For 2014, the forecast is for an average fare of \$231, which would be down 3.5% versus 2013.

Charts provided by A4A (see opposite page) show comparisons of airline product offerings versus other service industries and also the downward trend of base airfares.

Taxes and more taxes

Finally, US carriers are battling a potential increase in government fees on top of what, as Parker said, is already a vice-sized chunk of taxes.

"Too much of the debate around taxes and regulations these days is based on more, more, more. We need to flip that. It needs to be about better, more efficient," United Airlines VP-regulatory and policy Steve Morrissey pointed out at the Aviation Summit. "Not every regulation is bad. Not every tax is necessarily excessive. What we're talking about is the duplicative nature of the taxes [on airlines] ... A stable airline industry is good for this country. We need government to get on board, to get past the short-term political fights and parochial interests."

But in this battle, at least, the US airline industry seems to have one ally right inside the Washington Beltway, and he wields power.

House of Representatives Transportation and Infrastructure Committee chairman Bill Shuster (R-Pennsylvania) was a keynote at the Aviation Summit and he made a pledge to the audience. "We can move towards the European model of doubling taxes on airlines. But I think we should reduce the tax burden," he said. "We need to make sure that everyone has a place at the table and we need to recognize that lowering barriers is the way to ensure the most advanced, safest, prosperous and vibrant aviation industry in the world."

Perhaps, after all, there may be a voice of reason inside the Beltway batting for the airlines. And, if the congressman follows up on his pledge and gets his way, there will be a bonus for the passenger, too. As Parker noted, "now that we are profitable, we are doing what profitable companies do, which is investing in our business." *ATW*