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Airline fees generate \$27.1 billion in 2012

This article is based upon a report issued by IdeaWorksCompany

Passenger fees and other extra charges generated \$27.1 billion for airlines around the world in 2012, with major carriers like United, Delta and American airlines leading the revenue race.

In 2012, 53 airlines around the globe collected \$27.1 billion in such ancillary revenue, compared with \$22.6 billion collected by 50 carriers in 2011, according to a new report by IdeaWorks Co., a Wisconsin consultant on airline fees. The study was sponsored by CarTrawler, a Ireland-based provider of car rental distribution systems.

Extra charges such as baggage fees and charges to upgrade to roomier seats have become a major source of revenue for airlines since 2008, when surging fuel prices forced airline to find another way to generate money without raising airfares.

Low-cost airlines, such as Spirit Airlines and Allegiant Air, led the high-fee, low-fare trend in the past few years. But the IdeaWorks study says that major carriers, particularly big airlines in Europe, are increasingly turning to passenger fees to boost revenue.

“Statistics help tell the ancillary revenue story and every year key numbers are getting bigger,” the study says. “The most aggressive airlines easily generate more than 20 per cent of their revenues from a la carte fees.”

United Airlines led all carriers in fee revenue with \$5.4 billion, followed by Delta Air Lines with \$2.6 billion and American with \$2 billion, according to the study.

Florida-based Spirit Airlines generated 38.5 per cent of its revenue from extra fees the most of any carrier followed by Allegiant Air with 30 per cent and Britain’s Jet2.com with 27 per cent, according to the study.

Meanwhile, the aviation ministry has called for state governments across the country to discuss on a possible mechanism to reduce the tax on aviation turbine fuel (ATF) whose price was hiked by a steep 6.9 per cent last week.

India's airlines, being extremely sensitive to the price of ATF, were left with no choice but to raise ticket prices on key routes by as much as 40 per cent.

The new proposal aims to align ATF along with the declared goods category that results in a uniform, lower rate of value-added tax (VAT). The aviation ministry officials cited the example of Chhattisgarh where VAT on ATF was reduced to 4 per cent in November 2010. "This resulted in a jump in ATF sales from 100 to 2200 kilolitre per month. The total passenger movement increased from 533,000 in 2010-11 to 8,05,000 in 2011-12," an aviation ministry official said.

Average ATF prices at Indian airports are significantly higher than those in Singapore, Hong Kong, Dubai, London or Abu Dhabi. As a result, fuel represents an average of 45 per cent of operating costs for India's airlines, compared to a global average of 32 per cent.