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Airline fees surge to \$31.5 billion

By John Paul Tasker

This article is based upon a report issued by IdeaWorksCompany.

Airlines around the world are returning to profitability thanks in part to a dramatic surge in extra fees levied on passengers.

Air carriers took in \$31.5 billion US in revenue from fees last year, according to a survey conducted by IdeaWorksCompany, a firm that helps airlines grow non-traditional revenue streams, and CarTrawler, a car rental services company.

That figure is up a staggering 1,200 per cent from 2007 when only \$2.7 billion was added to

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- IdeaWorksCompany president Jay Sorensen

airline coffers by way of ancillary fees. In comparison, the baseline price of an airline ticket only increased by four per cent in the same period, according to the report.

About half of the revenue is paid directly by passengers — everything from seat selection to on-board entertainment. The other half comes mostly from airlines collecting fees from banks offering frequent flyer credit cards and commissions from selling packaged vacations.

“What began as a trickle has grown to a flood,” IdeaWorks president Jay Sorensen said, “and we have a fair amount of room to grow yet.”

Sorensen pointed to additional baggage fees, fees to access Wi-Fi in-flight and passengers upgrading to premium economy seating as other sources of income moving forward.

Baggage fees in particular have been a boon to the bottom line for many North American airlines.

U.S. carriers charged \$3 billion

In the year 2000 airline customers in the United States paid some \$209 million to check their baggage, according to the U.S. Bureau of Transportation Statistics. Fast forward to 2014 and that figure now clocks in at close to \$3 billion. Most of the major U.S. airlines charge customers to check a bag. Ultra discount carrier Spirit Airlines even charges its customers up to \$100 for a carry-on bag.

And Canadian airlines haven't sat on their hands. Air Canada began charging customers \$25 for the first checked bag on all flights to the United States in 2011. The first bag is still free for all domestic and non-U.S. international flights, but a second bag will set you back \$35.

Porter Airlines, too, announced in May that it would become the first Canadian airline to charge travellers on domestic flights a fee for their first checked bag. Like its U.S. counterparts, Porter has opted to charge \$25.

Chris Murray, a transport analyst at Toronto-based AltaCorp Capital, said other Canadian airlines will likely follow Porter's lead by next year.

New baggage fees in Canada coming

The amount of money Canadian airlines collect in baggage fees is hard to pinpoint — Air Canada does not release specific numbers — but Murray says there is great potential to collect more — millions more — from Canadian air travellers flying domestically.

WestJet has traditionally prided itself on moving bags for free but its CEO, Gregg Saretsky, said in February that the airline wouldn't rule out baggage fees as a source of revenue. He said that he doubts the airline will lose customers for adding the fee as other airlines that charge for bags are carrying just as many passengers, or more, than WestJet.

Murray said most airlines began levying these fees in 2008 in the midst of the recession and sky high oil prices. At the time, airlines defended the new charge as a way to pass on the cost of fuel to their customers. But the companies quickly realized that these fees could be more than just a way to offset jet fuel costs, Murray said. The infrastructure was in place and airline employees were already handling baggage.