Letters

Please send letters to: The Editor, Airline Business, Quadrant House, The Quadrant, Sutton, Surrey SM2 5AS, UK **Fax:** +44 (20) 8652 8914 **e-mail:** airline.business@flightglobal.com

Bypassing the logic of FFPs

Could the challenge of frequent flyer programmes explain why carriers do not include fuel surcharges in their base fares, asks Ravindra Bhagwanani, managing director of Global Flight

Thank you for your article on fuel surcharges ("The surcharges debate", *Airline Business,* April 2007, p30-31). Your article rightly asks two relevant questions: When should airlines reduce fuel surcharges or even halt them altogether, and why is it that most airlines do not include these charges in their base fares, especially as regulators in a growing number of countries require airlines to publish only all-inclusive fares?

Your article failed, however, to provide a logical explanation to the second question and I believe simply that no logical explanation exists. Indeed one of the oldest truths in the airline business seems to apply in this case: where logic stops, frequent flyer programmes begin.

These programmes began their existence with the promise of "free" flight tickets to loyal customers. Since then however a wide range of taxes and surcharges, including fuel surcharges, have been added to these "free" tickets. An award flight within Europe can hence easily cost $150, an intercontinental flight even up to $300 – not what I would define as "free".

What makes matters worse is that many flights on low-cost carriers are currently often cheaper than such award tickets on legacy carriers.

However, if airlines stopped labelling fuel surcharges a surcharge, they would deprive themselves of a lucrative revenue stream. FFPs could therefore be one of the main reasons why airlines don't include these surcharges in the base fares. Exceptions include Ryanair, which doesn't operate a loyalty scheme, and very few others.

Take Lufthansa, for example. Let's do a simple, albeit conservative, calculation: assuming that 3% of Lufthansa's 53 million passengers travel on short-haul award tickets, where Lufthansa levies a fuel surcharge of €12 ($16) per segment (versus €52 on long-haul flights), this translates into €19 million of revenue per year. In light of Lufthansa's 2006 net operating result of €803 million, this amount may look negligible. However, it can represent a considerable profit share for less healthy airlines.

Nevertheless, this policy of non-inclusion undermines the credibility of FFPs. As public criticism increases, airlines need to realise that most FFP-related problems are self-made. And quick fixes like reducing the "cost" of free tickets should be addressed first.

Any revenue loss related to eliminating fuel surcharges will be easily compensated by an increased loyalty effect – especially for the early movers.

Ravindra Bhagwanani
managing director,
Global Flight
Blagnac, France