

Surcharges Go the Distance

Air France-KLM revamp fuel surcharges for cargo; airforwarders hope other airlines follow change

Two of the world's largest cargo airlines are overhauling their fuel surcharge mechanism and forwarders are watching to see how many others will follow in one of the most painful pricing areas in the air cargo business.

With jet fuel prices soaring seemingly out of control, jointly owned Air France and KLM announced this month they will roll part of the existing fuel surcharges into the base rates and will trash the standard industry practice of applying flat surcharges to cargo shipments based on weight.



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Instead, Air France Cargo and KLM Cargo will base the surcharges on the distance shipments travel, based on three "distance zones" the carriers establish.

Their action marks the first significant shift in the structure of surcharges across the airline world since a global antitrust investigation into the charges has shaken the business and jet fuel prices have soared far past historic records.

"The validity of the current fuel surcharge mechanism is at its end as the important underlying factors (the U.S. dollar and the price of oil) have gone to structural new levels," said Michael Wisbrun, executive vice president for Air France-KLM Cargo. "For transparency reasons and in answer to the requests of our customers, Air France Cargo-KLM Cargo is taking this step."

Air France-KLM is among the airlines that have paid out a total of \$1.2 billion in

finances to settle charges of antitrust violations and collusion among the carriers over their use of fuel and security surcharges. Air France-KLM recently agreed to pay \$350 million to settle charges in the United States.

With a combined business that would make them the world's second-largest international freight airline, their joint action to restructure fuel surcharges will reverberate around the shipping world. But cargo executives at several airlines refused to comment last week on the moves.

Forwarders, however, would like to see carriers follow Air France-KLM at least by

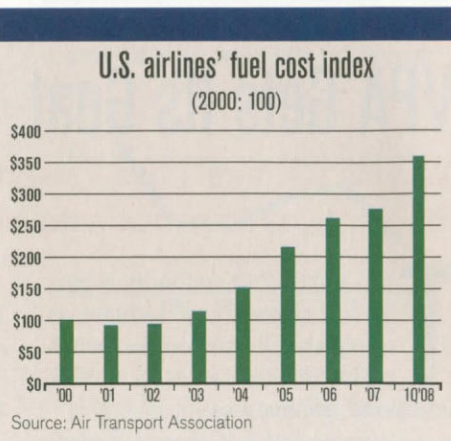
ago, before slipping back over the next two weeks.

folding more of the extra charges into the overall rate. Forwarders have complained base rates have remained mostly stagnant or falling, leaving them coping with more administration and higher costs in an area that is not commissionable.

"I would fully expect others to follow suit," said David Buss, vice president of global operations at Illinois-based forwarder AIT Worldwide. "It makes it commissionable and takes it out of the context that people are colluding and that sort of thing."

The shift comes as jet fuel prices have skyrocketed in recent weeks as oil prices have surged.

Jet fuel prices on all major air markets averaged close to \$4.20 a gallon by the middle of July, and the daily spot price hit a record \$4.392 a gallon in Rotterdam on July 3, more than double the price a year



ago, before slipping back over the next two weeks.

The Air Transport Association of America says \$1 in fuel is equivalent to \$470 million in annual costs for its carriers, meaning the price run-up in the past year has pulled nearly \$1 billion out of the airlines. Surcharges have gone up relentlessly since the first quarter.

"The accessorial charges, the fuel and security fees, have far exceeded the base rate at this point," Buss said. "I don't think anyone believes fuel prices will ever go down to the point where rolling them into the base rate presents any sort of risk. We just had one customer in a request-for-proposal who asked that the contract roll fuel (costs) in for the whole year.

"It's good to see that at least one carrier is facing the reality of fuel surcharges based on actual distance flown, as opposed to not considering the length of the mission itself," said Brandon Fried, executive director of the Airforwarders Association.

Many forwarders also complain, said Fried, that carriers are charging for volume weight, not actual weight, which allows them to charge customers a higher rate.

The changes at Air France-KLM will take effect Sept. 1. The U.S. dollar will serve as the basis for the new mechanism and be converted to the euro and other currencies for invoicing. Existing exchange rates will be used to determine the new fuel surcharge levels should prices increase or decrease.

The new model will be based on short haul, medium haul and long haul flights, and surcharge changes will be implemented in steps of 10 cents instead of five cents.

BY PAUL PAGE