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Fuel Surcharge or Hidden Price Increase?

Seems like everywhere I turn, I'm getting hit with a fuel surcharge. FedEx charges me one on every overnight package I send. The trucking company now wants a \$100 fuel surcharge to ship the computers I ordered. Even the police are getting in on the act with a recently instituted \$12 fuel surcharge on every speeding ticket! I guess it should come as no surprise that the airlines have stepped up the use of fuel surcharges as well. But what's really going on with all these fees?

As a business owner, I certainly understand that as costs rise so must the price paid by the consumer. However, I am concerned about the use of fuel surcharges as an easy way to raise prices over and above the actual increase in the cost of fuel. In the spirit of full and open disclosure, if I see my plumber filling up his truck at the local service station and he tells me that he has instituted a \$2.00 per gallon fuel surcharge because of the \$4.89 diesel he is pumping into his truck, then I understand that. But, when in a recent conversation a trucking executive says, "we've hedged our diesel costs for the next 12 months at \$2.25 a gallon" and then later talks about how he has instituted a fuel surcharge to offset the rising cost of diesel fuel... something just doesn't smell right... and it's not the diesel fuel!

This got me to thinking about fuel surcharges in general. How are they being instituted in different industries? Is there always a direct correlation between the price actually paid by the company for fuel and the amount of the fuel surcharge? Being in the travel business, I naturally thought of the airlines. Let me tell you, if you think airfares are confusing, just try and figure out the rationale used to set fuel surcharges. One would think that the airlines would simply take the increase in cost, divide this by the total number of seats on the aircraft and voilà, you have your fuel surcharge. Wrong, that would be too simple!

I looked at a variety of destinations and airfares and discovered that the amount of the fuel surcharge seems to depend on what type of traveler you are (business or vacation) and on the level of competition. Specifically, I found that a single flight could have a full range of surcharges:

Coach or business airfares - \$80 or more surcharge each way
Discounted airfares – approximately \$10 surcharge each way
Lowest non-refundable airfares – No surcharge

I also found that if only one airline offers direct service between a city pair, then even the lowest non-refundable airfares have a surcharge. But help me here, how does all of this correlate to the price of fuel? Do business travelers use more fuel than vacation travelers? Do the airplanes fly less efficiently when there is no competition?

How does this compare to other "similar" industries? If we look at the overnight package delivery companies (FedEx, UPS, etc.), they have a published surcharge chart based on the average cost of jet fuel. As the cost of jet fuel rises, so does the surcharge. However, the surcharge is applied evenly (on a percentage basis) to all packages whether it's a one pound letter or a 200 pound piece of equipment. This makes sense since, unlike the airlines, the cost of a "ticket" on an overnight carrier is based on weight, which is directly proportional to the amount of fuel used to transport the package. While I don't advocate the airlines breaking out the scales and charging each passenger based on their weight, the current system simply does not reflect the classic definition of a fuel surcharge. When the amount of the surcharge is dependent on competition and other factors not directly related to the cost of fuel, it should NOT be marketed as a fuel surcharge!

I'm not letting the overnight delivery companies off the hook so easily either. I'm sure most of them, like my trucking company example, have negotiated long term supply contracts to stabilize their fuel costs. So, if a trucking company, airline or overnight carrier is guaranteed to pay only \$2.25 a gallon for the next 12 months, then why should they be allowed to institute a fuel surcharge based on a rise in the "spot price" of aviation fuel?

So why are all these companies classifying these extra fees as "fuel surcharges"? Because rising fuel costs are in the news each day and customers naturally believe they are non-negotiable. However, based on my limited research, I believe I will be negotiating every "fuel surcharge" someone tries to charge me!