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Worried About Losing Tax Revenue, Congress to Investigate Airlines' Fees

By [MICHELINE MAYNARD](#)

When airlines charge extra fees, are they really just another fare increase in disguise?

It is not just a theoretical question to help travelers pass the time in an airport.

Congress has been furrowing its collective brow at the practice. An investigation is under way, and could lead to changes in this increasingly popular tactic that airlines use to bring in more revenue without raising fares.

Such fees have helped the industry offset the effects of the recession, by charging for things like checking bags, selecting seats and even for travel during the holidays.

The reason for the Congressional interest is money. Fees, for the most part, are not taxed, so the government is concerned it is missing out on extra revenue that could help airports.

Penny-pinching travelers may gripe about the fees, but this new inquiry could raise the ultimate cost of tickets, if airlines decide to pass along to their customers the cost of the additional taxes.

The outcome will hinge on the answer to a technical question: do the fees reflect what it costs the airlines to provide the extra service, or are they just an added charge for services the airlines have always provided?

The airlines prefer a different metaphor, and say these fees are akin to an à la carte restaurant menu, allowing passengers to choose what they want as part of their trip.

But to Representative [James L. Oberstar](#), Democrat of Minnesota, who has long followed industry issues, fees mean only one thing: "They've found a backdoor way to raise ticket prices."

He and Representative Jerry F. Costello, Democrat of Illinois, have asked the [Government Accountability Office](#) to investigate the practice. The office's first meetings with airlines began last month, and Mr. Oberstar said he expected to hold Congressional hearings for airline executives to justify the fees.

So far this year, United States airlines have taken in more than \$3 billion in fees. If all those fees were subject to the same 7.5 percent excise taxes as fares, then the government would have at least \$225 million more to distribute to airports for improvements and expansions.

Airline executives said they were cooperating fully with the Congressional investigation, but were concerned that it might result in even higher prices for consumers, who are already paying an average of \$10 each in baggage and other fees, which the airlines call ancillary revenue.

"It falls in the category, first, do no harm," said David Castelveter, spokesman for the Air Transport Association, the industry's trade group.

But Mr. Oberstar says airlines may be doing themselves long-term harm. The money collected from excise taxes is a primary source of federal financing for airports, which ultimately helps both the airlines and their customers.

"Maybe we have to teach them a lesson, and make them pay their fair share," Mr. Oberstar said of the airlines.

The airlines counter that the recession has forced them to think up new revenue streams. This fall, for example, they began adding a surcharge on tickets booked during the most popular travel days during Thanksgiving, Christmas and spring break.

"We have been aggressive and creative," John Tague, president of [United Airlines](#), told analysts last month. And it has paid off: United collects about \$13 in fees per passenger, or 30 percent more than the industry average.

Collectively, the nine biggest airlines lost \$236 million between July and September, which is usually the strongest quarter for travel during the year, according to [Airlinefinancials.com](#), which tracks industry trends.

Along with the overall drop in travel, revenue from business travelers, a major source of income for United and other carriers, was down 25 percent in the third quarter, after falling 40 percent earlier this year.

“There’s no opportunity here for a full revenue recovery until we get premium travel back,” Mr. Tague said.

“And it’s not clear how long that will take.”

[Southwest Airlines](#) has been a holdout in charging many fees. So far, it has not started charging to check the first two bags, although it is exploring ways to collect more revenue from passengers when it overhauls its frequent-flier program.

“We all know if we charged money, we’d get the bag fee, but we’d lose the customer,” its chief executive, Gary Kelly, said last month. “We believe we’re ahead of the game by not charging a bag fee.”

Robert W. Mann, an industry analyst, said airlines were making a mistake by giving passengers another reason to resent them, and by creating a new incentive for them to search harder for the lowest possible fare.

He added that the airlines should have been clearer on their Web sites and in their ads about the charges for things that were once included in the ticket price.

“There’s a right way, and a wrong way, and the wrong way is what the airlines have done,” Mr. Mann said.

Mr. Mann got his own fee surprise when he flew [JetBlue Airways](#) from Orlando to New York in October.

He arrived early at the airport, and asked to rebook his flight. He was told he could do so for \$40. The aisle seat he wanted cost him another \$25.

“It’s different than buying a car, and adding on the options packages,” he said. “It’s almost as if airlines have turned this on its head and said, ‘We’ll sell you the [Toyota](#), but the four tires are extra.’ ”

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