

TRANSPARENCY OF AIRLINE TICKETS

TREN/F1/22-56-2005

Final Report

May 2006

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10. SUMMARY OF STUDY AND RECOMMENDATIONS

Introduction

- 10.1 This chapter provides a summary of the main findings from the report. We then go on to provide our recommendations as to potential changes to legislation and the framework for governing air carriers' ticket transparency. This includes a description of suggested changes, and an assessment of any impact these changes would have on stakeholders and market factors.
- 10.2 The recommendations are based on the evidence we have collected from our research into airlines' practice, our review of the European Union and Member States' legal framework and extensive stakeholder consultation.

Summary of the main findings

Chapter 4: Taxes, fees and charges – level and degree of transparency

- 10.3 There are significant differences between the taxes, fees and charges (TFCs) levied on different routes and by different airlines. The main factor determining the level of TFCs seems to be the **policy of individual airlines** rather than country or airport specific charges which directly affect airlines' costs. In some cases, different airlines operating flights between exactly the same airports charged substantially different TFCs. The main legacy airlines generally charged much higher TFCs than the main low cost carriers.
- 10.4 As airlines add TFCs at different points in the booking process, and TFCs vary so much between carriers, there is a strong risk that customers comparing the price of flights **may be confused, and may unintentionally select a flight that is not the lowest cost option**. We found that this problem was almost entirely limited to airlines' websites: intermediary websites and call centres generally included all TFCs from the time that the first price was quoted. However, as the major European airlines now take a high and increasing proportion of their short haul bookings through their own websites, this is the key issue that would have to be addressed. As well as the basic TFCs added to ticket prices, many airlines also levied booking fees or other fees that are theoretically avoidable (such as credit card charges) but in practice cannot always be avoided, for example if there is also a charge for payment by debit card.
- 10.5 In some Member States, TFCs must be included in advertised prices, as confirmed by the result of our legal review in Chapter 8. However, this does not apply in all states, and where TFCs are not included in advertised prices, there is a risk that the advert may mislead customers about the prices that are available or the relative prices offered by different carriers. This is particularly likely to apply if customers assume that the TFCs will be equivalent, or at least similar, across all carriers.
- 10.6 We also found that many carriers provide little or no breakdown of TFCs. It is therefore not clear to customers whether the TFCs represent government taxes or additional charges added by the airline.
- 10.7 There is also a tendency for TFCs to be higher where air fares are higher and where carriers have more market power, however in both cases the relationship is relatively

weak. We found no evidence that codeshare arrangements had a significant impact on the level of TFCs.

- 10.8 We examined other sectors that impose additional unavoidable charges during the booking process for event tickets, internet shopping, hotels and other transport sectors. We found that these were generally lower than TFCs added to air tickets, but could be a significant proportion of total costs, for smaller total transactions.
- 10.9 The current legal position in the United States means there are strict rules on advertising and separation of TFCs. In general this means fares advertised must be the full price the consumer will pay. Additional government levied fees can be separated out in advertisements, but not the airlines' own costs. However the Department of Transportation in the United States is currently reviewing this policy and considering options for reform of this policy which may lead to greater flexibility for airlines.
- 10.10 Although we find that TFC policy is airline dependent we also find that the approach is influenced by the dominant carrier in a particular market. The main reasons for splitting out TFCs and reducing headline prices appears to be primarily to capture customers' attention and also to attribute costs to parties other than the airline. Although this reduces transparency, it has the beneficial side effect of identifying the airlines' avoidable costs and therefore defining a floor for refunds, albeit defined in the airlines' terms and subject to deductions for handling.

Chapter 5: Taxes, fees and charges and the link to costs

- 10.11 We found that taxes, fees and charges could generally be categorised as follows:
- **Government taxes:** These are general taxes levied by governments on air travel which are not designated to pay for aviation-related costs, such as airport facilities. Examples of government taxes include UK Air Passenger Duty and the development tax that the French government recently announced that it would impose on air tickets. This category also includes general taxes that apply to air travel as well as other industries, such as VAT, which applies for some domestic flights in Member States (prevailing taxes and VAT rules are described in Chapter 8).
 - **Airport or aeronautical charges:** These are charges levied by airports to recover the costs of the facilities or services that they provide. At most European airports, these include passenger service charges, which are typically €5-15 per departing passenger, and these may also include airport security surcharges.
 - **Airline commercial fees:** These are commercial fees imposed by the airline that are independent of the booking channel. These commonly include fuel surcharges and insurance surcharges but can cover other costs: for example one airline imposes a wheelchair levy. In some cases we found less helpfully described surcharges: for example, one airline levied a 'Carrier surcharge' of €36.
 - **Booking fees:** These are fees related to the booking process or channel (which can be the airline or an intermediary). These can include booking fees, ticket issue fees and credit/debit card surcharges.
- 10.12 We found for our full airline sample that of the total taxes, fees and charges by value, 9% were Government taxes, 38% airport or aeronautical charges, 45% airline commercial fees and 8% booking fees.

- 10.13 In our comparison of the reported TFCs to actual costs faced by airlines, we found that:
- Government taxes were levied on passengers at cost;
 - The airport and aeronautical charges levied as TFCs by legacy airlines matched the charges in the IATA Airport Charges Guide. However, the position for low cost carriers was more complex, with easyJet's policy being country dependent. We also examined whether discounts, and peak/off-peak pricing was taken into consideration in TFCs, and found that some airlines did not pass on their actual costs where these were lower than the standard charges. Negotiated discounts were, in general, not reflected in the airport charges levied.
 - The position on airline commercial fees was less clear because of lack of available cost data. However, from information we were able to gather we found that for fuel surcharges there is no systematic evidence that fees are related to costs and for other commercial fees identified, in general, they did not reflect costs.
 - Booking fees (including ticket issue fee, credit/debit card fees). There is variation in charges levied across airlines, and by country of sale for some airlines. We found no direct relationship to costs.

Chapter 6: Pricing and yield management

- 10.14 We found that, on most routes, the deregulated aviation market was working well. Prices have fallen significantly in recent years, in part due to the introduction of services by low cost airlines. We found that low cost airlines offered fares that were consistently much lower than those offered by the established network carriers, but that some of the network carriers have cut their fares in response to this competition.
- 10.15 However, on a few routes, we found that fares were relatively high and in some cases were disproportionate to the costs faced by the airlines. For example, we found that the lowest *one way* fare on the Paris CDG-Rome route levied by the only two airlines operating the route (Air France and Alitalia) was nearly €800. The third package legislation allows regulatory authorities to intervene in fare-setting if fares are excessive, but only one Member State has even threatened to do so. The routes with high fares tended to be those where there was little competition, and in general we found a strong link between the market power held by airlines and the level of fares. This contrasts with our analysis of TFCs, which did not show any significant link with competition or market power.
- 10.16 In most cases, the lack of competition was a result of slot constraints. However, in some cases, we found that these constraints had been exacerbated by decisions to approve codeshare and other non-competitive arrangements even where there was little competition from other airlines, or as a result of ineffective conditions being imposed when these were authorised.
- 10.17 On the most competitive routes, we found that ticket prices varied mostly by the time and date of travel and the advance booking period, but on less competitive routes, we found that other factors such as length of stay also often determined the prices that were offered to passengers. The prices offered by airlines for tickets to be purchased by obviously price-sensitive 'leisure' passengers (those booking well in advance,

making a return trip and staying over a Saturday night) varied much less between competitive and non-competitive routes than prices for other passengers whom the airlines would assume to be less price-sensitive. This indicates that airlines are using their market power, where they have it, to charge significantly higher fares to customers that they perceive as being less price-sensitive.

- 10.18 We found that airlines with codeshare agreements appeared not to be competing with each other in terms of price, even on routes where the extent of the codeshare arrangement was limited and no revenue sharing or price setting agreement was in place.

Chapter 7: Other charges

- 10.19 We also identified additional charges which are levied by some airlines and which, in principle, customers might not expect and which are not transparent until some way into the booking process. These include:

- excess baggage charges;
- change fees;
- additional or increased taxes or charges;
- administration fees for refunds (for example, refunds of taxes and charges for unused tickets);
- additional charges added during the booking process;
- charges for food and drink; and
- charges for telephone calls to contact the airline.

- 10.20 There are significant differences in many of these charges between airlines. We do not believe that there is a significant problem with non-transparency in any of these areas, but there are some issues that we suggest that the Commission or Member State authorities may wish to address:

- It is only possible to obtain route-specific information on excess baggage charges and the excess baggage limit easily from some airlines' websites, but not all.
- The level of excess baggage charges varies considerably and may be disproportionate to the costs incurred.
- Some airlines or intermediaries offer extras such as insurance during the booking process, on an 'opt-out' rather than an 'opt-in' basis.

Chapter 8: Legal review

- 10.21 Some European Union legislation is applicable to airline ticket pricing, but none is specific to aviation and therefore it does not provide a comprehensive system of control. A few Member States (Germany, Ireland and Poland) have enacted legislation specifically covering airline ticket pricing, but in most Member States it is regulated by general laws on consumer protection and advertising.

- 10.22 In 2002 a number of European airlines accepted a voluntary Airline Passenger Service Commitment, developed under the joint auspices of the European Commission and

ECAC. This contains provisions relevant to ticket pricing, but as it is voluntary it is not legally enforceable.

- 10.23 Airline pricing practices have evolved significantly over the past ten years. Deregulation has resulted in new market entry, greater competition and the introduction of new routes, with the result that advertising and attractive promotion of fares have become a more important feature of airlines' commercial strategies. Airline behaviour in respect of pricing structure, promotions and advertising, the use of different sales channels and the presentation of terms and conditions have become sources of differentiation between airlines and have led to a wide range of practices, some of which have been deemed to be against the interest of passengers.
- 10.24 In Denmark, Ireland, Sweden, Germany and the United Kingdom legal cases have been brought by enforcement bodies to regulate airline behaviour in relation to advertising and pricing of tickets. However, in many parts of the European Union airlines appear to have a relatively free hand to market and present prices as they wish, including the exclusion of taxes, fees and charges from advertised prices.
- 10.25 Case law and our findings from the ticketing and pricing data collected for this study tend to indicate that the issues arising are aviation specific, rather than generic in nature.

Chapter 9: Stakeholder consultation

- 10.26 Airlines and airline representatives said that the reasons that the amount of TFCs added to tickets had increased were:
- the introduction of fuel surcharges to reflect the increase in fuel costs;
 - the introduction of specific insurance or security surcharges to reflect additional costs after 9/11;
 - more government taxes being levied on air travel;
 - increases in airport charges; and
 - a tendency to separate charges such as Passenger Service Charge (PSC), which until a few years ago were included in the price of the ticket.
- 10.27 One carrier stated that they had switched to separating more TFCs in response to market pressure: they believed that some customers chose flights on the pre-TFC price, and therefore carriers that separated fewer TFCs were at a disadvantage
- 10.28 We asked whether carriers would welcome legislation that required them to include TFCs in the prices first shown on the website. Around half supported this case, subject to workable rules, whereas the other half said they would not support it as there was no demonstrated need and the costs of compliance. A preferred route was improved consumer protection legislation.
- 10.29 In contrast, all of the consumer representatives argued that all unavoidable TFCs should be included in all advertised prices and the initial prices presented by airlines on their websites. However, consumer and regulatory authorities distinguished between charges that could be avoided and those that could not. Those that could not

should be made transparent at the start of the process, and in advertised prices, but they did not object to other charges being levied for genuinely optional services.

- 10.30 With respect to pricing, consultees thought that measures to encourage greater competition, through slot trading and extension of the third package, were likely to be the most effective means of addressing the problem. Issues such as the power of the dominant carrier on a route and the influence of codeshare arrangements were raised by consultees as requiring resolution.

Recommendations

Governance of Taxes, Fees and Charges

- 10.31 As explained above, we found that there was significant variation in the level of TFCs, and this was primarily determined by the commercial policies of individual airlines. On a route with a number of air carrier serving the market, the level of taxes, fees and charges often varied considerably between airlines. We also found that the point at which TFCs are presented on a website reflected specific airline policy. We found little evidence that TFCs are being used by air carriers to exploit market power in general or on a route-by-route basis.

- 10.32 In our view, the key issue that should be addressed is the transparency of charges:

- Some airlines add non-avoidable charges relatively late in the booking process. There is some ad-hoc evidence (from studies undertaken by the Airline Users' Council) that customers make decisions on initial "headline" prices, rather than "final" prices and that they assume that all carriers operating on the same route will levy the same charges. In fact, there is often substantial variation. There is therefore a risk that some passengers might select a flight offered by one airline believing it to be the cheapest, when actually the total price would be lower with another carrier.
- Some airline advertisements are also misleading, because they do not include TFCs. In a number of Member States, there is already a requirement that airlines include TFCs in advertised prices, but in others, there is no such requirement.
- In some Member States, there are requirements on airlines to declare the number of tickets available at advertised prices, but in others there are no such requirements. In these countries, it can be unclear as to what services and what volume of seats the "special offers" or advertised offers apply.
- The internet sites of many of the air carriers examined in the study do not provide a transparent breakdown of any TFCs included in their final prices. There is therefore a risk that consumers might believe that the TFCs quoted by the airline are all unavoidable government taxes, whereas we found that the major proportion of the charges are either airline commercial fees or airport charges.

- 10.33 Our proposed recommendations are:

- **Airlines should be required to include unavoidable TFCs (with the breakdown of information set out above) in the first quoted price to consumers:** At present there is very different practice across air carriers. Greater standardisation will minimise the risk that customers are confused or misled when comparing prices between air carriers. All charges including booking fees and debit card charges should be included in the first presented

price, although other charges (such as for baggage, or credit card charges where these are genuinely avoidable) need not be.

- **Airlines should be required to include all unavoidable TFCs in advertised prices:** Some Member States already require air carriers to include TFCs in prices given in their advertising, but not all do. The Commission should require all carriers to include **unavoidable** TFCs in all advertised prices, independent of the media used. Specifically, this requirement should cover prices advertised on airline websites and through emails, as well as through printed media, television or radio.
- **When special offers are advertised, the advertiser should be required to specify the number of tickets and the destinations available under the promotion:** Some Member States require that a minimum number of special offer tickets must be available if the offer is to be advertised, or that the advertisement must provide full details on how the special offer fare can be obtained and the number of tickets available. These requirements provide greater clarity of the availability of offers for consumers. Again, this would apply to all advertisement independent of the media used (as described above).

- 10.34 At present, consumers may also be given the impression that TFCs all relate to government taxes, but as explained in Chapter 5 above, in most cases they do not. In some Member States, there is a requirement not to label TFCs as taxes when they include other elements, but in other States there are no such requirements and some airlines describe TFCs as ‘taxes’ when only a very small proportion are actually taxes. **We recommend that airlines should be required to either clearly label TFCs as taxes, charges and additional airline fees or provide a full breakdown of any TFCs added to the ticket price,** so that consumers can see the makeup of the TFCs themselves.

Promotion of competition

- 10.35 In general, we found that the market for air transport within Europe was working well. However, we found some cases where the fares that airlines levied were wholly disproportionate to the costs that they incurred.
- 10.36 As discussed in Chapter 9, most stakeholders suggested that the Commission should continue to promote competition as the best means of improving price offers to consumers.

Framework for assessing impacts

- 10.37 Each of these recommendations are likely to have significant impacts on a number of parties, some of which will be directly monetary, others which will be more indirectly quantifiable, and others descriptive.
- 10.38 We have used the following headings to highlight and describe the main impacts of the recommendations. These have been split between impacts on stakeholders and on market factors:

Impact on stakeholders

- Air carriers

- Consumers
- Other stakeholders (e.g. Travel Agents)

Impact on market factors

- Competition
- Demand
- Transparency
- Ability to discriminate prices between consumers