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Air France-KLM Scraps Short-Haul Surcharges

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By **Amon Cohen**

Air France-KLM has scrapped surcharges on flights within Europe and reduced them on long-haul routes that don't cross the Atlantic Ocean. Instead, it has integrated the price element into the total ticket price.

Travel management consultants told *BTN* the change, which took effect Nov. 3, should reduce costs for many corporate clients because more of what they pay will be subject to their negotiated discounts. Surcharges can account for well over half the ticket price yet are ineligible for negotiated discounts. "No one understood why, if you had €1 million of air spend, only €400,000 was negotiable," said Jörg Martin, the Germany-based managing director of CTC Corporate Travel Consulting and chairman of GBTA Europe's aviation committee.

However, the carrier made another move that may confirm the "heads they win, tails we lose" way some buyers' view airline pricing strategies: Air France-KLM has pushed up some fares by more than the amount it has reduced its surcharge. According to Olivier Benoit, senior director and air practice area leader for BCD Travel consulting arm Advito, it reduced its surcharge by €114 for business class from Paris to Hong Kong but increased its published fare by €215. "As usual, the devil is in the detail," said Benoit. "For a client with a significant discount, the total price will decrease. For a client with a limited discount, the price will remain flat or could even increase."

History Of Contention

Surcharging has long been [contentious](#). Introduced explicitly as fuel surcharges more than a decade ago in response to rising fuel costs, YQ and YR boxes on air tickets have ceased to bear any relation to fuel costs. Indeed, Lufthansa Group gave up any such pretense in 2014, renaming the YQ box an "international surcharge" to cover costs it considered uncontrollable, such as air traffic control. Others, such as British Airways, renamed them "carrier-imposed surcharges."

Airlines have received considerable [criticism](#) since late 2014 for maintaining surcharge levels though fuel costs have fallen. Other than in regulated markets like China and Japan, examples of change have been rare. Qantas and Virgin Australia integrated surcharges into their base fares on international routes in January, and British Airways quietly did so on short-haul flights a couple months later, Benoit said.

Buyer groups object to both surcharges' lack of transparency and their immunity to discounts. "We have been talking in depth with airlines since the beginning of the year to make them understand our perspective," said Martin. Air France-KLM wrote to the travel trade last month that it had "decided to

move towards a transparent and simplified pricing policy, integrating (fully or partially) the carrier surcharge (YR) in the net fare."

Moving Forward

Benoit said the carrier has retained a surcharge on long-haul routes so that it has a mechanism to respond to future fuel price increases. "In a perfect world, it would be fully integrated on every route, but the fuel price is still volatile. A surcharge could make sense but only if it is transparent."

Though Air France-KLM reduced the surcharge on other long-haul rates, Benoit said it did not do so on transatlantic routes because surcharges there already are lower. For example, a typical business class surcharge from Europe to Asia is €450 to €500; from Europe to the United States, most airlines charge around €175. However, Martin said the stasis on transatlantic routes also represented Air France-KLM's failure to reach consensus with joint-venture partner Delta Air Lines. Delta did not respond to a request for comment.

Benoit warned: "AF/KL may revise its discounts policy in ongoing requests for proposal or by offering lower discounts to corporate clients from 2016. Although AF/KL has to offer competitive pricing, this could be a challenge when negotiating routes where it is in a monopoly or dominant position."

Both Benoit and Martin believe more airlines will reduce or scrap surcharges over the next year and welcomed the improved transparency. They have one complaint, though. "Total ticket prices have not benefited from the drop in fuel prices," said Benoit. "Airlines are looking instead at what the market can bear, and they see that their load factors are holding steady or even moving upwards."

