

**By: Caroline Brothers**

**ROISSY, France:** Fuel prices have plunged, the world economy is in a tailspin and airlines are running all kinds of promotions to fill empty seats. You would think ticket prices would be coming down. Think again.

Despite highly publicized fare wars in some markets, on some routes, the total cost of a plane ticket for many fliers has barely budged or even gone up.

Part of the reason is the cat-and-mouse game airline "yield managers" play — the agents who determine how many seats will be offered at what prices on any particular flight. Air France-KLM alone has 120 of them at Roissy-Charles de Gaulle Airport, near Paris, monitoring micro-movements in global airfares.

"These are active fares and we adapt them to the competition every day, and if we are attacked, we do what they do," an Air France-KLM executive said just before a behind-the-scenes tour of the operation. He did not want to be identified so he could speak candidly.

But there are also other more structural issues why airfares remain high, from the prevalence — and stickiness — of surcharges to the inability of big carriers to respond quickly to slumping demand. Some are still paying for wrong-way bets on fuel hedging before the price of oil plummeted last year.

Having collectively suffered losses of as much as \$8 billion last year, according to the International Air Transport Association, the industry also is in no hurry to self-inflict more damage to its bottom line. "The current quarter is likely to be one of the worst ever for profitability, so airlines will do anything they can to alleviate it," said Andrew Light, an aviation industry analyst in London for Citigroup.

Despite heavily promoted sales in some markets, some road-warriors say they believe that ticket prices have climbed from last year's levels, particularly in the business-class cabin on lightly served, long-distance routes.

Alexis Felisa, a commodities trader flying from Paris to Geneva this month from Roissy-Charles de Gaulle, said he was now paying €1,000, or \$1,300, more for the six-hour flight from Paris to Cameroon that cost him €3,000 to €3,500 last year — despite booking his tickets six weeks in advance.

"My regular flights are from Geneva to Africa, Latin America and the Antilles, and tickets I booked two weeks ago for April were more expensive than I've paid before," said Mr. Felisa, who always flies long distance in business class. The increase, he said, is steepest on routes where he has the least choice.

Jean-Marc Brunschwig, a fashion retail executive who flies frequently within Europe, always in economy seats, said he did not have the impression that airlines were cutting prices either. "They do lots of promotions and send lots of e-mails, but I don't believe that prices have changed," he said.

According to data from American Express to be released next week, economy fares in Europe, the Middle East and Africa fell in the fourth quarter by 11.1 percent on average.

But Hervé Sedky, general manager of advisory services for American Express Business Travel, said in an interview that the figure was distorted by the effect of discounted flights on highly competitive trans-Atlantic routes. That is due in part to the year-old "Open Skies" agreement between the United States and European Union, he said.

Net economy fares within Europe had actually risen in the "high single digits" in the fourth quarter of 2008, he said.

Similarly, data released Tuesday by the International Air Transport Association, showed that average fares in first and business class had fallen by 6 percent around the world in December, compared with December 2007. But that figure did not count the surcharges that would push the cost of flying back up.





Extra charges for fuel, booking fees and taxes rose 7.2 percent in the quarter, according to the American Express Business Travel Monitor — one of the few sources of airfare information in the industry. The cost of full-fare business-class seats on long-distance flights rose by more than 4 percent in the same period, according to the data.

Over all, the everything-included cost of economy class tickets in the Europe, Middle East and Africa region rose 59.9 percent in 2008, accelerating from a 41.2 percent increase the previous year, largely under the weight of fuel surcharges, according to American Express.

In the United States, a price war has broken out in recent weeks, mostly on routes where the competition is heavy or business travel has really plummeted. But the extra fees are proving persistent there as well.

The U.S. Bureau of Transportation Statistics in January reported that the average domestic airfare in the third quarter of 2008 had reached the highest level for any quarter in the 13 years for which data was available, rising 2.8 percent from the second quarter, to \$362.

Raphael A. Béjar, the chief executive of Airsavings, an international consultancy based in Paris that advises airlines on raising revenue and cutting costs, says that airfares will continue to increase as carriers try where they can to rebuild their profit margins after last year's fuel price spike.

Airlines like Air-France-KLM, Cathay Pacific and Southwest Airlines, which benefited from fuel price hedging last summer when oil prices soared, found themselves locked into expensive contracts later, when oil precipitously fell.

"Airlines feel they never really covered their fuel cost last year, so they are reluctant to bring prices down that quickly," Mr. Light, the Citigroup analyst, said of the industry trend.

Some of those misjudged hedges will not be unwound until midyear, Mr. Sedky said by telephone. Meanwhile, other carriers are now signing more flexible — but more expensive — contracts, whose burden is passed on particularly to business- and first-class fliers.

"Right now, fares are higher than last year and they will continue to increase," Mr. Béjar said.

"Consumers should not expect bargain-basement fare wars or significant reduction in base fare prices," Mr. Béjar said by e-mail. Carriers of all stripes have been scrambling to reduce capacity to try to increase yields. Singapore Airlines, long considered one of the world's best-run and most profitable airlines, said in February that it was withdrawing the service to Vancouver, British Columbia, that it has operated for 20 years. SAS, the money-losing Scandinavian airline, eliminated its flights to Seattle. Emirates, Dubai's government-owned airline, announced last Friday that it would reduce its weekly flights to Shanghai and Beijing as of the end of this month.

Delta, American and United Airlines are cutting seats on some international routes by as much as a third this year. But Delta's new cuts, announced Tuesday, would not start until September. That is partly because for many established carriers, capacity cuts take time.

For one thing, the strength of airline unions means that companies cannot quickly shed jobs when they downsize their fleets. "Employees are a powerful group because air tickets are perishable, and the line of least resistance is to give in," said Nick Cunningham, an analyst at Evolution Securities in London.

Landing slots at constricted airports, like London Heathrow and Kennedy, in New York, are confiscated if airlines use them less than 80 percent of the time, leaving carriers reluctant to cull their schedules. Even if the European Commission rescinds that rule in Europe this summer, as it has indicated it would, airlines fear that consolidating flights and cutting frequencies could cost them market share against rivals with better connections.

In addition, leased aircraft still have to be paid for even if they are not in service, tempting carriers to keep flying them even if peppered with empty seats.

With an eye on "near-zero" fare offers — before taxes and administrative fees — by low-cost carriers like Ryanair and AirAsia, yield managers around the world are introducing short-term promotions, albeit at less popular times, on less flexible tickets, and in windows that quickly slam shut. But such deals are not likely to last as capacity cuts start to gain traction. Nor can these transient offers do much to attract the lucrative corporate traveler so crucial to the profitability of network carriers.

"You can't stimulate business traffic by offering low fares," Mr. Light said, arguing that executive travel is driven instead by business deals and meetings — in short, by economic health.

