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Order 2000-3-7

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UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Issued by the Department of Transportation
on the 14th day of March, 2000

Agreements adopted by the Tariff :
Coordinating Conferences of the :
International Air Transport Association : Docket OST-2000-6837-2
relating to cargo rate matters :

ORDER

Various members of the International Air Transport Association (IATA) have filed an agreement with the Department under section 41309 of Title 49 of the United States Code (the Code), and Part 303 of the Department's regulations. The agreement was adopted by mail vote.1/

The agreement adopts Resolution 116ss which establishes a uniform, industry-wide mechanism to surcharge cargo rates whenever the cost of aviation jet fuel exceeds the average price of aviation fuel during the month of June 1996 by more than 30 percent for a period of more than two weeks. Under the resolution's terms, the surcharge will remain in effect until the average price of fuel decreases to a point where it is no more than 10 percent above the June 1996 average for at least two consecutive weeks. When this "trigger" point is reached, IATA will notify cargo conference members and suspend the surcharge. In the event that the average fuel price rises again above 30 percent of the June 1996 price for two consecutive weeks, the surcharge will be reintroduced.2/ Finally, should the average fuel price exceed 150 percent of the June 1996 average for two consecutive weeks, IATA will convene a special meeting of the Cargo Tariff Coordinating Conferences to review the amounts set forth in Attachment A.3/

Included in Attachment A to Resolution 116ss are the first surcharges triggered under this proposed mechanism. Insofar as United States points are concerned, this attachment contains a surcharge of 10 cents per kilogram on cargo shipments from the

1/ IATA memorandum CTC COMP 0052 (Mail Vote 875), filed with the Department on January 28, 2000.

2/ The index compares the average price for fuel at the five spot markets of Rotterdam Barges, Mediterranean Italy, Singapore, U.S. Gulf Coast and U.S. West Coast to the June 1996 base average price.

3/ Although Resolution 116ss is of indefinite duration, IATA asks us to approve it for a period of only two years.

United States with shipments to the United States surcharged an equivalent amount in local currency. American Airlines, Inc.; Delta Air Lines, Inc.; Federal Express; and United Air Lines, Inc. submitted economic justification in support of the 10 cent surcharge (though not for the mechanism itself).

We are not inclined to accept this continuing, IATA-agreed worldwide industry mechanism that automatically triggers rate increases when certain criteria are met as a method to offset increased fuel costs. Many carriers have already taken action outside of the IATA tariff conference system to increase their prices to help recoup increased fuel costs, which vary considerably by area. We have, therefore, decided to disapprove Resolution 116ss.

The uniform, industry-wide index mechanism proposed here appears fundamentally flawed and unfair to shippers and other users of cargo air transportation. If the price of fuel spikes long enough to trigger a rate increase and then declines, but not enough to trigger its suspension, then shippers and users could be subjected, through this mechanism, to unjustified and unwarranted rate increases. To illustrate, assume the price of fuel, which has been averaging at about nineteen percent (63.63 cents per gallon) above the June 1996 base (53.35 cents per gallon), suddenly spikes to about 35 percent (72.30 cents per gallon), of the June 1996 base, just long enough to trigger a rate increase and then declines to average about twelve percent (59.75 cents per gallon) above the June 1996 base of 53.35 cents per gallon. This decline would not be enough to trigger a suspension of the rate increase, yet the average cost of fuel would be over six percent (3.88 cents per gallon) less than the average price (63.63 cents per gallon) before the rate increase was triggered. However, shippers would still be paying increased rates that are higher than what they were paying before the increase was triggered, when fuel prices were actually higher.

Moreover, IATA's proposed index mechanism, which reflects the volatile nature of the spot market, is at best an imperfect measure of the impact of fuel price increases on carriers. Most carriers employ fuel hedging programs which they use to limit the effects of jet fuel price volatility and thus discipline their costs. Indeed, under these programs, many prudent carriers manage to hedge between 70-80 percent of their total fuel needs. To illustrate, as shown in the attachment to this order, the difference between the average actual fuel prices, as reported to the Department, for the three operating entities (Atlantic, Latin America and Pacific), measured between June 1996 and November 1999, increased about six percent, while IATA's index, based on spot market prices, showed a 34 percent increase over the same period. In these circumstances, the proposed mechanism cannot receive our approval.

Acting under Title 49 of the United States Code (the Code), and particularly sections 40101, 40103, 41300 and 41309:

1. We find the following resolution, which is incorporated in the agreement in Docket OST-2000-6837, as indicated, and which has direct application in foreign air transportation as defined by the Code, to be adverse to the public interest and in violation of the Code:

<u>Docket</u>	<u>IATA No</u>	<u>Title</u>	<u>Application</u>
OST-2000-6837	116ss	Special Enabling Resolution (Fuel)	1;2;3;1/2; 2/3;3/1;1/2/3

ACCORDINGLY,

We disapprove the agreement contained in Docket OST-2000-6837, as set forth in finding paragraph one above.

By:

A. BRADLEY MIMS
Deputy Assistant Secretary for Aviation
and International Affairs

(Seal)

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http://www.dot.gov/dotinfo/reports/reports_aviation.asp

Cargo Fuel Price Comparisons--SFFL vs IATA Spot Price Index 1/

	<u>ATL</u>	<u>LAD</u>	<u>PAC</u>	<u>3-Entity Average</u>
June 96 SFFL	61.62	60.86	66.28	62.92
Nov 99 SFFL	63.77	69.38	66.38	66.51
Index	1.03	1.14	1.00	1.06
June 96 IATA				53.35
Nov 99 IATA				72.3
Index				1.36

Average Fuel Price at the Five Spot Markets 1/

<u>Month</u>	<u>Price</u>	<u>Index</u>
Jun-96	53.35	1.00
May-99	40.78	0.76
Jun-99	45.35	0.85
Jul-99	46.09	0.86
Aug-99	58.83	1.10
Sep-99	63.63	1.19
Oct-99	62.21	1.17
Nov-99	72.3	1.36
Dec-99	71.62	1.34

1/ Sources: Spot prices from economic justification submitted by Delta Air Lines and actual fuel prices from SFFL orders.