

White Paper

More Security, Less Hassle for American Travelers: A Private Sector Solution for the Airline Industry

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The Problem:

Security gaps in airline industry: In the aftermath of 9/11 terrorist attacks that exposed the need for greater security in the air transportation industry, Congress passed the Aviation and Transportation Security Act. The Act authorized security fees of up to \$10 per round trip per passenger with the fees to be used to generate funds to enhance security of air travel through better screening of all passengers and bags. To meet the security mandates, TSA invests billions in better-trained security agents and expensive metal and bomb detecting equipment for passengers and bags at airport check points.

While air travel security has improved, it falls short of addressing a major source for the security problems and the associated cost – the bags transported by the airlines. A security fee based on passengers alone has similar shortcoming as airline fare structures that fail to recognize the difference between passengers with and without bags. The current system does not create incentive based choices for passengers to limit the baggage they carry. Consequently, existing baggage practices add to both security risks and costs to air travel. Existing practices do little to influence the demand for baggage screening. Instead, the focus is largely upon screening and transporting an unconstrained supply of baggage associated with passengers.

Airline industry losses: Even though the airline industry was deregulated almost twenty-five years ago, it has not demonstrated it can recognize the actual costs associated with baggage handling. The industry transports more than double the number of bags than passengers. While airlines incur huge labor and equipment costs for transporting bags, most airlines do not track or adequately recover the cost for transporting baggage. The industry continues to price primarily on the basis of purpose of travel - business or leisure. The failure to distinguish the cost of transporting passengers with and without bags even within these two types of travelers is costing the industry billions in un-recovered expenses and exacerbating security gaps in baggage transport.

With about 1.5 billion bags transported last year by the domestic US airlines, there are compelling reasons to consider the baggage-handling proposal presented by Universal Express, Inc.

Universal Express' Solution:

Universal Express proposes separate security fees for passengers and baggage and an economical solution for transportation of baggage for air passengers. The proposed solution involves separating the baggage from its passengers and encouraging travelers to ship their bags prior to the departure date. This will provide for the bags to be transported in a similar manner as the 5 billion parcels shipped annually by businesses and consumers. The Universal Express (USXP) proposal calls for utilizing the United States Postal Service and parcel carriers (UPS, FedEx, Airborne and others) to handle some of the baggage that is currently handled by the airline industry. The proposal is to enable

airline passengers to still have the option to carry bags to the airport but with the payment of a separate per baggage charge for transportation of the luggage by the airlines and a per baggage security fee for screening service by TSA and airport authorities.

Enabling a framework of fees for passengers to choose how to handle baggage will allow for an overall economical solution for the transportation of baggage for air passengers. It will encourage use of less expensive means to meet security needs and transportation of bags.

Rather than having to take the baggage through the check-in points and through the security lines, passengers would have a framework of choices for shipping their luggage in advance to reach their destination in time of their arrival at a lower price or carry bags to the airport for transporting by airlines at a premium price. While travelers can ship their bags directly with private carriers, the Universal Express proposal would further enable the collective bargaining power of millions of travelers to be leveraged for lower cost, faster service, greater security via enhanced visibility, and exceptional customer service for delayed bags.

Benefits To Homeland Security – Threat of Attacks

- Decline in passenger baggage reduces the prospect of infiltration of terrorist devices onboard airplanes and reduces the chances for security breaches. Due to the separating of the baggage from its passengers, managing security measures to protect passengers becomes easier.
- The targeting and likelihood of terrorist attacks are made more difficult due to the lack of information on the specific aircraft or trucks used for baggage transportation.

Benefits To Homeland Security – Opportunities for Reduced Spending

The Transportation Security Administration (TSA) protects the Nation's transportation systems to ensure freedom of movement for people and commerce.

- For fiscal year 2004, the Homeland Security Appropriations Bill appropriates \$4.57 billion for the TSA. As shown in Table 1, the funding is allocated to four programs - Aviation Security, Maritime and Land Security, Intelligence and Research and Development. Of the total TSA budget, \$3.73 billion is dedicated to Aviation Security. (*Source: Homeland Security Appropriations Bill, 2004*)
- The recent downsizing of the TSA, which eliminated 6000 positions, had an estimated savings of about \$320 million to the taxpayers by Sept. 30, 2004. Currently, there are about 52,000 baggage screeners at 429 Domestic airports. (*Source: Air Transport Association figures, 2003*). The security bill for 2004 provides \$1.32 billion to specifically meet the needs of baggage screening in terms of screener training, Explosive Detection System/Explosive Tracking Device installation and maintenance. This proposal could result in fewer bags being taken on trips and even fewer brought to airports, thereby contributing to

further reduction in number of security screeners and related equipment costs. According to our analysis, the expected savings could range from \$550 million to \$1.2 billion.

Table 1 – Homeland Security Appropriations for TSA - Summary

(All Figures in \$ Billion)	Appropriations for 2004	
Aviation Security		\$3.73
Passenger Screening	\$ 1.80	
Baggage Screening	\$ 1.32	
Security Direction & Enforcement	\$ 0.71	
Maritime & Land Security		\$0.23
Intelligence		\$0.01
R&D		\$0.12
Administration		\$0.48
Total Budget appropriated for TSA		\$4.57

* Source: *Homeland Security Appropriations Bill, 2004*

- Reduce demand for baggage screening: Too often, passengers check in two large bags and carry on-board two more. A charge for transporting bags that presents choices will encourage more judicious behavior by passengers and result in fewer bags. Fewer bags will reduce security related problems and costs, such as waiting time at the security lines, and matching bags loaded on airplanes with passengers boarding the aircraft. Under the current pricing approach, either the business traveler is paying for cost of handling such bags or the airline is not recovering actual expenses. Since passengers have discretion on how many bags are taken on a trip, a baggage fee would reward those who carry less. A baggage security fee will change passenger behavior, which will in turn enhance airline security, bring rationale to airfares by eliminating cross subsidies, and improve flow of passengers at airports.
- Faster and enhanced security check-in: The fewer bags that are checked-in or carried on-board aircraft by the passengers, the less opportunity for an error in screening. Moreover, as passengers gain financially by leaving unnecessary items at home, the lines at security checkpoints will move faster. The result will be savings in reducing the need for screening professionals at airports.
- The savings in security funds and people identified herein could be either used to reduce the size of federal expenditure or deployed at Amtrak train stations and bus terminals, to reduce terrorist threats in those arenas.

Benefits to Airlines – Reduction in Costs

Airlines should benefit from lower costs under the proposed approach. Specifically, the Universal Express proposal for handling baggage could reduce the number of bags brought to the airports and transported by the airlines. Fewer bags handled by airlines could reduce operating costs as follows:

- Universal Express estimates that by enabling a user fee approach airlines would be able to save between \$2.5 billion to \$6 billion of labor costs due to reduced need for baggage handlers.
- Airlines would be able to reduce the resources on baggage claims, delayed baggage delivery and compensation for the passenger's lost baggage.
- Aircraft turnaround can be faster. Fewer checked-in bags would provide faster loading of bags on the aircraft at origin and transfer airports. Moreover, a per baggage security fee applied to all bags could help limit carry-on items to only those required for use in flight (such as brief case, laptops, etc.) It could result in faster boarding of passengers, less damage to overhead bins, faster turnaround time for the aircraft, more flights from the same crew and a more efficient cost structure. Faster turnaround time should result in extra scheduled flights for the domestic fleet saving about \$8.0 billion in operating cost for the airline industry.

Benefit To Airlines – Increased Revenue Streams

The Universal Express proposal could also provide revenue streams for airlines from those bags checked-in at the airport and additional space for revenue generating air cargo.

- Consider that if airlines charge a premium price (about 20% for faster same day service) to passengers choosing to use traditional check-in over a Universal Express baggage handling charge using parcel carriers, this approach could generate additional revenues between \$15 and \$27 billion for the airlines. This amount represents about 12% to 22% of the annual revenues of airline industry. Currently, the airline industry is running at operating losses around \$10 billion (*Source: ATA Annual Airline Report, 2002*), and the revenue stream generated through the Universal Express proposal could take the airlines from its present losses to an estimated profit of between \$5 billion to \$17 billion.
- Additional revenue up to \$2 billion could be generated from surcharges for more difficult and labor-intensive baggage items (such as golf bags, skis, musical equipment, trade show displays) and for certain white glove personalized services (such as handling of baby strollers and car seats at departure and arrival gates). For example, the new Denver airport was built just a few years ago with a separate baggage handling system for skis at an expense of several hundred million dollars. This cost will be recovered from passengers traveling with skis and not subsidized by other passengers.
- The premium price for airlines to provide baggage transportation is still considerably lower than the existing costs of slower service by express parcel carriers. One-way shipping charges for a typical 28 lb. bag via express carriers would range between \$90 and \$130 for a next day express service. Moreover, shipping charges for one-way overnight transportation of two 70-pound bags via express carriers will range from \$300 to \$500 depending on the distance. This

demonstrates the value of the baggage service presently provided by the airlines even after implementing the baggage charge recommended by this proposal.

- With fewer cancellations of travel plans of passengers due to the baggage already sent to the destination, airlines could gain greater predictability of revenue in terms of seat occupancy and increased load factor.
- Reduced baggage handling implies that the air-cargo bellies would have more space for handling cargo. Depending on the decrease in the number of baggage handled and the increase in the cargo handling capacity, airlines can generate additional revenue of \$4 billion to \$11 billion annually.
- A baggage security fee on passengers that still opt to bring bags to an airport could result in TSA recovering its security cost directly from the passengers imposing the cost and saving billions paid by the airlines to TSA to cover the cost of passenger and baggage screening.
- Encourage more business travel: As the airlines recover actual costs of baggage handling from passengers that generate those bags, they will be able to avoid the huge disparity in airfares between business and leisure traveler. Relating airfare and baggage fare to costs of transporting people and bags respectively should create more rational pricing of business fares. This will result in more business trips. Since businesses have greater ability to generate trips, airlines will handle more passengers, achieving higher load factor and thus greater revenues for transporting people than bags.

Benefits to Passengers

Currently, US tax dollars are being used to pay \$1.3 billion for aviation security related to baggage screening only. Moreover, a significant part of the TSA budget for passenger screening is associated with carry-on bags. The current system places additional cost on the airlines and non-direct cost on passengers. The Universal Express proposal could generate many benefits for the traveling public:

- Greater confidence in security of the transportation network at the airports will encourage passengers to travel more by air.
- Passengers will not endure long lines and an unpleasant experience of TSA security guards going through their luggage.
- Higher predictability in revenue caused by less cancellations and increased load factor for airlines should result in lower fares for business passengers and leisure passengers traveling with fewer bags.
- This proposal would help reduce security fees for some travelers. Currently, the security fee of \$2.50 per flight segment with a maximum of \$10 per round trip is assessed against passengers even though much of that cost is related to bags. With

a separate security fee for bags, the security fee for passengers could be reduced to cover just the expenses associated with screening of passengers.

Table 2- Domestic Airline Passenger Tax Information

Tax Type	Rate	Unit of Taxation
Federal Ticket Tax	7.5%	Domestic Airfare
Federal Flight Segment Tax	\$ 3.00	Domestic Enplanement
Federal Security Surcharge*	\$ 2.50	Enplanement at US Airport
Airport Passenger Facility Charge**	Up to \$ 4.50	Enplanement at eligible US Airport

* Domestic passengers are taxed \$2.50 per Enplanement at a US Airport with a legislative maximum of \$10.00 for a round-trip.

** Passenger Facility Charges are federally authorized but levied by local airport operators, who set the amounts (up to \$4.50 per enplanement, to a maximum of two PFCs per one-way trip and four per journey)

- The Universal Express proposal would result in less time wasted in line for baggage check-in and claim. The economic cost of additional time spent on a roundtrip by the airline travelers is estimated in excess of \$50 billion for 2003.
- Faster turnaround time for aircraft and better on-time arrivals by airlines would help business travelers spent less time at hotels away from home and more time with their families and loved ones.
- Provide better tracking and tracing of bags for enhanced service. Passengers would gain greater knowledge of location of baggage using email and wireless technology to provide estimated time of arrival (ETA) to passengers on baggage in-transit and already delivered at the destination address.
- Lower rates at hotels and rental cars due to greater predictability of occupancy and asset utilization.
- Travel bookings over the Internet could be coupled with an additional option of scheduling a pick-up for passenger baggage thereby making it easier for passengers to ship their bags via Universal Express and parcel carriers.

Benefits to American Public

- A more robust and secure air and ground public transportation industry would avoid further congestion on highways and roads, reduce air pollution and save tax dollars for other national priorities. The potential to save travelers precious time is immense.
- The Federal government could find itself in the position of collecting interest expense on the funds made available to the airlines by the Airline Stabilization Board, since this solution could improve the airlines ability to pay down debt from increased passenger traffic and revenue streams.

- The American public would not have to share as much, if any of the expense of funding airline security through general taxes.

Benefits to Transportation Industry

Creates an opportunity for \$17 billion to \$28 billion in new revenue and few hundred thousand jobs for the transportation industry.

- The proposal would result in a baggage handling and transporting business activity for 500 million bags. Parcel carriers and the United States Postal Service are well suited to support this activity.
- Parcel carriers would gain billions of dollars in new revenue for providing pickup, intercity transportation and delivery to final destination. These carriers would generate thousands of new high paying jobs for union workers at USPS and UPS, and non-union workers at FedEx and Airborne.
- Even with the addition of 500 million bags per year to the existing volume, the parcel carriers and the USPS have the network and ability to add capacity to handle the volume without compromising their high level of service currently achieving 98% on-time performance.
- Independent private postal store franchisees belonging to national network like WorldPost, NPC and Postal Annex would gain new business from handling bags from price sensitive passengers that may prefer to perform the drop-off and pick-up services for an even lower baggage handling rate from Universal Express and other service providers.

Benefit To Travel Industry

- Hotels would experience lower cancellation rates and thus achieve higher occupancy rates. This will create opportunity for hotels to offer lower rates to travelers thereby offsetting the baggage transportation charges being paid by the passengers.
- Currently, there are no standards for what types of bags can be checked-in or carried on board the aircraft. This lack of standardization results in higher transportation cost for the airlines, greater risk of the bags getting damaged or misrouted, and higher security risks. With TSA approved bags, which can be sold in certain standard shapes and sizes with imbedded Radio Frequency Identification (RFID) chips, there could be greater security and visibility of bags. This could generate new revenue and jobs for the luggage manufacturers and retail stores.
- Travel agencies would also gain from this new opportunity to market baggage shipping service along with the traditional ticket booking services.

Universal Express role in this Proposal

- Universal Express believes its business model can compete and provide for collective bargaining power of passengers to be leveraged for lower cost of baggage shipping via parcel carriers, enhanced security and better overall travel experience for the airline passengers.
- It can provide a seamless tracking and tracing capability through an integrated system vs. the current system that has limited knowledge about location of bags.
- Help develop commercial technology for TSA to consider in promoting baggage tickets that passengers can purchase for payment of baggage screening fees and airline charges for carry-on and checked baggage in conjunction with booking of passenger tickets.
- Help develop and manage technology to integrate baggage shipping with travel bookings/hotel reservations to promote advance baggage shipping.
- Universal Express believes it can facilitate and expedite the proposed approach by combining the comprehensive capabilities of the following companies and resources in various areas of luggage logistics:
 - **Extensive Industry Knowledge:** Through partnership with industry consultants, Universal Express has access to one of the most recognized parcel industry experts about various shipping options for bags and at lowest prices with greatest access to state of the art tracking and tracing technology for visibility by TSA and the passengers. This will ensure that the passengers get baggage service at significantly reduced prices than available on their own and with the high on-time delivery service.
 - **Luggage Express:** Luggage Express has built a business around handling the transportation of passenger's luggage. Services include pick-ups or drop-offs of luggage from a person's home or business by Universal Express' WorldPost Network™ postal stations and through an extensive courier network that includes Sky Net Worldwide Express. Luggage Express is a member and sponsor of SATH (Society for Accessible Traveler and Hospitality), is a preferred supplier for A.S.T.A. (Association for Travel Agents) and a member of the N.C.A. (National Concierge Association).
 - **Virtual Bellhop:** Virtual Bellhop provides the smart alternative to an archaic and burdensome multi-step process of transporting baggage from doorstep to destination and back again. Virtual Bellhop currently provides service throughout the United States and some International destinations. Virtual Bellhop currently has alliances with American Express, Fairmont Hotel, Tumi, Hertz and Sabre among others.
 - **Bags To Go:** Bags To Go has the capability to store, scan, and deliver bags to airports in conjunction with current national security requirements. Bags To Go presently provides check-in services for luggage and passengers at the Fort Lauderdale/Hollywood International airport and the

Ft. Lauderdale cruise ship terminals. Bags To Go also holds contracts for Skycap and lost luggage services for national airlines.

Benchmarking against success of such a model in other service industries:

As stated, achieving discipline for baggage transportation will only occur through a financial incentive system. The express/parcel carriers have succeeded in doing so with its customers. UPS used to have less than ten special fees in the 1980s and a pricing structure which cross-subsidized rates between various types of customers. The travel industry and more specifically the airline industry have precedents for surcharges and extra fees for certain non-basic and value added services. Examples include:

- Itinerary change fee of up to \$100 per ticket on restricted fares
- Additional fee for in-flight meals, alcoholic drinks and entertainment
- Extra charge for transporting live animals, excess baggage by the airlines
- Special handling fee for unaccompanied children between 5 and 12 years age
- Separate fee for child seats and navigation devices by rental car companies
- Surcharge for telephone usage and other in-room amenities by hotels

Successful implementation of such approaches by UPS and other parcel carriers has resulted in a pricing structure that provides for lower rates for basic shipping service with new surcharges for extra services (increased from 8 to 30) that are not essential to transportation of a parcel. Consequently, the shipping charges paid today by large customers are just 5% higher than in 1987, over 15 years ago. As a result, the overall industry has benefited from the efficiencies brought about by more discriminate pricing.

This proposal builds on these precedents and similar developments in other services like parcel carriers, banks and hospitals. Expansion of such surcharges for all but one carry-on baggage would result in lower prices for base airfares as illustrated by the parcel carrier industry. The passengers and consumers of airline service should be big beneficiaries.

Summary

The events of 9/11 have led to a greater Federal role in ensuring the security of the air transportation network. Steps can be taken to simultaneously enhance the security of travelers from terrorist attacks and the financial health of the airline industry. Universal Express proposes for consideration assessing security charges per bag and providing incentives for passengers to ship bags in advance via competitive parcel services.

The passenger transportation industry can learn from success of other industries. The experience of parcel carriers with allocating revenue and cost to services provided is an example. The result will be improved air transport security, more convenient air travel for millions of passengers, and realignment of long overdue airline industry pricing for industry viability.

THE BEGINNING