

# Fuel Prices Fall, but FedEx and UPS Boost Surcharges

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[FedEx](#) Corp. is raising its fuel surcharge for the second time this year, jolting e-commerce companies, retailers and other shippers with price increases just as they gear up for the make-or-break holiday sales season.

The increase, which takes effect Nov. 2, would add about \$170 to the bill for shipping 100 shoeboxes overnight from New York to Atlanta, up from the \$67 added by the current surcharge. The figures, from an analysis by supply-chain consulting firm Spend Management Experts, are based on FedEx's published rates and the August average fuel price. The package-delivery company previously boosted its fuel-surcharge index in February, following a similar increase by rival [United Parcel Service](#) Inc. Their indexes determine how much the price of shipping a package will rise as fuel prices fluctuate.

UPS's surcharge would add about \$200 to the cost of shipping the same 100 shoeboxes, the analysis found.

FedEx's latest increase caught customers off guard because the company's fuel costs have been falling. The price of diesel fuel, which FedEx uses in its trucks, has plunged by about a third over the past year.

FedEx says heftier boxes and more home deliveries raise costs. *PHOTO: MARK LENNIHAN/ASSOCIATED PRESS*

Spot prices for jet kerosene, which power FedEx's airplanes, have fallen

by nearly half to about \$1.37 a gallon, according to the U.S. Energy Information Administration.

The company says its latest increase is in response to heavier packages and a rise in residential deliveries, which use up more fuel.

Both FedEx and UPS reported that fuel costs were down about 35% from the year earlier in their most recent quarter. While some companies use the futures market to hedge their fuel costs, the two delivery companies buy most of their fuel at near market prices.

FedEx disclosed its latest surcharge-index increase without fanfare on its website late last month, and it hasn't been popular.

"There's no justification for it, because there's just no explaining it, other than they're paying a whole heck of a lot less for fuel, and they don't want to pass any fuel savings along to their customers," said John Haber, chief executive of Spend Management Experts.

"It's frustrating," said Sara Henderson, founder of e-commerce startup BOGO Bowl, which ships as many as 30 packages of 20- to 60-pound bags of pet food each week, primarily via UPS.

"They give you discounts for being a regular shipper, but they seem to make it up in others ways by putting all these little fees here and there," she said.

For BOGO Bowl, like other companies that offer free shipping, every penny counts. It builds shipping costs into the prices it charges customers, so unanticipated increases eat into its margins.

FedEx and UPS have been scrambling to boost their profits as their customers shift to email for sending urgent documents, instead of paying a premium to overnight them. Though e-commerce has taken off, margins on that business are narrower because of the higher costs of making deliveries to scattered homes.

The two companies have been raising prices to cover these costs, charging by package size, instead of weight alone, and raising fees for giant packages.

A FedEx spokesman attributed the surcharge boost to increasing demand for residential deliveries and heavier packages, both of which boost fuel

consumption. “These trends have been accelerating during the past year,” the spokesman said.

A UPS spokeswoman said in an email that the company “maintains a [fuel surcharge] level necessary to reduce price volatility and ensure that revenue is properly aligned with our cost of service.” She said fuel surcharges themselves have been on a downtrend, even with the change in UPS’s fuel-surcharge index.

Shipping is one of the biggest costs for eCreamery Ice Cream & Gelato, which ships customized frozen treats. While the company has been able to negotiate some shipping discounts, the fuel surcharge has never been open for discussion. “Shipping is one of our biggest line items, and is hard to pass on to the customer,” said Abby Jordan, eCreamery’s co-founder.

As fuel prices rose between 2007 and 2013, both UPS and FedEx cut their fuel surcharges, instead incorporating the costs into their base rates. Both companies typically raise rates an average of about 5% annually. This year, the companies separated their fuel-surcharge-index changes from their base rate increases, so most shippers who have negotiated discounts won’t be immune to the increases.

Consultants who work with shipping customers say most of them have yet to notice the quiet change in FedEx’s fuel-surcharge index, and they worry about the precedent it sets.

“It’s a bad sign for shippers across the board. If the market is going to bear a fuel surcharge increase when fuel’s at its lowest levels in years, what’s next?” said Brian Litchfield, executive director of Transpend Solutions, which helps shippers manage transportation expenses.