Fuel Consortia: A 30-Year Success Story

By Robert Sturtz and Grant Smith

Fuel costs constitute a large share — often up to 30 percent — of airline operating expenses. So creative ways to more effectively manage and efficiently distribute fuel supplies at large airports have been an industry priority for decades. In the late 1970s, airlines at several major airports began looking at a consortium model to bring down costs and increase efficiencies.

Looking for Options

Before the fuel consortium era, fuel storage and distribution at major airports typically was controlled by major oil companies. In many cases, each oil company had its own distribution system to supply specific concourses. San Francisco and Los Angeles airports, for example, operated in this manner. These structures limited competition and the opportunity for airlines to introduce new sources to the airport and resulted in higher fuel costs for the airlines. The oil companies’ costs associated with these facilities were passed on to the airlines as part of their fuel cost.

Competing airlines came together in a revolutionary response, collectively seeking a free market for fuel pricing and fuel system operations at major airports. The first airports to establish airline consortia were in Chicago, Honolulu and Anchorage, Alaska. In the mid-1980s, many airline consortia were formed to manage facilities in Las Vegas, Phoenix, Seattle and Los Angeles. The creation of consortium LAXFUEL Corp. at the Los Angeles International Airport (LAX) represented a major breakthrough because it included off-airport storage and access to ports, which enabled airlines to import jet fuel to the West Coast for the first time. It also let airlines take advantage of bonded fuel, which eliminated the import duty on international flights out of LAX. This effort was lead by United Airlines, with significant support from American, Delta, Pan Am, Western, Flying Tigers, KLM and Lufthansa.

Coming Together at LAX

Oil companies — including Chevron, Shell, Unocal, ARCO, Mobil and GATX — owned and operated several large fuel storage and hydrant systems at LAX. Some larger airlines — American, Pacific Southwest Airlines and Trans World Airlines owned their own fuel storage and/or hydrant systems.

New fuel storage facilities at LAX were integrated into existing systems.
Because each oil company pipeline into the airport connected directly to refineries in the area and no common carrier pipelines into the area existed, the airlines were at the mercy of the few oil companies that served the airport.

In 1985, airlines formed a California Mutual Benefit Corporation to purchase the oil company facilities on the airport, lease the property and right-of-ways from the airport authority, finance the acquisitions and improvements, and manage the fuel infrastructure and operations. LAXFUEL was designed to create an open market and enable the sharing of one fuel storage facility on airport property for all member airlines’ use. The cooperation of the LAX Airport Authority was essential to facilitate the creation of this integrated fuel storage and distribution system. Additional off-site storage facilities have been leased by LAXFUEL to better position the airlines to purchase and store fuel near the airport. Each airline purchases its own fuel as it sees fit and uses the common facilities. The fuel is comingled and accounting of fuel usage and inventory is handled by the fuel system operator.

Burns & McDonnell worked with LAXFUEL to design and build a 600,000-barrel fuel storage facility that integrates the oil company facilities and new storage capacity with existing fuel hydrant systems. Consortium members share the cost of the infrastructure and the operation and maintenance of the facilities based on each carrier’s consumption as a percentage of total airport volume.

A Spreading Model
Fuel consortia have become a common operational model at major airports in the U.S. and around the world. Airlines operating at mid-size to smaller airports have adopted the model of shared facilities to reduce costs. Airlines and airport authorities continue to evaluate whether this model can apply to other airport operations. Consortia offer an opportunity for airlines to work together, along with airport management, to manage collective activities more efficiently and cost-effectively.

Other services that may be managed by an airline consortium range from the procurement of common services such as skycap services to maintenance of collectively used equipment such as baggage handling systems or passenger boarding bridges. Going forward, it may be possible to translate the benefits of airline consortia management to other activities, including ground support equipment maintenance and aircraft deicing.

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The completion of the LAXFUEL storage facility gave consortium member airlines opportunities for savings and efficiencies they could not achieve on their own.