



Annual Report 2011
International Air Transport Association



Giovanni Bisignani
Director General & CEO

International Air Transport Association
Annual Report 2011
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Note: Unless specified otherwise, all dollar (\$) figures in this annual report refer to US dollars (US\$).

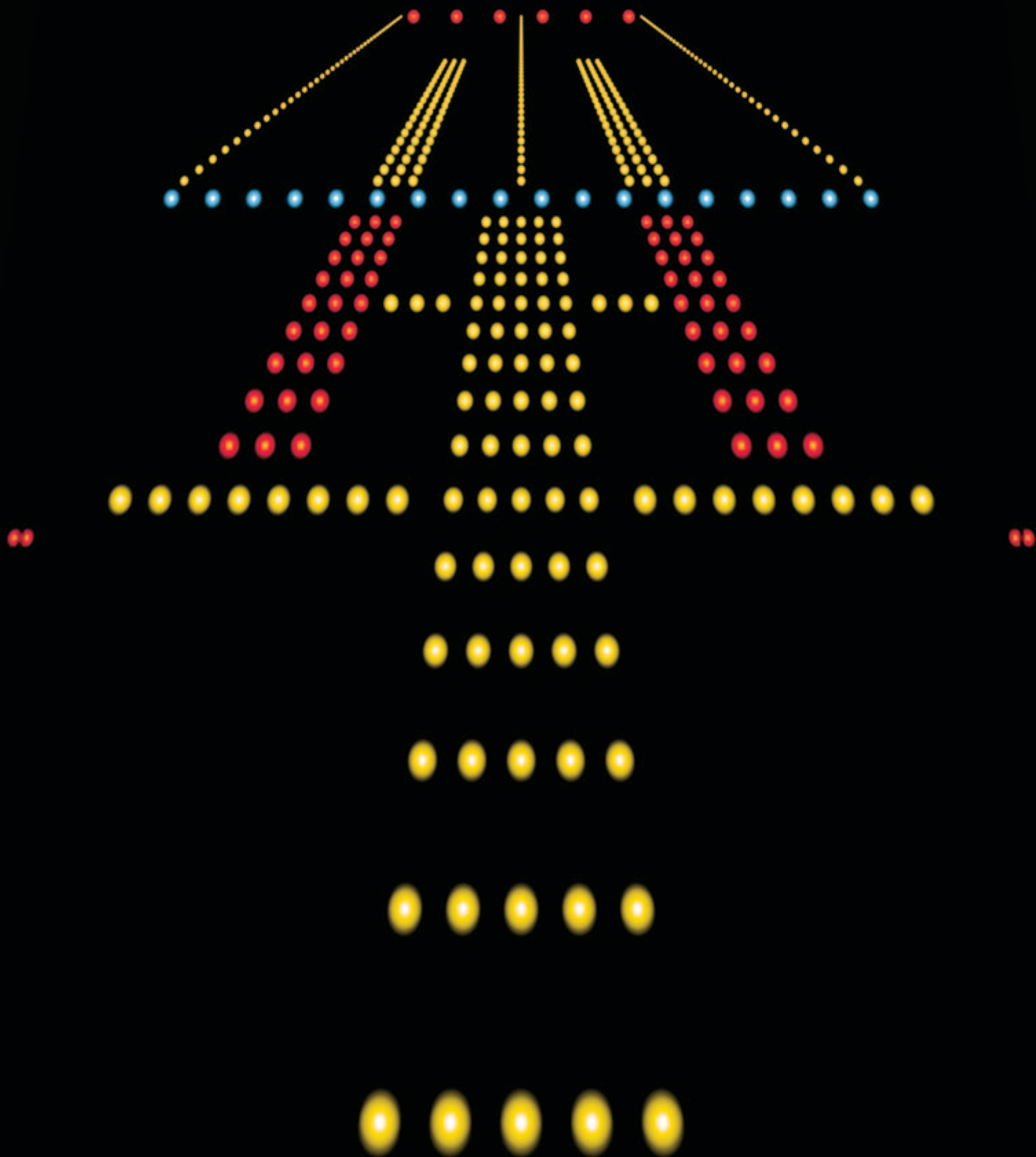


Airlines are safer, greener, and leaner after a decade of change. But profitability is still pathetic.

No single action will be a panacea for four decades of 0.1% average net profitability.

But a level playing field and normal commercial freedoms are most certainly the foundation stones of a sustainable future.

Giovanni Bisignani



IATA Board of Governors

as of 1 May 2011

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Director General's Message

Aviation is a resilient industry. Fully \$9.9 billion in losses in 2009 turned into \$18 billion in profits in 2010. In a single year, airlines recovered \$72 billion in revenues. Against a capacity expansion of 5.2%, demand increased 10.3% and average passenger yields improved 6.1%.

But the first quarter of 2011 reminded us that the industry remains fragile. Demand was dampened by political unrest across the Middle East and North Africa and by the tragic earthquake and tsunami in Japan. Political uncertainty also drove oil prices to an average of \$129 per barrel for the first four months of 2011—45% higher than in the previous year.

2011 will most certainly be another tough year. But after a decade of constant crises, shocks, and change, the industry is stronger and more efficient than ever. Since 2001, labor productivity has improved 67%, sales and marketing unit costs are down 10%, and fuel efficiency has increased 24%.

Working with its members, IATA helped drive these improvements over a decade of change.

IATA began **Simplifying the Business (StB)** in 2004 when low-cost carriers changed the parameters of competition. Our goal was to reduce costs and improve customer convenience.

Forty-eight months later, we eliminated paper tickets. Common-use self-service kiosks became commonplace, baggage performance improved, and in 2010 we delivered 100% bar-coded boarding passes. Cumulative StB savings now total \$17 billion. The next target is to deliver 100% e-freight on capable trade lanes by the end of 2015 to fully expand the StB revolution to cargo.

The **price of oil** has been one of the decade's biggest stories. In 2001, even with oil under \$30 per barrel, the industry could not make a profit. Today, fuel consumes 30% of costs, and airlines are capable of delivering profit even in the \$100 per barrel range. Your association led efforts to dramatically improve the

industry's fuel efficiency. We collected and shared industry best practice on fuel management, and IATA Green Teams supported fuel project implementation. At the same time, we worked with our air navigation service providers to shorten over 2,000 routes. Combined with IATA's other operational cost reduction initiatives, these efforts have saved nearly \$19 billion since 2004.

Our partners in the value chain needed to share the burden of change. IATA's **External Cost Campaign** has netted nearly \$24 billion in cost savings since 2004. Of this, \$17.5 billion was achieved by driving cost efficiencies with airports, air navigation service providers, and fuel suppliers. A further \$6.5 billion was achieved by convincing governments to stop, avoid, or reduce taxes.

Over these three broad areas alone, IATA delivered over \$59 billion in industry savings. And, at the same time we safely processed over \$2.5 trillion of the industry's money in our financial systems.



Not all the challenges were financial.

Even while under enormous financial pressure, the industry continued to improve **safety**. In 2010, airlines suffered one jet hull loss for every 1.6 million flights. That is a 42% improvement on 2001. More impressively, IATA members outperformed the industry, with one accident for every four million flights. The IATA Operational Safety Audit (IOSA), which is a condition for IATA membership, is making a difference.

Governments handled the **security** challenge with little harmonization or coordination. Over the decade, airline security costs rose to an annual estimated bill of \$7.4 billion. Along with urging governments to accept their responsibility for the cost as a matter of national security, IATA called for governments to work with each other and with industry. A breakthrough occurred in 2010 under the leadership of US Secretary of Homeland Security Napolitano. IATA agreed on five priorities to improve security that must now be effectively implemented. One of the items is a Checkpoint of the Future that will combine intelligence and technology to screen passengers without them stopping, stripping, or unpacking.

Aviation needed a coordinated, responsible and global approach on **climate change**. IATA rallied the industry to commit to improve fuel efficiency 1.5% annually to 2020, to cap net emissions from 2020 with carbon-neutral growth, and to cut net emissions in half by 2050 compared with 2005. These are the most proactive targets of any global industry sector and have gained aviation great credibility among governments who also agreed on a global way forward through the leadership of the International Civil Aviation Organization (ICAO).

Airlines are stronger and in a better cash situation than at the beginning of the decade. Regional consolidation has progressed. More people are traveling and trading internationally than ever before. But airlines are still caught in the struggle to make sustainable profits. Many governments still see the industry as a cash cow for taxation. Critical infrastructure investments, such as the decades-delayed Single European Sky and NextGen, have not been delivered. And crises and shocks continue.

How can airlines escape the cycle of pathetic profitability? At the last annual general meeting, I laid out a vision for the industry in 2050 and invited a group of 35 strategic thinkers to challenge it.

The conclusion of **Vision 2050** was that there is no silver bullet to help the industry profitably meet the needs of a globalizing world dependent on air travel. There is a clear need for airlines to operate with the commercial freedoms that every other global business takes for granted. And we must find a way to solidify strong partnerships within the industry and with governments and other partners to rebalance the distribution of risk and reward to achieve sustainable profits, and to drive change.

On 1 July 2011, IATA's leadership will pass to my successor, Tony Tyler. He will inherit a strong association capable of delivering results that support the needs of our great industry.

I am confident that you will award Tony the same trust that you gave me and that Tony's leadership will take IATA and the industry to even greater heights.

We are an industry of great people with an important mission to fulfill—connecting the world. The future is ours to build.



Giovanni Bisignani
Director General & CEO



State of the Industry

Airlines are emerging leaner and more competitive from a decade of crises and shocks. Yet challenges—from natural disasters and political instability to rising oil prices and increasing taxation—continue to test the industry’s resilience.

Passenger markets

Air travel markets recovered in 2010. Worldwide air travel, measured by the number of passenger kilometers flown, rose 7.5% following a 1.9% decline in 2009. International air travel grew 8.3% after a 2.5% fall the year before, while domestic air travel was up 6.1% following a 0.9% decline. By the end of 2010, most markets except, notably, the US and Japanese domestic markets had exceeded their prerecession peaks. And the expansion was ongoing in the early part of 2011.

Large geographical differences in the pace of recovery remained, reflecting mostly the multispeed nature of economic recovery. The strongest expansion in air travel was seen in the developing economies and among airlines based in those markets.

Middle Eastern airlines experienced the largest growth, with a 17.7% expansion in revenue passenger kilometers (RPKs) flown. They were followed by African airlines, which more than offset their RPK decline of 2009 with a 12.2% increase in 2010. Asia-Pacific airlines grew 9% in RPKs but were held down somewhat by the relative weakness of the Japanese market. Latin American airlines also benefited from regional economic growth, with an 13.2% RPK expansion.

Less successful were European airlines, whose more mature and sluggish markets held growth in RPKs to 5%. North American airlines saw a 7.4% rise in RPKs. But even the weaker regions saw their prerecession levels of international passenger traffic restored by the end of 2010.

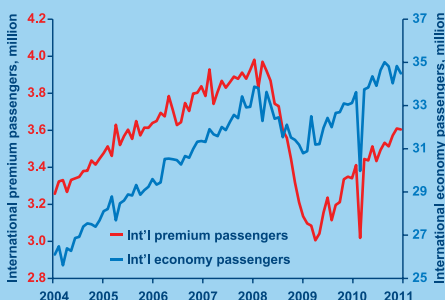
Growth in domestic markets varied greatly in 2010 because of structural changes as well as economic cycles. The developed US and Japanese markets, having reached maturity and suffering from weak economic cycles, barely grew. The Japanese market, in fact, shrank 1.4%. By contrast, the rapidly emerging markets of Brazil, India, and China (the world’s second-largest domestic market, with an additional 181 million passengers expected by 2014) saw continued expansion of 19.3%, 20.2%, and 14.6%, respectively.

By cabin class there was more convergence in international markets in 2010 than during 2009, when premium seat sales shrank by a quarter. Growth throughout the year in the economy and premium classes was at an annualized rate of around 7%. Premium seat sales were 9.1% higher than the previous year, whereas economy seats were up a lesser 5.9% because of their earlier recovery profile in 2009.

The number of passengers traveling economy class is above prerecession peaks. Conversely, the size of the premium international air travel market is still 10% below its prerecession peak owing to the extent of that market’s collapse during the recession that began in 2008.

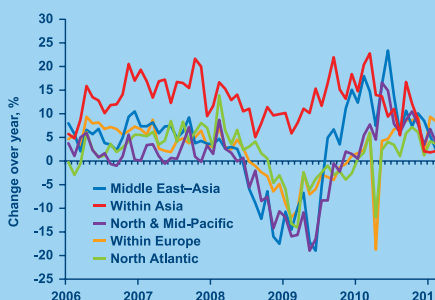


Demand improved in 2010 but shows signs of declining



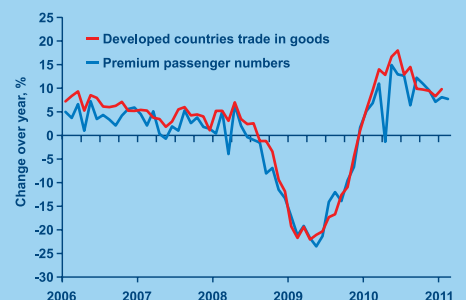
Source: IATA

Regional variations remain an important part of the story



Source: IATA

Premium traffic has yet to fully recover from the recession



Sources: IATA, CPB Netherlands



Cargo markets

In 2010, air freight fully recovered its losses of 2009. International air freight markets expanded 20.8% during the year as measured in freight kilometers flown. By the end of 2010, air freight volumes were level with their prerecession peak of early 2008. But earlier in the year, air freight markets had been 8% higher than that peak.

Air freight's profile of rapid postrecession growth to reach a peak in mid-2010 was driven by the business inventory cycle. Air freight was the transport mode of choice when firms needed to restock at the start of the economic recovery. But when inventory-to-sales ratios regained equilibrium by the middle of 2010, shippers no longer needed the time advantage provided by air freight, and sea transport began to regain market share.

Air freight, therefore, lost ground through the rest of the year. There were signs in early 2011, however, that expanding consumer demand and business capital spending were causing air freight volumes to grow once more.

Regional differences throughout 2010 were less marked for the freight segment than for the passenger segment. Directional imbalances on trade lanes from Asian manufacturing centers remained. But in terms of the air freight carried by airlines, all but the European region benefited from rates of growth in excess of 20%. Weak European domestic markets held European airlines to an expansion of 10.8% in the freight they carried, though the weakness of the euro caused outbound freight to pick up toward the end of the year.

Capacity

Capacity returned to air passenger and freight markets during 2010, and at a slightly faster pace than traffic carried. By year's end, load factors had started to decline, albeit slowly, from their record highs earlier in the year.

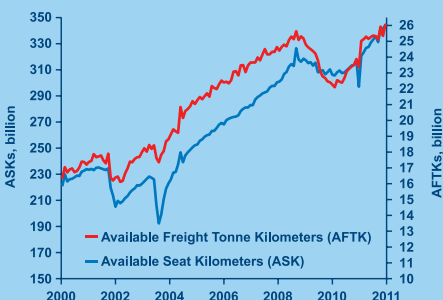
This pattern is not apparent from the average growth rates for the year. Available seat kilometers rose 4.2% on average in 2010, compared with the 7.5% growth in traffic. In international markets, capacity rose 4.6%, compared with growth of 8.3% in traffic. However, the recovery in traffic was very strong during the second half of 2009, whereas capacity remained unchanged during that period.

As a result, the average growth for traffic in 2010 was boosted by a high starting point, compared with a low starting point for capacity. The result of this profile was that growth in international markets measured from December 2009 to December 2010 show capacity growth of 6.4%, somewhat higher than the 5.2% expansion in traffic. The average passenger load factor fell throughout the year as a result, albeit to a level that, by December, was still above pre-recession levels.

More than 1,200 new jets and turboprops were delivered in 2010, 3% down on the previous year's total but still a 5% gross addition to the global commercial fleet. A significant proportion of these new aircraft were replacements. There was also a sharp increase in the utilization of the existing fleet during 2010. The freighter fleet, for example, saw a 20% rise in average daily hours flown. For a capital-intensive industry like air transport, this improvement in asset utilization was a critical element driving the improvement in cash flows and profitability seen in 2010.

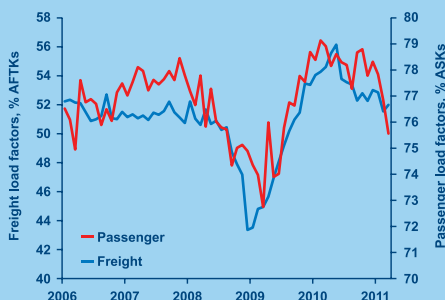
Just under 1,400 new aircraft are scheduled for delivery in 2011. With traffic volumes slowing, maintaining the utilization of seats and aircraft will be more of a challenge in the year ahead.

After careful management in recent years, capacity is on the increase



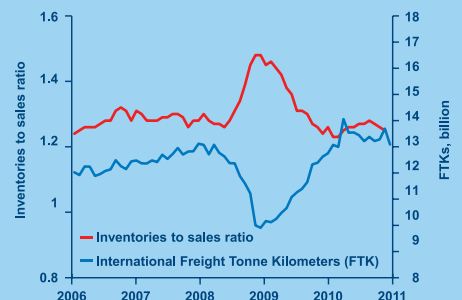
Source: IATA

Load factors are declining from record highs



Source: IATA

Air freight is being driven by the inventory cycle



Sources: IATA, US Census Bureau

Yields

Airline yields also rose during 2010 but did not recover the ground lost during the 2008–2009 recession. Competitive pressures remained strong, but high load factors, particularly in the early part of 2010, reflected tighter-than-usual supply-demand conditions. Airlines, therefore, were able to recover some of the ground lost in fares and cargo rates. Airlines also were able to recoup some of their added costs from the rise in jet fuel through fuel surcharges. But the worldwide rise in average passenger fares, excluding surcharges, was only 5% in 2010, compared with a much greater decline of just under 13% in 2009. In international markets, a similar profile left the level of fares up 17% from the lows of mid-2009 but some 8% below prerecession levels.

Regional differences largely reflected varying developments in capacity relative to demand. US airlines, having taken the most substantial steps among airlines globally to cut capacity after the 2008 fuel price spike, were able to boost their international yields 14% in 2010. Yield improvements amid looser supply-demand conditions elsewhere were smaller.

In cargo markets, fuel surcharges rose as airlines sought to recoup rising fuel costs. Underlying cargo rates, however, declined in many markets. Notably, the previously strong Asia-to-Europe trade lane saw a 10% fall in cargo rates, excluding surcharges, at year-end from a peak reached earlier in the year as increasing capacity intensified competition. Higher surcharges during 2010 were in part offset by a decline in underlying freight rates.

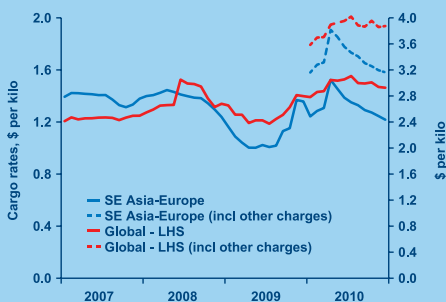
Revenues

Global airline revenues grew an estimated 15% in 2010, to \$554 billion. This represented a strong rise from the recession-depressed levels of 2009 but was not yet a recovery to 2008 levels. Cargo revenues did recover to 2008 levels in 2010, rising more than one-third over the 2009 figure, to \$66 billion, but passenger revenues lagged when yields failed to recover to prerecession levels.

Network airlines with significant long-haul services were hard hit during 2009 because of the larger proportion of their revenues made up by premium passengers and cargo. Strong improvement in those markets in 2010 brought a sharp rise in the revenues of this segment of the industry.

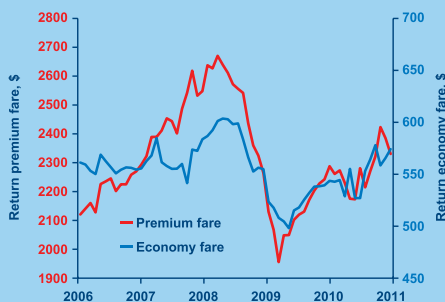
Cargo revenues were back to prerecession levels at year-end 2010. And premium passenger revenues rose more than 30% above their 2009 low point. The increase in premium passenger revenues in particular contributed significantly to the rise in the profitability of long-haul network airlines. But revenues from premium passengers in international markets were still only three-quarters of their prerecession levels by the end of 2010. Although premium passenger revenues continue to grow in early 2011, there is a lot further to go before this important revenue segment can be said to have recovered.

Cargo rates have been affected by capacity increases



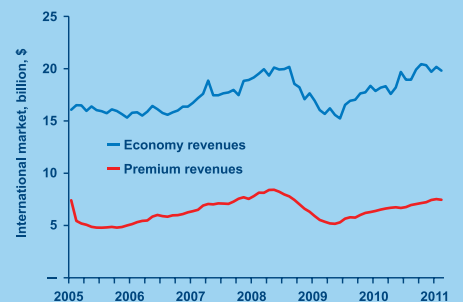
Source: IATA

Fares are decreasing in line with dampening demand



Source: IATA

Revenues are recovering but remain vulnerable to shocks



Source: IATA

Fuel costs

The cost of fuel is once more threatening the economics of air transport. Underlying the most recent rise in fuel prices has been a supply shock driven by political unrest in the Middle East and North Africa. During 2010, it was increasing demand for oil that pushed jet kerosene prices up almost \$20 a barrel, from \$88 a barrel at the start of the year to \$107 a barrel by year-end. Jet kerosene prices were driven by oil prices in 2010, rather than by conditions in the refinery sector. Indeed, the crack spread remained at a relatively low 15% throughout the year. On average, jet kerosene prices in 2010 were just over \$91 a barrel, an increase of almost 30% over the 2009 average.

Hedging and fuel-efficiency gains offered the air transport industry some protection from rising fuel prices. Even so, the airline industry's fuel bill in 2010 rose more than 11%, to \$139 billion. Fuel represented 26% of the industry's 2010 operating expenses.

The early March 2011 surge in the price of jet kerosene, to \$130 a barrel, brings the price of fuel back into the realm of the average 2008 price of \$127 a barrel, when fuel costs rose to account for 33% of the industry's operating expenses. At that time, the recession's onset prevented the industry from recovering this surge in costs. In 2010, however, many economies were strong relative to a year earlier, enabling airlines to recoup much of the rise in fuel costs by year-end. Economic growth is expected to continue but, given the extent of the recent rise in fuel prices, it is far from clear whether airlines will be able to recover the higher cost of fuel.

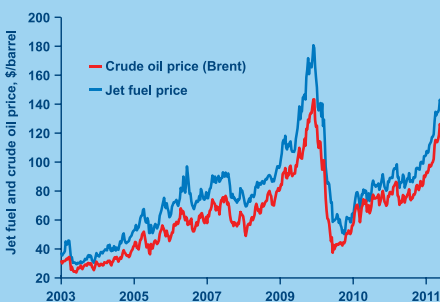
Cash flow

The airline industry's cash flow turned up sharply in the second and third quarters of 2010, driven largely by improved aircraft utilization. By the second half of the year, cash flow—measured by earnings before interest, taxes, depreciation, and amortization (EBITDA) as a percentage of revenues—had recovered to or above prerecession levels in North America, Asia-Pacific, and Europe. The data available on other regions, though limited, suggests that this was a widespread experience.

Asia-Pacific airlines stand out as having seen an earlier and larger improvement in cash flows than airlines elsewhere. Their improvement in large part mirrored the upswing in the cargo market, which went from a negative cash flow in mid-2009 to a positive cash flow equivalent to over 16% of revenues in the second half of 2010.

US airlines' cash flows had recovered to the prerecession level of 10% of revenues by the end of 2010. European airlines' performances lagged those of airlines elsewhere early in the year mostly because of the weakness of their domestic markets. By the end of the year, though, their cash flows too had recovered to 10% of revenues.

Fuel prices are rising sharply again and are closing in on the 2008 record high



Source: Platts

Cash flow is falling after a strong rebound



Sources: Bloomberg, Company reports

Profits

Airline profitability in 2010 saw its largest improvement in more than 60 years. The industry went from net posttax losses of \$9.9 billion in 2009 to net posttax profits of \$18 billion in 2010. Its EBIT or operating profit margin improved more than 5 percentage points.

In previous cycles, the industry has achieved higher levels of profitability. For example, operating margins were 5.4% to 5.6% at the peak of the mid-1990s' cycle, but, like the 2010 profit margin, these margins were insufficient to allow the industry to meet its cost of capital.

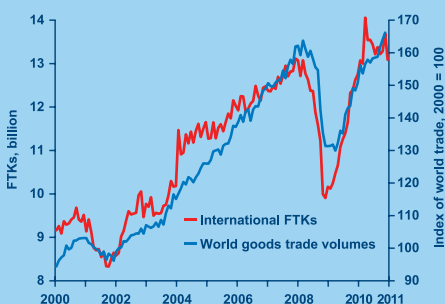
What is noteworthy here is the unprecedented scale of the improvement in the industry's profitability. Revenue growth for the industry was boosted by economic rebounds driven by government stimulus policies. But the major difference in 2010 was the sharp improvement in asset utilization—in seat load factors and in the average hours flown by the aircraft fleet. The high degree of operating leverage generated by these fixed costs meant that the dramatic rise in asset utilization lent a much larger than usual boost to profit from the revenue growth generated in the postrecession economic rebound.

The highest margins were achieved by airlines in the Asia-Pacific region, which boasted EBIT of 11%. These airlines were also responsible for generating, at \$10 billion, the largest net posttax profits. Their large share of cargo markets and the strength of the economic recovery in their region were vital in driving their outperformance of airlines elsewhere.

The next most profitable airlines were in North America, where net posttax profits totaled \$4.1 billion and EBIT margins averaged 4.7%. Large capacity adjustments made earlier by North American airlines played an important part in driving their performance. Airlines in Europe suffered the largest losses in 2009 and in 2010 were only slightly more successful financially. A profit was made by European airlines, but extremely weak domestic markets resulting from the sovereign debt crisis in a number of European economies limited their EBIT margins to an average 2.2% and their net posttax profits to \$1.9 billion.

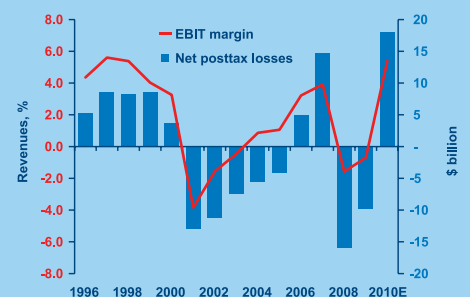
The airline industries in Latin America and the Middle East are smaller than in other regions. In 2010, though, Latin American airlines were almost as profitable, in margin terms, as airlines in North America, with EBIT margins of 5.2%. Net posttax profits of just under \$1 billion were generated in Latin America. Net posttax profits were \$0.9 billion in the Middle East. African airlines managed a little better than breakeven in 2010 but, with an EBIT margin of 1.6%, remain the financially weakest carriers in any region.

Freight recovery is following the trade in world goods



Sources: IATA, CPB Netherlands

Aviation returned to profitability in 2010



Source: IATA



Cash and balance sheets

Stronger cash flows, profits, and capital markets in 2010 allowed many airlines to repair or improve their fragile balance sheets. In 2009, airlines turned to the capital markets to raise \$32 billion through issues of new debt and, to a lesser extent, equity. This bolstered their cash balances but left balance sheets highly leveraged. In 2010, positive cash flows and a modest \$4 billion of new equity helped reduce debt and balance sheet leverage.

Improvements were especially notable for airlines in Asia, where cash flows were highest and where most of the new equity was raised. Leverage for Asian airlines fell below 60%. European airlines' leverage fell slightly, to just below 50%.

US airlines, meanwhile, showed significant progress, but from highly leveraged levels. Median US airline debt went from almost 100% of total capital to less than 90%. Airline balance sheets in the United States remain vulnerable to shocks. US airlines have few unencumbered assets against which to borrow. Liquid assets among airlines in the United States and elsewhere, though, are fairly healthy. Most airlines had cash balances at the end of 2010 averaging 20% of their annual revenues.

Financial sustainability

Financial sustainability for the industry means not just generating profit but also paying investors a normal return. Such a return is generally benchmarked as the average cost of equity and debt (the WACC, or weighted average cost of capital). Debt spreads have narrowed, but the volatility of airline earnings means that equity remains expensive. On average, the airline industry's cost of capital ranges from 7% to 8%. The return on invested capital (ROIC) in the airline industry was given a major boost by the profits airlines generated, rising to 4.5% in 2010. But that return was still insufficient to pay investors what they could earn from investing that capital in an alternative industry with a similar risk profile.

That said, some airlines did create value for their investors in 2010, by generating a return on capital in excess of its cost. This group of airlines included long-haul network airlines, regional airlines, low-cost carriers (LCCs), and other airline business models. It also included airlines from most regions of the world. These airlines, however, were the exception and few in number. Despite the encouraging improvement in profitability in 2010, the question remains whether the industry is financially sustainable in the long term.

After a decade of losses, any black number at the end of a balance sheet is a welcome change. But even 2010, a "good year", has only generated a pathetic 3.2% margin. This is not sustainable.

Giovanni Bisignani
(Bogota, Colombia, March 2011)

Safety

Safety is aviation's number one priority. The Western-built jet hull loss rate hit a historic low in 2010 with one accident for every 1.6 million flights. IATA members—for whom IOSA is a requirement—continued to outperform the industry with one accident for every four million flights.

In 2010, the accident rate for Western-built jet aircraft was the lowest in aviation history. The global accident rate for 2010 was 0.61, as measured in hull losses per million flights. This is equal to one accident for every 1.6 million flights and was an improvement over the 0.71 rate recorded in 2009. Compared with the rate in 2001, the industry's global accident rate was down a dramatic 42%.

IATA member airlines outperformed the industry average with a Western-built jet hull loss rate of 0.25 in 2010. That is equal to one accident for every four million flights.

For the first time, there were no fatalities in scheduled passenger service in two major regions: North America and Europe. North America has had a zero fatality rate for three of the past four years, and Europe achieved the commendable level of zero fatalities in 2010. There were, however, increases in accidents and fatalities worldwide over those recorded for 2009. High accident rates in some regions—specifically in Africa, the Commonwealth of Independent States, and the Middle East and North Africa—show that more progress is needed.

In 2010, the main causes of accidents were runway excursions and ground damage. Runway excursions were the most common, accounting for 21% of all accidents, compared with 26% in 2009. Ground damage accounted for 11% of all accidents in 2010, likewise an improvement from 17% in 2009.

IATA continues to develop initiatives to address these major areas of concern. In the first quarter of 2011, IATA launched its Ground Damage/Incident Database. In May 2011, IATA will roll out a major update to its Runway Excursion Risk Reduction Toolkit, which it is expanding to include airport operations and air navigation service providers (ANSPs). Also slated for later in 2011 is the release of the IATA Ground Operations Manual.

Six-Point Safety Program

In 2010, 2.4 billion people flew safely on 36.8 million flights, including 28.4 million jet flights and 8.4 million turboprop flights. IATA's aim is for a zero accident rate. It tackles safety issues under a comprehensive six-point safety program.

1. Safety data management and analysis

Obtaining clear, comprehensive safety data is vital to improving safety. IATA manages or contributes to several data analysis programs.

Global Safety Information Center

The Global Safety Information Center (GSIC) collates and analyzes IATA safety information from multiple databases and provides a controlled access web portal to that information. The GSIC was launched in the fourth quarter of 2009. It provides IATA members with unprecedented access to aggregated, de-identified safety information from IATA safety databases. More than 450 organizations contribute data to the GSIC's active databases, which are the accident, operational incidents, IATA Operational Safety Audit (IOSA), IATA Safety Audit for Ground Operations (ISAGO), Ground Damage/Incident, and flight data analysis databases. IATA plans major enhancements to the GSIC over the next few years (<http://gsic.iata.org>).

Global Safety Information Exchange

IATA, along with ICAO, the European Union, and the US Department of Transportation, signed a Global Safety Information Exchange (GSIE) agreement on 28 September 2010. The implementation of this groundbreaking international safety information sharing program is progressing well, with an initial organization and work plan in place. The program is on track to meet the Board of Governors' industry priority of implementing the GSIE in 2011 while delivering a program report with program development recommendations.

2. Auditing

A robust auditing program is proven to raise safety levels. IATA has developed the first global standard audit for airline safety management and promotes the use of this global standard by governments to support safety oversight.

IATA Operational Safety Audit

IOSA is an internationally recognized audit program that is open to all airlines. Since 2008, it has been mandatory for all IATA members. It aims to improve safety and to make the industry more efficient by reducing the number of audits performed. Evidence over the past decade reveals that IOSA-registered carriers have consistently outperformed non-IOSA carriers in safety.

As of 1 May 2011, there are 359 carriers on the IOSA registry. These airlines are able to share information through the *IOSA Audit Report*, eliminating the need for redundant audits. The heightened efficiency has led to over \$95 million in audit cost savings since the program launched in 2003.

IOSA is certified under International Standards Organization (ISO) 9001:2008 and thus offers quality assurance that program requirements and processes as well as airline needs will be met.

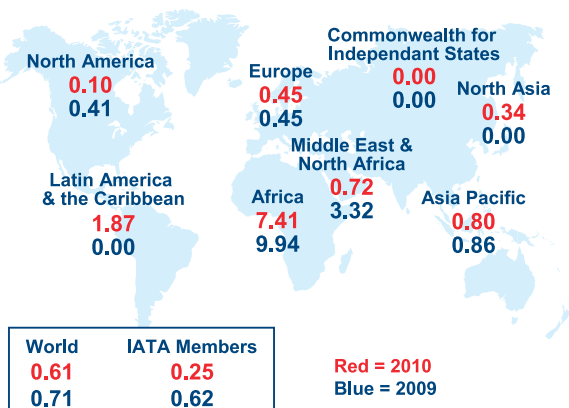
IOSA is constantly updated to reflect best practices. Principal recent improvements to IOSA include the addition of ICAO-mandated Safety Management Systems (SMS) provisions to the *IOSA Standards Manual*, an increased auditor emphasis on verifying the implementation of IOSA provisions, and the removal of fleet exclusion provisions for aircraft that can be upgraded to meet IOSA requirements. Other improvements involve the implementation of an enhanced audit scope for the renewal audits of eligible airlines.

Starting in 2011, a revised payment scheme will be implemented where all airlines will pay for their IOSA audits.



Regional safety rate
(Industry Western-built jet hull losses per million sectors)

Source: IATA GSIC



	2001	2009	2010
Hull loss accidents (Western-built)	20	19	17
Accidents (all aircraft types)	104	90	94
Fatal accidents	25	18	23
Total fatalities	749	685	786
Passenger numbers	1.64 billion	2.27 billion	2.42 billion

IATA Safety Audit for Ground Operations

ISAGO is a global audit program for ground service providers (GSPs). It has the goals of improving safety by reducing ground hazards, of reducing aircraft ground damage and personnel injuries, and of eliminating redundant audits.

Since ISAGO's launch in February 2008, more than 300 audits have been conducted and over 70 GSPs have joined the ISAGO registry. ISAGO also has garnered support from 50 governments and airport authorities, and some civil aviation authorities have made ISAGO a condition for obtaining an operating license. In addition, the number of GSP audits for airlines that participate in ISAGO can be reduced between 8% and 28%.

The ISAGO audit pool has grown to encompass 48 member airlines and 195 ISAGO-qualified auditors. IATA is focused on inviting more member airlines to join the pool and will complete the IATA Ground Operations Manual (IGOM) by the end of 2011. IGOM will provide the first ever set of harmonized aircraft ground-handling procedures, with the aim of improving safety, consistency, and efficiency for airlines and ground handlers.

3. Safety Management Systems

Safety Management Systems (SMS) are a systematic approach to managing safety. They cover all operator activities, including areas such as organizational structures, accountabilities, policies, and procedures. SMS are increasingly valuable for improving safety, for airlines and for other aviation business sectors.

The world's first SMS assessment standards for airlines are included in the *IOSA Standards Manual (ISM)*, thus making SMS implementation compulsory for IATA members. The standards have been validated to be in full compliance with ICAO standards. To assist airlines with implementing an SMS, an SMS Implementation Guide that will provide SMS program examples is slated for release in the second quarter of 2011.

A Fatigue Risk Management System (FRMS) is an important component of fully integrated SMS. Working with ICAO, IATA took a leadership position and drafted the first FRMS Implementation Guide for Operators. This new guide will be jointly released by IATA and ICAO in the third quarter of 2011 and will assist operators in systematically implementing an FRMS to help manage crew fatigue. It contains guidance material for many types of operations, including passenger and cargo operations. IATA has also been working closely with the US Federal Aviation Administration (FAA) and with the European Aviation Safety Authority (EASA) and the relevant regional associations. Both regulators propose significant changes to basic flight and duty time regulations.

IATA's strategy for maintenance operations also retains a focus on further developing and applying operationally driven SMS.

4. Infrastructure safety

Infrastructure safety is focused on providing effective and safe communications, navigation, surveillance, and system-wide information in support of airline operations. In February 2010, IATA signed a five-year cooperation agreement with Eurocontrol. This agreement closely ties IATA to the development of the Single European Sky ATM Research

(SESAR) initiative and integrates IATA's GSIC Safety Trends Evaluation Analysis Data Exchange System (STEADES) analysis with Eurocontrol safety information. The first joint Eurocontrol-IATA safety bulletin was published at the beginning of 2011. IATA is also assisting the SESAR and the US NextGen organizations in developing air traffic management safety metrics.

5. Operations

The updated IATA Runway Excursion Risk Reduction Toolkit will be distributed worldwide in May 2011 in collaboration with ICAO and other major international safety organizations. The enhanced toolkit will support a new, multiyear, comprehensive global runway safety program.

The IATA Training and Qualification Initiative (ITQI) remains focused on enhanced technical training for pilots and maintenance personnel using a competency-based approach. Work is progressing on the Evidence-Based Training Manual, and on aircraft-specific guidance to establish a baseline for industry-wide training improvements. These documents will be presented to ICAO for review by the Air Navigation Commission in 2011.



6. Maintenance

The Multi-crew Pilot License (MPL), meanwhile, continues to gain popularity among countries and airlines. IATA is working diligently to assist the industry in establishing metrics to evaluate the potential safety advantages of the MPL. At the same time, IATA is maintaining a focus on the benefits of a continuous-loop safety system driven by an industry-defined set of knowledge, skills, and attitudes that promote effective threat-error management.

Airline maintenance and engineering training regimes will undergo improvement in the same way as pilot training. A competency-based approach will provide the framework for a broad range of industry safety enhancements.

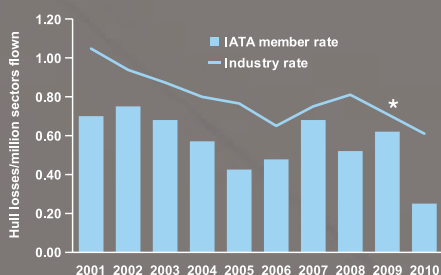
As with flight operations, the industry must prepare for greater demand for licensed personnel in its maintenance operations and strive to attract the best and brightest candidates. IATA is, therefore, fully supportive of ICAO's Next Generation of Aviation Professionals (NGAP) initiative, a multifaceted program of education, outreach, and training for pilots and maintenance technicians that can be tailored to address regional concerns. This forward-looking program will help to mitigate systemic deficiencies and to prepare the industry for accelerated growth over the next several decades.

Safety is a constant challenge. You can see the positive results of our commitment, but every fatality is a human tragedy that reminds us that we must do even better. Data-driven measures will ensure further improvements. We must make an already very safe industry even safer.

Giovanni Bisignani
(Tokyo, Japan, February 2011)

Historical safety rate
(Western-built jet hull losses per million sectors)

* April 2009—All IATA members on IOSA registry



Source: IATA GSIC

Security

Governments must harmonize security measures; take responsibility for security costs, which have risen to \$7.4 billion annually; and develop a Checkpoint of the Future.

IATA has two objectives for security: The first is to make the system convenient for passengers and more effective at finding terrorists. Each security crisis has resulted in new rules and added layers of process and bureaucracy. An overall review of developments is essential, along with a focus on a radically different Checkpoint of the Future.

Second, airlines need help with the cost of security. IATA estimates that airlines are spending \$7.4 billion annually on security—a 25% increase from its previous estimate of \$5.9 billion. The bulk of the increase is due to data collection and transmission, air marshals and air security officer programs, capital expenditure, and security delays and diversions. These should not be airline costs. Aviation security is national security, and that is a government responsibility.

In January 2010, following the failed Christmas Day terrorist attack, IATA convened a historic Global Security Summit at its Geneva office. In attendance were US Department of Homeland Security (DHS) Secretary Janet Napolitano, International Civil Aviation Organization (ICAO) Secretary General Raymond Benjamin, and a number of airline CEOs. Since regulatory activity initiated by the United States often drives the global security debate, IATA welcomes the positive approach of the DHS. Closer collaboration between industry and governments, as well as between governments, will further facilitate progress toward global standards.

At the summit, IATA put forward five recommendations to the DHS:

- Conduct formal continuous consultation with industry
- Align emergency orders with industry's capabilities
- Eliminate inefficiencies in passenger data collection
- Ensure communications among governments to drive global harmonization
- Develop the Checkpoint of the Future

We must find alternatives to the one-size-fits-all model. We can expedite procedures for pre-identified low-risk travelers and for those who give us access to more personal history. A Checkpoint of the Future will be a dynamic system that will help us to cope with passenger volumes that will increase by 900 million to 3.3 billion by 2014.

Giovanni Bisignani

(Frankfurt, Germany, November 2010)





Industry consultation

Security regulations are often written without industry input and review, resulting in requirements that are not practical to implement or effective in the operational environment. Collaboration between industry and regulators is vital to developing measures that are effective for all parties.

To address the need for collaboration, IATA instigated the establishment of a US International Working Group on aviation security in 2010.

In addition, a declaration adopted at the 37th ICAO Assembly in September 2010 urged increased cooperation among nations and between nations and the civil aviation industry. The declaration aims to heighten information exchange on security measures to avoid redundancy, where appropriate, and to ensure the early detection and dissemination of information on security threats to civil aviation.

Emergency directives

Prescriptive, one-size-fits-all regulations with numerical targets are not effective in securing a complex global industry operating across different government jurisdictions. Airlines in many countries do not have the legal ability to comply with emergency amendments because of conflicting requirements. Security regulations must give airlines the necessary flexibility to work with governments.

In line with this goal, IATA was involved in two major achievements in 2010. Fourteen countries were removed from a US security blacklist, and alternative procedures were introduced to reduce or eliminate the 100% pat down of passengers.

Passenger data

IATA continues to lead industry efforts to ensure that governments' requests for passenger data are reasonable and adhere to international standards and practices. This includes requests for Advance Passenger Information (API) and Passenger Name Records (PNR).

A new IATA message standard was approved for PNR that provides a standard format for transmitting reservation data to governments. The API standard was also updated to ensure that all government requirements are met in a single, industry-recognized format.

An agreement was reached in the United States to establish a blue-ribbon commission of airline representatives to liaise with the DHS Screening Coordination Office on passenger data issues. IATA service-level standards for customs and immigration were developed and presented to the DHS and ICAO. In addition, IATA convinced seven nations to withdraw plans for uncoordinated API provision requirements, saving the industry in excess of \$200 million.

Government coordination

An unprecedented willingness by ICAO and the DHS to coordinate in 2010 led to the organization of high-level security conferences in all regions.

Likewise, a one-stop security agreement under Open Skies between the European Union and the United States, scheduled to take effect in July 2011, demonstrates a major step toward the mutual recognition of measures. That agreement will affect an estimated six million passengers each year and will save the industry approximately \$30 million per annum.

In line with IATA objectives, a resolution from the 37th ICAO Assembly promotes the development of mutual recognition processes. To signal their willingness to heed the call for closer cooperation, ICAO and IATA have signed an agreement to facilitate swift communications between states and regulators.



CHECKPOINT OF THE FUTURE

- Enhanced security lane
- Normal security lane
- Known traveler lane

Checkpoint of the Future

Passenger numbers are increasing, and security threats are constantly changing. There is, therefore, urgent need of a new concept in passenger screening that emphasizes enhanced security while ensuring more efficient passenger throughput.

Today's checkpoints were designed 40 years ago to stop hijackers carrying metal. To improve efficiency and make checkpoints more effective, we must end the one-size-fits-all approach that challenges every traveler to prove themselves innocent. The solution is a Checkpoint of the Future that combines technology and security intelligence. IATA's vision is to have passengers walk—without stopping, stripping, or unpacking—through tunnels of technology appropriate to each person's risk level as identified through background screening.

Committee members at the 37th ICAO Assembly in 2010 stated that industry and government roles in aviation security should be aligned and that a Checkpoint of the Future should be developed.

In support of this statement, in late 2010 IATA developed a conceptual framework for the Checkpoint of the Future and hosted with the Airports Council International an ICAO workshop for interested countries. An ICAO Technical Advisory Group comprising 19 governments is, as a result, working with airlines and airports on refining the checkpoint's principles and designing and testing its concept.

In 2010, surveys of security checkpoints were also conducted with three major international airports to identify best practices and opportunities for improvement.

Cargo security

Cargo security rose to the top of the agenda in October 2010 following a thwarted plot to send bombs to the United States from Yemen. These were discovered on two separate cargo planes in Dubai and the United Kingdom. Consequently, IATA met with US Transportation Security Administration Administrator John Pistole. IATA called on

him and on the international community to bear in mind four principles when developing air cargo security programs: the need for a supply chain approach, the imperative of deploying technology to complement intelligence and the supply chain approach, the attributes of e-freight, and the importance of targeting risk measures.

Cost savings

Cost savings rank high among IATA's many security achievements in 2010.

In the United States, IATA worked extensively with the Electronic System for Travel Authorization (ESTA) team to resolve issues relating to improper data input. In a parallel effort, IATA was successful in getting the DHS to lower the fee it imposes on ESTA travelers, from \$20 to \$14.

In the European Union, IATA's lobbying efforts helped to remove an obligation to systematically off-load unaccompanied baggage. That is estimated to have saved the industry \$72 million a year.



Regulatory and Public Policy

Governments underappreciate, overtax, and misregulate aviation. This destroys the industry's competitiveness and compromises aviation's ability to drive economic growth.

Industry taxation

In 2010, despite IATA's best efforts, passenger taxes increased \$3.6 billion. This included the disappointing increases in the UK Air Passenger Duty and in the Canadian Air Travellers' Safety Charge. Additionally, the German government introduced a new air transportation tax of \$1.5 billion annually starting 1 January 2011. Austria quickly followed the German initiative and introduced a similar air travel levy starting 1 April 2011.

There were some positive developments during the year. IATA achieved a record \$2.4 billion in taxation savings for the industry. The People's Republic of China removed a domestic business tax that required Chinese carriers to pay 3% on revenue from international flights. India capped the Indian Service Tax, resulting in a net savings of \$152 million. In the United States, the announced increase of the Animal and Plant Health Inspection Service user fees was withdrawn, bringing a cost avoidance of \$45 million. Grenada replaced its government ticket tax with a value-added tax from which air transportation is exempt. More recently, the Irish government confirmed in its December budget announcement a reduction of the country's air travel tax. That tax is likely to be abolished altogether by the newly installed Irish government.

In addition to its campaigns against national taxes, IATA is proactively opposing broader taxation initiatives. These include solidarity taxes, the least developed country (LDC) adaptation levy, environmental and carbon taxes, tourism taxes, and many others that single out and penalize the aviation industry.

IATA believes such taxes are counterproductive. It accepts many governments need to finance their deficits, but targeting aviation as a revenue source is a mistake, as aviation is a proven driver of economic growth and thus tax revenue over the medium to long term.

To further explain this argument, in 2011 IATA is facilitating a Benefits of Aviation campaign, to detail aviation's economic contribution on a country-by-country basis. The campaign will demonstrate factually and clearly to governments the positive impact aviation has on economic growth. As part of this effort, IATA has commissioned 54 studies by Oxford Economics on the value that commercial aviation brings to particular nations or regions.

Airport privatization

Another result of government deficit-reduction strategies is that a number of state-owned airports are being considered for privatization. Experience shows that there is a wide variety of privatization models, with varying degrees of success. IATA has published some recommendations for airport privatization, including the following:

- A strong focus should be placed on the more efficient management of airport assets
- Independent and robust economic regulation is vital
- Mechanisms to incentivize cost efficiency must be built in
- Customer involvement in new infrastructure planning is essential

Consumer issues

International carriers continue to be confronted with unnecessary and counterproductive regulations drafted in the name of consumer protection.


In the United States, the Department of Transportation (DOT) issued a Final Rule on Enhancing Airline Passenger Protections, expanding existing passenger rights regulations on US and foreign air carriers.

IATA regrets this decision by DOT to intervene into airline business practices, which is inconsistent with the Airline Deregulation Act of 1978. There is great concern that the extraterritorial application of this regulation will undermine the efficiency of the international aviation system. The rule puts the burden for delays on carriers, when the majority of delays are outside of airline control.

DOT would better serve the customer by focusing on delivering on NextGen targets, which will significantly reduce delays. Meanwhile, IATA and the industry are exploring their legal options to challenge this re-regulation of the airline industry.

In Europe, IATA and three UK airlines are pursuing a legal challenge to a 2009 European Court of Justice ruling that deals with the European Commission's passenger rights regulation (EC Regulation 261/2004). That ruling effectively means that passengers who reach their destinations three hours or more after their originally scheduled arrival time should be compensated as if the flight had been canceled. Oral hearings on this challenge are anticipated in late 2011, with a decision in 2012.

The European Commission has also regulated passenger rights for other transport modes and has launched a study on the protection of passengers in case of airline bankruptcy. It also intends to revise the directive on the protection of passenger data. IATA will follow these activities closely to protect the interests of member airlines and ensure the results are consistent with airline business practices to the fullest extent possible.

An aerial photograph of an airport tarmac. A large white commercial airplane is the central focus, parked at a gate. To its right, a ground support vehicle is connected to the aircraft. In the upper right, another ground support vehicle is parked. A small white car is driving on a road in the middle of the frame. The tarmac is marked with white lines and red safety zones. The number '12' is visible on a gate sign.

When things go wrong, being a hyper-competitive industry provides every incentive to treat the passenger well. Fines—no matter how large—will not melt snow, stop thunderstorms, free up airport gates, build new infrastructure, or deliver more customs personnel.

Giovanni Bisignani

(New York, United States, March 2011)

Slots

IATA's Worldwide Scheduling Guidelines (WSG) are the global standard for the management of slots at congested airports. IATA continues to urge governments to accept the WSG's four cornerstones of global scheduling to maintain and promote global connectivity and ensure continuity and predictability of service for the customer:

- Certainty of access. Enables next-season scheduling and advance reservations
- Flexibility of operation. Allows carriers to adjust timing and equipment to meet customer needs and challenges resulting from unforeseen events, such as weather
- Sustainability of costs. Provides airlines with the certainty needed to make long-term capital investments and to implement operational plans and training programs
- Transparency of management. Opens slot databases to all stakeholders to allow for a fair and coordinated distribution of limited assets.

IATA recognizes that countries have the right to modify the guidelines to meet their particular needs, and several countries have challenged the principles and provisions of the WSG. For example, IATA is working with the authorities in China to adapt WSG policies and procedures and to release more airspace from military control to allow greater growth in the commercial aviation sector.

The European Commission (EC), meanwhile, continues to pursue an impact assessment on slot allocation 95/93. This opens up the possibility of either the EC or the European Parliament seeking to impose new and potentially dangerous concepts on the system, including requiring the different treatment of incumbents and new entrants. The assessment report is expected in September 2011.

In the United States, the Federal Aviation Administration (FAA) has been considering how best to manage congestion at New York-area airports. Slots at those congested airports have been managed in a fashion consistent with the WSG since 2008. However, the existing New York rules, already extended from 2011, are due to lapse in October 2013. IATA is engaging with the FAA to advise against introducing new concepts that are not consistent with the WSG and that undermine the globally harmonized system.

Legal issues

There is a growing concern within the industry over the consequences of the current trend toward the opening of criminal prosecutions following an aircraft accident. The industry does not seek unreasonable or unique protection, but it is crucial that any criminal investigation does not hinder the free flow of safety information that is used to enhance aviation safety generally.

The judgment of the French court in criminal proceedings arising out of the Air France Concorde accident in July 2000 illustrates the point. In this case, Continental Airlines and one of its mechanics were convicted of involuntary manslaughter over 10 years after the accident. Airline employees are likely to be advised by their legal counsel to cooperate in accident investigations to the minimum extent possible, or not at all, to avoid any future criminal liability many years down the line.

The industry has been attempting to address the issue for quite some time. The work of the Eurocontrol Just Culture Task Force has been a major driver in the process. And, at the 37th ICAO



Assembly, IATA urged nations to ensure that their investigation authorities protected safety information from premature and inappropriate disclosure to criminal authorities.

In addition, ICAO has established a Safety Information Protection Task Force to be made up of government and industry representatives. The aim of the task force is to provide recommendations for enhanced provisions and materials related to the protection of safety materials.

Eyjafjallajökull volcano eruption

On 14 April 2010, the Eyjafjallajökull volcano in Iceland erupted. Acting on a forecast model, the Volcanic Ash Advisory Centre in London recommended that most of the airspace in northwestern Europe be closed. This resulted in the cancellation of 100,000 flights and transport chaos as planes, crews, and some 10 million passengers were stranded. Political and regulatory confusion followed as politicians failed to grasp the seriousness of the situation and the fragmented European airspace system acted on a national basis without effective coordination.

The seven-day shutdown cost airlines \$1.8 billion in lost revenue and a further \$296 million in passenger compensation.

The response to the eruption revealed flaws in the regulatory approach, a lack of coordination between aviation sectors, a cumbersome political process, and uncertainty in technical knowledge. IATA proposed four changes:

- Leaving the decision on whether operations should continue in potentially contaminated airspace to airlines
- Enhancing information on volcanic ash modeling through the application of the processes and procedures that are being developed by the International Volcanic Ash Task Force (IVATF)
- Accelerating the implementation of the Single European Sky
- Continuing IATA's assistance in implementing and testing Europe's Crisis Contingency Center

Some improvements have been made in the 12 months since the eruption. There have been structural changes put in place to better manage and communicate a crisis—principally the creation of the EUROCONTROL European Aviation Crisis Coordination Cell. But it remains the case that individual countries make decisions relevant only on a national basis.

Initial moves to accelerate the roll out of the Single European Sky have faded. If a volcano were to erupt again, a patchwork of airspace closure options could still prevail. Airlines need a process that provides good, reliable information and by which safety risk assessments can be conducted prior to flight.

The event demonstrated a need for enhanced global guidance. At IATA's request, ICAO rapidly set up the IVATF, which has been working effectively to address this issue.



Environment

The aviation value chain is committed to cut net CO₂ emissions in half by 2050 compared with 2005. Governments must support solutions to achieve this target—driving the development of sustainable biofuels and delivering a global framework for economic measures.

The past 12 months have seen continued progress by the aviation industry toward its vision for a sustainable future. Global emissions of CO₂ from aviation rose 4.5%, to 660 million metric tons in 2010, from 628 million metric tons in 2009. Overall passenger growth, however, was up 7.3%, showing that aviation has been successful in decoupling traffic growth from emissions. Despite the troubling global economic conditions of the past two years, airlines continued to invest in new equipment and better operating techniques to reduce fuel burn and carbon emissions.

IATA is focused on delivering the three sequential goals adopted by the IATA Board of Governors in June 2009:

1. Improve fuel efficiency an average of 1.5% annually to 2020
2. Cap net carbon emissions with carbon-neutral growth from 2020
3. Achieve a 50% reduction in net CO₂ emissions by 2050 compared with 2005

IATA continues to work through ICAO to achieve policy consensus in line with its stated position that the global problem of climate change requires a global solution. In September 2010, ICAO's 37th Assembly established the first-ever global policy framework for emissions reductions in an industrial sector.

Government representatives at the Assembly, inspired by the industry's three sequential goals, called for aviation to improve its fuel efficiency 2% a year to 2020 and to cap carbon emissions with carbon-neutral growth from 2020. The closeness of these targets to the industry's goals indicates how realistic IATA's targets are. The 2% target will be difficult to attain, but IATA believes that increased government investment in better air traffic management will make realization possible. The Assembly also agreed on 15 principles for the design and implementation of market-based measures that reinforce the need for avoiding carbon leakage and market distortion.

The success of the Assembly put aviation in the strongest possible position going into the United Nations Framework Convention on Climate Change (UNFCCC) COP (Conference of Parties) 16 discussions in Cancun in December 2010. In the words of the Secretary General of ICAO, Raymond Benjamin, aviation "had done its homework." That the industry had established a global target for CO₂ reductions was in contrast



to other industry sectors and reinforced aviation's proactive reputation. Without the ICAO global policy resolution, the industry's lobbying effort in Cancun may well have been more difficult. The resolution, moreover, cemented ICAO's position as the UN agency to deal with aviation emissions.

The four-pillar strategy

1. Technology

Each new generation of aircraft is 20% to 30% more fuel efficient than its predecessor. Clearly, bringing new technology into the fleet is essential if aviation is to reach its carbon goals.

In 2010, IATA worked on the TERESA (Technology Roadmap for Environmentally Sustainable Aviation) project with the German Aerospace Centre DLR and the Georgia Institute of Technology. That project is evaluating fuel-efficiency improvements for aircraft generations through 2020. It is estimated that future aircraft could save from 25% to 35% of fuel compared with state-of-the-art 2005 aircraft.

Alternative fuels

With the possibility of offering up to an 80% reduction in emissions over the complete carbon lifecycle, biofuels are a key part of aviation's future. In 2010, United Airlines and TAM added their biofuel test flights to those conducted by other airlines in 2008 and 2009. United Airlines evaluated a 40% Fischer-Tropsch blend using a twin-engine plane. TAM tested a 50% jatropha blend.

Certification for a 50-50 blend of biofuel with Jet A-1 is expected in 2011. With the technical hurdles substantially overcome, commercialization and the scale-up of aviation biofuels production are a priority for the industry. For this, the support of governments is essential.

Establishing the correct sustainability credentials is vital to retain confidence in biofuels as an environmentally friendly fuel. As a member of the Roundtable on Sustainable Biofuels, IATA is working to establish agreed-upon biofuel sustainability criteria.

2. Operations

IATA continues to help its member airlines realize fuel savings and additional cost reductions through improvements in operations. Fuel savings in operations were achieved through intensified Green Team support. IATA Green Teams supported 152 IATA member airlines through various initiatives, such as regional workshops, remote support, fuel-efficiency training, Fuel-Efficiency Gap Analysis (FEGA), and implementation of fuel saving initiatives. In 2010, airlines realized total savings of \$828 million through their implementation of Green Team initiatives.

The goal is to have all IATA members complete the FEGA and the *IATA Fuel Book* supports recommendations in fuel management efficiency. Since 2005, IATA has conducted 108 on-site visits, and operational savings in 2010 amounted to 3.42 million metric tons of CO₂. Improvements included flight management enhancement, flight planning optimization, auxiliary power unit usage, maintenance, and aircraft weight management.

3. Infrastructure

IATA works with industry partners to shorten air routes and lessen emissions. Two good examples of this work are the IATA iFlex and Performance-Based Navigation (PBN) projects.

The IATA iFlex project brings together industry stakeholders to identify and introduce more flexible routing options on long-haul flights through low-density airspace. The project involves IATA, ICAO, the Civil Air Navigation Services Organization (CANSO), and air traffic control experts from the countries involved, who work closely with the airlines to agree on and implement changes.

iFlex began in late 2010, and pilot projects are planned in 2011. Emirates will be involved in the work on the Dubai-São Paulo route, while Delta Air Lines will concentrate on the Atlanta-Johannesburg service. Data suggests that airlines operating a 10-hour intercontinental flight can reduce fuel burn up to 2% and save 3,000 kilograms of CO₂.

New PBN implementations avoided nearly 678,000 metric tons of CO₂ in 2010. Airlines saved \$152 million as a result. PBN implementation at São Paulo Airport in Brazil alone resulted in 79,000 metric tons of CO₂ savings (\$17 million saved). PBN also enhances the safety, efficiency, and accessibility of airports.

IATA's support for new navigation techniques included the development of the first ICAO guidance material on civil and military cooperation. The aim is to optimize airspace use and the implementation of airspace changes to allow more flexible routings for airlines.

Meanwhile, an important EU-US memorandum of understanding was signed in June 2010. It will further the political resolve to ensure that SESAR and NextGen are harmonized, interoperable air traffic systems.



4. Economic measures

IATA remains focused on ensuring that inefficient taxes are not levied on aviation by governments, especially for environmental purposes. Following the comparative disappointment of the UNFCCC COP 15 meeting in Copenhagen, COP 16 in Cancun in December 2010 was conducted in a more measured atmosphere. Once again, IATA was present, together with a number of industry partners, ensuring that aviation's priorities were reflected in the discussions.

COP 16 did not formalize a global treaty, but references to aviation ticket taxes were not retained in any of the support papers. Moreover, there was evidence that many country representatives had absorbed the key aviation emissions targets and were interested in the progress toward them. This is a major advance on previous years. IATA and the Air Transport Action Group (ATAG) were nevertheless active in promoting the industry's 50% emissions reduction target, including with billboard posters and advertising at Cancun Airport and the placement of over 100,000 seat-back flyers on flights to Cancun and to Mexico City.

IATA will continue to lobby for a formal global framework for economic measures through ICAO. In December 2011, UNFCCC COP 17 will take place in Durban, South Africa. It is hoped that similar cooperation between industry partners will continue our strong united front at COP 17.

European Union Emissions Trading Scheme

ICAO progress on a framework for positive economic measures is all the more urgent given the inclusion in 2012 of aviation into the European Union Emissions Trading Scheme (EU ETS). The EU ETS, which is being challenged in the European Court of Justice by a number of US airlines, will be unfair and costly and will do little to reduce emissions.

Interest in emissions trading schemes has waned around the globe, including in Australia and the United States. Yet the European Union is intent on expanding its ETS. IATA is strongly against the regional and unilateral nature of the EU ETS. It is supporting, through amicus brief, an action brought by three US carriers and the Air Transport Association of America against the extraterritorial scope of the ETS. At the same time, IATA is providing technical support for member airlines faced with complex and confusing EU ETS monitoring, reporting, and verification requirements.

Carbon Offset Program

By the first quarter of 2011, some 30 IATA airlines had independently established carbon offset schemes. The IATA Carbon Offset Program, meanwhile, has made significant progress during the last six months. Seven airlines are operating the program, and 17 others have signed up. In addition, a growing number of airlines are embedding the offset mechanism on their websites.

Recently, IATA commenced Phase II of the IATA Carbon Offset Program. The aim is to offer the offset methodology and a bespoke web tool to corporate customers by means of a dedicated travel agent network. In this way, small, medium-sized, and large companies will gain a tool to neutralize their business travel carbon footprint.

The IATA Carbon Offset Program calculates carbon emissions based on a methodology developed by ICAO and enhanced with actual airline data. The program uses high-quality carbon offset credits linked to renewable projects in developing countries and issued under the Clean Development Mechanism (CDM) and the Kyoto Protocol. It also is accredited under the UK government's Quality Assurance Scheme for Carbon Offsetting.

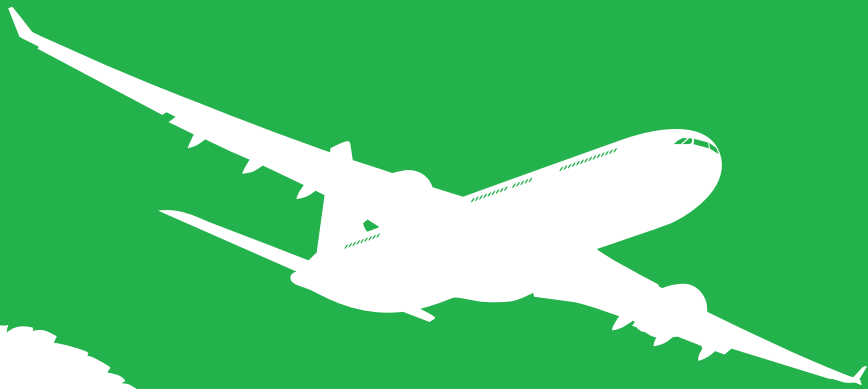
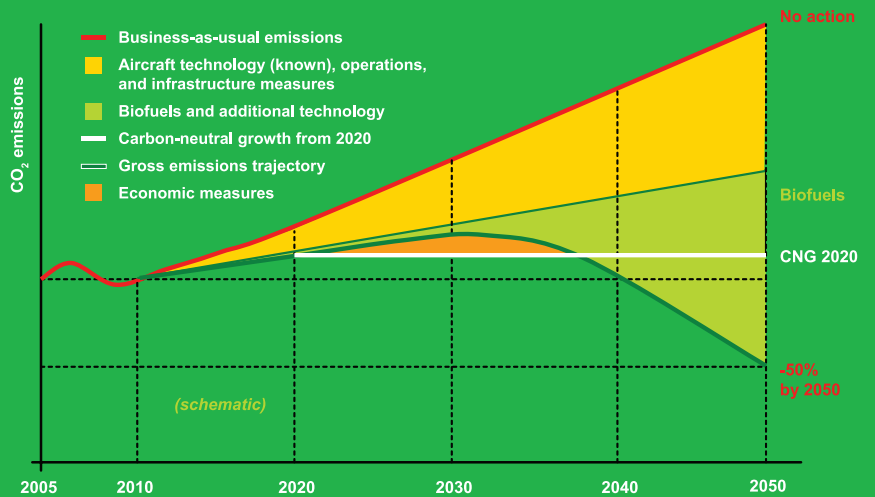


Environmental communications

IATA is committed to communicating aviation's role in the environmental debate. As such, it supports the ATAG www.enviro.aero website and its successful campaign to educate policy makers and the public of aviation's environmental role, environmental targets, and ongoing efforts to reduce emissions. The website has been viewed by well over two million people since its inception and is a resource used by journalists and other researchers seeking to understand aviation's impressive environmental record.

In addition, the IATA environmental stand project is scheduled to conclude in mid-2011, after visiting 16 airports in Europe, Asia, and the Middle East.

Emissions reduction roadmap



Our commitment to cut emissions in half by 2050 compared with 2005 is the global benchmark. The entire aviation industry is committed to working together under the leadership of ICAO to achieve this.

Giovanni Bisignani
(Montreal, Canada, December 2010)

Simplifying the Business

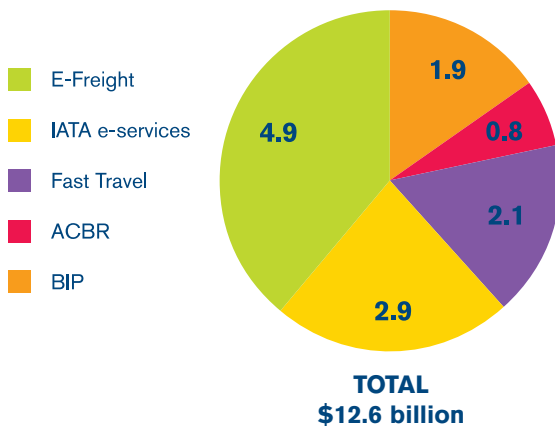
Simplifying the Business is making air transport more convenient for passengers and reducing costs for airlines. It has achieved all targets to date and will continue to deliver measurable success.

Since 2004, IATA's Simplifying the Business (StB) program has delivered industry change in the form of lower costs and improved service. To date, the program has completed three initiatives: e-ticketing, common-use self-service kiosks, and bar-coded boarding passes (BCBP). BCBP was the most recent to be completed, in December 2010, and delivers a \$1.5 billion annual cost saving to the industry.

Five further initiatives have the potential to save the industry another \$12.6 billion a year.

- E-freight replaces paper documents with electronic messages, resulting in a more efficient, reliable, and secure supply chain. Potential annual savings: \$4.9 billion
- IATA e-services replaces paper miscellaneous documents with a standard electronic version, simplifying back-office processes and providing more distribution channels for ancillary services. Potential annual savings: \$2.9 billion
- Fast Travel provides passengers with more choice, convenience, and control through a range of self-service options. Potential annual savings: \$2.1 billion
- Automated Carrier Baggage Rules (ACBR) enable airlines to electronically file their own baggage allowance policies and charges to a centralized database developed by the Airline Tariff Publishing Company (ATPCO). This will allow travel agents, check-in agents, and interline partners to correctly assess carrier baggage policies and deliver consistent information to passengers. Potential annual savings: \$800 million
- The Baggage Improvement Program (BIP) aims to cut baggage mishandling in half by the end of 2012 through a mix of diagnostic visits and a self-help program. Potential annual savings: \$1.9 billion

StB potential annual savings (\$ billion)



Simplifying the Business

Initiative		Current Status	1 May	End 2011 target
BIP	Diagnosis performed	49	60	
	Self-help airports delivered	32	70	
IATA e-services	EMD-capable GDSs	1	6	
	EMD-capable airlines	14	40	
Fast Travel	Airports with full Fast Travel suite	0	5	
E-freight	Penetration in live trade lanes	4.33%	10%	

We know e-freight works. The network is there, the cost savings are being realized, and expectations have been set with aggressive targets. Now it is up to all of us to meet the targets—10% on capable trade lanes by the end of 2011 and 100% by 2015.

Giovanni Bisignani
(Istanbul, Turkey, March 2011)



E-freight

Each international air freight item can require more than 30 different paper documents, increasing the cost of air freight and lengthening transport times. E-freight is an industry-wide initiative involving airlines, freight forwarders, ground handlers, shippers, and customs authorities. It replaces paper documents with electronic messages, increasing the speed and the reliability of air freight.

In the first phase of the e-freight project, which lasted through the end of 2010, the emphasis was on building the e-freight network. By the end of the year, 44 locations were e-freight live, representing over 80% of air cargo volumes.

The focus now is to build volumes on that network. By the end of 2011, e-freight is anticipated to represent 10% of all air cargo on capable trade lanes, a step toward the 100% e-freight vision on capable trade lanes by 2015.

The relevance of e-freight has grown in the wake of the October 2010 cargo security incident. IATA is calling on governments to expand the use of e-freight from inbound shipments to outbound as well and to use the electronic data to intelligently manage freight security.

IATA e-services

IATA's e-travel vision is a three-step process for removing the need for passengers to have paper documents for any part of their journey. Step one, e-ticketing, was completed in 2008. Step two, BCBP, through which IATA has enabled the mobile phone boarding pass, was completed in 2010. Step three is IATA's e-services project.

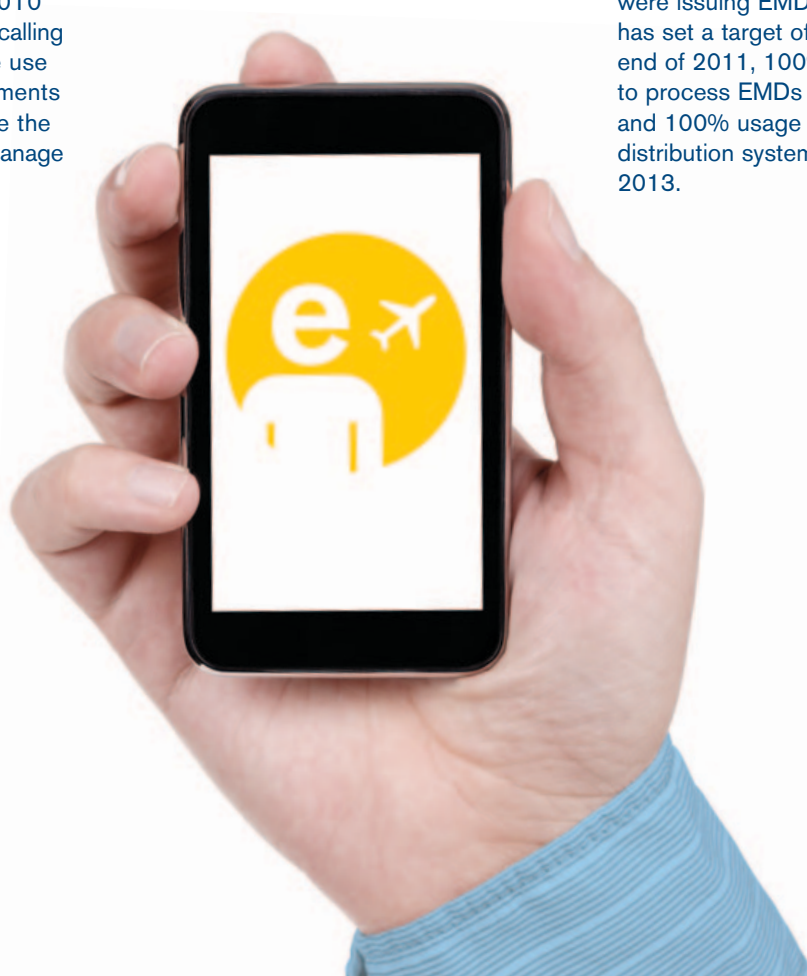
The mobile BCBP removed the need to print out boarding passes. Passengers equipped with a mobile phone can gain access to flights using a scannable bar code that appears on their phone screen. But a range of other paper documents, such as excess baggage tickets and tour orders, stand in the way of an entirely smooth and seamless experience for passengers. And proprietary airline electronic versions of these documents don't provide the flexibility interline passengers need.

IATA's electronic miscellaneous document (EMD) standard ensures a paperless environment. The e-services project is mobilizing the industry to adopt IATA's global EMD standard.

What does that mean for the passenger? By creating a paperless environment, EMD enables passengers to book a whole range of optional services, from fast-track security to a limousine ride home, across multiple airlines and journeys. Previously passengers could only book ancillary services directly with the airline concerned.

The IATA EMD standard means that airlines and travel agents can sell these services quickly and easily and that airlines benefit from lower costs due to simplified revenue accounting and back-office processing. They will also be able to track and attribute revenues faster.

By the end of 2010, 12 airlines were issuing EMDs. The IATA Board has set a target of 40 airlines by the end of 2011, 100% industry capability to process EMDs by the end of 2012, and 100% usage of EMDs in IATA distribution systems by the end of 2013.



Fast Travel

Fast Travel is made up of five projects:

- Bags ready to go enables passengers to deliver their bags tagged and ready for acceptance by a check-in agent, speeding the check-in process
- Document check allows passengers to scan travel documents at kiosks for transmission and validation by government authorities
- Flight rebooking allows passengers to obtain a new boarding pass for canceled or delayed flights at a self-service channel
- Self-boarding provides automated boarding gates for passengers, as in a train or subway station, reducing boarding lines
- Bag recovery allows passengers to report a missing bag at a kiosk instead of waiting in line at a baggage service counter

By the end of 2010, there were 120 implementations of these projects, illustrating the industry appetite for self-service. The focus for 2011 will be bridging the projects to establish a smooth, end-to-end passenger experience.

The IATA Board of Governors has set a target for five major airports to implement all five projects in 2011 to provide passengers a complete Fast Travel journey. An end-to-end toolkit is being prepared to help airports with implementation. The toolkit will offer guidelines and instructions to help airports to understand the processes and requirements for a seamless passenger journey. The first edition of the toolkit is expected to be released in June 2011.

Automated Carrier Baggage Rules

More and more airlines are defining their own baggage allowances and charges. This adds complexity for travel agents, check-in agents, and interline partners, who are unable to correctly assess carrier baggage policies.

The existing simplified standard approach to defining baggage allowances and related charges expired on 31 March 2011. A new standard, Resolution 302, has been defined and came into effect on 1 April 2011, but its adoption was too complex to be handled correctly by a manual process.

The solution is a centralized baggage rules database developed by the ATPCO, which allows airlines to file their own baggage allowance and charges electronically. To be successful, the ATPCO solution needs to be embedded within reservations, pricing, and ticketing systems as well as departure control systems.

In June 2010, the IATA Board created the ACBR project. It is designed to mobilize the industry to submit its baggage rules to a single database. The six major GDSs are expected to link to the database by June 2011, allowing airlines and travel agents to automatically apply correct baggage allowances for interline journeys.

Baggage Improvement Program

BIP provides the industry with free-of-charge solutions that address all causes of baggage mishandling. Once implemented, BIP will reduce mishandling 50% by the end of 2012.

The program focuses on 200 airports responsible for 85% of passenger claims. Eighty of the top airports will receive diagnosis visits from the BIP team and will benefit from customized solutions. The remaining 120 airports will be part of the self-help program, which enables airports and airlines using the BIP toolkit to reduce mishandling, lower costs, provide better service, and benchmark performance against the industry.



Cost Efficiency

Finding efficiencies across the value chain is a constant challenge. In 2010, IATA delivered a record \$4.3 billion in cost savings by working with airports, ANSPs, and fuel suppliers.

Since 2001, airlines have improved their labor efficiency 53% and their fuel efficiency 17%. It is IATA's aim that a thorough and systematic approach to improving efficiency be adopted throughout the industry value chain. Airlines and their passengers pay over \$64 billion a year in infrastructure-related charges. Cost reductions and even freezes in infrastructure charges are vital to the battle for the financial sustainability of airlines. Infrastructure providers, regulators, and governments must apply ICAO principles when determining infrastructure charges: transparency, cost-related charges, meaningful airline consultation, equitable charges structures for all airlines, a single till structure, and improvements in productivity.

In 2010, the IATA External Cost Campaign secured cost savings of \$4.3 billion in infrastructure charges. Including the additional \$2.4 billion savings in passenger taxation (see page 24), this brings the overall External Cost Campaign savings to a record \$6.7 billion. Unfortunately, cost increases (including taxation) were still at the average annual figure of \$5 billion. And many providers and governments view the industry recovery as an opportunity to increase charges and taxes in 2011.

Policy change

IATA is cooperating with other aviation bodies and with governments to provide a stronger framework for cost efficiency. IATA's close work with the European Commission on a more unified European airspace has helped to finalize the SES performance and charging scheme regulations. The result is a long-awaited end to the full cost recovery mechanism for ANSPs in Europe and a fairer scheme based on sharing risk in traffic volumes between airlines and ANSPs.

This is a good step forward, but the performance target levels for 2012–2014 were disappointingly diluted from the original recommendations of the Performance Review Board. IATA is working to ensure the SES objectives are achieved by lobbying for more challenging performance targets from 2015.

In February 2011, IATA participated in the ICAO Airport & Air Navigation Services Economics Panel. The main achievement of this event was that countries were encouraged to incorporate ICAO's Policies on Charges for Airports and Air Navigation Services (Doc 9082) into national policy—legislation as well as bilateral agreements.

At the ICAO/African Civil Aviation Commission (AFCAC) Symposium on Aviation Infrastructure Financing in Maputo, Mozambique, in November 2010, IATA emphasized the necessity for transparency and early consultation with users, before investment decisions are made on aviation infrastructure. In 2011, IATA is campaigning against the proliferation of infrastructure development charges in Africa to ensure compliance with ICAO policies and prevent further negative precedents from being set.

Airports

It is essential that investment in infrastructure is undertaken in the most cost-efficient way possible. IATA supports the need for cost-efficient infrastructure development, where it is needed, and has developed principles to help guide such investment. In 2010, savings of \$2.7 billion were secured in airport charges, of which \$805 million represented real cost reductions. North America and Europe contributed the majority of these savings.

External cost campaign: January–December 2010

In \$ millions	Total Savings	Real Reductions	Increases
Airports	2,740	805	852
ANSPs	787	187	569
Fuel	799	431	4
TOTAL	4,326	1,423	1,425

Asia

A number of airports in Asia continued to provide charges relief to airlines to help stimulate traffic recovery. In particular, Airports of Thailand instituted deep reductions and incentive schemes at Bangkok's Suvarnabhumi Airport. Singapore's Changi Airport provided landing fee reductions of 10% to 15% in 2010 but also announced increases in charges from 2012.

In India, following significant input from IATA, the Airports Economic Regulatory Authority (AERA) ordered that major airports be regulated using a single till approach. This order has yet to be applied at New Delhi's Indira Gandhi International Airport and Mumbai's Chhatrapati Shivaji International Airport amid an ongoing review of national concession agreements, but it is a positive development. It is, moreover, the latest piece in a thorough regulatory framework being established by AERA.

Following a damaging review of Sydney Airport by Australia's Competition Commission, the Australian Ministry of Transport has brought forward a Productivity Commission review of pricing and regulatory regimes originally planned for 2012. IATA is participating in close cooperation with airlines.

IATA is likewise engaged with the Japanese Ministry of Land, Infrastructure, Transport and Tourism on aviation policy, charges, and tax issues. The country's government is planning to reduce domestic fuel taxes and is expected to exclude aviation from environment and poverty-reduction taxation. Charges consultations are focused on Haneda and Narita airports.

In the Philippines, IATA and airlines are lobbying for the removal of discriminatory taxes on foreign airlines.

Europe

IATA has engaged with Amsterdam, Brussels, and Copenhagen airports to try to avoid damaging changes to their charges structures and to ensure instead that charges better reflect cost efficiency and are nondiscriminatory. At Amsterdam Schiphol Airport (AMS), IATA and airline opposition to a proposal for large structural changes forced the airport to put plans on hold and to conduct a study on the potential impact of such changes. The risks identified by the study led AMS to limit the structural changes. IATA's efforts are now focused on fighting the 2% overall increase AMS is proposing. At Brussels, IATA is campaigning to avoid large structural changes and to reduce a proposed price cap. IATA and member airline efforts, meanwhile, won the Danish Competition Authority's consent to investigate potential discriminatory concerns regarding the low-cost pier at Copenhagen airport. IATA will continue to follow through on such issues while looking to build stronger relations with airport partners.

In France, IATA and airlines have been involved in Aéroports de Paris's consultations with the French authorities on major aspects of economic regulation. This involvement has ensured fairer prices for the next five years at Charles de Gaulle and Orly airports.



IATA is similarly involved in the reform of UK airport economic regulations to introduce a more targeted and flexible license-based system, including a right of appeal by airlines. This system will be proposed to Parliament in the new airports economic regulation bill in 2011.

The Spanish government, meanwhile, has opted to privatize 49% of Spanish airport operator AENA. In response, IATA is insisting that airline requirements for airport privatization and robust economic regulation be taken into consideration to ensure the required cost-effectiveness and service levels.

Other regions

The long saga in the United States regarding FAA reauthorization is ongoing, and discussions continue regarding possible user fee funding. The focus is on the Mica bill, from which the proposal to increase the Passenger Facility Charge from \$4.50 to \$7.00 has been removed, saving the airline industry \$1.4 billion.

Argentina's aviation regulator has announced the continuation of the 30% discount on charges in Buenos Aires in 2011. In Brazil, the aviation regulator has launched a significant review of the rates and charges model and will introduce efficiency targets and price caps.

An attempt by several Caribbean nations to introduce a Caribbean Tourism Tax was successfully avoided in 2010, saving air carriers an estimated \$287 million.

The tremendous growth and associated infrastructure requirements in the Middle East, particularly in the Gulf area, are driving many airports and air traffic control (ATC) providers in the region to increase charges and modify charges structures. IATA has engaged in several countries to ensure that ICAO charging principles are considered. In some cases, such as in Dubai, IATA has obtained a commitment from providers that airlines will be consulted prior to any further changes in charges.

In Africa, IATA continues to push for meaningful dialogue and for transparency. IATA has been active in helping to resolve the dispute between South Africa's airport authority and aviation regulator over allowed fee increases for 2011. IATA remains vigilant but expects the regulator's lower increases to be upheld. IATA is in negotiations with the Democratic Republic of the Congo (DRC) regarding a \$50 airport development fee and a 60% increase in the en route charge. The airport authority has agreed to either provide the necessary justification or to suspend the en route increase.

Air navigation services

Savings of \$787 million in air navigation service charges were secured in 2010, including \$187 million in real cost reductions. As with airport savings, North America and Europe were the regions with the most significant savings. The success in those two regions stemmed from IATA actions with the FAA and Eurocontrol, respectively.

In the United States, increases to the overflight and oceanic charges proposed by the FAA have again been delayed, until 2015, saving the industry \$153 million. Until then, the 1999 rates are expected to continue.

In Europe, the average en route unit rate for 2011 across Eurocontrol countries was increased 0.9% in 2010. This is a marked improvement on earlier proposals for a 3.3% increase but is short of the freeze urged by IATA and by European Union Vice-President Siim Kallas. Overall, 18 European nations reduced or froze their unit rates, while 13 poor performers increased both their costs and unit rates.

The biggest concern, and disappointment, is with four of Europe's biggest countries: France, Germany, Italy, and the United Kingdom. The combined unit rate increases for these four nations are three and a half times higher than the European average. IATA will address this discrepancy through the new SES Performance Scheme.

Economic regulation is not rocket science. You need a tough service level agreement and dramatic penalties if promises are not kept or the investment schedule is not met.

Giovanni Bisignani

(London, United Kingdom, February 2011)

Fuel

In the Middle East, IATA has engaged in consultation with several ANSPs to ensure that ICAO charging principles are adhered to, particularly in Egypt, Libya, and Afghanistan. This has resulted in some cost savings, but IATA continues to dialogue with providers for more meaningful consultation and for transparency. In Egypt, IATA addressed the very unusual issue of charges for flight safety messages, which were successfully canceled but offset by surprise increases in air navigation service charges of up to 25%.

In Asia-Pacific, IATA is working with Airservices Australia on a new, long-term ATC pricing agreement for 2011–2016. IATA also helped to develop and implement a service charter in consultation with airlines that sets targets for Airservices Australia and measures the organization's performance. The long-term agreement and service charter would present a positive example for other providers to follow.

In 2010, IATA campaigns on fuel fees and taxes resulted in savings for airlines of \$799 million. Savings of \$360 million were secured in India through competitive fuel pricing and the development of common-use infrastructure. IATA's influence on the European Union's compulsory stock obligation regime resulted in a fuel cost avoidance of \$271 million for the air industry. In St. Maarten, IATA was similarly successful in delaying an increase in the airport fuel concession fee. In Ecuador, following a three-year IATA lobbying campaign, the government in early 2011 approved an exemption from its 12% VAT for jet fuel used by cargo airlines. Initial estimates suggest savings of around \$15 million per year. IATA/airline campaigns in Japan resulted in the retraction of one proposed increase to the fuel facility charge and also led to the postponement of another increase.

IATA's efforts in seeking the regulatory oversight of activities related to the jet fuel supply chain and refueling services bore positive results in 2010. Legislation introduced in the Russian Federation in 2009 to favor open markets was strengthened in 2010 with new regulations.

As a result, a gradual shift away from the monopolistic fuel supply situation at Russian airports is under way, particularly at the more important, larger airports. IATA is continuing with campaigns in 2011 to ensure the transparency of costs and formula prices based on international standards in Angola, Brazil, China, Congo, the Dominican Republic, Kazakhstan, Mexico, Russia, and Ukraine.

IATA continued to work, meanwhile, on improving fuel supply reliability in 2010. This included airport-specific improvements, such as jet fuel tankage and supply capacity, at London Heathrow, Nice, and Sydney. The IATA Fuel Fees and Charges Database launched in 2010 is fully operational, and the commercial viability of the IATA Standard Into-Plane Fueling Procedures has been demonstrated. These procedures should result in improved safety and efficiency for airlines and into plane service providers.



Industry and Financial Services

IATA handled \$323 billion in its financial systems during 2010. In its mission to handle the industry's money even more safely and efficiently, IATA is constantly improving financial controls and streamlining processes.

The \$323 billion of industry funds handled by IATA in 2010 represents an impressive 15.5% increase over the previous year's \$280 billion. Billing and Settlement Plans (BSPs) accounted for the majority of the total, at \$221 billion. The IATA Clearing House (ICH) settled \$43.7 billion; the Cargo Accounts Settlement System (CASS) settled \$29.2 billion; and the IATA Currency Clearance Service (ICCS) settled \$29.1 billion.

Billing and Settlement Plans

IATA's BSPs are the interface between airlines and travel agents. They provide an efficient, reliable, and cost-effective system that simplifies the selling, reporting, and remitting procedures of airline tickets for IATA-accredited agents on a worldwide basis.

BSPs processed nearly 500 million transactions in 2010, with an accuracy of 99.963%. New BSP operations were implemented in Mongolia, Kosovo (as an extension of the BSP Western Balkans), and Mayotte (as an extension of BSP France). There are now 87 BSPs covering 167 countries and territories.

Cargo Accounts Settlement System

During 2010, CASS operations grew to 105, crossing the 100 mark for the first time. There are now 87 CASS export operations, 14 CASS import operations, and four CASS domestic operations. New operations were launched in Brazil, Germany, Tunisia, Vietnam, and Yemen.

CASS's collection success was 99.994%. Participation in CASS was at its highest level ever, with a 10% increase in carrier representation. In 2011, the expansion of CASS import operations will continue, with a particular focus on Africa.

Strengthening financial controls

In June 2010, the IATA Board of Governors agreed on a number of internal and external moves to strengthen industry settlement systems (ISS). These moves are part of IATA's Strengthening ISS program and focus on the standardization, simplification, and centralization of critical financial settlement processes.

The vision is to put in place one operating methodology for managing the industry's money. That means one global ISS standard operating procedure, one structure consisting of professional teams regionalized in hubs, and one tool in the form of an integrated IT system supporting the standard operating procedure and the structure.

In October 2010, all remittance and settlement operations were aligned to a revised global remittance and settlement standard operating procedure. That procedure specifies in detail the controls required to ensure the highest-quality oversight and care of our members' money.

In November 2010, IATA put in place common management structures in each of its five regional hubs: Amman, Beijing, Madrid, Miami, and Singapore. Standardized roles and job descriptions ensure the stronger segregation of duties in a consistent fashion worldwide. By June 2011, all remittance and settlement activity will be migrated from country offices to the regional hubs. By the end of 2013, all industry settlement system functions will have been shifted from country offices to the regional hubs.



IATA Currency Clearance Service

The ICCS helps airlines to centrally and efficiently manage the repatriation of their worldwide sales funds at optimal market exchange rates. In 2010, the ICCS processed \$29.1 billion on behalf of its 268 user airlines.

The ICCS is a key airline treasury tool in that it offers the option to repatriate sales settlements in over 111 countries. It also offers an accelerated repatriation option for airlines that do not require fund conversions or the flexibility of actively managing the repatriation process. In 2010, 16 new BSP and CASS markets were added to the ICCS coverage.

IATA's currency coordination activities

IATA helps airlines to repatriate funds from highly or restrictively regulated markets and countries. In 2010, \$516 million of members' funds was reported blocked or delayed in IATA's annual Remittance of Foreign Balances (RFB) survey. This marked a decrease of \$94 million, or 15%, from the 2009 year-end figure of \$610 million.

The 2010 survey cited 15 countries for blocking funds, up from 13 in 2009. The top five priority markets for action in 2011 by the IATA Currency Working Group are Eritrea, Ethiopia, Nigeria, Sudan, and Venezuela. Fully 60% (\$310.6 million) of the blocked funds identified by the survey were attributed to Venezuela.

IATA's air traffic control and airport Enhancement and Financing Service

IATA's Enhancement and Financing (E&F) Service helps ANSPs and airports to lower their costs and improve their efficiency in invoicing and collecting user charges by using IATA's financial systems. The service also helps airports and ANSPs to secure cost-effective financing for investment in civil aviation infrastructure. Airlines benefit from the service through improved data quality and better payment processes. By the end of 2010, IATA's E&F Service had processed more than \$2 billion in approximately 50 countries.

Travel Agent Service Fee

IATA developed the Travel Agent Service Fee (TASF) to assist travel agents in collecting their service fees for credit card sales through the BSP. Today, 96% of BSP-registered travel agents use TASF to collect their service fees. In addition to collection, TASF offers reporting tools to facilitate the tracking and monitoring of travel agent activities.

TASF is available in 20 countries on four continents. It was launched in South Korea in January 2010, and 750,000 TASF transactions were processed in that country during the year under review.



Weblink

Weblink is an IATA service that extends the cost-efficient settlement process through the BSP from airlines to travel agents.

As of 2010, more than 30 airlines had implemented Weblink. Those airlines generated nearly three million transactions and collected \$430 million in tickets from travel agencies. This equated to savings in distribution costs of more than \$15 million.

IATA Clearing House

The ICH facilitates the offsetting of billings between over 350 airlines and associated companies before those billings are settled on a weekly basis. This efficiency enables a cash flow saving of 69% in each weekly settlement. In addition, it reduces industry financial risk by minimizing the time and the amount of outstanding intercompany debts.

In 2010, intercompany settlements increased 9%, to \$43.7 billion. The number of suspensions due to nonpayment fell substantially, to just seven compared with 23 in the previous year. This represents the smallest number of suspensions recorded in recent years. Losses to participants during the year totaled less than \$50,000, due to the continued active management and maintenance of security deposits wherever justified under the regulations.

Simplified Interline Settlement

Simplified Interline Settlement (SIS) will enable all interline billing to be done in the form of electronic invoices, with transmission linked directly to the ICH for settlements.

The new electronic formats that SIS makes possible contain sufficient data for interline invoices to be automatically posted in the accounts and routed to the appropriate department. This reduces manual intervention in the accounts and removes the costs of paper handling and processing. It also eliminates international shipping and postage costs for invoices and supporting documents.

The development of SIS continued during 2010. Its scope has been extended to provide coverage for new industry priorities, such as the electronic miscellaneous document (EMD). Workshops and briefings were held at industry meetings to assist participants in the interline environment.

IATA is the financial backbone of global air transport, with settlement systems handling a billion dollars a day. Airlines have outsourced to IATA the global distribution of their product. This means that a ticket purchased anywhere in the world through an IATA-accredited travel agent can be paid for in a single currency and will be globally recognized.

Giovanni Bisignani
(Montreal, Canada, January 2011)



A comprehensive suite of Internet forums has also been developed to enable everyone to benefit from sharing process updates, questions, and answers. Pilot testing of SIS will start in summer 2011, and the industry will begin migrating to the new service in September 2011.

SIS is expected to save the industry over \$500 million a year in operating efficiencies and reduced costs. It also is anticipated to abolish the more than 150 metric tons of interline-associated paper that is shipped around the world annually.

First & Final Interline Billing

First & Final Interline Billing enables airline passenger billings to be settled on a first-time basis quickly and simply, avoiding the need for lengthy billing dispute resolution. This reduces workload in revenue accounting and increases the speed and accuracy of management reporting and route revenue analysis.

In 2010, the number of airlines participating in First & Final Interline Billing grew from 42 to 43 even though some participants merged. Processing volumes declined to just over three million interline journeys per month on average during the year, due in part to interline traffic between the merged airlines no longer passing through the process.

The volume of First & Final Billing is expected to grow after the implementation of SIS. New services resulting from the completion of the SIS project are likely to increase demand as airlines seek further reductions in costs. Those new options include the ability to invoice and settle interline tickets on a fully automatic basis utilizing the facilities offered by the service to create or store the necessary billing values.

Passenger Agency Program

IATA's Passenger Agency Program allows the secure distribution of airline tickets and related services through a network of accredited sales locations. The Passenger Agency Conference (PACConf) establishes the rules for accreditation.

In 2010, PACConf, through local market consultation, finalized the adoption of the single global passenger sales agency rules for BSPs through Resolution 818g. The rules take effect 1 June 2011 everywhere except Israel.

PACConf continued to take steps to strengthen the security of monies collected through BSPs, making in particular changes to local financial criteria, of which there are 111 versions. In the current financial climate, PACConf has formalized a quarterly timetable for mail votes to facilitate the ability of the Agency Program Joint Councils (APJCs) to recommend changes to local criteria.



Cargo

IATA Cargo's mission is to work with industry partners to establish a reliable, efficient, and secure supply chain. The focus for 2010 was on the following:

- Protecting industry money through the Cargo Agency Program and CASS
- Advancing the e-freight, Secure Freight, and Cargo 2000 programs to increase supply chain competitiveness
- Devising and managing industry standards to support supply chain needs

Cargo Agency Program

IATA's Cargo Agency Program addresses the relationship between airlines and its global accredited network of more than 12,000 freight forwarders. During 2010, the Cargo Agency Conference continued to enhance the resolutions that govern the Cargo Agency Program to simplify and modernize the program. The year ahead will see such areas as training requirements, financial criteria, and program mechanics addressed.

Cargo tariff coordination

IATA is scaling back its cargo tariff coordination in conjunction with antitrust immunity phaseout and expiry. During 2011, for example, the program of industry-agreed rates to and from Japan will be subject to an amended immunity filing mechanism. The Japanese Civil Aviation Bureau (JCAB) will thus accept carrier-flagged rates for application to and from Japanese gateways. In addition, the JCAB will accommodate carrier-specific rules applications.

The replacement of industry rates with specific carrier rates continues to drive increased content in the various IATA tools, such as TACT (the Air Cargo Tariff) and online databases. Further regions will be subject to phaseout activity throughout 2011 and 2012.

Cargo standards

With the endorsement of the Cargo Committee, IATA's Cargo Services Conference (CSC) agreed in 2010 to apply the liability limit under the Montreal Convention to its air waybill conditions of contract across all routes worldwide. The CSC also defined the necessary standard resolutions and recommended practices, including standard electronic messages, as the foundation for implementing e-freight and e-AWB (e-air waybilling). In addition, the CSC approved recommended practice on the framework of a mail service agreement between postal operators and airlines.

To further secure the supply chain, following the cargo security incident of October 2010, a standard consignment security declaration in electronic and paper format has been adopted by the industry. This provides regulators with an audit trail of who has secured what, how, and when. The consignment security declaration is one of the building blocks of the Secure Freight initiative, which aims to implement a standard supply chain security program in countries where none exists.



To improve flight safety and efficiency, IATA and the industry developed Unit Load Device (ULD) operational standards and introduced the ULD Operational Damage Limits Notice to help operational staff in the field to identify unserviceable ULDs. A new label for the transportation of time and temperature-sensitive healthcare products was also introduced to ensure that the integrity of the cold supply chain is maintained.

A Russian edition has been added to the languages in which the *Dangerous Goods Regulations (DGR)* are published. The Russian edition of the *DGR* was developed in response to requests from member airlines in Russian-speaking states. It was also produced in support of the memorandum of understanding that IATA signed with the Russian Federation in November 2009 to help develop its aviation sector in such vital areas as safety, security, e-freight, and training.

Making the *DGR* available in Russian will not only improve safety throughout the supply chain but also will enable local training for mandatory dangerous goods expertise.

To ensure that customs administrations consider airline requirements when developing new regulations, and to facilitate industry compliance with regulations, the Customs Advisory Group (CUSAG) and the IATA/FIATA Customs Working Group (IFCWG) are working closely with regulators around the world.

Cargo 2000

Cargo 2000 (C2K) is the self-funded air cargo industry quality group established through IATA. Membership is drawn from all supply chain participants and numbers 79 companies that together account for over 65% of international air cargo.

C2K was formed with the objective of improving quality and efficiency in the supply chain. To date, it has implemented an industry standard transportation process, the master operating plan, against which participants measure and report their quality performance.

Overall, the network witnessed growth in shipments of 6%, to 14.5 million shipments, in 2010. Unfortunately, the airspace closures in the early part of 2010 because of volcanic ash had a significant impact on the delivery of the customer promise. So despite the recovery since, annual average shipment figures remain below 2009's performance.



Aviation Solutions

IATA's products and services are built on an understanding of the needs of the industry. They are focused on improving aviation's financial and environmental sustainability and deliver relevant, value-added results.

Consulting

IATA Consulting delivers solutions for airlines, airports, and civil aviation clients around the world. In 2010, IATA Consulting undertook 50 projects spanning these three focus areas.

Projects included the continued development of PBN procedures for airports in Malawi. PBN improves the safety of aircraft arrivals and departures while also reducing CO₂ emissions and airlines' expenses, by leveraging the latest techniques in air navigation technology. IATA Consulting also assisted the civil aviation authority of a major South East Asian nation with framing preliminary policies on open skies and climate change. The projects blend local requirements with best international practices that IATA has helped to define.

The Consulting group continued its fuel-efficiency focus with a preeminent South Asian airline in 2010. Team members provided on-site implementation assistance that helped this major carrier reduce its annual fuel expense 6%, or almost \$100 million.

In addition, IATA Consulting was retained by Airports of Thailand (AoT) to determine how to rationalize air traffic distribution and airport development between the country's Suvarnabhumi and Don Muang Airports in the rapidly growing Bangkok area. IATA Consulting guided AoT to a single airport solution for the mid- and long term.

Benefits range from more efficient and safer airspace to reduced airline operating costs through the elimination of potential dual airport operations. All in all, implementing the recommendation will translate into a better level of service and a more convenient journey for the more than 60 million passengers who will pass through Thailand by 2015.

The consulting group also implemented several new product initiatives for 2010–2011:

- IATA Flight Plan, flight planning software (in partnership with Navtech)
- Telecommunications Consulting, reduces airline telecom/data spend 30% or more (in partnership with SCA)
- Airline Profitability Improvement Program (APIP)
- Baggage Improvement Program (BIP)

IATA Training and Development Institute

The IATA Training and Development Institute (ITDI) aims to develop human capital for tomorrow's air transport industry. The ITDI offers internationally recognized training programs in the principal industry areas of airline and airport management, safety, security, and cargo as well as in organization and human performance. The institute is based in 50 locations and works with more than 300 authorized training centers to administer its self-study courses.

In 2010, the ITDI enrolled over 30,000 professional and vocational students from nearly 150 countries in some 500 disciplines across all market segments. The ITDI works closely with world-class academic institutions and with major industry players to develop partnerships and cutting-edge training solutions for the changing needs of the industry. Its ties to academia include the Stanford Center for Professional Development, Harvard Business School Publishing, Nanyang Technological University, and the University of Geneva.

In addition, the ITDI works with the International Airline Training Fund (IATF), which provides training to member airlines in developing countries. The IATF is an independent, nonprofit foundation that supports airlines in meeting industry priorities. In 2011, the IATF and the ITDI will cooperate on an SMS Implementation Program to teach practical skills to personnel at 15 airlines in developing nations. The unique ITDI methodology will ensure tangible results that help member airlines to implement SMS in their operations.

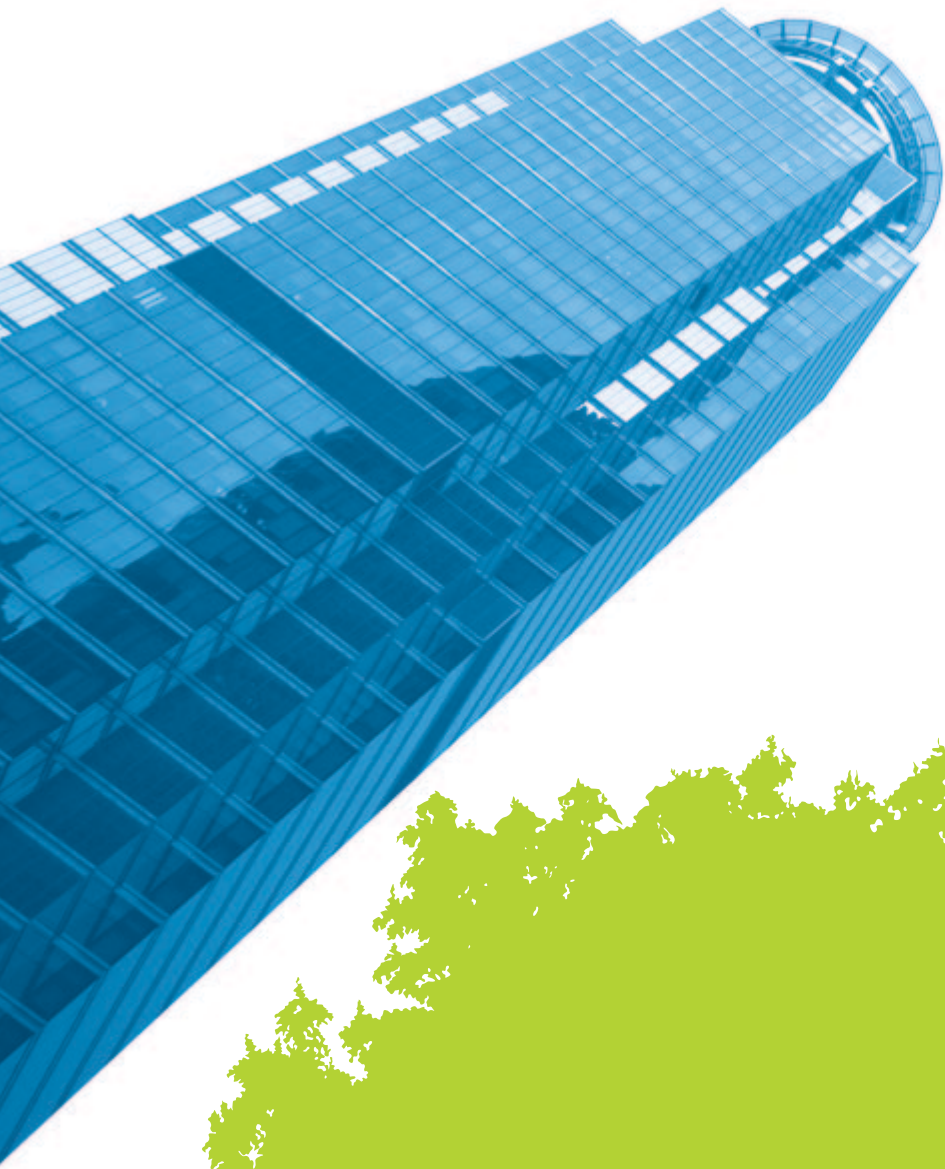
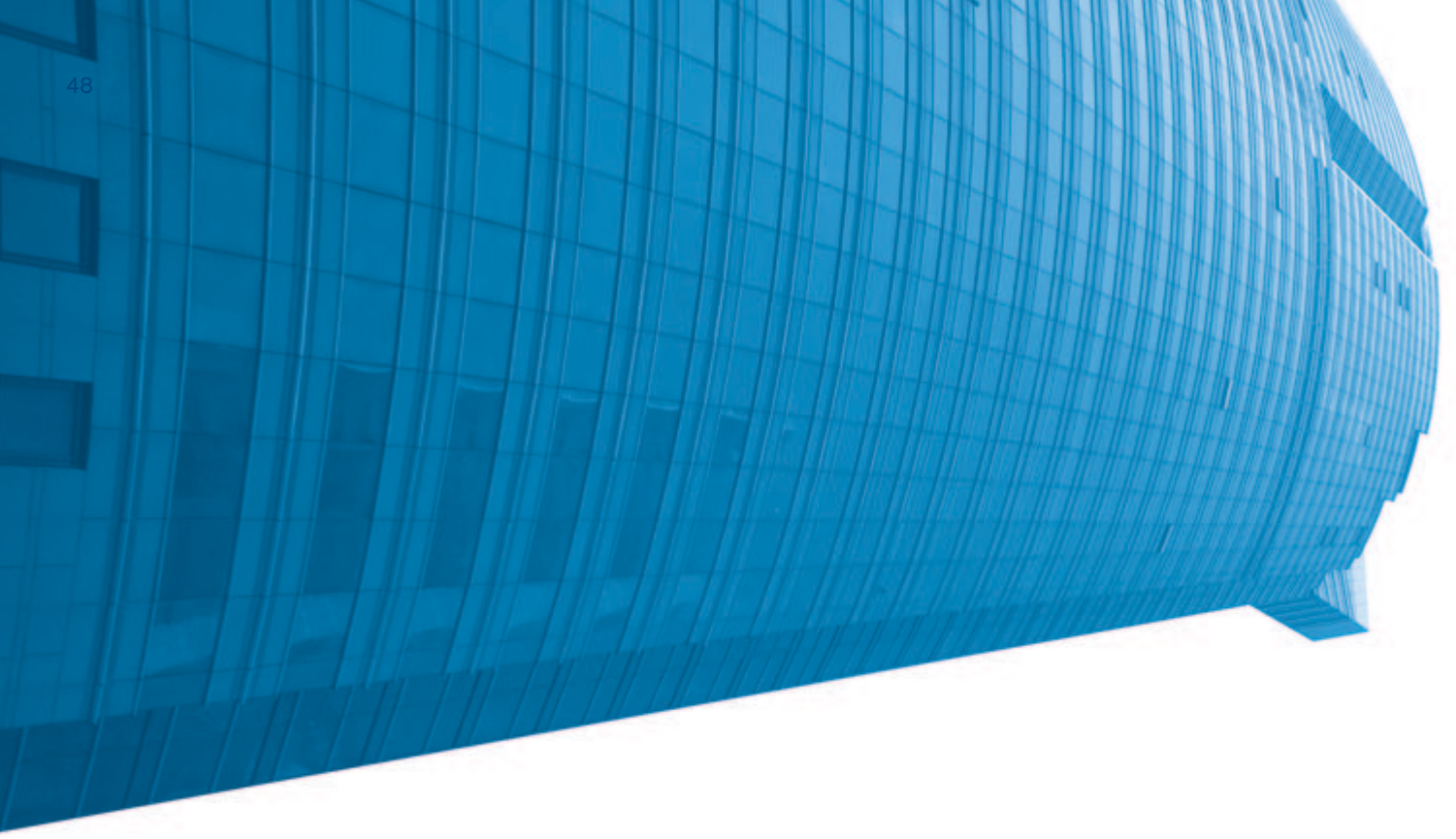
In 2011–2012, the ITDI is poised to provide the industry with blended learning solutions that serve all industry segments from entry through executive levels. The Institute will use the latest educational technology and a variety of delivery methods to do so, including traditional classroom and in-company, self-study, and distance-learning methods. The ITDI is pleased to announce that it will hold the first International Aviation Human Resources Summit, to be held in Singapore in November 2011.



IATA's commercial services are focused on helping airlines and aviation-related businesses improve their performance. These include business intelligence products that support critical decisions with broad, up-to-date, and accurate strategic information.

Giovanni Bisignani

(Geneva, Switzerland, April 2011)



Corporate publishing

IATA is the air transport industry's authoritative source for publications and data covering safety, security, operations, finance, and the environment. The association produces over 250 publications, most notably the *DGR* portfolio, which is the industry's benchmark for safe cargo transport.

In 2010, IATA extended the *DGR* portfolio online with the introduction of EasyDGR. This innovation, for shippers, freight forwarders, and airlines, virtually eliminates shipment rejections by creating an electronically validated dangerous goods declaration and proper packing instructions. EasyDGR is the first phase of the IATA electronic publishing platform, which will eventually include such other critical IATA publications as the *Airline Coding Directory*, *Airport Handling Manual*, and *World Air Transport Statistics*.

Other industry-leading information products from IATA's corporate publishing arm include the following:

- ▶ The IATA Tax Suite, which contains consolidated data from governments, tax authorities, and over 1,600 airports in 190 countries. The suite is the global reference used to monitor, process, and settle taxes, fees, and charges with speed and efficiency. It is a substantial contributor to the industry's bottom line.
- ▶ The Timatic Suite which, used by 253 airlines worldwide, is the industry's answer to passenger document compliance. The suite's flagship product, Timatic AutoCheck, was deployed by carriers in 2010 to ensure that all international passengers comply with government travel document requirements. The product can save a dollar in reduced fines, transportation costs, and passenger processing procedures, for every two international passengers flown.

Strategic Partnerships

IATA's Strategic Partnership Program includes well over 300 of the world's regional and premier global aviation suppliers. Those suppliers are active in helping to set and address industry priorities in e-cargo, passenger facilitation, the environment, fuel, safety, and security. New areas added in 2010 and to be added in 2011 include alternative fuel, e-services, and a revamped e-cargo area.

The program provides real-time working group collaboration between member carriers and leading aviation suppliers. Program partners also have the opportunity to attend the IATA annual general meeting which provides face-to-face access to member carrier CEOs as well as major industry suppliers. IATA's Strategic Partnership Program celebrated its 20th anniversary in 2010 and looks forward to continuing to play a significant role in shaping the industry's future.

Events

Throughout 2010, IATA enhanced its leadership role in the industry by hosting preeminent meetings, events, and symposiums on airline schedules, air cargo, aviation law, aviation security, commercial strategy, ground handling, and revenue accounting. Nearly 6,000 industry professionals attended or were part of IATA events in 2010. A new event, the first World Passenger Symposium, will take place in Singapore in October 2011.

Business intelligence services

IATA provides an unrivaled portfolio of business intelligence tools designed for airlines, airports, agents, aircraft manufacturers, and other market segments inside and outside the industry. The flagship product, PaxIS, is the most comprehensive airline passenger market intelligence database available. In 2010, the product offered comprehensive market data based on airline tickets settled in more than 160 countries through IATA's BSPs.

Carriers now also benefit from Data AirHouse, a cost-efficient data integration and reporting solution that streamlines access and eliminates expensive IT support. In 2011, PaxIS will be substantially increased in scope and coverage by integrating airline direct sales into the overall ticketed database through our direct data industry initiative. This major upgrade will combine airline internally booked tickets with travel agency booked tickets to provide the most comprehensive marketplace view available in the industry. The program is projected to start implementation in the third quarter of 2011.

Another of IATA's business tools, CargoIS, provides unparalleled access to more than 20 million shipment records settled by CASS. It furnishes statistics by agent location, average yield, and origin and destination. In 2010, CargoIS was used by more than 200 airlines, representing 75% of the world's cargo volume.

AirportIS, meanwhile, is used by more than 50 airports globally for marketing and air service development activities. It also gives organizations outside the aviation industry, such as tourism boards and hospitals, a strategic window into global passenger streams and travel patterns.

In 2010, IATA launched Airsat, an online airline customer satisfaction benchmarking service. Airsat was used to survey more than 40,000 international passengers for their opinions as they moved through the world's busiest airports during the year. 19 carriers in the Americas, Europe, Middle East and Asia are covered by this service. Airsat enables airlines operating long-haul routes to compare themselves with their peers using 50 different parameters and to judge themselves on the full travel experience, from reservation and check-in to inflight services, entertainment systems, and baggage delivery. New routes included in the service in 2010 included North Atlantic and Europe to Asia. In 2011, new routes will include trans-Pacific and intra-Europe.

IATA Membership

as of 1 May 2011

Active members

Adria Airways	Air Nostrum	British Airways	Dragonair
Aegean Airlines	Air One	Brussels Airlines	Dubrovnik Airline
Aer Lingus	Air Pacific	Bulgaria air	Egyptair
Aero República	Air Seychelles	C.A.L. Cargo Airlines	EL AL
Aeroflot	Air Tahiti	Cargojet Airways	Emirates
Aerolineas Argentinas	Air Tahiti Nui	Cargolux	Estonian Air
Aeromexico	Air Transat	Caribbean Airlines	Ethiopian Airlines
Aerosvit Airlines	Air Vanuatu	Carpatair	Etihad Airways
Afriqiyah Airways	Air Zimbabwe	Cathay Pacific	Euroatlantic Airways
Aigle Azur	Aircalin	CCM Airlines	European Air Transport
Air Algérie	Airlink	China Airlines	Eurowings
Air Astana	Alaska Airlines	China Cargo Airlines	EVA Air
Air Austral	Alitalia	China Eastern	FedEx Express
Air Baltic	All Nippon Airways	China Southern Airlines	Finnair
Air Berlin	American Airlines	Cimber Sterling	flybe
Air Canada	Arkia Israeli Airlines	Cirrus Airlines	Freebird Airlines
Air China	Armavia	CityJet	Garuda
Air Europa	Asiana Airlines	Comair	Georgian Airways
Air France	Atlas Air	Condor	Gulf Air
Air India	Atlasjet Airlines	Condor Berlin	Hahn Air
Air Jamaica	Austrian	Continental Airlines	Hainan Airlines
Air Koryo	Avianca	Continental Micronesia	Hawaiian Airlines
Air Macau	Azerbaijan Airlines	Copa Airlines	Hong Kong Airlines
Air Madagascar	B&H Airlines	Corsair	Hong Kong Express Airways
Air Malawi	Bangkok Airways	Croatia Airlines	Iberia
Air Malta	Belavia—Belarusian Airlines	Cubana	Icelandair
Air Mauritius	Belle Air	Cyprus Airways	Interair
Air Moldova	Biman	Czech Airlines	Iran Air
Air Namibia	Binter Canarias	Delta Air Lines	Iran Aseman Airlines
Air New Zealand	Blue Panorama	DHL Air	Israil
Air Nigeria	Blue1	DHL International E.C.	Japan Airlines
Air Niugini	bmi	Donavia	Jat Airways



Jet Airways
 Jet Lite
 JetBlue
 Jordan Aviation
 Kenya Airways
 Kingfisher Airlines
 Kish Air
 KLM
 Korean Air
 Kuwait Airways
 LACSA
 LAM—Linhas Aéreas de Moçambique
 LAN Airlines
 LAN Argentina
 LAN Cargo
 LAN Perú
 LAN Ecuador
 Lauda Air
 Libyan Airlines
 LOT Polish Airlines
 LTU
 Lufthansa
 Lufthansa Cargo
 Luxair
 Mahan Air
 Malaysia Airlines
 Malév
 Malmö Aviation
 Mas Air
 MEA—Middle East Airlines
 Meridiana fly

MIAT—Mongolian Airlines
 Montenegro Airlines
 Nippon Cargo Airlines
 Nouvelair
 Olympic Air
 Oman Air
 Onur Air
 PAL—Philippine Airlines
 Pegasus Airlines
 PGA—Portugália Airlines
 PIA—Pakistan International Airlines
 PLUNA
 Precision Air
 Qantas
 Qatar Airways
 Rossiya Airlines
 Royal Air Maroc
 Royal Brunei
 Royal Jordanian
 SAA—South African Airways
 SAS
 Saudi Arabian Airlines
 Shandong Airlines
 Shanghai Airlines
 Shenzhen Airlines
 SIA—Singapore Airlines
 SIA Cargo
 Siberia Airlines
 Sichuan Airlines
 Silkair
 SKY Airlines

Skyways
 South African Express
 Spanair
 SriLankan Airlines
 Sudan Airways
 SunExpress
 Surinam Airways
 SWISS
 Syrianair
 TAAG—Angola Airlines
 TACA
 TACA Peru
 TACV Cabo Verde Airlines
 TAM—Transportes Aéreos del Mercosur
 TAM Linhas Aéreas
 TAME—Linea Aérea del Ecuador
 TAP—Air Portugal
 TAROM
 Thai Airways International
 THY—Turkish Airlines
 TNT Airways
 Transaero
 TransAsia Airways
 TUIfly
 Tunis Air
 Ukraine International Airlines
 United Airlines
 UPS Airlines
 US Airways
 UTair
 V Australia

Vietnam Airlines
 Virgin Atlantic
 Vladivostok Air
 Volaris
 Volga-Dnepr Airlines
 VRG Linhas Aéreas
 Wataniya Airways
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Associate members

Austral
 Lufthansa CityLine
 Safair
 SATA Air Açores
 Virgin Blue

IATA Offices

IATA's 1,332 staff, comprised of more than 100 nationalities, serve its 237 members from 66 offices in 61 countries. A growing number of IATA offices operate under accord de siège agreements, which recognize the important nature of IATA's work and grant it semi-diplomatic status. Such agreements are in place in Canada, Cote d'Ivoire, Jordan, Kenya, Libya, Morocco, Senegal, Singapore, Spain, Sudan, Switzerland, and Syria.



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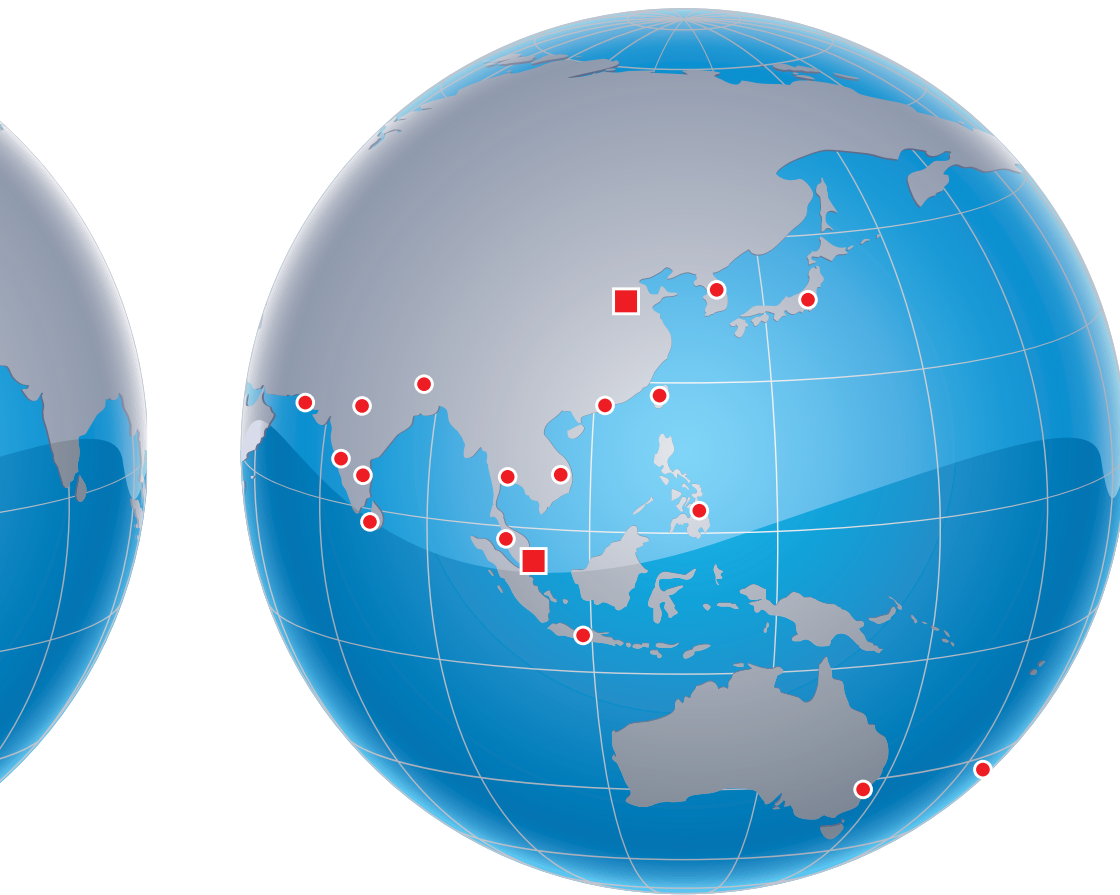
Main Office



Regional Office



Country Office



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