

Article 1

US\$2.5 billion loss for 2009**Worst Revenue Environment in 50 Years**

IATA announced its forecast for 2009 showing an industry loss of US\$2.5 billion. All regions, except the US, are expected to report larger losses in 2009 than in 2008.

Forecast highlights are:

- Industry revenues are expected to decline to US\$501 billion. This a fall of US\$35 billion from the US\$536 billion in revenues forecasted for 2008. This drop in revenues is the first since the two consecutive years of decline in 2001 and 2002.
- Yields will decline by 3.0% (5.3% when adjusted for exchange rates and inflation).
- Passenger traffic is expected to decline by 3% following growth of 2% in 2008. This is the first decline in passenger traffic since the 2.7% drop in 2001.
- Cargo traffic is expected to decline by 5%, following a drop of 1.5% in 2008. Prior to 2008 the last time that cargo declined was in 2001 when a 6% drop was recorded.
- The 2009 oil price is expected to average US\$60 per barrel (Brent) for a total bill of US\$142 billion. This is US\$32 billion lower than in 2008 when oil averaged US\$100 per barrel (Brent).

"The outlook is bleak. The chronic industry crisis will continue into 2009 with US\$2.5 billion in losses. We face the worst revenue environment in 50 years," said Giovanni Bisignani, IATA's Director General and CEO.

IATA also updated its forecast for 2008 to a loss of US\$5.0 billion. This is slightly improved from the US\$5.2 billion loss projected in the Association's September forecast primarily as a result of the rapid decline in fuel prices.

The reduction in industry losses from 2008 to 2009 is primarily due to a shift in the results of North American carriers. Carriers in this region were hardest hit by high fuel prices with very limited hedging and are expected to post the largest industry losses for 2008 at US\$3.9 billion. An early 10% domestic capacity reduction in response to the fuel crisis has given the region's carriers a head-start in combating the recession-led fall in demand. The lack of hedging is now allowing the region's carriers to take full advantage of rapidly declining spot fuel prices. As a result, North American carriers are expected to post a small profit of US\$300 million in 2009. "North America will be the only region in the black, but the expected US\$300 million profit is less than 1% of their revenue. 2009 will be another tough year for everyone," said Bisignani.

All other regions will show losses:

- Asia-Pacific carriers will see losses more than double from the US\$500 million in 2008 to US\$1.1 billion in 2009. With 45% of the global cargo market, the region's carriers will be disproportionately impacted by the expected 5% drop in global cargo markets next year. The region's largest market - Japan - is already in

recession. And its two main growth markets - China and India - are expected to deliver a major shift in performance. Chinese growth will slow as a result of the drop-off in exports. India's carriers, which are already struggling with high taxes and insufficient infrastructure, can expect a drop in demand following on from the tragic terror incidents in November.

- Losses for European carriers will increase ten-fold to US\$1 billion. Europe's main economies are already in recession. Hedging has locked in high fuel prices for many of the region's carriers in US dollar terms, and the weakened Euro is exaggerating the impact.
- Middle Eastern airlines will see losses double to US\$200 million. The challenge for the region will be to match capacity to demand as fleets expand and traffic slows - particularly for long-haul connections.
- Latin American carriers will see losses double to US\$200 million. Strong commodity demand that has driven the region's growth has been severely curtailed in the current economic crisis. The downturn in the US economy is hitting the region hard.
- African airlines will see losses of US\$300 million continue. The region's carriers face strong competition. Defending market-share will be the main challenge.

Bisignani made special note of the continuing contraction of air cargo traffic that started in June 2008. "Air cargo comprises 35% of value of goods traded internationally. The 7.9% decline in October is a clear indication that the worst is yet to come - for airlines and the slowing global economy," said Bisignani.

"Airlines have done a remarkable job of restructuring themselves since 2001. Non-fuel unit costs are down 13%. Fuel efficiency has improved by 19%. And sales and marketing unit costs have come down by 13%. IATA made a significant contribution to this restructuring. In 2008 our fuel campaign helped airlines to save US\$5 billion, equal to 14.8 million tonnes of CO2. And our work with monopoly suppliers yielded saving of US\$2.8 billion. But the ferocity of the economic crisis has overshadowed these gains and airlines are struggling to match capacity with the expected 3% drop in passenger demand for 2009. The industry remains sick. And it will take changes beyond the control of airlines to navigate back into profitable territory," said Bisignani.

Bisignani outlined an industry action plan for 2009 that reflected the Association's Istanbul Declaration in June of this year. "Labour must understand that jobs will disappear when costs don't come down. Industry partners must contribute to efficiency gains. And governments must stop crazy taxation, fix the infrastructure, give airlines normal commercial freedoms and effectively regulate monopoly suppliers," said Bisignani.

[View Giovanni Bisignani's full speech](#)

[View full Financial Forecast \(pdf\)](#)

Article 2

Traffic Decline Continues

Second Month of Global Contraction

IATA announced international air traffic for October showing a second consecutive month of global decline. International passenger traffic declined by 1.3% compared to the same month in the previous year - a smaller decline than the 2.9% drop experienced in September. The October load factor was 75%, approximately 2% below previous year levels. International air freight traffic contracted by 7.9% in October, for a fifth consecutive month of increasingly severe drops.

"The gloom continues and the situation of the industry remains critical. While the drop in oil prices is welcome relief, recession is now the biggest threat to airline profitability. The slight slowing in the decline of passenger traffic is

likely only temporary. The deepening slump in cargo markets is a clear indication that the worst is yet to come,” said Giovanni Bisignani, IATA’s Director General and CEO.

Passenger

- Asia-Pacific carriers, which represent 31% of global international passenger traffic, saw passenger traffic decline by 6.1% (slightly improved from the 6.8% decline in September). A capacity reduction of 2.3% could not keep pace with the drop in demand, taking load factors for the region’s carriers to 72.2%. Year-to-date growth for Asia-Pacific carriers fell to 0.3%, the weakest growth outside of Africa.
- North American carriers saw international traffic decline by 0.8% in October compared to the previous year, only slightly changed from the 0.9% drop in September. European carriers saw traffic rebound slightly into positive territory with 1.8% growth in October. While trans-Atlantic traffic growth was flat for the month, with both the European and US economies in recession further declines in international traffic for both regions’ carriers are expected.
- Latin American and Middle Eastern airlines recorded 4.5% and 3.5% growth respectively. While better than the September traffic figures, both regions remain well below the double-digit growth rates experienced over the first half of the year. Economic forecasts for both regions see considerable slowing of GDP growth over the next 12 months to the 2-4% range. Airlines in both regions can expect a continued slowing of growth.
- African carriers saw the largest decline with international traffic dropping by 12.9% in October. It is the only region where traffic deteriorated relative to September. This continues the year-long trend of Africa being the weakest market for air traffic with falls in both intercontinental and regional travel.

Cargo

- The 7.9% decline in air freight during October has dragged year-to-date air freight volume to 0.8% below the same period in 2007. Forecasted declines in key air cargo sectors such as semi-conductors indicate that weakness is expected to continue.
- Asia-Pacific carriers, which account for 44.7% of the international cargo market, saw international freight traffic decline by 11.0%, reflecting the sharp drop in the region’s exports.
- North American and European carriers saw less precipitous declines of 7.6% and 5.4% respectively.
- In sharp contrast to passenger performance, African carriers saw a 3.0% improvement in cargo during October. This reflects trade growth within Africa.
- Latin American carriers saw the largest decline (11.4%).
- Middle Eastern carriers were the only others to report growth (1.0%) in October.

“As the global economic downturn re-shapes the world’s financial industry, policy makers must also understand that change is needed in air transport. Unlike the finance industry, airlines are not asking for handouts. Commercial freedom, efficiency and a fair treatment in taxes are needed,” said Bisignani.

“We need commercial freedoms to run this as a normal business. IATA’s Agenda for Freedom is building momentum among governments for access to markets and equity capital and the ability to merge or consolidate where it makes business sense. We need efficiency everywhere. At the top of the list is a Single European Sky by 2012 that would save 16 million tonnes of CO2 and over EUR 5 billion in operating costs. And we need common-sense in taxation. It was good news that the Belgian government has backed away from its plans to introduce a new departure tax. But the UK’s decision to hike its Air Passenger Duty is a major step in the wrong direction. Air transport is a catalyst for economic growth. But plugging budget gaps with gratuitous travel taxes is bad policy that is not sustainable. This must change,” said Bisignani.

[View full October Traffic Results](#)

Article 3

Right Diagnosis, Wrong Prescription - UK APD Hikes Are a Mistake

IATA labelled the increase in UK Air Passenger Duty (APD) and its reform into four bands as an enormous mistake. The changes were announced in the UK Chancellor's Pre-Budget Report, with the increases to take effect from November 2009.

"The Chancellor wisely abandoned plans to introduce Aviation Duty, the proposed per plane tax, on the grounds that this is no time for introducing greater instability in the airline industry - a catalyst for economic growth. Unfortunately the wisdom stopped there. Adding millions of Pounds to the cost of travel from the UK will not help the Chancellor set the UK economy back on a growth path. We have the right diagnosis but the wrong prescription," said Giovanni Bisignani, IATA's Director General and CEO.

"This is another cash grab by the Treasury, thinly disguised as an environmental measure. The UK Government already admits that the current GBP2 billion take from APD more than covers the cost of aviation's climate change impact. Airlines take their environmental responsibility seriously. In this year alone, IATA-led efficiency measures have saved over 14 million tonnes of CO2. How much CO2 will the increased APD save? The blunt instrument of taxation does nothing to improve environmental performance," said Bisignani.

None of the APD revenue is earmarked for environmental initiatives. "I ask a question that I have asked many times before. How many trees will the Treasury plant with the cash? And where is the commitment to end APD when aviation joins the European Emissions Trading scheme in 2012? We cannot accept tax upon tax in place of a sound environmental policy," said Bisignani.

IATA also criticised the UK Government's proposal for creating commercial distortions. "The restructured APD does almost everything wrong. It is a disproportionate burden for trips over 2,000 miles. It disadvantages UK carriers compared to their rivals. The highest travel taxes in the world reduce the UK's competitiveness for businesses that depend on global connectivity. Increases in economy fares are a step backwards to the days when world travel was only accessible to the wealthy. The environment won't see even a penny of the cash collected. And, the proposal puts the UK's 200,000 aviation jobs at greater risk. The only one smiling is the Chancellor as the Treasury counts its billions," said Bisignani.

Article 4

Europe's Environmental Challenge: Single European Sky by 2012

IATA challenged Europe to deliver a Single European Sky (SES) by 2012.

"After decades of talks and little action, failure to implement an effective SES is Europe's biggest environmental embarrassment. In 2007, this failure resulted in 21 million minutes of delays and 468 million kilometres of unnecessary flight. This wasted 16 million tonnes of CO2. This crisis that is gripping the airline industry highlights the fact that airlines cannot afford the EUR 5 billion cost that this brings. And neither can Europe afford the impact

on its competitiveness. This must change fast," said IATA Director General and CEO Giovanni Bisignani in a keynote address to the European Air Transport Summit being held in Bordeaux.

IATA fully supports the European Commission's performance-driven approach.

This was proposed in the SES II Package proposed by Vice President Tajani in June. "We need binding performance targets at the national and community levels, functional airspace blocks (FABs) coordinated by a strong network manager with harmonised safety oversight through EASA, and the enabling SESAR technology to allow a Single European Sky to deliver its promised benefits," said Bisignani.

FABs and SESAR are the critical building blocks for an SES.

The plan to combine European airspace into 9 cross-national FABs will increase system capacity by 70%, reduce average delays to 1 minute or less, cut user costs by 50% and reduce the environmental impact per flight by 10% by 2020 while improving safety. "These 9 FABs cannot be kingdoms operating independently. We need a strong network manager to drive efficiencies and meet binding performance targets. And we need an EASA with sufficient resources to provide safety oversight for airports and air navigation service providers," said Bisignani.

IATA linked SES to Europe's proposal to include aviation into the European Emissions Trading Scheme (ETS) in 2012.

"2012 is the year. We need 9 FABs in place, delivering benefits against binding performance targets with a strong network manager. This is the minimum requirement. Even if Europe chooses to overlook the major flaws of its ETS proposal - the unilateral approach is illegal and the regional scope is ineffective - the only credibility that is left is the SES. Airlines cannot accept to be charged for emissions in Europe when the inefficiency of the system forces them to waste 16 million tonnes of CO2 each year," said Bisignani.

Bisignani attacked 2 persistent myths surrounding the SES.

"First, job losses are a misplaced fear when there is a global shortage of air traffic controllers and SESAR (the technology component of SES) will generate 200,000 highly skilled jobs in Europe. Second, FABs don't reduce sovereignty. Europe faces the same question with the Euro. Today nobody questions the sovereignty of the Euro-Zone states. SES is no different. Sovereignty is even institutionalised in the independent National Supervisory Authority. These are two myths which we must kill with facts," said Bisignani.

IATA's Four Pillar Strategy to Address Climate Change is delivering results.

The strategy - endorsed by industry and government focuses on technology, operations, infrastructure and positive economic measures - including ETS. Since 2004, IATA efforts, including route shortening and working directly with airlines to implement best operational practices, has saved 59 million tonnes of CO2 with a cost saving of US\$12 billion. An effective SES would be a key contributor to these efforts.

Europe must contribute to a global solution on economic measures addressing change.

"While focusing technical efforts to deliver the SES by 2012, Europe must aim its political efforts on the International Civil Aviation Organisation (ICAO). Article 2 of the Kyoto Protocol gives ICAO the responsibility to find an effective global solution for aviation's emissions that is global and voluntary for states. This summer the G8

affirmed this role in their Summit Declaration. With 44 European states among ICAO's 189 contracting members and with three states on the 15 member ICAO Group on International Aviation and Climate Change (GIACC), Europe has a duty to ensure that ICAO delivers a global result and to harmonise its approach with the global solution," said Bisignani.

Don't make the ETS proposal any worse.

In the meantime, Bisignani urged Europe not to include its misguided unilateral approach to aviation and ETS in the General Review process of the European ETS. "Don't make a bad decision worse by including aviation in the ETS General Review. It makes absolutely no sense to review something that has not even started yet, let alone even consider raising auctioning levels beyond the current 15%," said Bisignani.

Article 5

Mark your calendar – coming events

- [Troubled Times: Putting the economic environment in perspective - Webinar by IATA / Air Transport World / NCR 22 January - 10AM ET](#)
- [IATA Legal Symposium 2009, February 8 - 10, 2009 - Bangkok, Thailand](#)
- [IATA World Cargo Symposium 2009, March 2-5 – Bangkok, Thailand](#)