

Article 1

Airlines to lose US\$5.2 billion in 2008 - Slowing Demand and High Oil to Blame

IATA announced a revised industry financial forecast that would see the global airline industry post losses of US\$5.2 billion in 2008 based on an average crude oil price of US\$113 per barrel (US\$140 for jet fuel).

"The situation remains bleak. The toxic combination of high oil prices and falling demand continues to poison the industry's profitability. We expect losses of US\$5.2 billion this year," said Giovanni Bisignani, IATA's Director General and CEO.

Fuel

"While there has been some relief in the oil price in recent months, the year-to-date average is US\$113 per barrel. That's US\$40 per barrel more than the US\$73 per barrel average for 2007, pushing the industry fuel bill up by US\$50 billion to an expected US\$186 billion this year," said Bisignani. Fuel is expected to rise to 36% of operating costs, up from 13% in 2002.

Demand

IATA also announced industry traffic data for July which showed a continued slowing of demand.

July year-on-year passenger demand growth fell to 1.9% - the lowest in five years. Capacity increased by double that - 3.8% - indicating that service cuts are not keeping pace with the fall in demand. This pushed the load factor for the month to 79.9%, a drop of more than 1% compared to July 2007. The surprise of July was a 0.5% drop in passenger demand by Asia-Pacific carriers partly attributable to a change in Chinese visa requirements but also showing that economic weakness is spreading to previously robust economies.

Cargo demand in July contracted by 1.9% compared to 2007. Asia-Pacific carriers - the largest players in the cargo market - were hit hard with a 6.5% drop in demand.

As a result of the weaker economic outlook, IATA significantly revised downward its traffic forecast for domestic and international markets combined. Passenger traffic is now expected to grow on average by 3.2% (was 3.9%) and air freight volumes by just 1.8% (was 3.9%). This is only half the pace of expansion seen in 2007 and is boosted by the stronger growth seen at the start of the year. Strong traffic growth allowed the industry to partly absorb the rise in fuel costs from 2003-2007. This is no longer the case.

Regional

"While some regions will show small profits, the negative impact of the industry crisis is universal," said Bisignani.

- North American carriers are expected to post losses of US\$5.0 billion in 2008 making them the hardest hit by this industry crisis.
- Asia Pacific is expected to see profits shrink from US\$900 million in 2007 to US\$300 million this year.
- European profits will tumble seven-fold from US\$2.1 billion in 2007 to US\$300 million in 2008.
- Middle Eastern profits will drop by US\$100 million to US\$200 million.
- Latin American and African carriers will see losses deepen to US\$300 million and US\$700 million respectively.

2009

IATA announced its initial outlook for 2009. The difficult business environment is expected to continue. Most economies are expected to deliver even weaker economic growth next year, which will negatively impact air travel and freight. With an expected oil price of US\$110 per barrel (US\$136 for jet fuel) and continued weak growth (2.9% ttp), industry losses are expected to continue at US\$4.1 billion. The 2009 fuel bill is expected to rise, as hedging offers less protection, to US\$223 billion comprising 40% of operating expenses.

Change

“While we expect the bottom line to improve by about US\$1 billion next year, the industry will be US\$4.1 billion in the red,” said Bisignani. “This crisis is re-shaping the industry in more severe ways than the demand shocks of SARS or 9.11. When fuel goes from 13% of your costs to 40% in seven years with an increased cost implication of US\$183 billion, you simply cannot continue to do business in the same way. Fundamental change is needed,” said Bisignani.

“Airlines have reduced non-fuel unit costs by 18% since 2001. Airports and air navigation service providers must join the effort. Efficiency gains are critical but cannot fully absorb the impact of skyrocketing fuel prices,” said Bisignani.

“This crisis is highlighting the need for greater commercial freedom. Airlines are facing enormous challenges. To be successful and continue providing jobs to 32 million people and supporting US\$3.5 trillion in economic activity, airlines must be able to do business like any other business,” said Bisignani.

“More airlines have gone bust in 2008 than in the aftermath of 9.11. To cure the structural sickness of the industry, made all the more obvious by the high price of oil, we need a strong dose of liberalisation. The US-EU talks later this month are one opportunity to address ownership restrictions in an important market. And IATA is taking the unusual step of facilitating a global dialogue on an Agenda for Freedom next month in Istanbul. Simply weathering the current storm is not an option. We must take the opportunity of these extraordinary times to facilitate extraordinary change to strengthen the industry with normal commercial freedoms,” said Bisignani.

[View full traffic results](#)

[View full financial forecast](#)

Article 2

Leadership Challenges For Australia

IATA challenged Australia to take a leadership role in three areas that are critical to aviation: [security](#), [environment](#) and [liberalisation](#). The call came from Giovanni Bisignani, IATA’s Director General and CEO, in a speech to the Australian National Aviation Press Club in Sydney.

“Oil prices are re-shaping the air transport industry. In recent months at least 25 airlines have gone bust and airlines could lose as much as US\$6.1 billion this year. While prices have come down from their peak, oil is still trading above US\$110 per barrel (Brent). Fundamental changes are critical,” said Bisignani. “Australia’s National Aviation Policy Review is a golden opportunity for Australia to take a leadership role and drive change in security, environment and liberalisation.”

Security: “Aviation is much more secure today than in 2001. But the global system remains a US\$5.9 billion uncoordinated mess because governments are not thinking or acting globally. Decisions driven by fear cannot build a more secure global air transport system. Governments must take a risk-based approach to security and harmonise with global standards,” said Bisignani. Specifically, Bisignani highlighted Australia’s requirement for screening at the gate at the last port of call as extra-territorial duplication resulting in added cost and confused passengers.

Environment: “The Kyoto protocol gave the International Civil Aviation Organization (ICAO) the responsibility for establishing a global framework for managing international aviation emissions (that will likely include an emissions trading scheme (ETS)). As a signatory to Kyoto, Australia has a responsibility to defend it. That means challenging Europe on its unilateral ETS. What right does Europe have to charge an Australian plane flying from Asia to Europe for emissions over Afghanistan?” asked Bisignani.

“Auctioning permits would set a very bad precedent. It raises several questions. With a focus on economic measures, where are the operational efficiencies? And why punish the good? Carbon intense industries with less impressive records of improvement are being given breaks that airlines are not. The impact on the competitiveness of Australian tourism must also be taken into account. Anything that makes an Australian vacation disproportionately expensive is an incentive for tourists to go elsewhere. To maintain a level playing field, we need to keep focused on global solutions,” said Bisignani.

Commercial Freedoms: “Australia has the most liberal domestic market. It can play a key role in helping to modernise the antiquated 60 year-old bilateral system that governs international air transport,” said Bisignani. “In this time of crisis, the bilateral system with its restrictions on ownership must change. It’s time to move from the world of flags and politics to brands and business. Who cares who owns an airline as long as it is safe and provides efficient service? I believe that we can work through the bilateral system to allow airlines to do business like any other business with governments ensuring a level playing field. Governments must also effectively regulate safety, security, monopoly suppliers and environmental standards,” said Bisignani. Following the Association’s Istanbul Declaration in June, IATA is facilitating discussions among progressive governments at the Agenda for Freedom Summit to take place in Istanbul in late October.

“Thirty-two million people and US\$3.5 trillion in business depend on an air transport industry that is safe, secure, environmentally responsible and financially sustainable. In this perfect storm of rising costs and falling demand growth, the courage to change will be the key to survival and to fulfilling this important responsibility,” said Bisignani.

Article 3

Industry Call for Change

By Giovanni Bisignani

From *Airlines International*

The industry outlook remains bleak. Demand is slowing. Passenger growth in July was 1.9%, a fraction of the 7.3% growth achieved in 2007. And the July cargo market was 1.9% smaller than the previous year.

Oil has come off of its July peak and we expect an average price for the year of US\$113. That's US\$40 more than the 2007 average. At the end of the year, airlines will face an industry fuel bill of US\$186 billion that consumes 36% of operating costs.

Compared to six years ago, the industry is barely recognizable. In 2002, oil averaged US\$25 per barrel, the fuel bill was US\$40 billion and that was 13% of costs. The fuel bill is not the only thing that has changed. Sales and distribution costs have dropped 25%, fuel efficiency improved 19% and non-fuel unit costs have been reduced by 18%. Paper tickets disappeared and self-service—from kiosks to mobile phones—is a growing reality around the world.

Still, the toxic combination of rising fuel costs and falling demand mean that airlines will bleed US\$5.2 billion of red ink this year.

The circumstances of this downturn are extra-ordinary. Unlike the demand shocks of the past, the high price of oil is re-shaping the business from its cost structure. The response of most other businesses would be to restructure the industry to meet the new challenges.

Regardless of the oil price, the industry is structurally sick—fragmented among a thousand players, the largest of which has only a 5% market share. Airlines are trying to restructure. Air France-KLM and Lufthansa-SWISS are two successful and familiar examples. Iberia-BA, Delta-Northwest and others are in the works. These are significant steps in the right direction but steps in the right direction will not add up to a cure anytime soon.

Brands and business must guide our success not flags and bureaucracy. To run their businesses successfully, airlines need access to the commercial freedoms that other businesses take for granted.

The second stage open skies talks between Europe and the US are an opportunity to move the debate forward. Change in our largest markets will reverberate around the world.

But the global industry cannot just wait and see what will happen. IATA's Agenda for Freedom Summit takes place in Istanbul on October 25-26. Our aim is to seek pragmatic solutions that will allow airlines to quickly enjoy more commercial freedom—to merge across borders, to raise equity capital on international markets or start new ventures outside their national borders—without risking their international traffic rights.

Being practical, tearing apart the 3,500 bilateral agreements overnight is not possible nor would it necessarily be desirable. We can work within the bilateral system to achieve our aim—provided there is political will to support it. This is the process that we want to start in Istanbul.

The livelihood for 32 million people and US\$3.5 trillion in business possible depends on air transport. At this moment of crisis, the courage to change is key to survival and fulfilling this important responsibly. I urge all governments, as well as our other industry partners, to come on board.

Article 4

IATA, EUROCONTROL and CANSO Commit to Efficiency Plan

IATA signed a three-party commitment to a Flight Efficiency Plan with EUROCONTROL, and CANSO (Civil Air Navigation Services Organisation).

The aim of the plan is to expedite efficiency improvements in European air traffic management to achieve annualised savings of 470,000 tonnes of fuel per year in a six-month work programme. This will save EUR390 million and reduce CO2 emissions by over 1.5 million tonnes.

“The air transport industry is in a perfect storm of high fuel costs and falling demand. Airlines are expected to lose US\$5.2 billion this year and another US\$4.1 billion next. Saving fuel is critical to survival and to improving environmental performance,” said Giovanni Bisignani, IATA’s Director General and CEO.

“Saving fuel must be a team effort,” said Bisignani who signed the agreement with Alexander ter Kuile, Secretary General of CANSO and David McMillan, Director General of EUROCONTROL in Montreal. All three were attending a symposium on future air traffic management organised by the International Civil Aviation Organization (ICAO).

The Flight Efficiency Plan focuses on improvements in five areas:

- Enhancing en-route airspace design to optimise distances flown. A potential reduction in distance flown of 0.1% has been identified (equivalent to 4 million nautical miles per year) with potential savings of EUR20 million per year.
- Improving airspace utilisation with enhanced civil/military cooperation and better coordination of flight planning. Potential reductions in distance flown of 0.7% have been identified (equivalent of 30 million nautical miles per year) with potential savings of EUR150 million per year.
- Improved terminal area procedures, including continuous descent approaches (CDA). Implementing CDA at even 20% of Europe’s airports would save EUR100 million annually.
- Improved airport operations, particularly reducing taxi times. A one minute reduction in taxi times at Europe’s 50 top airports would save EUR120 million annually.
- Improving awareness of best practices to save fuel.
- The plan comes in addition to the substantial efforts to improve the performance of the European Air Traffic Management Network. Between 1999 and 2007, while traffic grew 25%, the total delays caused by lack of air traffic control capacity fell by 66%. At the same time, routes flown were shortened on average by approximately 4 km. Together these improvements generated 3.5 million tonnes of CO2 savings per year.

“Every drop of fuel saved improves environmental and financial performance. This joint effort by airports, air navigation service providers and airlines will deliver tangible results in a short time frame. It is a leadership example for others to follow,” said Bisignani.

Article 5

Environmental awareness in Amsterdam

At the beginning of September, IATA’s environment display began a two month spell at Amsterdam Schiphol Airport’s Departure Lounge 3.

The display will help foster public understanding of aviation’s commitment to the environment, highlighting IATA’s four-pillar strategy and its vision of a zero-emissions industry.

The display employs user-friendly interactive technology. Touch-screens and interactive models explore and explain issues such as alternative fuel sources, revolutionary concepts in airframe and engine design, the shortening of routes and operational improvements in the airline industry.

Its time in Amsterdam will also help raise awareness of the Dutch government's escalating measures to tax airlines unnecessarily. The country applies a departure tax, which is billed as an environmental measure even though there is no commitment to put the money raised into environmental actions.

Article 6

Mark your calendar – coming events

- [The 2008 Annual Industry Cash Management Service Meeting & Conference, October 6-7 - Rome, Italy](#)
- [IATA Air Transport IT Symposium 2008, October 13-15, Las Vegas, U.S.](#)
- [Sustainable Development Summit 2008, October 30, 2008 - Mauritius](#)
- [Maintenance Cost Conference, 5-6 November, 2008 - Seoul, Republic of Korea](#)
- [AVSEC World 2008, November 11-13, 2008 - Seoul, Republic of Korea](#)