



IATA External Cost Campaign

 For an efficient
aviation industry



Foreword

In response to the series of crises that impacted aviation starting in 2001 airlines achieved impressive results. Unit costs for labour dropped by a third. Non-fuel unit costs decreased 13% and distribution costs were slashed by 10%. Fuel efficiency improved by 5% in the last two years alone. All the while, airlines continued to improve safety and invest in new and more efficient capacity.

IATA leadership is contributing significantly to the industry's turnaround. With losses exceeding US\$40 billion since 2001 the need for cost efficiency in all aspects of air transport is both critical and urgent.

Our Simplifying the Business initiative will cut US\$6.5 billion in annual costs, over half of this coming from the 100% conversion to e-ticketing by the end of 2007. The IATA Operational Safety Audit (IOSA) is raising the bar on safety and will be a condition of IATA membership from 2008. To improve environmental performance and help mitigate the extra-ordinary price of fuel our campaigns to improve fuel efficiency, optimise routings and flying procedures netted US\$2.4 billion in cost savings and reduced CO2 emissions by nearly 12 million tonnes in 2005.



Our stakeholders - particularly airports, air navigation service providers and governments - must share our obsession with efficiency. We need a common vision for a safe, low-cost industry that effectively meets the increasing demand for travel. The goal of IATA External Cost Campaign is to align our stakeholders to realise cost efficiencies that match the achievements of the airlines.

Working together we can ensure that a healthy air transport industry fulfills its potential as a catalyst for global, regional and national economic development.

A handwritten signature in black ink, reading "Giovanni Bisignani". The signature is fluid and cursive, written in a professional style.

Giovanni Bisignani
Director General & CEO, IATA



FOCUS ON INDUSTRY CHARGES, FUEL AND TAXATION

IATA External Cost Campaign covers 3 main areas:
airport and Air Traffic Control (ATC) charges, fuel and taxation.

AIRPORT & ATC CHARGES

Charges are fees paid by airlines for services and facilities provided by airports and Air Navigation Service Providers (ANSPs). These include:

- Use of the runway (landing charges)
- Use of the airport infrastructure (parking and boarding bridge charges)
- Use of the terminal building (passenger charges*)
- Airport security (security charges)
- Protection of the environment (noise charges)
- Air traffic control (en route navigation and terminal charges)
- Other air navigation services (Meteorological and Aeronautical Information Services).

IATA's Role

Drive cost reductions and cost efficiencies on behalf of Member airlines with airports and ANSPs through:

- External campaigns with major airports and ANSPs involving direct consultation and negotiation
- Leading the industry's position on charges issues
- Closer collaboration with local and regional airline associations
- An industry-wide approach with Member airlines
- Incorporating charging principles of non-discrimination, transparency, cost-relationship and consultation with users
- New approaches and strategies for airlines, airports and ANSPs to achieve greater cost efficiency and performance
- Protecting airline interests in cases of commercialisation of airports and ANSPs.

FUEL

IATA cannot influence the commodity price of oil. However, it can and does take measures to reduce the amount of fuel consumed, simplify business practices, reduce duties, fees and taxes, and improve the reliability of jet fuel supply.

IATA's Role

Drive down the cost of the provision of jet fuel through reduced fees and margins by:

- Eliminating or minimising illegal, unjust or anti-competitive duties, fees and taxes
- Eliminating fuel market access fees at EC airports
- Addressing reliability of fuel supply issues at airports worldwide
- Helping airlines better manage fuel purchasing and conservation
- Assisting airlines, airports and fuel suppliers to better manage fuel shortfall incidents and crises
- Collaborating with fuel suppliers and fuel system providers to obtain best value for Member airlines
- Seeking economic regulation at locations where there is no competition
- Encouraging competition at airports for fuel supply and into plane services
- Developing worldwide industry standards to facilitate financially viable electronic data exchange.

TAXATION

The airline industry today faces thousands of taxes and fees on its operations and services, including taxes on income, property, fuel, equipment and taxes for social and economic purposes such as development aid, the environment and tourism expansion.

IATA's Role

Proactively fight the imposition of new taxes on the airline industry worldwide and eliminate or reduce existing unfair burdensome taxation.

IATA campaigns actively against revenue authorities worldwide that fail to honor the International Civil Aviation Organisation (ICAO) and the Organisation for Economic Cooperation and Development (OECD) taxation principles by:

- Leading initiatives to rescind unfair tax policies and legislation
- Developing strategies and action plans to protect the interests of IATA Member airlines
- Targeting specific taxation issues in collaboration with regional working groups and opposing specific taxation measures through special interest groups
- Focusing attention, both within the industry and within governments, on the real impact of taxation on air transport and tourism and, as a result, on the global economy.

* Passenger charges are in most cases added directly to the ticket price.

COMMIT TO A MORE EFFICIENT INDUSTRY

Air transport is a growing industry, with IATA estimating an average annual growth rate of around 5% to 2010. Growth without profitability, however, is meaningless and ultimately unsustainable. Commitment to efficiency improvements is the driver that will ensure continued and sustainable growth of the aviation industry.

Losses in the aviation industry over the past years have forced airlines to respond by improving cost efficiency. Increased urgency has now been placed on achieving greater cost efficiency improvements, not just for the airlines, but also for all segments of the supply chain.

Airlines need real commitments to ensure cost efficiency and continuous improvements. While there is little doubt the words “cost efficiency” are now commonplace across the supply chain, there is a need for a much greater sense of urgency for airports and ANSPs to deliver real and sustainable improvements in a transparent and measurable way. Real results need to be consistent with the transformations being achieved by the airlines. Airports and ANSPs are natural monopolies and it should no longer be possible for them to operate in a different world and simply pass cost inefficiencies onto the airlines.

The following key improvements are required for a stronger aviation industry:

- **Reduced costs** to generate the cost effective improvements necessary for a more efficient and sustainable aviation industry.
- **Better cost efficiency** to achieve the right balance and accountability between costs and the quality of services delivered.
- **Continuous improvement** to secure longer-term growth for the aviation industry.
- **Robust, effective independent economic regulation** to protect customer interests in the absence of market forces.

Stronger partnership amongst stakeholders

IATA's goal is to step away from repetitive annual conflicts of charges negotiations based on limited transparency and instead agree the basis for longer-term planning and commitment for cost efficiency improvements by airports and ANSPs.

IATA has developed constructive and meaningful dialogue with the Civil Air Navigation Services Organisation (CANSO) and a number of ANSPs across the globe. IATA is developing similar relationships with key airport partners.

Industry partnership agreements, in particular, allow industry suppliers and airlines to lay down the terms of business cooperation to best achieve common strategic goals.

IATA is driving towards long-term pricing and business agreements reached through complete transparency aimed at addressing broader issues such as capacity, investment, operational and even social/governmental issues.

WORK TOGETHER TO IMPROVE COST EFFICIENCY

Efficiency is a matter of survival.

All stakeholders need to work together to achieve cost reductions and greater cost efficiency.

GOVERNMENTS

Governments should act as **Champions** for the aviation industry and show strong support for cost reduction and cost efficiency. Governments must protect the interests of airlines and passengers against monopoly abuse by introducing a robust and independent regulator “with teeth” and strong charges principles:

- The regulator’s role is to eliminate distortions of competition and establish a level playing field
- The regulator should protect consumer interests
- The regulator must redress the imbalance of power from airport or ANSP monopolies
- Full, open and transparent stakeholder engagement is key
- ICAO Policies must be fully incorporated
- Airlines and industry suppliers must agree on the investments required and the level of charges to be applied
- If the two parties fail to agree, the regulator must step in to arbitrate. If they are not satisfied with the regulator’s decision, both parties (airlines and industry suppliers) must have access to an appeal process.

You can develop a meaningful and constructive dialogue with IATA and actively support the drive to cost reduction and cost efficiency by ensuring early engagement on:

- Charges, fees and taxation issues
- The introduction of or necessary changes to economic regulation
- Airport and ANSP commercialisation
- Airport and ANSP short and long-term strategies and business plans.

BOARD OF AIRLINE REPRESENTATIVES (BARS) AND REGIONAL AIRLINE ASSOCIATIONS

Airlines have made significant progress with their cost cutting strategies and remain focused on efficiency. BARS and regional airline associations need to be actively involved with IATA, and airline head office experts, to drive the External Cost Campaign through strong and consistent messages to airports, ANSPs and governments on the need for cost reduction and greater cost efficiency.

You can contribute by:

- Proactive gathering and sharing of “local” intelligence on charges, fees and taxation
- Developing a closer alignment and a common approach with IATA
- Ensuring clear roles and responsibilities on a case by case basis
- Combining resources and coordinating lobbying activities with IATA
- Communicating and coordinating actively with charges experts at airlines head office level to ensure alignment
- Speaking to the industry with one collective voice
- Ensuring early involvement of IATA in:
 - The introduction of new economic regulation
 - Changes to current economic regulation
 - Commercialisation issues

AIRPORTS AND ANSPS

Airports and ANSPs can contribute to a more efficient industry by:

- Driving cost reductions and greater cost efficiency with more speed
- Agreeing challenging and measurable cost efficiency targets with airlines as well as continuous improvements
- Working together with airlines in an open and transparent manner and fully engaging as business partners
- Involving airlines early in short and long-term strategies and business plans.

DELIVER RESULTS

Specific action, incorporating key charges principles, is necessary to deliver results.

OUR APPROACH

- **Benchmarking and continuous improvements**
IATA has developed a clear, credible and accepted benchmarking framework based on four common levels of assessment for airports and ANSPs. Benchmarking results are presented in the form of a scorecard to allow comparison of performance and monitoring of improvements. This facilitates the development of cost efficiency targets with airports and ANSPs that embrace the need for continuous improvement.
- **Longer-term pricing agreements**
IATA is using agreed performance indicators and the performance scorecard as a standard basis to support proactive and constructive discussions with airports and ANSPs. Risks must be shared in a fair and consistent manner amongst all stakeholders in the supply chain. IATA will work to build partnerships with key airports and ANSPs that are willing to address new business models, secure commitment for agreement for continuous improvements and agree longer-term pricing strategies.
- **Communicating change**
IATA will continue to send strong messages regarding the urgent need for change to deliver improvements in cost efficiency.
- **Competition laws compliance**
IATA ensures that compliance to competition laws are respected at all times. These laws prohibit anti-competitive behaviour and unfair business practices.

DRIVING KEY CHARGES PRINCIPLES

- **Airline engagement in business decision-making processes of airports and ANSPs**
Airlines and their respective associations should be fully engaged in the decision-making process from an early stage and continue to be engaged throughout its development and implementation. When agreement cannot be reached, a decision should not be imposed but all possible should be done to reach consensus before proceeding with major changes.
- **Transparency**
Transparency should be provided on the future business strategy and plans, future investments, essential historic and forecast financial and operational performance data.
- **Investment business cases**
Investments should only be made when supported by a clear business case which incorporates a thorough cost benefit analysis and a clear assessment of the impact on all stakeholders. Airlines should also agree the need for and the financing of future investments.
- **Pre-financing**
Pre-financing of investment directly through charges increases the cost of air transportation. It is inefficient, unnecessary and unfair since those airlines paying are not necessarily those who will benefit. Airlines should only pay for agreed investments on an "as and when used" basis. This will require airports and ANSPs to develop other means of financing their capital expenditure programmes which are readily available for projects with good business cases.
- **Non-discrimination**
There should be no discrimination between the different groups of users with regards to charges.
- **No cross subsidisation**
There should be no cross subsidisation where airlines subsidise other airlines.
- **Cost efficiency**
Airports and ANSPs should set future targets to improve their productivity and cost effectiveness. Airlines, airports and ANSPs should periodically define the efficiency targets that should be achieved by industry providers.

COMMUNICATE IATA POSITION

IATA has developed position papers specific to the following areas:

General

- The effect of charges and taxes on the wider economy

Airports and ANSPs

- Economic regulation
- Industry partnership agreements
- Small commercial aviation
- Land asset revaluation
- Peak/off-peak charges
- Charges discounts & incentives

Airports

- Single till
- Security charges
- Low cost facilities & services
- Concession fees, royalties & airport rent
- Airport privatisation
- Passenger based airport charges
- CUSS costs

ANSPs

- Commercialisation of ANSPs
- Weight in charging formulas
- Meteorological charges

Charges principles

- Airline engagement in business decision-making processes
- Transparency
- Pre-financing
- Cross subsidisation

Taxation

- Tourism tax
- Value Added Tax
- Solidarity tax

Fuel

- Market access fees on fuel and oil handling activities at EC airports

These position papers can be found at the back of this brochure.

An electronic version is also available at:

www.iata.org/aviationcharges

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