



**Recap of the Q&A Session at
Giovanni Bisignani, Director General and CEO
Press Briefing
15 September 2009
Washington**

Question

You said that there are some governments who charge taxes related to the environment but actually they don't.

Giovanni Bisignani, Director General and Chief Executive Officer

Yes.

Question

And from the countries that do that, I assume the UK is one of them.

Giovanni Bisignani, Director General and Chief Executive Officer

Yes.

Question

Can you provide examples of environmental taxes and are there any worrying negative trends in the US market that could be long term?

Giovanni Bisignani, Director General and Chief Executive Officer

The best example is the UK. I still remember a couple of months ago, I asked Prime Minister Gordon Brown how many trees they had planted with these billions of pounds collected by the UK's Air Passenger Duty and the answer was none. This money goes straight into the general budget.

However, we have some more positive examples in other parts of the world. The Netherlands around April

implemented a €300 million departure tax partially justified by the government as an environmental tax. I

explained to the government that that was very negative for the Dutch economy because passengers were driving and taking flights from other locations. They were wise enough, and shortly after they withdraw this tax.

We are serious on environment. We have a strategy that no other industry has, and we have achieved our targets until now. We saved nearly 10 million to 12 million tonnes of CO2 a year, in the last three years, negotiating

and implementing with governments hundreds of new routes. And we have an ambitious plan with a goal of carbon neutral growth by 2020. And we will achieve this target. We are fully committed because it's serious. This is why we do not appreciate taxes that are branded as environment but as nothing to do with the environment.

Another issue, that relates to your question of government's burdening the industry with high taxes. I joined IATA a couple of months after September 11, and I was dealing with many, many airlines that were going into bankruptcy (Chapter 11 in the US). Before going to Chapter 11, you have talk to a bank. You go in a bank and you say, look, I have to restructure, and I'm entering into Chapter 11. In order to restructure, I need US\$300, US\$400 million – depends on the company – and I need US\$200 million to give to IATA as a security deposit to keep the airline in their settlement system. Would you imagine what the answer is from a bank when an airline goes and say, I need US\$600 million, an airline from an industry that has US\$180 billion in debt? That is the risk that I see and that's a risk I am concerned with. In all my meetings yesterday with members of the governments, including [US Homeland Security] Secretary Napolitano, I raised the issue of the risk that the industry is facing – not speaking just of the US.

The only positive number for us is cargo. Cargo means the situation has started to improve but it is not yet reflected in the numbers of passengers flying for

business. It will take six, eight, nine months before they start flying.

Question

What trends do you see in Asia-Pacific supporting the improvement that we see in the forecast this time? And do you see potential profitability in 2011?

Giovanni Bisignani, Director General and Chief Executive Officer

Asia-Pacific was the area most strongly hit by the situation. At the beginning, when the credit crunch started in the US, many were saying, this is a crisis that will affect only the United States and Europe. We thought that we were lucky that giants like India and China would balance what was happening elsewhere. Soon, everybody realized that if the United States does not buy, China does not sell. So, they started a massive recovery program. China understood that they could not rely anymore on exports. They made massive investment, higher than those in the United States, to strengthen the competitiveness of the Chinese infrastructure and the Chinese system. We see domestic traffic in China now growing by double digits, and we see that this part of the world is recovering quickly, at least for the domestic market.

We tried to make our profit forecast with our feet on the ground. Today it's quite difficult to make a forecast accurate for 2010, let alone for 2011. For 2010, we see losses of US\$3.8 billion, based on revenues increasing 4.6 percent, yields improving by 1 percent and fuel at US\$72 per barrel. The question mark is fuel and you could say US\$72 is an optimistic number. With these three elements as a basis of our forecast, if we see US\$3.8 billion losses, it means that the industry has started a strong recovery. Please remember that after September 11, and the situation was completely different from the crisis in which the world is now dealing with, it took us three years and a half to recover the revenue level. And in September 2001, the global economy was growing; it was growing fast.

Question

You mentioned that the sharp decline in yields will leave a lasting mark on the industry structure. Do you think that when the recession is over the mix of first, business, economy class travellers will actually be different from what it was previously and that airlines may have to look at reconfiguring aircraft? And secondly, the fear that ticket discounting across all classes has been so deep over the past year, year and a half because of the

recession, that when recovery does come eventually, it'll be very difficult for airlines to actually raise average fares to previous levels.

Giovanni Bisignani, Director General and Chief Executive Officer

I would say when you travel three or four hours, many, many airlines are concerned that that level of business traffic will not return. We have to build on efficiency; we have to increase our flexibility. In difficult times it is important that we don't underestimate the importance of the brand. We take it for granted but passengers will be paying much more attention on who is providing a certain level of service, and I'm speaking here of the business class. An industry that loses US\$80 billion in revenues, out of a total of approximately US\$500 billion means that it's in real problems. We will have to reconsider the aircraft, reconsider the network system and try to build strong consolidations in order to take away capacity and increase efficiency. The moment is important because we have to weather the storm. We have to start thinking of a different assessment of the global situation in those three classes, premium, business and economy.

Question

You talked a little bit about some specific airports that are doing a good or not so good job. Could you talk about O'Hare, in particular, and also the multibillion dollar O'Hare modernization program that is now awaiting the approval to go to the phase?

Giovanni Bisignani, Director General and Chief Executive Officer

I don't want to speak specific on an airport. I just want to say that we need investment but it has to be investment that makes sense. Too many times we see cathedrals around the world. The problem is that when you build a cathedral, it is to make the politicians happy but in the end, you create a problem for the city because the airport loses competitiveness. Look at Toronto. They built a cathedral. But who from the team that built this cathedral is left? Almost all of them are gone. The new GTAA administration is doing a great job. They have a massive investment debt to pay and that is making the airport less competitive. So I think we have to balance those kinds of approaches. I was mentioning Los Angeles because we have a case of an airport that is run effectively. But there is political pressure to build another cathedral.

Question

You mentioned that we could have more casualties in coming months. Could you expand on that?

Giovanni Bisignani, Director General and Chief Executive Officer

Since 2008, IATA suspended 49 airlines from our financial systems and from that, 29 went out of business. We keep track of airlines that are going through financial problems in our BSP, in their performance and their advanced bookings. We are therefore ready to face emergency and address the issue.

Question

Where do you expect these bankruptcies to come from? Would they be smaller airlines or larger airlines?

Giovanni Bisignani, Director General and Chief Executive Officer

In the last year and a half, we had medium-sized airlines from all parts of the world. The last one was the Air Senegal.

But please understand that large or small, for a country when an airline goes out of business, it is always a relevant situation for the local economy.

Question

Do you think that, right now, traffic losses are still outpacing capacity cuts? Or have they evened out, both internationally and in the US?

Brian Pearce, Chief Economist

Yes, and that's certainly the case in the US domestic market, where there have been some very substantial cuts in capacity; that certainly has caught up with the slump in passenger demand and so load factors are relatively stable. That's less so on international markets. It is true that in the latest month, because the decline in passenger demand was at a lower rate, it was more in line with the reductions in capacity. So there is an initial sign that capacity is starting to be more in line with demand. But the fact is that there's already a lot of excess capacity in the markets, which will be very difficult to deal with and that's why yields are so weak at the moment.

Question

Have you included for swine flu in your modelling?

Giovanni Bisignani, Director General and Chief Executive Officer

Yes, we have included it.

Question

How do you view consolidation in the context of the current crisis? And how do we see the future of Alitalia?

Giovanni Bisignani, Director General and Chief Executive Officer

Consolidation is a must. We have 230 airlines in IATA; over 400 in our financial system; 1,200 big airlines; probably more than 2,000 airlines in the world. There's no other industry in the world that's so fragmented. Do you know the reason? Because you have this flag on the tail of the plane and having your plane flying around means that you are a relevant country. Unfortunately, for small countries, this is a very expensive hobby. On the other hand, the rules of the game are 65 years old – and it's very difficult for airlines to consolidate.

In areas where consolidation is possible, such as European consolidation, you have seen what has happened in the last five years. It started with Air France and KLM. And, it was a risky situation because when you consolidate, you have the risk that the airlines lose their rights to fly because they no longer recognized the nationality of the airline. We have some other domestic examples in the United States, Delta and Northwest and in Japan with JAL and JAS. What we need is cross-border consolidation. Why? Because this will give the airlines the strength to weather the future.

The markets in United States and Europe are mature markets. North America is still the biggest market in the world with 23 percent of the market share, but very quickly it will be overcome by Asia-Pacific, that in two or three years, will become the largest market in the world. In the US or in Europe, you have a mild growth of 2, 3 percent. In those other markets, you can experience double digit growth. So having the possibility to consolidate between regions, as any other business, could make the system stronger. We would like to have this spread out in other parts of the world and starting to have some consolidation across borders, across the Atlantic, across the Pacific.

I cannot comment on specific airlines. I just can say, Alitalia went through a very difficult time last year. I would say the integration between the new Alitalia, Air One has been fast and successful. Logically, there have been some operational problems in adjusting. Furthermore, an airline starting when the industry is in such crisis will be strongly affected.

I wish all the best to Alitalia and to all our carriers in this difficult moment.

Question

Could you expand on your comment that the decision to postpone fleet renewal may come back to bite airlines? And is there a possibility that this might affect IATA's carbon reduction targets? And the other one is fuel. Obviously, there are signs that, as the economy recovers, fuel prices are starting to pick up so is there a possibility we may just slide from one crisis back into a fuel cost crisis?

Giovanni Bisignani, Director General and Chief Executive Officer

This year we have a positive impact on the CO2 because the downturn of the economics has put down capacity. So this year, we will have a reduction of CO2 emission of the system of roughly 7 percent. 5 percent is due to the downturn of the economy and 2 percent because of efficiency. It is true that that this year we have not yet seen a strong reduction in deliveries, nearly 1,000 planes. Why? Because the deliveries of 2009 were already financed by banks and financial institutions in previous years when the banking system was still lending money. We will start seeing reduction probably in 2010 and 2011. So we have taken that in consideration and our numbers are quite conservative on the impact of biofuel. That could speed up a bit and balance the fleet renewal deliveries.

Fuel is a very important issue. This is not just an issue of the airline industry. In 2008, our total bill was US\$165 billion with an average price, if I will remember, of US\$99 a barrel. We have to consider two things. At that time, the fuel was representing roughly 31 percent of our total operating cost. When fuel goes up, it's always a problem. If the economy is growing, this is balanced by the possibility the airlines can introduce a fuel surcharge because the passenger is ready to pay. But during a crisis, it is very difficult to implement such measures. I would like to underline that the price of fuel is strongly influenced by financial speculation called hedge. Now, if we see that the fuel starts to increase because the

production capacity of the world has started to move, it means that we are moving in the right direction but, unfortunately, we have seen that this is not the case. Fuel is going up because of speculation. We have raised this issue at the G-8 because this is much more complicated than just for the airlines. Because if those companies that used to cash billions speculating on hedges are not carefully evaluated it will be a big problem, not just for the airlines but for the entire economy. Governments have put up billions for bailouts and I would not like to see financial institutions make billions of profit taking advantage of this hedging. I know that the G-8 asked the Financial Stabilization Committee, which is headed by Mr. Draghi, Central Bank of Italy, to present some proposal. I hope that this issue regarding hedging could be handled by government in a more effective way.

Question

So are you calling for some sort of regulation?

Giovanni Bisignani, Director General and Chief Executive Officer

They are in discussion. There is a financial stabilization group that has presented to governments certain kinds of lines of action and, last week, the European parliament started to discuss what kind of assessment need to be done to those kinds of financial instruments.

Question

The air cargo industry is reeling from anti-trust actions by governments seeking stiff fines for price fixing during this financial crisis and you touched on the OPEC business with the rising fuel prices.

Giovanni Bisignani, Director General and Chief Executive Officer

We are not involved in any of those cases, and we cannot make any comment.

Question

Have you raised any issues on consolidation during the visit here to the United States? Second you met with Secretary Napolitano of the Department of Homeland Security; what issues were raised? And the third was an expansion on the swine flu impact.

Giovanni Bisignani, Director General and Chief Executive Officer

Consolidation will be raised tomorrow when I meet with [US Transportation] Secretary LaHood and the new administrator of FAA. I was very impressed with [DHS Secretary] Mrs. Napolitano because of the openness, the interest and attention and the need of harmonizing global standards with an international overview. We have two issues in this area. One is cargo, 100 percent cargo screening and the impact of the flu. On cargo, I was very clear that the mandate from the Congress to achieve their target by 2010 is unrealistic. The technology is not in place, has not been certified and therefore, the industry is not ready to meet this kind of target. We will try to work together in order to see how these issues can be addressed.

On the flu, I think they have taken great attention because this is a potential risk that we may face. IATA has a very close relation with WHO and understanding what WHO is implementing is very important. We have to have a scalable plan because we hope that the situation will not be so devastating. I think that with all the information that we have, the vaccines that are being prepared and things like this, I'm a bit more optimistic. It was good that Secretary Napolitano asked for an important action plan but also I would say it's important to have a scalable plan following the international rules of WHO.

Issues like the Swine Flu were not something that the industry was accustomed to face in old times. I remember when we had to deal with SARS. It was a massive problem because we were not prepared. But what does prepared mean? This is an industry where IATA sets all the standards. So on our side, it was important at that time to have a certain kind of technical support from WHO in order to understand what was SARS. In the first two months, it was a mystery. As soon as WHO identified what was the cause and what to do in order to try to handle this, it was a successful story. It came out that we had to monitor the fever, the temperature of each passenger. In every airport you had this kind of system and the situation worked. Now we are much more prepared because the working relation that we have with WHO is wonderful. If you go on the website of WHO, they have what airlines have to do. We are prepared to handle the situation in an effective way. Now it depends on how it spreads and it depends also on the level. You have now six levels. Something that we are discussing is to try to match these levels that provide you with indication of how the disease is spreading with a certain kind of information on the severity of the disease. You can have the disease at level six meaning it spreads from the United States to Europe to Asia but if it's a

disease that's easily curable, you should also have an indication of this. That is another aspect that we are discussing with them. You would like to see a statement that says it's level six but it's green.

Question

Could you talk a little bit about whether add-on fees hold up much hope for carriers as they're trying to restore revenues? We're starting to see some of the US carriers putting on second bag fees towards Europe. Is that something that might move the needle some on revenue? Or is it unlikely to be a big enough number to help them very much?

Giovanni Bisignani, Director General and Chief Executive Officer

This is a commercial decision. In the United States, they are starting to be implemented quite widely; in Europe, less. Our Chief Economist, Mr. Brian Pearce, would step in and give you some more details on some of the financial impact of those ancillary revenues.

Brian Pearce, Chief Economist

Yes, I think it's been very helpful for airlines to segment the product. Some passengers will want to pay for certain aspects of the travel service and some won't. I think it increases choice. But, ultimately, passengers and consumers have got a budget that they'll spend on travel so, ultimately, for the industry as a whole, if we see ancillary revenues increasing, there's likely to be more downward pressure on basic fares. I certainly don't see that as solving the underlying difficulties that are facing the industry over the next year.

Question

Have you done any estimates on what 2010 ancillary revenues might be?

Brian Pearce, Chief Economist

Non-passenger, non-cargo revenues are a little bit over 10 percent of revenues at the moment globally.

Question

Are there any particular airlines that IATA is watching in its settlement system?

Giovanni Bisignani, Director General and Chief Executive Officer

There's a certain number of airlines that we try to follow more carefully. There are roughly 20 airlines that we are monitoring.

Question

You said that the network system will have to be reconsidered, could you elaborate on that?

Brian Pearce, Chief Economist

Many business models are going to be challenged, and I think it's particularly because of the point that Giovanni made earlier, that we're not expecting to see a major recovery in yields, particularly in real terms. And we've seen this in the past, yields for airlines tend to get ratcheted down particularly for the premium passenger. I think that corporate buyers have had a long time during this recession buying cheaper seats for business travellers. As a result, costs are going to have to be taken out of the system in order to make current business models work and a lot of those costs are associated with hub airports. Airlines are going to have to take a close look at that. It won't mean the end of hub and spoke networks; airlines are going to have to concentrate flows to get the densities and the economies that they need on these markets. But, some of the new technologies in the aircraft that we're seeing today are making different models possible and we would expect to see the industry continuing to innovate in the face of this challenge to get costs down in line with the fall in yields.

Question

You said that the industry would have to reconsider aircraft, the network system and try to build on consolidation. What exactly do you mean on building on consolidation?

Giovanni Bisignani, Director General and Chief Executive Officer

Building on consolidation means trying more effectively, with the limitations what we have, because of the rules of the game, to speed up certain kinds of international cooperation. IATA and the airlines need to pressure the governments to give us a certain kind of freedom, to be able to run this as a normal business. This is very important because it's the way in which this industry can move.

The second stage talks between Europe and the US on Open Skies will take place over the coming months. The first stage agreement was a very important agreement because it provided market access. Any European carrier can fly from any European city to any city in the United States, and vice versa.

However, the first stage did not include cabotage rights (allowing a European carrier to operate domestic services, for example). Taking this away from the negotiating table was a wise decision. In these circumstances, it was not essential for the airlines because domestic yields are so low.

And all the European airlines are directly involved with alliances that provide access. This handles perfectly the need of what I was mentioning before. But I think that consolidation is the way forward.

Question

Could you just give me some examples of the type of cooperation that you're trying to achieve, the way you have open skies? Is there anything on the table now.

Giovanni Bisignani, Director General and Chief Executive Officer

The recent agreement on open skies between Europe and United States did not solve all the open issues. It solved the problem of market access that I just mentioned. But the piece that is missing is ownership.

I don't know why the American airlines cannot go and take advantage of the market in other parts of the world. The banks are going shopping all around, looking for money. But airlines have to say sorry to potential investors as they have a cap on foreign ownership. Can you imagine this in any other global business?

This also means that you cannot take advantage, in a moment of crisis, of the availability of capital that is there. And you cannot integrate the airlines because one of the consolidation is an airline buying another airline or buying a major stake in another airline. What happens in normal business; this, for aviation, is still not an opportunity.

Question

What is your estimate for the Middle East market? Has the volume of passengers grown? And what is the estimated loss that this market is going to make?

Giovanni Bisignani, Director General and Chief Executive Officer

The Middle East is the only part of the world that is consistently showing positive figures of growth. In the month of July, passenger traffic was growing by about 13 percent in Middle East. It's the only part of the world that we will see roughly an 8 percent increase for the full year. The results? The results are negative because we are forecasting a loss of US\$500 million; this is due to the overall situation and the impact of new capacity of the Middle Eastern airlines.

Question

How do we view the US market in terms of potential bankruptcies and what is the role of consolidation as a potential remedy to that?

Giovanni Bisignani, Director General and Chief Executive Officer

I cannot make assessment of what is the situation of single airlines. I would say that Air Canada went through a difficult time at the beginning of this year. I had the opportunity to discuss this with the Minister, with the airlines. They took a certain kind of decision and it's now moving in the other direction. On consolidation, it's something that we have seen in the United States, a big consolidation with two big airlines, Delta and Northwest. It's going in the right direction because that's the way forward but that's just the first step. And, you know, it's quite strange because we are an important industry. After September 11, you saw that the world stopped because the airlines stopped flying. We are not asking for bailouts. Did you see what the government in the States, or in other parts of the world, have given to financial institutions, banks or car industries and so on? We are not asking for bailouts; we are just asking, please, let us run our business as a normal business.

The concept that people consider difficult to understand is that to sell your products you need an international treaty; that was the reality of 1945. And in 1945, there was some reason; it was after the War. It was a reason linked to military and security of the country. Now it makes no sense. Give to the airlines an opportunity to expand, to expand in the areas in which there's a growing market and not be limited to the national borders. I was always saying that Europe and the United States have a great merit because after the War – and we're going back in 1945 – they were the leaders. They have set the set of rules but now, unfortunately, I see that Europe and the United States are old. In a couple of years' time, Asia-Pacific will be the biggest market in the world. The

United States and Europe have built this aviation and the rules of the game. But they need to understand that they are losing leadership and defending a system that is outdated. With size you have responsibility. When you have China, India that becomes the biggest market in the world, size gives you a responsibility to drive the change forward. I would like to see Europe and the United States take this opportunity in the next talks with the European Union. This is part of the conversation that I will have tomorrow with Secretary LaHood and the FAA administration.
