



Agenda for Freedom Summit – 26 October 2008 Closing Press Conference

Mr Giovanni Bisignani:

Good afternoon from Istanbul. And good evening to those joining us in Asia and Australia. You will have seen our announcement on Friday about the results of September traffic. As you saw in the numbers, we are going through an extraordinary time. This has been an extra-ordinary year. At the time of our AGM, in Istanbul in June, the industry was in a cost crisis. You may remember fuel was at US\$135 per barrel. And we have also highlighted the opportunities and big improvements that airlines have done. Since the crisis of 2001, airlines had done their homework by improving productivity 64%, improving fuel efficiency by 19% and reducing non-fuel unit costs by 18%. But the potential of US\$99 billion in added fuel costs would require major industry change to be able to survive.

So during the AGM, we set forth an Istanbul declaration that was approved by all our members asking our airports and air navigation service providers to deliver greater efficiency, asking labour to understand the need to reduce costs and asking governments to stop crazy taxation, regulate monopoly suppliers and grant greater commercial freedoms. Since then the situation has changed - the price of oil has dropped but the US credit crunch has evolved into a global financial crisis. And the airlines are a part of that crisis. Passenger traffic is down 2.9% and cargo is down 7.7% in September.

So, the crisis inspired the Istanbul declaration. We need change. This was the inspiration for the Agenda for Freedom Summit - to bring airlines greater commercial freedoms. IATA put together and presented a proposal that was circulated it among governments. Fourteen national governments agreed to participate in the Summit and we're here spending two fruitful days with us and Mr Shane. Those governments are Australia, Brazil, Canada, Chile, India, Panama, Mauritius, Morocco, Singapore, Switzerland, Turkey, the UAE, the US and Vietnam, together with the European Commission (representing 27 nations) spent two days with us in Istanbul. Facilitating a discussion with Governments is something completely new for IATA. But in these very difficult times, we have to look for new and innovative solutions.

The opening of the Conference was held by the Turkish Minister for Transport who opened the meeting explaining the urgent action that Turkey was taking. I presented the point and position of IATA and explained that in this very difficult

moment, business as usual is not an option. The task that we all have today is to connect urgent business needs with a broad political vision for change. And we have to do this fast because global financial crisis is here.

The goal of the conference, as I mentioned in my previous comments that I made on Friday, was not to sign an agreement or come up with a declaration. It was important for us to start a process and explain that the process had to move fast. So after two days, we had an open and frank discussion with some important outcomes. I will not enter into those details because Mr Jeff Shane, the former under-secretary of transport for the US who very successfully chaired the ICAO Assembly in 2007, chaired the conference and will summarize some of the results. But I want to emphasize a few key areas that represent progress and moving in this direction.

First, the participants, the governments and those governments around the table asked IATA to meet again in early 2009 to turn words into action. So they strongly supported this very unique role that IATA has played.

Second, the states asked IATA to continue and expand this unusual role and, in time for the next meeting, to facilitate the creating of a powerful tool that does not exist today. This is a multi-lateral statement of policy that expresses the common approach of these governments on liberalization and the key issues of market access and ownership. This is very powerful because it will indicate a very clear direction and a commitment and because it can be developed quickly to be useful in this time of crisis as we are going through.

Third, I would like to emphasize in addition to the above, there was a desire of the group to spread best their practices to other states by making openly available the most liberal agreements that are being negotiated.

And the most important thing for IATA is that we achieved momentum, an understanding that in times of crisis, we have to be fast in implementing change. And I hope that this meeting of putting together 15 of the world's most progressive governments will evolve into an informal fraternity of governments acting as agents for change.

The industry will be counting on those present at the meeting to carry these messages back to their colleagues at home and move forward to explore opportunities for change with the other countries.

I must emphasize the need for speed in these extra-ordinary times. Look at what happened in the banking system. In a week it became a state industry in many countries. This is not the solution that we want for airlines. But we have already seen this happen in Argentina with Aerolineas Argentinas and this could spread elsewhere.

And lastly I re-emphasize that we are not asking for any special favours. We are not asking for bailouts from governments. And we are not asking to change governments' role in regulating safety, security, environment standards or maintaining a level playing field. These are and must remain government responsibility. But to survive this crisis and emerge as a stronger industry airlines need the same commercial freedoms that other industries take for granted. I underline in my final remarks that the rules of this game in this industry today are exactly the same as when we were flying the DC 3s. From the DC 3s to the 380, there is a big difference in technology. It's the same industry but we still have the same tools of that time

Now, I would like to turn to Mr Jeff Shane, who was as I mentioned was the chairman of the conference. He will present the Chairman's Summary.

Mr Jeffrey Shane:

Thanks very much Giovanni. Hello everybody.

I just want to put a little flesh on the bones of the statement that Mr Bisignani has just given. To understand the significance of what transpired here for the past two days, it's necessary for me to back up and just put down some basic principles about the way international aviation operates. It's not very well understood among the lay public.

The first thing you need to understand is that when rules of international aviation were created the governing principle was all of the markets around the world are officially closed. It's not an open market. It's a closed market and the only way that airlines can actually operate with commercial rights is through bilateral agreements that are done between states.

Every route is the product of some bilateral agreement. There are 3500 bilateral agreements that actually are the governing structure, the governing legal structure for international aviation. And those bilateral agreements are very carefully calibrated. They say where you can fly, how many times a day you can fly and how many airlines may fly and where the airlines must be headquartered and who must own the airlines. It's an incredibly regulatory process.

The other thing that is important to know and I don't want to go into great details about this, is that this international air transport business, this industry we all know so well, we think that its one of the most international business that we have on the planet. It is in fact one of the least international in term of its corporate organization. That's because all the rules that are promulgated by national governments insist that airlines that are headquartered in their territory be owned and controlled by citizens of those countries. They are few exceptions beginning to creep into the picture which is a good thing. But by large, every airline is a national company, the creature of a single state. And in fact in being so, its nationality is almost a requirement for it to fly anywhere else. That's

because other countries will insist that the airline be the creature of the country from which it comes.

Every airline that operates internationally according to the rules of international aviation, as they now exist, must begin or end every flight in its home country. Now, you have read about open skies agreement the latest wrinkle in the bilateral agreement process. And there is no question that governments for the last 15-20 years have been attempting to begin to liberalize some of these ancient rules and to facilitate something like an open market for air services. But most of the most liberal open skies agreements that we have today still leave a lot of economic restrictions in place, still impede the ability of this airline industry to act as though it was any other globalized network industry.

It's those impediments, even in the context of what we call relatively liberal bilateral agreements, that impede this industry's ability to seek its own level of economic proposition, to begin to act like it was a commercial industry, to seek opportunities on the basis of commercial considerations instead of political considerations, to really enable itself to become more economically sustainable over the long-term.

Everybody understands how much value the air transport business brings to economies around the world, the global economy in the aggregate. The importance therefore of finding a model which enables the airline industry to sustain itself more successfully cannot be overstated because, unless we have a sustainable air transport system globally, the global economy will suffer. Air transport is essential to the growth of the global economy.

So that's all by way of quick background and to explain why this meeting was so fundamentally important.

Governments have been discussing the need for liberalization for a long time: lots of international meetings about that, lots of bilateral meetings about that. What we have never seen in the history of this discussion is an industry which has come to governments and pleaded with governments to actually liberalize the rules of the road more than they have already been liberalized.

IATA represents the world's airline industry – 230 international carriers are members of IATA. IATA is actually leading the industry and leading governments in a very interesting way, in a way that I think is unprecedented. I am not aware, at least in my experience, of any similar circumstance.

So IATA, recognizing that its not in a position to summon governments, not in a position to order governments around, invited a handful of governments, Giovanni just listed them, to come to Istanbul, to sit around a table together for two days and to consider first of all the economic circumstances that the industry is in right now. A challenge that is historic in its magnitude. And to consider the

consequences of not addressing that challenge. And to understand better and to begin to discuss more clearly the ways in which the regulatory impediments that still exist for this industry, not withstanding its maturity, are actually impeding its ability to help itself overcome some of these challenges.

The regulatory impediments put in place for the public interest, put in place in many cases because of public policy objectives that we might even agree with or that we would have agreed with at the time are now actually preventing the industry as becoming as efficient from delivering the quality of service we would all like to see.

So IATA convened the meeting in order to focus on the extent in which the restrictions continue to hamstring the industry and to ask the participating governments to consider seriously, given the magnitude of the crisis that we have right now, how many of these restrictions actually have continued justification.

The going proposition was that governments certainly have a very important responsibility and a huge amount of responsibility for safety and security in civil aviation. Nobody quarrels with that. There are a lot of requirements however, such as the citizenship requirements that we referred to, such as limitations on operating authority, the ability of an airline to fly to a destination that might be a useful market, restrictions of that kind which may or may not have continuing justification.

And the conversation around the table with all the government representatives over the last few days was about that fundamental question. When we come to work in the morning, as government officials, we have a lot of responsibilities. Let's make sure these responsibilities that we actually discharged, have a purpose and a meaning, have a reason in the public interest.

So we divided the conversation into specific topics. We talked first about market access and market access is nothing but the ability to fly between countries, between cities in different countries.

To give you a very quick example about how the system is binding on the industry lets look at Turkish Airlines. Turkish Airlines is a growing, vital, forward looking and well equipped and it's an extremely well run airline. It can fly virtually anywhere in the world today as long as it begins its flights here in Turkey and returns to Turkey. If Turkish Airlines, given the visionary quality of its leadership, decided to set-up a hub in Paris and operate from Paris to North America or South America or Asia – it would not be permitted to do that. That is not allowed under the current scheme. We don't know why that is. It would be a big leap to turn the system on its head and actually have that happen.

But governments have beginning to discuss that and of course the traditional restrictions are simply on the ability, even if it begins its flight in Turkey, to fly to other cities of its choice. It takes a negotiation, it takes a treaty-like bilateral instrument in order for us to facilitate the ability for Turkish Airlines to fly to cities of its choice. We don't understand any longer why that should be the case in the year of our Lord 2008.

As Giovanni said, that was the rule when DC3s were flying and people weren't used to the idea of airplanes coming over their territories and who knows whose they were. They had to be protection. But we no longer are unfamiliar with this process. We should be able to accommodate a somewhat more liberal approach to the provision of air services. So market access is one category.

The second big category were these rules that just about every country has which restrict the flow of capital from offshore, from other countries into its own national airline industry. And when I say most countries it includes the lost developed states. The United States has some of the most restrictive rules in the world on this. Rules that are being challenged now by Europe in the context of Europe/United States open skies agreement. The United States has been unable over a period of several years, because of convictions in its own legislature, in the US Congress, to change those rules.

The industry is pleading with governments around the world to get rid of these rules where they cannot be justified by continuing public policy justification. Why is it a concern to us? We want to know where the airline is based because we want to know what agency is responsible for the safety of that airline. That is a legitimate concern. Governments should regulate the principle place of business of an airline. It should regulate the safety of an airline. They should regulate the security of an airline. But why should governments regulate the citizenship of investors in the airline?

IATA is bringing that issue to the table and putting it squarely before governments and asking governments to consider seriously whether these restrictions continue to have validity in today's world.

I can tell you as a lawyer and as a former under secretary, as Tony said, that in representing clients in the air transport business, I find myself spending time trying to persuade government agencies to accommodate transactions that are simply the most pedestrian, the most mundane, ordinary commercial transactions you can imagine. Nobody would ever have to asked permission in any other sector of economic activity. It's automatically allowed because these are just things in the interest of the business. But in the airline industry, because of the citizenship, because of the ownership restrictions you have to get permission. You have to get permission to tie your shoe in the airline industry. And that is no longer a sensible approach to air transport given the importance of air transport in economic growth and given the challenge in air transport that exists today.

We talked about how it might be possible if there was an interest in governments to accelerate the liberalization of these rules. We know we can do it by agreement - countries get together and negotiate new agreements. We can do it bilaterally or we can do it multilaterally. But by the time we get done with that process we probably wouldn't have an airline industry.

So IATA has very creatively suggested that there might be other ways. Why can governments upon deciding that there is no continued justification for a particular rule, simply waive the rule unilaterally? If there are restrictions on foreign carriers coming to the territory of a country, the country could say that there is no justification for that, our citizens would probably like additional competition, maybe our national carrier wouldn't but the public at large and the economy at large would benefit from more air service. So why do we have restrictions on it? Now if somebody is preventing an airline from flying to their territory, of course we would not give it away free of charge - we will have a reciprocal operation. But that's not often the case. And yet, despite the fact that the market should be mostly open they are not and they need to be open more. So we could be done by a unilateral waiver.

There was a discussion of a multilateral agreement in which countries would at least agree not to worry about the citizenship or the ownership, I should say, of airlines that are flying to its territory. As I said before, if under the bilateral agreement, I believe between Turkey and France, if an airline wants to fly to Turkey from France, that agreement says it must be owned and controlled by French citizens. Since the single market in Europe was developed it has been changed now and it must be owned by European citizens. But if that airline was owned by Americans, it wouldn't be allowed to fly. Turkey would have to waive a restriction in order to allow that airline to fly.

By a multilateral agreement it would be possible for governments to simply say we shouldn't care. If we know who is regulating the carrier's safety and we know who is regulating the carrier's security, we are quite happy to have it fly here. We don't really care who invested in it – that's not a big issue.

It was a very productive conversation on how we might achieve a liberalization of these foreign ownership restrictions.

That really was the basic content of the conversation of the past two days. As Giovanni has already explained, we have agreed in principle that there needs to be a follow-up sometimes in 2009.

In between now and then, IATA and others will be developing some materials that facilitate more detailed thinking about how we can do this. Governments will report back about how their thinking has been and how their thinking might have evolved as a result of this conversation.

We will think about the possibility of broadening the group so that we might include a few others either likeminded or in some case maybe countries that are more on the fence about whether or not more liberalization is necessary.

But what we have done here at the behest of IATA, a trade association of airlines, is begin a process that we hope will rather quickly develop into a re-examination of what has been a very restrictive framework for the provision of international air services.

We will continue to be a restrictive framework even under the so-called open skies model unless governments examine some other elements that get in the way of this industry.

This industry needs to be able to operate the way other major sectors of economic activity operate around the world. When you think about the advancements we have seen in telecommunications, when you think of the advancements we have seen in many other globalized sectors, you know that it's because they didn't have to confront these restrictions.

International aviation is restricted today more or less exactly in the same way it was restricted at the dawn of civil aviation.

It's time to start rethinking that framework. I'll stop.

Thank you.