



PRESS INFORMATION

Agenda for Freedom Summit Istanbul 25-26 October 2008

The Agenda for Freedom Summit, to be convened in Istanbul on 25-26 October, is an initiative of IATA's Director General and CEO, Giovanni Bisignani. It is a call for likeminded countries to let airlines operate as any other global business.

The Problem

International air transport is governed by a web of over 3500 government-to-government bilateral air services agreements. These contain clauses restricting the airlines' ability to do business which can be grouped broadly as follows:

- **Restrictions to access markets** with regulations on
 - Traffic rights
 - Airports that can be served
 - Pricing
 - Capacity

- **Restrictions on foreign capital** that no other industry faces
 - Bilateral agreements generally determine that for a country to 'designate' an airline for international air services it must be 'substantially owned and effectively controlled' by that country's Government or its citizens.
 - This has prevented
 - International mergers and acquisitions
 - The search for optimal cross-border structures and
 - The airlines' ability to raise equity on international capital markets

Case for Change

Airlines are businesses. This year the bottom line will be red with global losses of US\$5.2 billion. Oil prices spiked to US\$147 per barrel this summer creating an unprecedented cost crisis. Today the price of oil is down, but fears of a global recession are now driving the industry's loss forecasts. Both demonstrate the enormous financial challenges that the industry faces.

But the airlines' deep financial losses are not an isolated current event. In the last 60 years, airlines have generated US\$11 trillion in revenues, but only a 0.3% margin (US\$32 billion).

The perfect storm that characterizes 2008 for the air transport industry prompted IATA's 230 member airlines to unanimously adopt the *Istanbul Declaration* at the Association's Annual General Meeting in June. The Declaration demands include the lifting of restrictions on 'ownership and control'.

The Agenda for Freedom Summit is a call from industry to a select group of 15 likeminded Governments to consider a proposal to grant airlines more commercial freedom, indeed the ability to conduct its business like any other global industry. Attending governments are: Australia, Brazil, Canada, Chile, the European Commission, India, Mauritius, Morocco, Panama, Singapore, Switzerland, Turkey, the United Arab Emirates, the United States of America and Vietnam.

The Proposal

In July, a paper was circulated with ideas that could form the basis of the discussion at the Agenda for Freedom Summit. The paper also called for any alternative ideas.

The proposal contemplates the possibility of States waiving certain clauses in their bilateral agreements. States could waive market access clauses, 'ownership' clauses, or both, and they would select with respect to which partners they do it.

The proposal is pragmatic. It works within the bilateral system and provides a mechanism to ensure fair competition. And it can be easily and quickly implemented as described below:

- **Flexible:** Governments could drop selected restrictions, and they would chose which restrictions they drop and with respect to whom.
- **Quick:** The fastest legal instrument for this would be a unilateral declaration. Under international law, Governments issuing such declarations are bound by them.
- **Fair Competition:** Governments are in control. Since clauses are just waived, governments could withdraw the declaration at any time (with a sensible notice period) and thus reinstate the (dormant) bilateral in full.
- **Safety:** States retain the duty to oversee the safety of airlines operating out of their respective territories, and the right to license them.
- **No Change to the Chicago Convention:** The Chicago Convention (the main international treaty on civil aviation) of 1944 does not pose a problem and should not be changed. It has helped build a safe and reliable industry, and sets out clear responsibilities for States. It does not contain any such commercial restrictions.
- **No Change to Existing Bilateral Agreements:** Amending 3500 to 4000 bilateral agreements would take years if not decades.

IATA's Role

This is an extra-ordinary event for IATA, and will therefore play a facilitator's role. This is a governmental conference. Only Governments can discuss policy solutions to the crisis.

In order to allow for a free exchange of ideas, the Summit will be chaired by an independent Chairman who does not work for a government or an airline. The outcome of the Summit will be his Chairman's Summary.

Outcome, next steps

IATA is confident that this proposal, as refined by Summit participants, will constitute the start of a process leading to greater commercial freedom for airlines quickly.