



**Welcome Remarks
Agenda for Freedom Summit**

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Thank you for accepting our invitation to discuss the future of air transport in Istanbul, where East meets West. At our June AGM—also in Istanbul—IATA and its 230 member airlines celebrated 100% e-ticketing and US\$5.6 billion profit in 2007. Unfortunately, I had to cut the party short and sound the warning bell.

Even as we were celebrating, the industry had fallen back into crisis. Oil was at US\$135. At that price, airlines were facing US\$99 billion in potential extra costs over the next 12 months. Nobody knew where the oil price was going, but everybody knew we were in trouble.

After 2001, airlines had done their homework. Labour productivity improved 64%. Fuel efficiency increased 19%. And non-fuel unit costs dropped by 18%.

But the situation—with extra-ordinary oil prices—was out of our control. Our 230 member airlines issued a declaration asking governments and partners to help us change the industry.

Since then the situation has taken several dramatic turns. Airline costs skyrocketed as the price of oil peaked at US\$147. Then the US credit crunch hit, turning a cost crisis into a global credit crisis. Then the price of oil dropped. Today it is below US\$90. But as businesses and households prepare for recession we see our customers disappearing.

In August the number of passengers decreased by 0.2% in the economy cabin and 1.5% in premium classes. And our September traffic figures show that passenger traffic dropped 2.9% and cargo plunged 7.7%.

What we gained from the drop in oil prices, we will suffer in revenue losses. This year airlines will lose US\$5.2 billion. And the numbers for next year depend on how deep the recession is and on how long it lasts.

The Case for Change

Airlines are fighting for survival. At least 30 have already disappeared. The industry will survive the crisis one way or another. But we must ask some serious questions. In what shape will the industry emerge? Will the shake-out process be orderly? And the most important question is what can make the industry healthier and stronger?

Some say that airlines have lost more money than we have made in our history. Technically this is not true. Over the last 60 years, the average margin was 0.3%. We need 7 or 8% to cover our cost of capital. So we have been destroying value instead of creating it. And that has to change



Solutions

The next question is: How? We improved efficiency to reduce labour costs. Many governments have witnessed and have helped our battles to bring cost efficiency to airports and ANSPs. We are Simplifying the Business to drive down costs and improve service. And we are investing into research on environmentally responsible alternative fuel sources.

We will go on doing all this and more. But alone these measures will not turn sixty years with a 0.3% margin into sustainable profitability. We need structural change that begins with changing the rules of the game. The Chicago Convention fostered the safe growth of the industry with global technical standards. Governments should be proud of what we have achieved in making air transport the safest way to travel.

The bilateral system is a straight jacket that restricts market access until governments agree. And it limits access to global capital markets making airlines the world's most fragmented industry.

Airlines facilitated the global village, but we are the last to benefit. Compare airlines to banks. They are in trouble, so what happens? Government bailouts aside, banks are fixing their businesses by merging or getting capital from global sources.

It's the same with the auto industry. The Nissan-Renault partnership has built one of the strongest industry players. Ford is linked to Mazda. And today both Chrysler and GM are looking for partners both globally and locally.

Now think about airlines. There are some limited cross-border success stories like Air France-KLM and Lufthansa-Swiss. LAN and TACA are strong multi-national airline brands— independent of national flags. The financial success of these companies in these troubled times shows that airlines react like any other business when management has the tools to manage.

Building a Stronger Future

While today's crisis highlights the need for change. The need for change is much broader than this crisis. We must change because we are a cyclical business. If we are not being battered by crises, we are being challenged by the business cycle.

Airlines are not asking for special rules or bail-outs. But, to build a sustainable future, airlines need the same management tools that other businesses take for granted: market access and access to capital.

Our Proposals and This Meeting

You have all read our ideas on how change might come about with governments keeping full responsibility for safety, security and environmental standards and ensuring a level playing field.

Many of you have given valuable feedback and all of you have chosen to attend. IATA is honoured by your presence and we are pleased to facilitate this discussion.



My job is to defend the industry and to shout politely when we see the need for action. But it is for you—governments and regulators—to determine the correct regulation and the need for the industry to change.

This weekend is a great opportunity to start developing a common vision that will move the industry forward at a very critical time. These discussions and any conclusions are your decisions and your responsibility. So I am going to do something very unusual and promise to be quiet and listen as a very interested observer.

To allow me to do that, I propose an independent chairman. We are fortunate to have a very knowledgeable person with a distinguished aviation career and who successfully chaired ICAO's 2007 Assembly, to play this role. This is our respected common friend. Jeff Shane.

Thank you.