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-Leading Change-

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- **Thank you for that kind introduction.**
- **Good afternoon, ladies and gentlemen.**
- **It is a pleasure to be here in Washington, a city shaped by government and diplomacy.**
- **IATA is not a government...and we have lost some of our reputation for diplomacy.**
- **So, I thank you for your warm welcome and ask your understanding of my frank business style.**
- **IATA represents the industry—270 airlines from 130 countries.**
- **Put another way, we represent 98% of the international air transport industry.**
- **On behalf of the industry, our 94 offices operate a 200-billion-dollar settlement system.**
- **We are a big industry....1.6 billion passengers a year, of which one-third travel internationally.**
- **We are also an industry in crisis and in need of change.**
- **Our members understood the need to change and re-engineered their businesses.**
- **We all know the hundreds of thousands of jobs that disappeared from the industry in recent years.**

- **The airlines have done a good job in restructuring, but many of our members' problems are caught between governments and diplomacy.**
- **When governments don't communicate, IATA's role is to broker effective solutions.**
- **This means leading the industry's agenda for change.**
- **We need strong partners in this mission.**
- **US leadership was critical in creating a global mass transit system that is the engine of the world's economy.**
- **As we move forward with change, US leadership remains critical.**
- **While the US is still a global leader in many areas, in some cases unilateral action and politics are being substituted for leadership.**
- **What our industry needs is leadership to change the way we approach issues.**
- **When I joined IATA in June 2002, the industry needed immediate solutions to problems like increased security and cost reduction.**
- **Over the previous ten years, airline yields declined by an average of 2.7% annually, while unit costs were reducing only 2.2%.**
- **You can see the problem.**
- **Airlines were doing their part to control costs but many of our monopoly providers were not.**
- **Polite meetings and diplomatic letters were not going to get results quickly enough to bridge this gap.**
- **The industry needed an association that could shout in a polite way and lead change in our approach to cost reduction.**

- **Toronto is a good example.**
- **As airlines downsized, cut, squeezed and battled with bankruptcy, the airport gave us a multi-billion dollar bill for overbuilt and poorly managed infrastructure.**
- **We needed a terminal...but we got Versailles with boarding bridges.**
- **Someone had to say loud and clear that the airlines cannot afford to pay for Toronto's extravagance.**
- **This is not a message you can deliver in diplomatic terms.**
- **To survive we needed to change the agenda of our monopolist partners—airports and air traffic control.**
- **Our bill increased over 5% per year between 1992 and 2002 and airlines simply could no longer afford to pay for their inefficiency.**
- **Our monopoly suppliers had to move from cost-plus pricing to a mindset of cost reduction and efficiency improvement.**
- **We still have some work to do with Toronto, but the good news is that the new Minister is listening.**
- **And, outside Canada, airports and ATC providers are beginning to understand our message.**
- **Vienna, Singapore Changi, Prague, Dublin and Seoul's Incheon are among airports that reduced fees or rolled back planned increases.**
- **We are even seeing results at Eurocontrol where a US 5.5 billion dollar headache has become 2.2% smaller this year.**
- **In Japan we convinced the government to change privatization plans for Narita that would subsidize loss-making airports with airline money.**
- **Last year our efforts saved the industry over US 600 million dollars.**

- **The international bill for airports and air traffic control is 10% of our operating costs—US 15 billion dollars—so you will be hearing more from us on this issue.**
- **I am not a diplomat, but we have raised awareness of this issue, and I am committed to getting the results that our industry needs.**
- **We already discussed cost reduction....there are three other items on our agenda for change that I would like discuss with you today:**
 - **Safety**
 - **Security**
 - **Liberalization**

Setting the Scene

- **First, let's review recent history.**
- **At our Washington AGM last year, I described an industry hit by the Four Horsemen of the Apocalypse.**
- **SARS, Terrorism, War and a poor economy cost the entire industry over US 30 billion dollars over three years.**
- **Today the situation is not great...but it is certainly more positive.**
- **If there is one thing that the crisis taught us, it is the importance of cargo in counter-balancing the wild changes in the passenger business.**
- **For many airlines cargo was a financial lifeline.**
- **Passenger traffic is improving and in most markets we are back to pre-9.11 levels.**
- **Unfortunately routes to and from the US lag behind the recovery elsewhere.**

- **US carrier international traffic in 2003 was still almost 13% below 2000 levels.**
- **Industry-wide, cost cutting and restructuring will likely result in a US 3 billion dollar profit on international operations for 2004.**
- **On revenues that are in the order of US 150 billion dollars, this is far from acceptable, and US airlines are still expected to post losses this year.**
- **The industry is fragile.**
- **There may be a fifth horseman of the apocalypse—the price of oil—which is hitting US carriers suffering from a weak dollar most severely.**
- **Every cent added to the price of a gallon of fuel adds US 600 million dollars to our costs.**
- **This means that we will have to deal with a total fuel bill of US 67 billion dollars, US 8 billion dollars more than airlines paid in 2003.**
- **The crisis is not over, but we are moving in the right direction.**

Safety

- **While driving our agenda for change, one area is constant: our commitment to safety, our number one priority.**
- **Even in the middle of the industry's worst crisis, airlines continue to invest in safety.**
- **Last year, safety, in terms of the hull loss rate, improved 43% over the last ten years, making it our best year ever.**
- **Our Board challenged IATA to lead the industry to a further 25% improvement.**

- **Our partners in achieving our safety goals are the FAA and ICAO.**
- **The US has long been a global leader in safety, and the effectiveness of Administrator Marion Blakey significantly advanced this global role.**
- **For example, last month I met with Marion in Santiago de Chile where we successfully used an American Airlines Boeing 777 jet to demonstrate a joint FAA-IATA project to enhance safety through satellite navigation and onboard avionics.**
- **Another example of what can be achieved with partnership is the IATA Operational Safety Audit (IOSA) — the only global benchmark for best practice in safety.**
- **This is a remarkable example of an industry self-regulating—but government recognition is essential.**
- **We appreciate the endorsement of both ICAO and the FAA.**
- **In the meantime, IOSA is available to both our member and non-member airlines with no charge for IATA's operating costs.**
- **And, we have made IOSA a condition of IATA membership and are working to certify all of our members by 2006.**
- **This is a challenging target...but I am confident.**

Security

- **This brings me to another major operational challenge—security.**
- **Recently Rod Eddington remarked that airlines and terrorists share one thing in common—a global base of operations.**

- **Unilateral government actions may be effective in an emergency situation but leadership is essential for a global solution.**
- **The US is positioned to play this role but a change in perspective is necessary.**
- **Standardization of Workable Procedures: The world's economy depends on efficient international transportation made possible by global standards—largely coordinated by IATA.**
- **Poorly coordinated security procedures put the system at risk.**
- **When governments cooperate on security, the system grows stronger.**
- **When they do not, airlines are caught in the middle, and it is the system that suffers.**
- **For example, look at the recent US requirements for access to airline reservation records or PNR.**
- **A unilateral US requirement left all carriers in the US market with a giant problem.**
- **If they complied with the US rules, they broke European privacy law.**
- **IATA helped facilitate a solution, but recent developments may put this in danger again.**
- **We are also working to streamline information requirements.**
- **In some cases, carriers are being asked to submit similar but different information to several departments of the same agency.**
- **This is inefficient and costly.**

- **Similarly, operating crew have up to four checks of the same information....and still may be denied entry to the US.**
- **We need to use our resources to fight terrorism....not battle paperwork.**
- **Another example is found in the US law requiring biometrics in passports this October.**
- **IATA supported biometrics in passports long before September 11.**
- **We helped develop the ICAO worldwide biometric standard which the US now requires other countries to implement.**
- **IATA's evaluation: great initiative, but the timeline is not achievable.**
- **Countries and airports will not be equipped to securely issue or read the passports with the new requirements by the deadline.**
- **I join the Departments of State and Homeland Security in supporting a delay in implementation.**
- **The point is that we all want the same goal.**
- **Working with the international industry will achieve solutions that are operationally efficient with a realistic timetable.**
- **The security agenda is large—APIS, CAPPS 2, US- VISIT, cargo screening, sky marshals, and blast-resistant cargo containers to name just a few items.**
- **Leadership through coordinating and not just imposing solutions is what we all need.**
- **Funding the System: We cannot talk about security without addressing its enormous cost to the industry.**
- **The US has accepted that defense against terrorism is a national security responsibility....not an airline issue.**

- **I applaud the US government's decision to take on much of the cost burden of security.**
- **And...I defend it against those governments who call it a subsidy.**
- **The US has demonstrated leadership in accepting the state's responsibility to pay for the defense of its citizens on planes, trains, or in their living rooms.**
- **We need a level playing field.**
- **Other governments must follow...and, as the US looks at even greater expense on security, it must make its decision permanent.**

Liberalization

- **This leads me to the last topic on my agenda for change—liberalization.**
- **US leadership resulted in many of the great innovations in our industry.**
- **De-regulation started here in 1978 and the US created the term open skies.**
- **If the current talks between the US and Europe are successful, they will again change the face of the industry.**
- **I am concerned that the talks are becoming more focused on domestic politics than on the airline business.**
- **The opportunity to lead change is being sacrificed, and it is the industry that will suffer—on both sides of the Atlantic.**
- **While the US and EU continue to talk, other parts of the world are implementing change.**

- **The single market in Europe created opportunities for network carriers to merge—KLM and Air France—and for lowcost carriers to grow.**
- **It also allowed carriers to disappear—Sabena and Swissair.**
- **In Australia there is no nationality restriction on anybody setting up a domestic airline—witness Virgin Blue.**
- **In China there is consolidation around 3 major carriers—Air China, China Southern and China Eastern.**
- **Meanwhile, experiments with liberalization are moving ahead—Hainan Island, China’s Hawaii, is now a free market for air services.**
- **If this experiment is successful, we can expect progressive liberalization starting with Chengdu.**
- **Already there are moves to make Shanghai a free port for air cargo.**
- **This year Hong Kong signed open skies agreements with Thailand and Malaysia; Thailand with China; Singapore with the UAE and so on.**
- **I could go on...but the point that I want to make is that a changing world is creating enormous new opportunities for our industry.**
- **And, it is the carriers in the most aggressively open markets that are among the strongest in the industry: QANTAS, Singapore, Cathay Pacific, not to mention the European carriers.**
- **What does this mean for the US?**
- **Again, there is a great opportunity to lead change, but we must look beyond our traditional ways of thinking and doing business.**

- **Let me give you an example: Last year at our AGM, Secretary Mineta proposed an increase in allowable foreign ownership of US airlines to 49%.**
- **Quite frankly there is not much use in owning 49% percent of a company.**
- **And, if there is any concern over national defense, it can easily be resolved with golden share rules or similar measures.**
- **Failure to move forward with this symbolic change is an alibi to avoid change on more substantive issues.**
- **US airlines, US labor and the US economy will benefit from access to global capital—there is no reason why airlines should be singled out with ownership restrictions.**
- **You have a unique opportunity to achieve something truly progressive between two markets of similar dimension and level of development.**
- **Our industry needs leadership that is not afraid of change.**
- **As the industry moves forward with change, there is a clear and critical role for US leadership, starting at home.**
- **Aviation is not unique in its need to change.**
- **Governments that deregulated airlines now need to lead change by liberalizing the operating environment.**
- **Airlines need freedom to act like any other business.**
- **Every day that we delay change, the adjustment is more difficult.**
- **What is my vision for the industry if we succeed with our agenda?**
 - **Blocs of liberalization will combine to build larger markets.**

- **A modernized Chicago Convention will continue to guide our industry.**
 - **Global cooperation will enhance safety and security levels.**
 - **Consolidation will lead to efficiency across the industry**
 - **Investors will see airlines as a good investment.**
- **From the perfect storm to the perfect world?**
 - **It is good to have a dream!**
 - **To quote your countryman Donald Douglas, who changed our industry with innovation:**

“Dream no small dream; it lacks magic.

Dream large. Then make the dream real.”

- **Government involvement in leading change is essential as we pursue our dreams.**
- **Be assured that IATA will push the agenda for change forward on all fronts.....and we will not be diplomatic about it!**