



**Remarks of
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As an Italian, I am optimistic. But in business, realism is key. Let me start with a frank industry overview. The industry situation has never been more difficult. Today, I announced our new outlook. Fuel prices are rising and yields are falling much faster than traffic is improving. We expect airline losses to be US\$11 billion in 2009. The scale of this crisis is bigger than 9/11. In 2001-2002, industry losses were US\$24.3 billion and our forecast for 2008-2009 sees losses of US\$27.8 billion. Even more dramatic is the loss of revenue. In one year, US\$80 billion will disappear from the industry's top line.

Risky Recovery

How will airlines survive this 15% fall in income? And what will shape the future? Among the many risks let me highlight three, in particular.

First, the build-up in cash reserves comes at the expense of investments. Improving financial markets have seen major airlines take on US\$15 billion in cash, US\$3 billion in equity, and the rest in debt. This is a war chest to survive the crisis but weakened balance sheets are deferring critical investments particularly in fuel-efficient aircraft. This is prudent in difficult times. Improved economies will bring higher oil prices. The challenge will be to understand when to convert this war chest into future investments.

Second, smaller airlines could face a cash crisis. Most airlines are BB+ borrowers and face a 520 basis-point premium. For smaller airlines, banks are the only option and they are still reluctant to loan. Since 2008 we have seen 29 airline failures among the 49 airlines suspended from our US\$350 billion financial systems. A further squeeze from rising costs or falling yields could be critical to many.

Third, yields could be a growing disaster. Demand for travel is down 5.5% in the economy cabin and 21.3% in premium. Yields are worse, down 18% in economy and 22% lower in premium. The US did a good job managing domestic capacity, but the global situation is a worry. Yields are easily depressed but never fully recover. Even with an economic boom, real yields remained 7% below 9/11 levels in 2004. And capacity never really goes away. Adjustments have come by using aircraft less efficiently. Since the beginning of the year, the fleet actually expanded by 2% or 500 aircraft. A desperate cash situation in the short-term could tempt airlines to add capacity at the expense of further depressing yields and deepening losses.

Some see green shoots of recovery in the economy. We see this with improved cargo and passenger volumes but not profits. The industry situation remains bleak.

Building the Future

Now that I have spoiled your lunch, let me put on my optimistic Italian hat. Global air transport supports US\$3.5 trillion in economic activity and jobs for 28 million people. Last year, airlines safely flew 2.2 billion passengers and 41 million tonnes of cargo, equal to 35% of the value of goods traded internationally.

As leaders of government and industry, it is our responsibility to build a sustainable platform for air transport to continue its role as a driver of the global economy. I thank the International Aviation Club of Washington for this opportunity to share views on today's challenges.

Washington has a new atmosphere and President Obama has a full agenda. Aviation policy must also be among his White House priorities. It starts with people. I welcome the President's nomination of Erroll Southers to head TSA. Now, it is critical to fill the ICAO post to give the US a voice on international aviation policy.

What are the issues that we face? Some of the challenges are familiar such as safety and security. Others, such as environment and liberalization require long-term change.

Safety

Let's start with our number one priority, safety. This year has seen some heroes like Captain Sully and several tragedies from Buffalo to the South Atlantic. Numbers tell a mixed story. The global accident rate through August is 30% lower than last year, but this is balanced by 670 fatalities through the same period. That is more than we had in all of 2008. Let me be clear, getting on a plane is about the safest thing that you can do. But every fatality reminds us that we must do better.

Safety is at the core of IATA. Every member airline must pass an IOSA audit. At last week's FAA Safety Conference, the new ICAO Secretary General called for greater cooperation between governments and industry. His proposal to break down silos and share safety information is the right direction. IATA is ready to rise to this challenge. For example, we are already in cooperation with partners to address the two largest causes of accidents, namely runway excursions and ground damage.

Last week we unveiled a Runway Excursion Risk Reduction Toolkit, developed with the Flight Safety Foundation. And the IATA Safety Audit for Ground Operations (ISAGO) is raising the bar on safety, in cooperation with our ground handling partners. This spirit of cooperation and global standards should also guide the debate on pilot flight time and fatigue-risk management. A global solution through ICAO will deliver the best results.

Looking beyond the current crisis, training will be a key challenge. IATA is 65 years old and the basic premise for training is the same now as it was in 1944. The knowledge and technology developed since then must guide our training efforts. Evidence-based training and multi-crew pilot licensing have tremendous potential. Both are part of IATA's Training and Qualification Initiative where we are coordinating with governments to train the next generation of aviation professionals.

Security

Our great progress on safety is not matched in security. Last Friday marked eight years since the tragic events of 9/11. Industry is now collecting volumes of data on our passengers and navigating a maze of security regulations. Fear, not data, is driving decision making. We are spending billions of dollars to protect ourselves from improbable threats. This must stop. We all want a more secure industry. When I met with Secretary Napolitano yesterday, I stressed that this common goal gives us an opportunity to cooperate. Three urgent steps are needed at DHS.

First, put an end to duplicate and conflicting data collection efforts by coordinating across departments within DHS. Second, replace the “our way or the highway” modus operandi with effective stakeholder consultation. Third, eliminate the “fortress America” mentality, focus efforts on harmonized global standards as with safety. They will deliver the best results.

The most immediate challenge is cargo. Next year, 100% cargo screening will be mandatory. But TSA has not certified the equipment to do the job. Congress and TSA must extend the deadline. More fundamentally, 100% screening will be costly but it will not deliver the best security. Why put all the burden at a single screening point when the Certified Cargo Screening Program can provide security throughout the supply chain? Urgently sorting this mess must be a priority.

Another priority for DHS is Influenza A(H1N1). As flu season approaches here, DHS is developing a “play book” for public health issues from small outbreaks to global pandemics. In the aftermath of SARS, IATA worked closely with WHO to develop WHO’s pandemic plan and IATA’s guidance for airlines. The groundwork is done. There is no need for DHS to re-invent the wheel. Global standards are the most effective means to deal with global problems. The WHO’s six-phase scale is an example of their effectiveness. It alerted government and industry to the spread of H1N1 avoiding panic and keeping borders open. We must now work with WHO to find a way to indicate severity for even better guidance to governments and industry.

Environment

Another challenge this autumn is environment. In December, governments will meet in Copenhagen to plan the post-Kyoto response to climate change. Aviation’s efforts to reduce its 2% of carbon emissions are a model for other industries to follow. In 2007, I announced a vision to achieve carbon neutral growth on the way to a carbon-free future. We followed-up with a four-pillar strategy: investing in technology, efficient infrastructure, effective operations and positive economic measures.

IATA developed best practice in fuel efficiency and then worked with our members to implement it. As a result, since 2005 we saved 34 million tonnes of CO₂. IATA also worked with governments to optimize routes saving a further 34 million tonnes of CO₂ since 2004. Globally aviation’s emissions will fall by 7% in 2009, 5% from recession-related cuts and 2% as a direct result of our strategy. As we move forward some key US actions are needed.

The Administration needs to put NextGen on a fast track to reduce delays 40% and save nearly 10 million tonnes of CO₂ annually. On top of the environmental benefits the initial investment would be a much needed economic stimulus creating 77,000 new jobs

The Administration needs to fix New York’s airports to reduce delays and improve environmental performance. The real solution is a complete redesign of the airspace.

The Administration needs to support sustainable biofuels with the right fiscal and legal framework. Continental is among four airlines to successfully test them. Camelina, Jatropa and Algae could reduce our carbon footprint by up to 80%. Certification is possible as early as next year but we need to move fast to prepare infrastructure and ramp-up production. At the global level we are driving environmental progress with three tough targets:

- A 1.5% average annual improvement in fuel efficiency
- A 50% absolute reduction in emissions by 2050, compared to 2005
- And carbon neutral growth by 2020

Carbon neutral growth by 2020 was a bold decision made at our June AGM in Kuala Lumpur and endorsed by the ATA board earlier this month. Aviation is the first global industry to make such a

challenging commitment. We will deliver as we did with other global mega-projects like IOSA and e-ticketing.

The challenge is to align governments on economic measures through ICAO. The way that we are heading now a flight from New York to London could be triple taxed considering the 2012 inclusion of aviation in the European ETS; the UK Air Passenger Duty which will collect GBP 2.7 billion by 2011; and US cap-and-trade proposals in the Waxman-Markey Bill. This is nonsense. The EU ETS is unilateral, extra-territorial and illegal. The US must be among countries to fight it, shouting even louder.

I have just come from meeting Carol Browner, the President's top assistant on climate change issues. I emphasized that aviation cannot be treated in the same way as ground based polluters such as power plants. The US must exempt aviation from its cap-and-trade proposal to give ICAO an opportunity to develop a global sectoral approach. If not, this punitive tax will contravene the Chicago Convention and compromise your ability to object to Europe's unilateral ETS, as well as undermine ICAO's work.

A global solution through ICAO is the best way to reduce emissions, maintain a level playing field and eliminate this patchwork of punitive taxes. The G-8 supported this in their statement at L'Aquila. Now we need action.

I stressed to Ms. Browner that US support is critical at next month's ICAO's High Level Meeting. This will be the last opportunity to move towards a global solution with a declaration that clearly defines targets and bridges the gap between ICAO's principle of global standards and the UNFCCC's principle of common but differentiated responsibility.

This would be the natural follow-up on the industry's 2020 commitment to carbon neutral growth. More importantly it would be a strong signal for Copenhagen to maintain a global sectoral approach with a strong policy vision from ICAO and the full support of industry through IATA. In the weeks following the High Level Meeting, I hope to take this positive message and our carbon neutral growth commitment to meetings with UN Secretary General Ban Ki Moon as well as Dr. Pachauri at the IPCC.

Liberalization

Finally, we must cooperate with government to liberalize this crazy industry. It has been three decades since the US started the process with domestic deregulation. This crisis highlights that we must finish the job.

The US has always been a bastion for free markets. Your open skies vision changed the industry market by market. The US-EU agreement on open skies is a great example. It did not go as far as we wanted and outdated ownership restrictions remain. But it is an important step in the right direction creating new opportunities in the world's largest aviation markets. Now we need a strong signal on liberalization by addressing ownership in the second stage.

Some developments in Washington are counterproductive including tightening restrictions on alliances and antitrust immunity in the House-passed FAA Reauthorization Bill. There are also proposals that will restrict use of foreign repair stations. These are protectionist and show a lack of understanding not just of aviation, but of how the global economy works. These are symptoms of lost leadership. It is time to look ahead and build a stronger global industry for all players.

Let me be clear. We are not asking for bailouts. But airlines need the freedom to operate like any other business. The ability to merge or consolidate across borders could be a lifeline particularly if the situation gets bloody later this year. Consolidation strengthened some European carriers -- Lufthansa with Swiss, Brussels, bmi and Austrian as well as Air France with KLM and an interest in Alitalia. Delta and Northwest are good examples on this side of the ocean.

But in a global business why restrict consolidation within political borders? Automobiles, telecoms and pharmaceuticals are all strategic industries benefiting from global capital. Why treat aviation differently? It does not protect jobs. About 200,000 US airline jobs disappeared after 9/11. A different approach is required.

The US is a mature aviation market with normal growth of 2-3%. The big opportunities are in China, India and the Middle East today. Tomorrow they may be elsewhere but artificial barriers on markets and ownership will leave airlines behind as stunted domestic companies instead of growing global multinationals.

The legacy of this crisis must be normal commercial freedoms to build a financially sustainable future. For this, we are making progress with our Agenda for Freedom initiative

Conclusion

In closing , let me revisit my two hats. The realist knows that this crisis is re-shaping the industry as never before. The optimist sees an industry that built the global village, that delivers enormous social and economic benefits and that seeks change with a clear vision for its future. That future is not based on government bailouts as we see with auto manufacturers, banks and insurance companies. It is a future built with normal commercial freedoms, effective infrastructure—including NextGen Air Traffic Management, and a dedication to safety and environmental responsibility. We cannot achieve this alone. This crisis must be an opportunity to work with governments, including the US, to become safer, more secure, greener and profitable

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