

CEO BRIEF October 2008

The outlook for our industry remains bleak—US\$5.2 billion losses this year and US\$4.1 billion in 2009. Recent relief in fuel prices still leaves the yearly average at US\$113—55% or US\$50 billion higher than 2007. And the severely weakening global economy is hitting demand and revenues hard. IATA's immediate focus is first aid:

- Expanding our Fuel Efficiency Gap Analysis
- Delivering even more savings through Simplifying the Business
- And demanding greater efficiencies from airports and air navigation service providers

As this crisis re-shapes the industry, IATA is also taking the extraordinary step of facilitating a discussion among governments on expanding commercial freedoms. Over 15 governments will attend our Agenda for Freedom Summit in Istanbul to look at ways for airlines to operate like any other business—accessing global capital and taking advantage of business opportunities beyond their borders.

Without a miracle cure for the global economy, the entire air transport value chain must focus on delivering efficiencies in all possible forms.



Giovanni Bisignani

Giovanni Bisignani
Director General & CEO

IATA's Crisis Action Plan

Freedom to do business

Following my call to governments to give our industry more commercial freedom, the 'Agenda for Freedom Summit' will take place in Istanbul on 25-26 October.

- 15 countries and the EC will participate to review how this could be achieved within the current regulatory framework.
- Jeffrey N. Shane will chair the meeting and ICAO Council President Kobeh has signalled his support.

Challenging the regulators

Single European Sky: the EC has published its Package II. IATA welcomes the Performance Framework that enforces clear accountabilities and binding performance targets as the only way to secure real benefits from the SES.

- A strong lobbying campaign by IATA and AEA is underway to ensure that the EC proposals are not diluted during the Council/Parliament legislative process.
- Active involvement of European airlines to influence their Member States is fundamental.

Slots: US DoT has announced that it will confiscate a small percentage of slots at NYC airports from incumbent carriers and auction them in Jan 2009.

- IATA is working with ATA to persuade the courts to overturn DoT's misguided initiative.

Security: US Department of Homeland Security is finalizing a rule that would have required airlines to collect fingerprints from most non-US citizens flying out of the US.

- IATA successfully led a coalition of 21 trade associations to secure Congressional action that prevents DHS from implementing its proposal that airlines collect fingerprints.

Operations & infrastructure

European Flight Efficiency Plan (FEP): implementation of the FEP is expected to generate annual savings of 470,000 tonnes of fuel, 1.55 million tonnes of CO₂ and 390 million Euro.

- The European FEP will be an example for possible implementation within other regions.

Green Teams: IATA has increased the Green Team resources to support more airlines. Since the beginning of the year, 20 Green Team visits have been performed. They have identified and saved 10 million tonnes of CO₂.

Reduced Vertical Separation Minimums (RVSM) for Africa was successfully implemented, on 25 September, with estimated CO₂ savings of 0.25 million tonnes per year.

Cost crisis campaign: update

IATA is receiving encouraging responses from airports, ANSPs and DGCA's to our Cost Crisis Campaign letters. A few examples:

- Korea Airports: cut domestic landing & parking charges by 10%
- Toronto Airport: reduced cargo landing fees by 25%
- Fraport: froze charges for 2009
- Bulgaria ANSP: charges cut by 20% to 2011
- Nav Canada: 1% temporary reduction in rates made permanent

In accordance with AGM/62 Resolution on IOSA, all Members must become IOSA-registered by 31 December 2008. Despite our best efforts – including the extensive support offered via the Partnership for Safety programme – 10 to 20 airlines will likely not accomplish registration by the deadline and will therefore be removed from IATA Membership.

IN BRIEF: charges, fuel fees & taxes

For Jan-Sep 2008, overall secured savings amounted to **US\$1,126 million**. US\$956 million are real cost reductions. Major cost reduction achievements include:

- Brazil - elimination of PIS/Cofins tax on jet fuel for international flights **US\$411 million**
- Colombia - exemption of VAT on jet fuel for international flights **US\$213 million**
- USA - elimination of LUST tax on jet fuel for international flights **US\$76 million**
- Jordan - elimination of 6% Municipality Tax on jet fuel **US\$77 million**

Safeguarding industry revenues

In 2008, IATA Financial Services will process US\$360 billion of airline money. In times of crisis, it is critical to protect airline funds. Measures taken by IATA include:

- Aligning BSP, CASS and Clearing House regulations to allow offsetting an airline's deficit in one service against its surplus in another
- Training of rapid response teams comprised of 70 staff
- Setting into place contingency plans if banks remove credit lines
- Investing in IT to centrally operate BSP and CASS settlements
- Introduction of new services, such as the Simplified Interline Settlement project with estimated savings of US\$700 million/year

Environment: carbon offset programme

In June 2008, IATA issued a set of Carbon Offset Guidelines based on best practice.

- IATA has developed an industry carbon offset programme and is working with a group of 6 airlines to pilot it on their web-sales systems.
- The programme will be rolled out in 2009 and will include offset sales via travel agents for the first time

StB Update

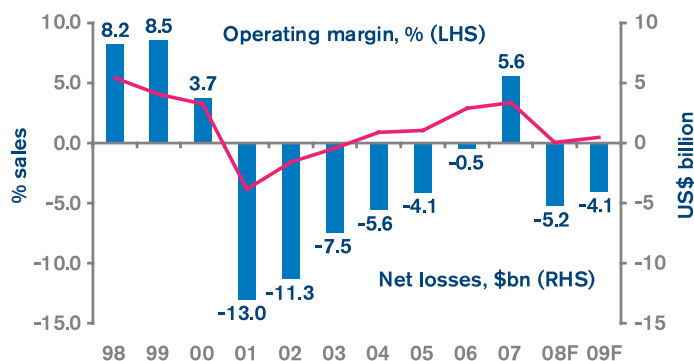
After realising US\$3 billion in annual savings through 100% ET, Simplifying the Business continues to deliver industry change: two programmes are set to take off in 2009.

- **BIP** will provide solutions that address all causes of baggage mishandling – a yearly US\$3.8 billion problem for the industry. 2008 target is to launch the programme at 11 airlines and 7 airports.
- **Fast Travel** is conducting 18 pilots in 6 areas – above its 2008 target.
- **BCBP**: 176 airlines are BCBP capable; the project is on its way to surpassing 200 BCBP capable airlines by the end of 2008
- 132 airlines are using the BCBP Matchmaker to coordinate deployment towards 100% BCBP in 2010
- **CUSS**: 116 airports offer CUSS facilities
- **IATA e-freight**: 8 locations now live: Canada, Germany, Hong Kong, Netherlands Singapore, South Korea, Sweden, and the UK. The target is 14 live locations by the end of 2008.
- End of September, the 10,000 e-freight shipments mark was reached since initial Go Live in November 2007.

Looking at the numbers

Business environment deteriorating into 2009

The business environment for the airline industry looks set to deteriorate during the rest of this year and into 2009. Our early-September forecast anticipated industry net losses of US\$5.2 billion this year.



- With US\$2.7 billion of net losses reported so far for the first half of the year, that forecast looks on track.
- Jet fuel prices at US\$125 a barrel (Brent crude oil at US\$97 a barrel), are US\$55 below their July peak of US\$180 per barrel, but hedging will delay some of the benefit.
- However, we expect this to be more than offset by the impact on revenues of an unexpectedly sharp downturn in traffic, particularly freight which fell 2.7% in August.

International passenger and freight tonne-kilometers
Source: IATA



- Even before the latest episode in the financial crisis, business and consumer confidence had slumped in major economies around the world, weakening air travel and freight.
- The fallout from the near collapse of the financial sector will certainly be lower economic growth than we anticipated at the time of our last forecast, further weakening the outlook for traffic and revenues.
- Fuel costs should reduce as oil prices fall in response to the weak economic environment.
- The net effect on industry losses will depend critically on the response by policy-makers.
- Airlines are responding by cutting capacity, but given the deterioration in the economic outlook this may not offset weaker revenues. We expect a further year of losses in the region of US\$4.1 billion for 2009.