

# CEO BRIEF April 2008

The first quarter of 2008 has been period of adjustment for the industry. The broadening impact of the credit crunch has slowed demand growth to below 5%. In February we saw passenger load factors fall 0.6 percentage points to 73.3%. While still high, this is the first significant drop in four years. Even as demand slows, the price of oil remains well above the US\$100 per barrel mark. As a result, we have adjusted our industry profit expectation for 2008 down to US\$ 4.5 billion.

Important changes are taking place. Working with our members, we are on track to bid farewell to paper tickets on 31 May, bringing US\$3 billion in savings. On the cargo side, e-freight is well established in six locations and will be expanded to a further eight locations this year. Consumers in Europe and the US are now benefiting from the first stage of the US-EU Agreement on Open Skies. As competition increases, the need for commercial freedoms becomes even greater. Merging or consolidating when it makes business sense is critical. This must be included in the second stage of US-EU talks which will commence in May.

These and other important industry topics, such as the environment, will take centre stage at the upcoming AGM in Istanbul, Turkey on 1-3 June. I look forward to seeing you there.



*Giovanni Bisignani*

Giovanni Bisignani  
Director General & CEO

## ENVIRONMENT CAMPAIGN UPDATE

- In 2007 we identified efficiency savings of 6.7 million tonnes of CO<sub>2</sub> from operations and 3.8 million tonnes from infrastructure improvements.
- The new "Green Teams" have an expanded mandate to also cover ground operations, fleet renewal and aircraft upgrades and fuel efficiency. With 6 visits completed, savings of nearly 1 million tonnes of CO<sub>2</sub> have been already identified.
- Route optimisation will save a further 1.34 million tonnes in 2008.

## Carbon Neutral Growth Strategy

- We are working with McKinsey & Co to fully analyse the industry's options for achieving carbon neutral growth. The study is examining a wide range of CO<sub>2</sub> reduction levers and will assess the cost/benefit to the industry of their implementation.
- IATA is preparing a set of best practice carbon-offset guidelines for airline members interested in setting up such programmes to ensure they avoid the many potential pit-falls associated with them. The guidelines will be available in July 2008.
- An industry-level carbon offset programme is also being developed and will be piloted with interested carriers later in the year.

## Aviation & Environment Summit 2008

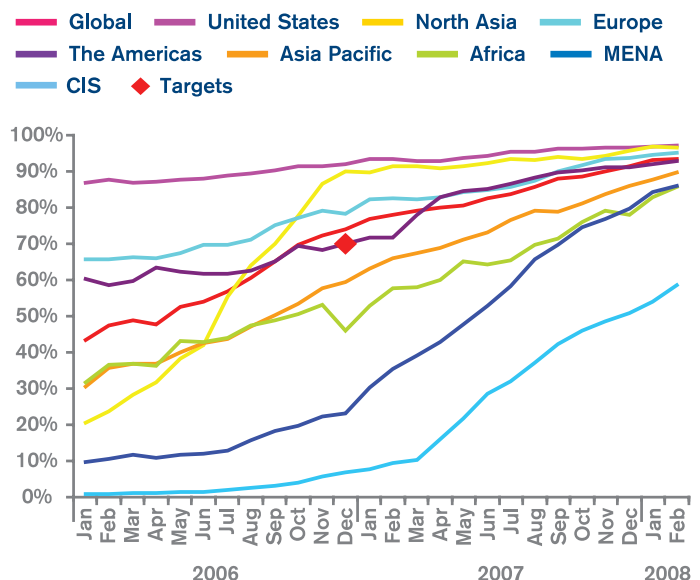
- The 3rd Aviation & Environment Summit will take place in Geneva on April 22-23, 2008. More than 300 participants, including many CEOs from across the industry, will attend.
- Developments in the areas of Technology, Operations and Infrastructure and the applicability of economic measures, such as carbon offsets and emissions trading, will be covered.

## StB UPDATE

**E-Ticketing:** penetration reached 93.4% in February 2008.

- Airlines in all regions are making good progress, with the exception of CIS, where two of the larger airlines have technical challenges which they expect to overcome by 31 May.
- 68 airlines are using solely paper tickets in BSPs. IATA expects half of these will not implement ET as alternative distribution methods progress.
- Airlines are expected to reach more than 96% ET in May, with a transition to a fully ET BSP world on 1 June.

### ET penetration - Split into regions by base country of airlines



**BCBP:** 113 airlines are BCBP enabled. Matchmaker was launched in Feb 2008 to step up efforts towards the 100% BCBP 2010 deadline

**CUSS:** Active in 88 airports. The target is 130 by the end of 2008.

**Fast Travel:** IATA is leading six projects to provide self service options covering the entire passenger journey with two pilots per project by end of 2008.

#### e-freight

- e-freight is now operating in 6 pilot locations.
- Priorities for 2008 are:
  - Secure the e-freight product and produce a tried and tested e-freight industry handbook, enabling wider rollout.
  - Deliver e-freight product capability in 8 additional locations.
- The 2<sup>nd</sup> IATA World Cargo Symposium was held in Rome 3-6 March 2008. The theme was: "Focus on the Customer: Dialogue to Deliver Simplicity" and 900 air cargo supply chain delegates attended.
- The 2008 event concluded with commitments for delivery by next year's Symposium, including: engage the forwarder in the e-freight process; ensure the supply chain integrity with the "Secure Freight" project; assess action needed to further reduce air cargo's impact on the environment.

### EXTERNAL COST CAMPAIGN - as at 31 March 08

USD Million

Target	Total	Reduction	Avoidance
1500	421.2	381.9	39.3

### IATA SLOT CO-ORDINATION CAMPAIGN

- IATA has responded vigorously to proposals from several governments to change slot co-ordination arrangements in ways which would seriously undermine the global standards reflected in IATA's Worldwide Scheduling Guidelines (WSG).
- I have written to Ministers in Italy and Hong Kong, both of whom intend to transfer responsibility for slot co-ordination to their civil aviation departments.
- IATA is also fighting similar threats to the WSG from the US and Brazilian governments, who are seeking to address airport congestion issues through pricing mechanisms.
- IATA completed an apron optimisation study at Sao Paulo's Guarulhos Airport and provided recommendations to increase aircraft parking capacity. Proposed increases in parking charges have been postponed until at least November 2008 when the implementation of the recommendations should be completed and the need for pricing mechanisms eliminated.
- Let me know of any other potential challenges of which you might become aware.



Register on-line: [www.iata.org/events/agm/2008](http://www.iata.org/events/agm/2008)

**64th IATA Annual General Meeting**

Istanbul > 1-3 June 2008

## SAFETY

The Civil Aviation Authorities of Brazil and Panama have both announced that they will mandate IOSA as part of their respective safety oversight programmes. Beginning on 1 January 2009, Brazilian airlines conducting international operations will be required to meet IOSA standards.

## INFRASTRUCTURE

IATA has been working with the Chinese authorities since 2006 to open an Olympic Bypass Route, which will be implemented on 10 April with designator B208. Europe-China flights will save about 60 nm in distance and minimise ground delays in PEK, SHA, CAN and HKG. Estimated annual CO<sub>2</sub> reduction will be 82,672 tonnes.

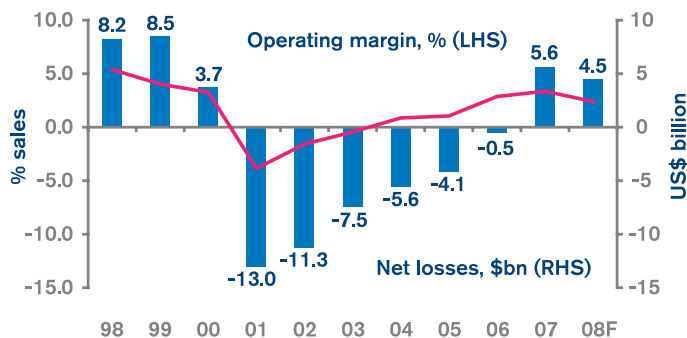
## LOOKING AT THE NUMBERS

### Stagflation Threatens Profits Outlook

- The situation in the US economy has further deteriorated during the first quarter and jet fuel prices have risen sharply. The crude oil price has averaged \$98/b, well up on the \$73/b for 2007.
- Stagflation has returned, adding to a damaging combination of forces to which the airline industry is highly exposed in the months ahead.
- We now project net profits of just \$4.5 billion this year. If central banks fail to reverse the credit crunch, the outlook, particularly for the US industry, could be far worse.

### Demand and Capacity Challenges

- The offset to rising oil prices during 2004-07 provided by rising travel demand has come to an abrupt end in 2008, at least in the US, Japan and some other important markets.
- Global passenger and freight growth for 2008 has been revised down to 3.9%.
- Aircraft deliveries for 2008 will rise to 1,231 aircraft compared to the 1,041 delivered in 2007.



- This 18% increase in delivery numbers will place further pressure on passenger load factors which have already shown signs of weakness in February.

### Market Opportunities Remain

- This business cycle is different to the 1991 and 2001 recessions given that some major economies and travel markets are close to, or in, recession.
- However, other markets, such as China and the Middle East, are expanding fast with GDP growth rates of 9.8% and 5.4%, respectively. This will mean continued strong traffic growth for operations in those regions compared to the weaker outlook in other markets.
- With fuel costs rising, the US market in recession and competition intensifying, the only way to limit the damage to profitability will be to cut capacity or squeeze out further efficiency gains. This will be challenging, but nonetheless critical.