

# CEO BRIEF September 2006

Hard work is paying off. Despite US\$24 billion in added fuel costs, the 2006 bottom line will improve to a loss of US\$1.7 billion. And airlines are well positioned to post a US\$1.9 billion profit in 2007 — the first in 6 years. We are moving in the right direction, but a 0.4% return on US\$450 billion in revenues clearly indicates that more change is needed.

That includes liberalisation. The 62 year-old bilateral system was designed for state-run airlines serving 9 million passengers with DC-3s. Today we are a mass transit industry with 2.2 billion passengers and ultra-modern jets. Times have changed. So must the rules.

Progressive liberalisation was agreed at ICAO in 2003. This phased approach must define the future of our industry. A successful conclusion of the US-EU talks on open skies and regulatory convergence would be a major step forward. However, as I told delegates attending the ICAO Global Symposium on Air Transport Liberalisation last month, every government must show leadership to give airlines the commercial freedom that other industries take for granted — particularly modernising ownership restrictions.

For complete text visit: <http://www.iata.org/pressroom/speeches/2006-09-18-02.htm>



*Giovanni Bisignani*

Giovanni Bisignani  
Director General & CEO

## SECURITY

In the aftermath of the security threats in the UK, IATA has been working closely with authorities to ensure security measures are workable, effective and coordinated internationally.

### ICAO

ICAO's Aviation Security Panel has endorsed IATA positions:

- maintaining present standards for carry-on baggage based on an IATA Recommended Practice;
- against the banning of small quantities of essential liquids and gels in carry-on bags; and
- development of Security Management Systems as a major security objective.

### Europe

- The European Commission is expected to propose maintaining the present IATA Recommended Practice on the size of carry-on baggage.

### United States

- An IATA team met with White House security experts and the Transportation Security Administrator who committed to harmonise security measures with the EU and others.
- IATA's support was requested for developing security-compliant cabin baggage that would compartmentalise electronic items, liquids/gels, etc. to facilitate screening.

### PNR

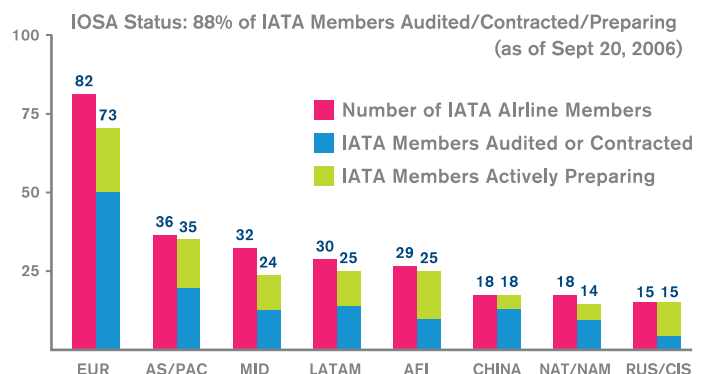
- IATA has actively engaged senior US and EU officials, including Commission VP Frattini and DHS Deputy Secretary, Michael Jackson on the issue of PNR access.

On 30 September, the US and EU reached an agreement on data access, subject to ratification by the EU Council of Ministers on 6 October. Both parties expect no disruption in trans-Atlantic services.

## IOSA

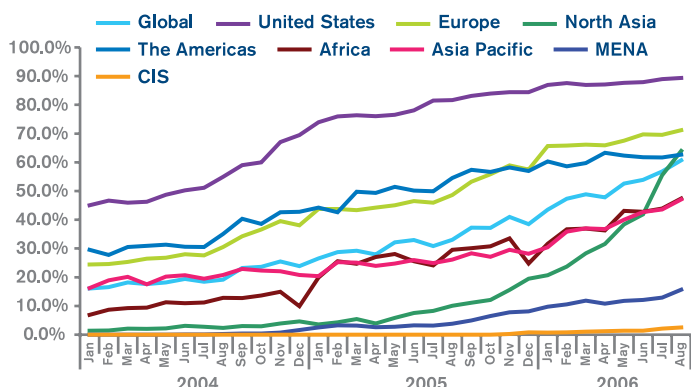
Our goal is to ensure that all members sign an IOSA Audit Agreement by the end of 2006.

- As of Sept 20th, 88% of IATA members have either been audited, are preparing to be audited or have signed a contract.
- There are currently 114 airlines on the IOSA Registry ([www.iata.org/registry](http://www.iata.org/registry)).
- IATA has processed over 200 Audit Agreements, and over 350 requests to view IOSA Audit Reports. Each request equals an audit saved.
- The Second Edition of the IOSA Standards Manual is now available for free download from the IOSA homepage.



## ELECTRONIC TICKETING

### ET Penetration by region of Airline Registration



In August the BSPs issued 61% of all tickets as ET - up 20% since end 2005, putting us firmly on track to achieve our target of 70% at the end 2006.

- North Asia: an increase of 9% to 65% ET was largely driven by Chinese carriers.
- Airlines in Middle East-North Africa and the CIS are lagging behind with an ET penetration of 15.7% and 2.5% respectively.
- The 171 carriers that issue ETs in the IATA BSPs account for 90% of the BSP ticket volume.
- Airlines accounting for a further 9% of volume have registered clear plans with IATA to issue ET.
- Since June, 6 Interline ET workshops have been organised: Geneva, Mexico, Cairo, Singapore, Johannesburg and Moscow.

**CUSS** continues to expand and is now installed in 40 airports worldwide, which is 5 above our target for end 2006. The latest airports to implement were KUN, NCL and ZRH.

## EXTERNAL COST CAMPAIGN

One of IATA's Industry Priorities is to achieve savings of US\$ 1.3 billion in industry charges, taxes and fuel fees, including at least US\$ 750 million in real cost reduction.

SAVINGS JAN-AUGUST (all in US\$ millions)	Reductions	Avoidance	Total
Airport & ATC Charges	602	495	1097
Fuel	111	29	140
Taxation	60	4	64
<b>TOTAL</b>	<b>773</b>	<b>528</b>	<b>1301</b>

### In Europe:

- IATA is fighting against proposed increases by EUROCONTROL States for 2007 which average over 6% on cost bases and 2.4% on unit rates. In the case of DFS in Germany, we are also seeking to avoid additional costs arising from privatisation (which are contributing to a proposed 12.8% increase) and to ensure robust economic regulation.

### In Asia/Pacific:

- In Asia/Pacific, IATA is campaigning at Auckland Airport (New Zealand) against proposals for significant increases in charges and their high profit margins (EBIT of 66%). We are similarly campaigning at Sydney Airport (Australia) which has an EBIT of 57%. In both cases, we are working very closely with the local Board of Airline Representatives.

## LOOKING AT NUMBERS

### Positive Short Term Outlook

- A recent IATA survey shows over 60% of CFOs expect an improvement in profitability over the next 12 months and less than 19% expect a deterioration. The fall in oil and jet kerosene prices has played a part in improving expectations.
- Since June, the price of the IATA/Platts jet fuel basket has fallen over \$13 to \$76 a barrel, primarily driven by investors' profit-taking.
- Almost 95% of airlines CFOs surveyed expect stronger passenger numbers in the next 12 months and over 80% anticipate stronger cargo volumes, in spite of the slowdown of traffic growth since May.

### Traffic forecasts

- Looking further ahead, passenger traffic growth is forecast to average 4.8% a year for international markets over 2006-2010, significantly slower than the 6.5% experienced in the decade to 2005.
- Cargo is also expected to slow to an average growth of 5.3%, compared to 5.7% in the previous ten years.



	Average Annual Growth Rate 2006 to 2010	
	Passenger Numbers	Freight Tonnes
<b>TOTAL INTERNATIONAL</b>	<b>4.8%</b>	<b>5.3%</b>
Africa	5.1%	5.0%
Asia Pacific	5.7%	6.0%
Europe	4.4%	4.6%
Latin America/Caribbean	4.6%	4.3%
Middle East	6.9%	5.8%
North America	4.3%	4.5%

- The strongest markets are anticipated to be in Asia-Pacific, reflecting the strength of trade flows and economic growth, and in the Middle East.
- Average growth rates of over 8% are expected in markets such as China, India, Poland and Bahrain.
- This more cautious outlook on the revenue environment emphasises the need for renewed focus on reducing non-fuel costs, in order to sustain the improvement in profitability seen so far this year.

IATA Economics Briefing no. 5 on Airline Cost Performance is now available. It can be downloaded from:

[www.iata.org/whatwedo/economics](http://www.iata.org/whatwedo/economics)