

CEO BRIEF June 2008

The 64th AGM and World Air Transport Summit marked two important achievements. The first was the successful implementation of 100% e-ticketing on 1 June 2008. The second was the US\$5.6 billion profit our industry earned in 2007—the first after six years of losses.

But there was little time to celebrate. Spiraling oil prices and a slowing global economy have plunged the industry back into crisis. The loss for 2008 could be as high as US\$6.1 billion. Crude oil prices above US\$135 have pushed jet fuel to the US\$170 range. This crisis is re-shaping the industry.

The AGM sounded the warning bell for urgent action with an Istanbul Declaration. Governments, industry partners and labour must be part of urgent change. Commercial freedoms are essential. Our Agenda for Freedom Summit will bring like-minded governments together in Istanbul next October to discuss new rules of the game that reflect the commercial realities of US\$135 oil.

The entire IATA team is mobilised, committed and working hard. Our goal is to help you reduce costs, improve efficiency and drive change in these most challenging times.

A handwritten signature in black ink, reading "Giovanni Bisignani".

Giovanni Bisignani
Director General & CEO

IATA's Crisis Action Plan

Freedom to do business

- The aim of the Agenda for Freedom Summit is not to reform the Chicago Convention or states' role in safety and security oversight, but to address the commercial barriers in up to 3,500 existing bilateral agreements, creating a level playing field:
 - **Obstacles to market access:** traffic rights and rights of establishment.
 - **Limits to free competition:** limited designation, tariff and capacity regulation.
 - **Foreign ownership restrictions:** substantial ownership and effective control clauses.

Challenging the regulators

- **Single European Sky:** the 2nd SES package was approved by the Commission on 26 June. It will be presented to the European Parliament this week by the new Transport Commissioner, Vice President Tajani.
 - IATA is actively lobbying to accelerate implementation of the package by states and is liaising with VP Tajani.
- **EU Emissions Trading Scheme:** on 8 July the European Parliament voted in favour of the inclusion of aviation into the EU ETS from 2012.
 - IATA strongly challenges this untimely unilateral action and pushes for an ICAO-led global solution, as supported by the latest G8 discussions on climate change.
- **Slots:** the US FAA is proposing to impose slot auctions at New York area airports using a mechanism yet to be determined.
 - IATA has voiced deep concern that the FAA is ignoring its obligations under Air Services Agreements.

- **Security:** the U.S. Department of Homeland Security is proposing to require airlines to collect fingerprints of most non-U.S. citizens flying out of the United States. IATA estimates the cost would be US\$12 billion over ten years.

- IATA has launched an aggressive lobbying campaign to oppose this outsourcing of a core government function to the airline industry.

Cost reduction programme

- Consulting services assist airlines investigate cost reductions in areas such as procurement, maintenance and engineering, ground operations, sales and distribution, etc. New services available, with an average ROI of ninety days or less:
 - **PRM Go-Teams:** review of airlines' pricing and revenue management (PRM) performance, capabilities and needs.
 - **Aircraft Utilisation Optimisation:** audit of effectiveness of schedule design and match of capacity to the schedule.

Building a greener future

- **Technology:** with the adoption of the IATA Technology Roadmap and Alternative Fuel Report, IATA will act as an information hub for R&D on advanced technologies.
- **Operations:** Expanded IATA Green Teams will help airlines deliver real fuel savings, targeting US\$3.3 billion savings and 3 million tonnes CO₂ by end 2008.
- **Infrastructure:** the Save One Minute Campaign, routes programme and airport teams will be expanded with reductions of up to 2 million tonnes of CO₂ in 2008.
- **Carbon Offset Programmes:** IATA will be soon launching a pilot service, offering assistance for carbon offset solutions. Airlines can contact IATA at environment@iata.org. Guidelines on Aviation Carbon Offset Programmes are now available.

Cost crisis campaign

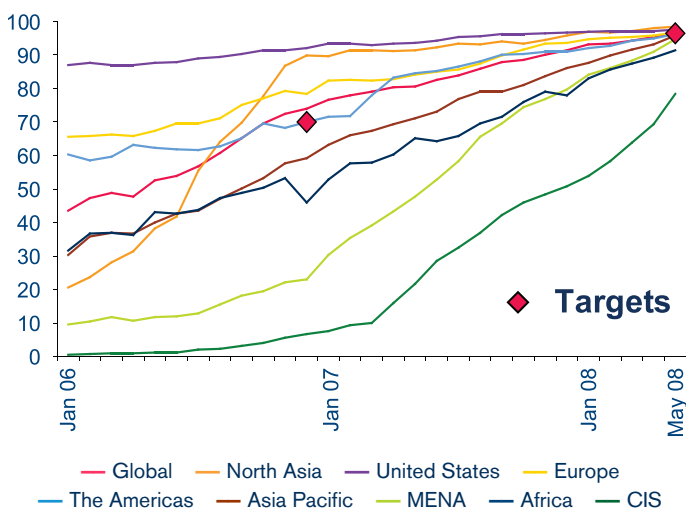
- IATA has contacted 293 service providers, including airports, ANSPs and DGCAs, asking them to urgently identify efficiencies and cost reductions.
- Positive results are already emerging:
 - CANSO AGM committed to focus on short-term cost reductions and cost efficiency measures in its Madeira Statement.
 - Ottawa Airport announced a 5% reduction in general terminal fees.
 - Toronto Airport Authority has reduced cargo landing fees by 25%.
 - Swedish ANSP LFV will reduce landing fees by 10%.

Updates

Simplifying the Business

E-Ticketing: Travel agents cutover to 100% ET from 1 June successfully concluding the ET project.

- In May a monthly average of 96.7% ET was achieved in anticipation of the 31 May deadline.
- By the month end, 34 airlines, accounting for 0.06% of total BSP volume, were still issuing just paper tickets in the BSPs, of which only 3 were members.
- The 297 ET capable airlines had completed 3800 interline ET agreements by 1 June, to cover 90% of interline travel.
- 95% of ticket stock has been safely recovered in the first four weeks without any known fraud and with plans in place to recover or blacklist the remaining 5%.



E-Freight: In 2008, e-freight has been launched in Germany, South Korea and Mauritius. After securing the original six pilots, five additional countries will be selected for launch this year.

CUSS: With over 120 airports forecast to offer CUSS by year-end, IATA will make sure additional locations are airline driven.

BCBP: As at mid-May 135 airlines offered BCBP capability, with a forecast 192 airlines for end 2008

Safety

Although IATA members surpassed the industry accident rate, the global rate was pushed up for the first time since 1998.

- As of May 2008, 206 airlines were on the IOSA Registry, with approximately 125 audits planned for 2008. All members are due to be on the registry by end 2008.
- ISAGO is now being fully deployed building on the 13 trial audits conducted in 2007-08.

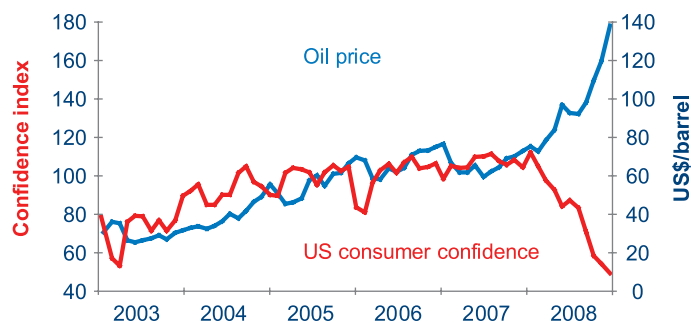
In brief

- **Financial Services:** in 2007 IATA processed US\$315 billion, the ICH successfully moved to weekly clearances, reducing risk.
- **Membership Dues:** the 2009 dues will be reduced by 10% from US\$14 million to US\$12.5 million.
- **Governance:** Samer Majali of Royal Jordanian was elected Chairman of the Board of Governors for 2008-2009 and Christoph Franz of Swiss, Chairman of the Audit Committee. Wolfgang Mayrhuber of Lufthansa remains Chairman of the SPC.

Looking at the numbers

The seeds of the current crisis

Chart 1: Divergence of cost and revenue drivers



- This disturbing chart sums up the seeds of the current crisis facing the airline industry. The cost of oil has risen to new heights while consumer confidence has fallen away.
- The 2.5x rise in oil prices from 2003 to 2007 was survived by the industry because during that same period consumer confidence rose, the world economy experienced exceptionally strong growth, and airline revenues boomed.
- Consumer confidence in the US has now collapsed to levels consistent with shrinking air travel in US markets. Outside the US the economic situation is not as bad. However, the impact of the US economic downturn is spreading more widely through its negative impact on financial markets and trade.

Passenger traffic holds up but freight points to difficulties ahead

- May international passenger traffic growth was 6% which indicates that passenger travel has not slowed as expected under the impact of the fall in US confidence or the rise in the cost of travel.
- Stronger economic growth outside US has provided support but now with the ECB raising interest rates and inflation squeezing real incomes this remaining strength in travel demand may well weaken. The weak 1.3% freight growth seen in May could be a leading indicator of this.

Chart 2: International traffic growth

