

Remarks of Giovanni Bisignani, ICAO Symposium on Liberalisation, Dubai

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Thanks to Secretary General Chérif for holding this symposium following-up on the Fifth Air Transport Conference. Time is limited, so let me get to the point.

Our industry is in desperate need of change. And only you, the Governments, can bring it about. AT Conf 5 moved beyond the traditional rhetoric of debating the need to open up our skies to discuss the way forward with progressive liberalisation. The industry applauded with great expectation. Three and a half years later we are very disappointed at the lack of progress.

Today, I would like to update you on the state of the industry and share a vision for the role of governments in aviation.

State of the Industry

Airlines are businesses so the bottom line is critical. In the last three years the industry made tremendous progress. Losses were cut from US\$11 billion in 2003 to US\$3.2 billion in 2005. Losses will drop to US\$1.7 billion this year, despite US\$24 billion in additional fuel costs.

Restructuring costs are keeping the US industry in the red. This is offset by profits in Europe, the Middle East and Asia. 2007 may see the first profit in 6 years. This will be possible because airlines had the courage to change.

Since 2001 labour productivity improved 33%, sales and distribution costs dropped 10%, overall non-fuel operating costs dropped by 13% and the best measure of efficiency is the load factor - 76% for the first seven months of 2006.

IATA's Simplifying the Business programme is on target to cut US\$6.5 billion in industry costs. The flagship project is 100% e-ticketing by the end of 2007. Strong economic performance underpins demand - passenger growth is 6.4% while cargo is 5.3%.

The industry is leaner and more efficient than ever but this situation is still far from normal. It will take years for balance sheets to recover over US\$40 billion lost since 2001. There is a long list of wild cards that could spoil the show: a slow-down in the economy, regional tensions, rising oil prices—and refinery margins and terrorism are only the start. The recovery is fragile and more change is desperately needed.

The Role of Government

That brings me to the role of governments – the core of the liberalisation debate. Governments have a critical position in our industry:

- Safety
- Security
- Regulating monopolies, where markets don't work
- Liberalising where markets can work

All these require strong government leadership. But too often governments are failing to provide the bold moves and leadership that is required. Commercial freedom is critical for airlines. The future success of our industry rests on our ability to serve markets where they exist and merge and consolidate where it makes business sense. This should not surprise anybody. That was the vision of AT Conf 5 but it is nowhere near reality.

I will be frank. The slow pace of progress since 2003 is disappointing. There are some pockets of progress. China is opening parts of its market. Greater commercial freedoms in India supported record aircraft orders last year. Canada and the US are finalising an agreement to further liberalise traffic across their common border. And there is a long list of incremental traffic agreements. But this is window dressing.

Far short of the breakthrough change is desperately needed. Air transport is governed by a 60 year-old set of rules—the bilateral system. It was designed for another age. Sixty years ago IATA members were flying 9 million passengers with DC-3's. In the past three decades air transport demand grew 700%, more than double the 300% GDP expansion. Now we fly over 2 billion passengers and are getting ready to welcome the 380 and 787. How much has the world changed in 60 years? We operate in the world of the internet—but our rules come from the age of paper and telexes. Electricity only came to Dubai in 1952 and look at what you see around you today. It is a different world – we need different rules.

Arguments Against

So why haven't we moved on? Safety and national security are often mentioned. Let's look at these separately.

Safety

Air transport is the safest mode of transport. The 2005 accident rate was the lowest ever: 0.76 accidents per million flights or 0.35 if you look at just IATA members. We had the same number of fatalities in 2004 as we did in 1944. This incredible result is because industry has worked with government leadership and we should all be proud.

The IATA Operational Safety Audit (IOSA) is the first global standard for airline safety management. It will become a condition of IATA membership from 2008. This demonstrates airline commitment to our most important priority. And many governments are now incorporating IOSA into their safety oversight programmes.

Put IOSA together with ICAO's enhanced Universal Safety Oversight Programme and the safety argument against liberalisation is history.

National Security

We often hear the argument that airlines have a strategic importance to national security. Therefore national ownership is required, sometimes even by governments themselves. False. Why should airlines be treated differently than telecoms or banking—all are strategic assets?

What happened to the merchant marine fleet? With the exception of coastal shipping, most countries have no merchant marine. Governments do not need ownership clauses to request delivery of goods in a national crisis. Commercial markets can take up the challenge. This is just another alibi not to change.

Arguments For

Why do we need a new set of rules? Let me put forward three arguments.

- It will make airlines healthy businesses
- It is in the consumer's interest
- And the economic impact will be tremendous

Building a Healthier Air Transport Sector

From the 1970's a growing number of governments have had the vision to deregulate parts of the industry. But failure to follow-up with broader liberalisation made this a half measure. Now the air transport sector is sick—over US\$40 billion in losses and the lack of commercial freedom is delaying recovery. We live in a high speed world. Flexibility and quick decision making are the norm, but airlines need government approval before entering markets. In most other businesses markets are open. Barriers may exist in the form of import duties but the ability to trade is not at issue.

The result is that demand normally leads supply in air transport. Just look at India. Liberalisation between India and the UK has seen weekly flights double to 200 in a year. The benefits are shared between UK and Indian airlines and all airlines in the market are sharing the benefits of the new opportunities. And consumers have much needed choice.

Europe provides another example. The creation of a Single European Aviation Market in 1993 saw traffic double by 2005. Competition resulted in industry restructuring and increased competitiveness. The result is that Europe's carriers are among the strongest in the world and European consumers are travelling more than ever.

Over the period 1996 to 2004 average returns on capital invested in the airline industry were 4.7% but the average cost of capital is 7.5%. That means that the industry needs to generate US\$11.7 billion additional earnings each year simply to cover the cost of capital and provide a normal return to investors. Liberalisation would go a long way to closing this gap.

Benefits Beyond the Industry

A healthy air transport industry fuels economic growth. Airlines are the US\$450 billion heart of a value chain that generates US\$2.9 trillion in economic activity - 8% of global GDP. We polled 600 firms in 5 countries to understand how air transport impacts their business. 80% responded that air transport is important to efficiency of production, 70% said it broadens market opportunities and a third of Chinese firms said that availability of air transport services changes investment decisions.

A European study showed that a 10% rise in airline flight connectivity supported a 1.1% increase in long-term GDP. An industry study on liberalisation that IATA participated in, quantified the spin-off effects even further. The doubling of traffic in European Single Market generated 1.4 million new jobs. The study looked at a random sample of restricted city pairs around the globe. The impact of liberalisation would be a 63% increase in traffic, 24.1 million jobs and US\$450 billion in additional economic activity. That's almost equal to the GDP of Brazil. Liberalisation of air transport is a critical decision that must be taken for the health of the global economy.

Next Steps

If we accept that there are benefits to liberalisation, what are the next steps? Let's examine where we are. IATA evaluated the level of liberalization in the industry. Over 98% of traffic is still governed by bilaterals with ownership or "principle place of business" restrictions. Only a quarter of traffic is governed by air service agreements that allow even code-sharing and only 17% of traffic operates in a liberalised environment.

There are well over 3,000 air service agreements. The good news is that 200 of them account for 75% of traffic, so changing only a few agreements can have a big impact. The most important aviation relationship in the world is the North Atlantic. The combined markets of Europe and North America account for over half of global aviation traffic. The markets are among the most equal when measured by population, level of technology and level of development etc. There is no excuse not to liberalise within and between these markets. But after several years of discussion, the two sides have not moved forward.

There is a proposal on the table for open skies and regulatory convergence. The ball is in the US court. I know that Jeff Shane and his colleagues are pushing hard and I hope that this important business agreement is not once again hijacked by domestic politics. This agreement is the critical next step to change our industry.

But the window of opportunity for the US and Europe to lead the change will not be open forever. The cost to our industry would be enormous and both economies would be missing out on US\$5 billion in economic opportunity. This is a golden opportunity for the US and EU to regain industry leadership and pave the way for a stronger future as they did with Chicago on technical issues.

If the agreement fails, we will look to leadership in other markets – China, India, Chile and here in Dubai. A liberalised policy is supporting 20% growth annually. And so on. We are a global industry. Change is needed everywhere.

Beyond Open Skies

Open skies is only part of the answer. The bilateral system turned commercial opportunities into national rights. This made some sense when governments owned airlines and used them as instruments of foreign policy. But now the flags on the tails of our aircraft are so heavy they are sinking our industry. It prevents meaningful consolidation and it perpetuates inefficiency. The only way to be successful is to

run the industry as a real business. Who cares who owns an airline—so long as markets are served with safe operations?

We have some examples in Europe of cross border consolidation - Air France / KLM and Lufthansa / SWISS. The sky did not fall. France, Germany, Switzerland and the Netherlands continue to have strong aviation sectors and these are among our strongest industry players. So why don't we have more of this?

Airlines facilitate the global village but we are among the last to benefit from globalization. Other industries with global markets have generated tremendous economic benefits. The liberalisation of the banking industry led to a 26% fall in the number of EU banks from 1990-1997. The result is a stronger European banking sector. The parallels to air transport are tremendous: strategically important, network oriented and liberalisation of domestic services is equivalent to cabotage.

Similar results appear in telecoms. Where foreign capital is restricted, we see 40% less total investment per head than in liberalised environments. Or compare air transport to automobiles, where consolidation has already occurred. The top 10 airlines have a market share of about a third of a US\$ 450 billion industry. The top 10 auto manufacturers account for 75% of a US\$ 2 trillion industry. Consumers are well-served with choice and price by a consolidated car industry. The air transport industry, and its consumers, have nothing to fear from liberalisation or consolidation.

Speed

I am impatient by nature but our industry needs change with speed by necessity. After 60 years, change is long overdue. I also understand that not all governments are able to move at the same pace but they must move in the same direction. As governments you set the direction in 2003. Nobody is demanding change overnight but we cannot stand still. Not much has happened over the last three years. Your role now is to set targets for progressive liberalisation; and lead the industry by challenging your airlines to move forward.

Future Vision

I am confident. Airlines have done a fantastic job building an industry that is safer, more accessible and more efficient than ever before. My challenge to you—our government leaders—is to bring policy in line with the changes airlines have achieved; and deliver the leadership vision that our industry needs for the next 60 years.

Thank you.