



Agenda Item 6: Any other business

CURRENT INDUSTRY CRISIS - FUEL

(Presented by IATA)

SUMMARY

IATA revised its industry financial forecast for 2008 significantly downwards to a loss of US\$2.3 billion. The forecast uses a consensus oil price of US\$106.5 per barrel crude (Brent).

For every dollar that the price of fuel increases, airline costs go up by US\$1.6 billion. The industry's total fuel bill in 2008 is expected to be US\$176 billion (based on oil at US\$106.5 per barrel) accounting for 34% of operating costs. This is US\$40 billion more than the 2007 bill which was US\$136 billion (29% of operating costs). In 2002, the bill was US\$40 billion, equal to 13% of costs.

The situation has changed dramatically in recent weeks. Oil skyrocketing above US\$130 per barrel has brought the industry into uncharted territory. Add in the weakening global economy and this is yet another perfect storm. In the last six years, airlines improved fuel efficiency by 19% and reduced non-fuel unit costs by 18%. There is no fat left. To survive this crisis, even more massive changes will be needed quickly. Air transport is a catalyst for US\$3.5 trillion in business and 32 million jobs. This is an extraordinary crisis with the potential to re-shape the industry with impacts throughout the global economy. Governments, industry partners and labour must deliver change.

1. Introduction

1.1 The leaders of the world's airlines met at the IATA Annual General Meeting in Istanbul on June 2-3, 2008 and discussed the urgent crisis that is being driven by record oil prices and the slowdown in the global economy. Over the last six years, airlines have cut non-fuel unit costs by 18% and distribution costs by 25%; they have also improved fuel efficiency by 19% and there has been a notable increase in labor productivity. But these great achievements have been completely overshadowed by an additional jet fuel cost burden of US\$ 99 billion that IATA Member airlines expect to face over the next 12 months if oil stays at \$130 a barrel.

1.2 24 airlines have ceased operations or entered into bankruptcy protection in the last five months. Many more will not survive unless the industry can work together to reduce the overall cost burden. Airlines are abruptly changing course by suspending flights, slapping new luggage fees on travelers, raising fuel surcharges on tickets, switching to smaller planes, grounding older, inefficient aircraft and raising fares. American Airlines, the world's largest carrier, plans to cut domestic capacity by 12 percent in the fourth quarter of this year, lay off perhaps thousands of employees. United Airlines will cut domestic capacity 15 percent in the fourth quarter, slash 1,500 jobs and jettison its low-fare unit Ted.

2. Discussion

2.1 All stakeholders in aviation now face a "perfect storm" from skyrocketing oil prices at US\$ 130 per barrel and the weakening global economy. Every \$1 increase in oil prices adds US\$ 1.6 billion to the global airline fuel bill. IATA is now predicting that the airline industry will make losses of US\$ 2.3 billion this year because of sustained high oil prices. But these losses would worsen to a huge US\$ 6.1 billion if oil prices stay at \$135 per barrel for the remainder of 2008.

2.2 These extraordinary times call for extraordinary measures. Airlines will continue to drive hard for more cost reductions and cost efficiencies within areas they can control but there is limited scope for further incremental savings. Airlines are an engine for the global economy. The global economic contribution of aviation is an estimated USD 3,560 billion, equivalent to 7.5% of World Gross Domestic Product, generating a total of 32 million jobs (ATAG 2008). For this reason, failures in the airline industry will send economic shockwaves throughout the world. Whilst airlines are presently in the front line of this perfect storm, the impact of stagnating or even declining traffic will be felt very quickly by airports, air navigation service providers and Governments. A concerted effort by all parties is now required.

2.3 With this in mind, the world's airline leaders have published the Istanbul Declaration (**Appendix A**). This Declaration seeks urgent attention in six specific areas, including greater cost and operational efficiency from our industry partners. We firmly believe that together we can identify and implement measures in 2008 that will greatly increase fuel savings. The industry was therefore requesting all concerned to strive to find any and all improvements in terms of operating efficiencies which would reduce fuel usage and carbon emissions.

2.4 Here are three examples of relatively simple measures that could bring significant fuel and CO₂ savings:

1. Saving 1 minute of flight-time has significant value. For example, if we could save 1 minute for each flight in the United States alone the savings would equate to about 2 billion kg fuel and 6.3 billion kg CO₂ per year. This could be accomplished by turning aircraft quicker on course after departure, or clearing aircraft direct whenever possible, or finding ways to use military training airspace when not in use.
2. Initiatives such as 5 minute climbs/descents using GNSS, reduced time based (RlongSM-T5) or distance based longitudinal separation that could improve the ability of operators to obtain the most fuel efficient flight levels should be developed and implemented as rapidly as possible.

3. Continuous Descent Arrivals (CDA's) or allowing pilot's discretion descents from their cruising level for arrival brings significant savings. CDA's bring about 10% savings in fuel and a 40% savings in noise. However, it does not have to be a formal CDA program, but just a cultural change of limiting the leveling off at low altitudes, which require aircraft to increase flaps (drag) and accelerate their engines. In terms of fuel, depending upon aircraft type, between 170-230 kg of fuel can realistically be saved per arrival.

Such simple measures that involve a change in technique, not investment in infrastructure, can bring enormous fuel and CO₂ savings.

3. Action by the Meeting

3.1 Considering the critical nature of the fuel crisis, States are asked to urgently consider areas in their respective airspace and ATS operations where fuel efficiencies can be gained. No matter how small they are, if implemented quickly, these changes can have a significant effect on airline fuel consumption. Specifically, States are requested to:

- a. **Identify** – with IATA and local airlines - actions that would provide fuel efficiency;
- b. **Establish and promulgate** a program to implement fuel efficiency measures; and
- c. **Nominate** a Fuel Champion who would liaise with IATA, airlines and other ANSPs to ensure all possible fuel conservation strategies are evaluated and if safe and cost effective, implemented.

APPENDIX A

ISTANBUL DECLARATION

The declaration made six specific calls to action:

- Governments must eliminate archaic rules that prevent airlines from restructuring across borders.
- In view of existing fees and charges, governments must refrain from imposing multiple and additional punitive taxes and other measures that will only deepen the crisis.
- State service providers must invest to modernize air transport infrastructure urgently, eliminating wasteful fuel consumption and emissions.
- Business partners, in particular monopoly service providers, must become as efficient as airlines are now. If not, regulators must restrain their appetite with tougher regulation.
- Labour unions must refrain from making irresponsible claims and join the effort to secure jobs in aviation and indeed in other industries.
- In the interest of the global economy and the flying public, we urge authorities to enforce the integrity of markets so that the cost of energy reflects its true value.

- END -