

ICAO, World Bank & Routes Global Strategy Summit 2009
Moderator Summaries

Session One: Civil Aviation Today

Moderator: Mr John Strickland, Director, JLS Consulting

Aviation is facing its most severe test on all fronts-economic, fuel, capacity and environmental challenges are all present at the same time. The panellists highlighted the challenges from the perspective of regulator, airports, airlines and manufacturer.

There was a recognition that the industry is very much like a large family with many of its own internal squabbles and arguments. Equally it was recognised that there needs to be a better understanding and sharing of mutual issues if the industry is to combat the challenges it faces.

Views shared included the need for investment for the long term and the need to fight for a reduction in restrictive legislation which is inhibiting the industry's ability to contribute to the global economy

Optimism was expressed that the industry will recover from the current recessionary climate, new aircraft will be ordered and growth will resume. The important role of emerging and expanding economies such as China was acknowledged as fundamental to the industry's future well being

Session Two : Can Global Air Transport Resume Growth?

Moderator: Ms Narjess Teyssier, Chief, Economic Analyses and Databases Section, ICAO

The panelists agreed that before discussing the recovery of air transport, it was important to look at the world economic context. The longest and deepest recession of the post-war era was ending, and a new global expansion was beginning in the third quarter 2009, although slowly. However the timing and strength of recovery was showing significant regional variations, with Asia leading and Europe and the US beginning to recover. Thanks to the policy stimulus action, the economies of China, India, and developing countries were picking up, with the underlying risk that the recovery in some countries could lose steam, as the fiscal stimulus measures in many countries were temporary. With the conclusion of these stimuli packages, sustained recovery would depend on a rebound in consumer spending, unemployment, housing prices and business fixed investment in the key economies of the world.

In line with the financial markets that have returned to their normal trend, the air transport markets have started a slow rebound.

Passenger traffic expressed in Revenue Passenger-Kilometres (RPK) increased marginally in 2008 by 1.3% representing the slowest rate of growth for the air transport industry since 2002. After four years of above trend growth, passenger traffic is still expected to register a negative growth in 2009.

World air cargo traffic expressed in terms of Freight Tonne-Kilometers (FTK) decreased in 2008 by 1.2% and is forecast to experience two consecutive years of decline for first time.

Passenger traffic growth was shared unequally between member carriers of the International Air Transport Association (IATA) and other categories, notably low cost carriers. For instance, in 2008, several European low cost carriers experienced double-digit growth rates compared to the 3.3% growth rate in total RPK5 for Europe, while in terms of number of passenger carried Southwest was ranked in the first rank.

Although many Low Cost Carriers (LCCs) have been wounded by the economic downturn they are still a growth industry across the globe. The time where LCCs will provide long-haul services and extend their individual networks beyond their home markets is coming soon.

Financially, the air transport industry has registered an operating loss of about USD 10 billion for 2008, and is still expected to show huge losses in 2009, being hard hit by the sharp decrease in premium traffic. However according to the latest data available, recovery in air traffic is under way, bringing back to the business class the business passengers.

The decline in the price of oil to under \$50 per barrel in the last quarter of 2008 has given the hard-pressed airline industry some relief, the current price levels are following the trend of the economic recovery. Overall, oil prices remain difficult to predict, and although they are still far below the levels of a year ago current fuel prices levels could be high enough to start hurting a fragile and volatile air transport recovery.

Regarding the additional burden that could be brought by the impact of H1N1 on air travel demand growth, no threat is foreseen, as World Health Organization continues to recommend no restrictions on travel and no border closures.

In order to cope more efficiently with the crisis, a lot of airlines have been obliged to cut their capacities and to shrink their network, as well as to cancel or defer their aircraft orders, and it is expected that capacity growth will remain flat until end 2010.

However the growth in airline passenger traffic, is expected to recover gradually in 2010 to reach the 2008 level, while the long-term outlook remains strong for the next 20 years with a passenger traffic growth expected to follow the average trend of about 5%.

Session Three – Technology to Transform our Industry

Moderator: Mr John Strickland, Director, JLS Consulting

Technological change is moving at a rapid pace in the industry to improve service, increase efficiency and reduce costs. In particular we learned of the widening array of uses to which mobile phones can be

put ranging from making a booking to checking in, to being updated on flight status and potentially to pass through security. There are a number of technical issues to address concerning reliability and compatibility but progress is being made. Evidence was presented showing how much passengers want to reduce the time taken and the stress and irritation of many of the stages which they have to “endure” in order to take a flight. One area of concern which was raised was the level of willingness of security and immigration enforcement agencies to go along with the technical advances to improve passenger experience, they don’t share the same imperative to do so unlike the airlines and airports.

We learned too about the efforts of industry body IATA to simplify the business process and gained an architect’s insight into the building of new airport terminal infrastructure which combines good passenger experience with efficiency and low cost: low cost doesn’t have to mean a nasty experience and conversely a pleasant terminal environment doesn’t have to be expensive

Session Four – The Safety & Security Challenges

Moderator: Mr Aaron Heslehurst, News Anchor & Presenter, BBC World Television

A very dynamic panel that enthusiastically launched straight into the safety and security challenges facing today's industry. The session started with a very clear message. That message: the number ONE priority for airlines and in fact for the aviation industry as a whole – is SAFETY & SECURITY!

And because it’s the number ONE priority – air travel is and continues to be the safest form of travel that exists. The fatality rate for air travel in 2008 was at its lowest level since 2004. One accident for every 1.2 million flights. But of course – the 502 people who lost their lives in 2008 due to an aircraft accident must surely remind the industry of the need for constant vigilance. Nobody disagrees the perfect target for the industry – it certainly is the IATA target – and that is zero accidents – zero fatalities.

Dr Charles E Schlumberger from The World Bank raised a very provocative statement: Charles told those attending that the major challenge to air safety and security is not the lack of funds, training, equipment or infrastructure, it is the absence of the political will to establish, maintain, and enforce agreed international standards! The statement initially raised many an eyebrow - but for the most part was accepted with many agreeing.

The World Bank agrees that higher safety standards have been reached - but not everywhere. In particular problems still exist in Africa, Eastern Europe and Latin America.

In these regions and again in particular in Africa - the World Bank believes the lack of remuneration, the lack of consistency in the industry leads to a complete lack of will.

ICAO echoed this point by saying that given the current state of the industry - in terms of generating low yields and contributing relatively less to state revenues - then middle income and even lower middle

income economies have great difficulties in finding resources necessary to safely & securely sustain an expanding and even more demanding sector - even though it's vital to their economies.

The panel and those in the audience agreed to the very important point made - that every dollar invested by these richer States is of lesser value if at the other end of the flight - similar efforts are not made.

In concluding - the panel agreed that the next and greatest threat to aviation today will not be from within the aircraft - but from a possible airport security incursion.

Of course one hour is not enough to cover a topic of this magnitude - but all agreed that civil aviation facilities and services must keep up with technological development if accident rates are to be brought down.

Session Five – Environmental Challenges for the Civil Aviation Industry

Moderator: Mr Aaron Heslehurst, News Anchor & Presenter, BBC World Television

I found this second session topic very interesting given I had a day earlier moderated Safety & Security. Interesting because ENVIRONMENTAL responsibility – alongside safety & security, remains a CORE promise for the aviation industry. Even in the face of this global economic downturn.

I thought it important to start with the positives aviation brings to the world - despite the industry coming under attack from Governments and certain lobbying groups around the world.

And I say that – because let's remind ourselves of just some of the facts & figures:

Airlines contribute 2% of global CO2 emissions.
12% of CO2 within the transport sector.
Compared to 74% from road transport in that same sector.

But here are the facts: the commercial aviation industry generates 32 million jobs. It carries 1.2 billion passengers annually. It improves global productivity. The global economic impact is more than \$3,500 billion US dollars. It facilitates global trade. Total value of goods transported by air is 35% of all international trade. But of course nobody disagrees with the fact that global warming is an extremely important issue.

The panel took the audience through the how the industry demonstrates its commitment as a responsible industry which takes realistic actions to reduce emissions.

We talked about IATA's 4-pillar strategy which has been a good start. It lays out what the industry and governments must do to cut emissions.

We talked of the achievements made by the manufacturers - just take a look at the new jets out there & coming out. The A380 & the 787 - both target less than 3litres per passenger per 100km - comparable to small car.

And the recent tests and test announcements from airlines like Air NZ, Qatar, Virgin Atlantic just to name a few testing bio fuel in some of their engines on flights. Some great achievements from the industry. The bio fuel debate was raised and agreed that it plays a part in achieving the goals - but it is only part of the equation.

But - the question was raised - are they enough. Even if the industry achieves what IATA & other groups set out to do - will the attacks on this industry stop - or at least subside.

The panel did agree that goals set by IATA such as carbon neutral growth from 2020 is achievable - but more has to be done by all parties. The question - can aviation reach a carbon free flight in 50yrs - raised much debate and given the one hour time frame - a conclusion was not reached.

But what was agreed by all - was that the industry which has made more advancements and efficiencies than probably any other industry - certainly in transport - does not do enough to SELL their advancements - SELL their environmental achievements. The industry continues to be seen as a sexy target and a target that is very visible in terms of environmentalists and lobbying groups.

A unified approach by the entire industry and all parties involved is a must. Will it be done? Well that is something we won't know until we cover this topic again in another place at another time down the road.

And of course when it comes to carbon trading schemes - we dipped our toe into this debate - but that will need another session. Vancouver here we come!

At the end of the day - aviation is a legacy user of carbon fuels - and sustainable aviation equals carbon free flight.

Technology will certainly play its role - but more funding, more government funding supporting the industry will play an even bigger role!

Session Six – The Airline and Airport Partnership: Future Trends – Towards a Common Goal

Moderator: Mr John Strickland, Director, JLS Consulting

With 3 airports on the panel, I had to balance up the debate from an airline perspective! Airports make the point that they by nature, have long term investment horizons and can't just stop projects in the

midst of recession, however there was recognition that airlines are overall the ones who are hurting most in the current economic crisis. The need to get to a position of more common ground and enhanced mutual understanding is becoming increasingly recognised. Examples of cross fertilisation should be encouraged (we had ex airline man Hans Mitterlechner of Sydney on the panel) and indeed non industry experience can also add a fresh new perspective (John Holland Kaye, BAA Commercial Director, another panellist) comes from a construction and brewing industry background and so is not tainted by “them and us” mentalities.

The Chinese philosophy of “Ying and yang” was used to illustrate the relationship between airlines and airports: no airports without airlines, no airlines without airports.

Airports and airlines need to work together to address mutual issues including security, air traffic management and the environmental challenge. Best practise illustrations of mutual cooperation were given-Heathrow’s Terminal 5, despite its early problems represented a sea change in cooperation between airport operator and airline client, similarly cooperation between Port Authority of New York and New Jersey and its airline clients avoided the introduction of a damaging plan to auction slots.

The future can only lie in a mutually respectful and cooperative relationship (whilst retaining necessary market tensions) and not in adversarial mistrust!

Session Seven – Air Transport & Tourism – Catalyst for the World’s Economic Development

Moderator: Dr Kostas Iatrou, Managing Director and Editor, Air Transport News

In this session the relation between Air Transport and Tourism and the way they can act as a catalyst for the World’s Economic Development was discussed.

All the panelists agree that air transportation is vital for tourism as 40-45% of international tourists arrive by air. Tourism generated US\$ 7,060 billion of economic activity (total demand) in 2007 with the air transport industry contributing around US\$ 880 billion a year to world GDP. The direct effect of spending generated by tourists arriving via air transport was the creation of an estimated 6.7 million jobs in 2004.

Mr Gregory Duffell, CEO, PATA, added that tourism needs air capacity and that there are ambitious strategies f.ex India, China and Singapore. However, there are some barriers to travel like natural disasters, terrorism, travel delays.

As Dr Charles E Schlumberger of the World Bank concluded: *«Air Transportation has become the key element of global economic development. Together with the tourism industry, when taking all direct, indirect, and induced economic effects into account, it represents the single most important economic sector.*

However, given the current and future challenges and risks, which potentially include a return to protectionism, rising cost and fees, environmental limitations, rising cost for oil related products, the inability to finance growth or infrastructure, and a continued worldwide economic slump, may severely impact this industry. This may lead to a worldwide reduction or permanent shrinkage of an industry that is contributing so much to economic development around the globe».

Session Eight – The Developing Markets of the Future

Moderator: Dr Kostas Iatrou, Managing Director and Editor, Air Transport News

Based on forecasts, India and China are expected to lead the way over the next years. Therefore, the panel discussed «The Developing Markets of the Future» with the presence of speakers coming from these areas.

The two China airport representatives at this panel Mr Huang Gang, Executive Vice President - Beijing Capital Int'l Airport, and Mr Guangdi Wang, Vice President, Shanghai Airport Authority, emphasized in their presentations the importance of Beijing and Shanghai as gateways from and to China. Mr Gang also added that international passengers will mainly transfer to other Chinese cities through Beijing, Shanghai or Guangzhou due to the lack of direct flight market conditions at the current stage. He also stressed the importance of the Sino-African market in which the trade soared from 10.6 billion dollars in 2000 to 106.8 billion dollars in 2008.

Mr Wang on the other hand, focused his presentation on the importance of 2010 World Expo that will be held in Shanghai and this event has created a target passenger volume that will exceed 70 million.

Mr Girma Wake, CEO, Ethiopian Airlines, representing the airline side agreed also that India and China are leading the developing markets. He added that at present the African air transport trade is mainly dominated by that between Europe and Africa. In 2020, Africa as a whole is expected to receive 77 million tourists. He continued by saying that in the last years, there have been investments on the continent from China and Brazil. Finally he closed his speech by saying that markets in Africa are underserved and there are a lot of opportunities for the next 5 to 10 years.