

Remarks of
Giovanni Bisignani
Director General and CEO
International Air Transport Association (IATA)

Australian National Aviation Press Club
Sydney

25 August 2010

Good afternoon. It is a pleasure to be in Australia.

Many thanks to the National Aviation Press Club for this third invitation. The first time was in 2003 in the aftermath of SARS. The second was in 2008 as the oil price was spiking to \$147. On this visit, the excitement and uncertainty in Australian politics.

And after a decade of crisis in which airlines lost \$47 billion, the outlook is finally more positive. We expect airlines to deliver a profit of \$2.5 billion. That's only a 0.5% margin on revenues of \$545 billion. But at least it's a black number.

Asia-Pacific is at the center of the optimism. It will be the most profitable, making \$2.2 billion. North America will turn the \$2.7 billion loss in 2009 to a profit of \$1.9 billion. Europe will be the only region in the red with losses of \$2.8 billion. It is being held back by GDP growth of just 0.9%, the currency crisis and weak political leadership demonstrated by the volcanic ash crisis.

Today we announced global traffic results for July. Cargo demand is up 22.7% compared to July last year. And passenger demand is 9.2% better. Asia-Pacific results are even more positive, increasing 25.3% for cargo and 10.9% for passenger.

The recovery has been faster than anticipated. But as we look to the end of the year, there are question marks that will likely slow the pace of recovery. Governments are warning of slower growth. Stimulus funds are running out. Our cargo numbers show that inventories have been restored. But the jobless recovery is not giving consumers confidence to boost spending.

Australia has benefited from its strong economic ties to China. But we must all keep our seatbelts fastened tight. We are cautiously optimistic, but many challenges remain.

Australia and the Promise of Asia-Pacific

The future of air transport is in Asia-Pacific, our largest single market. Projections for China and India tell us that Asia-Pacific will continue to drive industry growth. As a regional neighbor, Australia has great opportunities.

The first is to play a regional leadership role. The second is for aviation to make a greater contribution to Australia's economy. Already aviation supports 500,000 Australian jobs and injects A\$ 6.3 billion into Australia's economy. Aviation supports everything from trade and tourism to inward investment. Growing this further will not happen by accident. Government must have a strong aviation policy.

I read with interest the outcome of the National Aviation Policy White Paper. It contains some critical concepts for supporting a more successful Australian aviation sector. Whichever party forms the government, some key elements must be retained and developed as its agenda for aviation. These include infrastructure, training, environment and liberalization.

Airport Policy

Let's start with airport infrastructure. Focusing on Sydney' costs and capacity are real issues that must be addressed.

Costs

In 2000, Jacob's airport charges report ranked Sydney number 34 in terms of costs. By 2009 Sydney was the ninth most expensive airport in the world. Sydney reported that their EBITDA margin jumped to 82% in 2009, ranking them number one in the world. That same year, its airline customers lost \$10 billion in the global recession.

Airports should be profitable. But they are also monopolies that must be effectively regulated. I fully support the planned Productivity Commission review of the regulatory framework. We must urgently rebalance the situation. On this trip I met with Max Moore Wilton, Chairman of the Airports Council International. Max understands the need for Sydney to improve its competitiveness.

With the guidance of the Productivity Commission, I am confident that we will improve the airport/airline relationship and find solutions to deliver a higher quality experience at cost effective prices.

The Future Sydney Airport

There is an even bigger issue which must be addressed by the next government. Kingsford-Smith will reach a point where it will not be able to handle Sydney's needs. Whether you believe that will happen in 10 years or in 20 years, a decision on the next airport is now critical.

The government commissioned another study on the location of a second airport. We have had at least 50 years of studies. We need a decision. That means a plan to maximize the current airport, and a location and completion date for the new one.

With potential locations 100 or more kilometers from the CBD, advanced road and rail infrastructure will be needed from day one. Building 100 kilometers of land transport could be a bigger challenge than finding 3.5 kilometers for a runway. The clock is ticking. Even 20 years is a tight timeline.

Sydney Airport generates 6% of the New South Wales economy. We must have a clear plan to ensure sufficient capacity to continue its important role

Air Navigation

If the industry needs urgent decisions for Sydney Airport, our view of AirServices Australia is to expect the best. AirServices Australia is an Eagle Award winner and one of the leading ANSPs. It successfully pioneered new technologies like ADS-B with close industry consultation. AirServices agreed with the airlines what was needed, how much it would cost, and the implementation plan.

Expectations are high for key projects like Performance Based Navigation (PBN). We must follow the same model and deliver what the industry needs. We also have high expectations on cost-efficiency, a key part of the consultation process along with safety and capacity.

The 2005-2009 five year pricing agreement set a new industry benchmark. We are currently negotiating the next long-term pricing agreement. We must meet airline expectations in three areas. First, cost reductions as a result of AirServices management through the crisis. Second, we must agree to a capital expenditure program that meets airline needs. And third, the agreement must follow ICAO principles. To be perfectly clear, international carriers should not subsidize regional operations. If regional services need subsidies, they should come from the government's pocket. This is global best practice and is fair to all concerned.

Training

The credibility and respect that Australia has built with many of its great institutions, CASA, AirServices, QANTAS and so on, gives you some unique opportunities. Training is one of them.

The White Paper recognized the need for Australia to fuel growth by continuing to attract and develop great talent to the industry. Australia is also a critical supplier of skilled training for aviation, traditionally for the Pacific Islands and increasingly for India and China.

This has improved safety and strengthened regional economic ties. But this has happened without a coordinated strategy for marketing or for standards. Training and education for foreign students is worth A\$18 billion to the Australian economy. Aviation could contribute much more to this.

Just look at the potential with the double digit growth in India and China. But Australia must approach the market with a coordinated effort. That means government and industry must be aligned and on the same page. Meeting this challenge will deliver jobs in Australia, improve safety, support for regional economic growth and a stronger role for Australia as a regional leader.

Environment

Environment is a long-term issue with some immediate requirements for urgent action. There are also some great opportunities for the Australian economy.

Aviation can be proud of its leadership in the global effort to mitigate climate change. I announced a vision for aviation and climate change at our 2007 AGM. Since then, progress has been amazing. The entire industry value chain is now united behind three targets: improving fuel efficiency by 1.5% a year to 2020; capping emissions from 2020 with carbon-neutral growth; and cutting emissions in half by 2050 compared to 2005

Even though governments could not agree in Copenhagen, the aviation industry remains committed to delivering on its targets. Look at the enormous progress on biofuels. A few years ago they were a dream. Today they have been tested and we expect certification next year. There is a great opportunity for Australia to take a leadership role.

Our strategy is to use the most appropriate local source crops for biofuels that can be mixed and used together. The focus is on second generation biofuels like jatropha, camelina and algae, which do not compete with food crops for fresh water or for land. Jatropha is not suitable for Australia but your enormous coastline has great potential for algae. Australia is investing A\$1.3 billion in a Green Car Innovation Fund but only A\$15 million for second generation biofuels that could reduce our carbon footprint by up to 80%.

Australia should be much more aggressive. Strategic government investments in biofuels could shore-up Australia's energy security, help break the tyranny of oil and create new economic opportunities.

At the policy level, I know that Australia is facing a difficult debate on ETS and carbon taxes for aviation. There is no domestic solution. The White Paper supported a global solution under ICAO. The ICAO Assembly opens on 28 September. Australia must take a leadership role at ICAO to ensure a successful outcome and be a strong voice against regional taxes and ETS schemes.

Aviation is a globally competitive industry. We must manage climate change with a level playing field under an ICAO led international framework.

Liberalization

Financial sustainability must also be a priority. Historically airlines have a margin of less than 1%. That is not sustainable. To fix this, we need to run this business like a normal business.

In many ways Australia is among the most progressive countries. Minister Albanese reminded the world of this in a recent speech in Washington. Your open domestic market with no ownership restrictions should be an inspiration to all. With the trans-Tasman open aviation area, you have achieved what Europe and the US could not.

This makes the 49% restrictions on ownership for international operators very difficult to understand. What is the public policy reason to limit access to foreign capital?

Safety can be regulated through the Air Operator Certificate (AOC), as you do with domestic airlines. And ownership restrictions should not be confused with market access.

Regulatory tools exist to deal with market imbalances. The Minister himself stated that ownership restrictions are outdated. They stand in the way of consolidation around global brands that would deliver cost and efficiency benefits to consumers. And they limit the industry's capability to fund growth with access to global capital.

Australia's domestic experience gives you a unique opportunity to lead the international modernization of this antiquated post-World War II policy left-over.

Vision 2050

The White Paper lays a foundation for Australian aviation over the next 30 years. IATA is also leading a similar process for the global industry.

At our most recent AGM in Berlin, I announced Vision 2050. As the industry returns to profitability after a decade of crises and shocks, it is time to look ahead.

We must build a future for aviation that is buffered against these shocks with environmental and financial sustainability. Why? So that we can provide our customers with the service that is critical to modern life. And we must be prepared to serve customers who will grow from 2.4 billion passengers and 40 million tonnes of cargo to 16 billion passengers and 400 million tonnes of cargo.

Today I have discussed many of the elements needed to drive the industry forward with the needs of our passengers front and center. The goal of Vision 2050 is to be an industry that is successful and sustainable. A group of global strategic thinkers from across the industry value chain will meet in Singapore early next year to challenge, validate and further develop our vision.

Conclusion

In the meantime, we must work together to address the many challenges that we face globally and here in Australia. No country knows better the importance of global linkages than Australia.

Aviation has played a key role in linking this vast continent internally and to the rest of the world. Recognizing this aviation policy to gain the economic benefits of a strong industry should be a critical element for whatever party forms the next government.

We look forward to working with Australia to build an industry that is even safer, greener and profitable.