

## ISSUE 9

# AN AVIATION FORECAST

The International Air Transport Association (IATA) represents some 230 airlines around the world, comprising 93 per cent of scheduled international air traffic. Leading IATA, Giovanni Bisignani, Director General and CEO, is known for his committed efforts to streamline the aviation industry. Change has been palpable during his tenure. Notably, IATA achieved milestones such as the implementation of 100 per cent electronic ticketing, the introduction of the IATA Operational Safety Audit and setting the first global standard for airline safety management — a requirement for IATA membership. Bridging Skies asks Bisignani to share key insights on the current developments and challenges that the aviation industry faces, as well as his thoughts on the future of this fast-growing industry.



Giovanni Bisignani, Director General and CEO of IATA

**We have seen signs of recovery in the aviation industry. What do you think has led to the improvement?**

I am pleased to say that in September, we upgraded our global profit forecast for the world's airlines to a profit of \$8.9 billion this year compared to the previous forecast of \$2.5 billion profit in June.

The first factor that has led to this is careful capacity management. Demand improvements have been very strong, resulting in traffic that is three to four per cent above the pre-recession

levels of early 2008. Riding on the demand improvements, global demand is expected to expand by 11 per cent and capacity by seven per cent. Coupled with tighter supply and demand conditions that will likely boost load factors, we can definitely expect to see a strong improvement in yields.

In terms of revenue, airlines can expect a \$560 billion earning globally this year. The forecast of \$8.9 billion, up from \$2.5 billion, means a margin improvement from 0.5 per cent to 1.6 per cent. However, this is still well below the seven to eight per cent required to cover the industry's cost of capital.

**Do you see this recovery lasting? What will be the key indicators to watch out for, either for a recovery or slow down next year?**

As we work towards the peak of this cycle, there are expectations of a slowdown in the fourth quarter and the traffic figures and statistics are already showing signs. We should also brace ourselves that next year will be much tougher and make provisions now.

Government stimulus monies are ending and the implementation of austerity measures are showing. A good example of this is the increase in the UK Air Passenger Duty to \$3.8 billion and a new German tax of another billion (or more).

Growth will certainly be at a slower pace where supply will outstrip demand – an estimate of a five per cent growth in demand but a six per cent increase in capacity. This is partly due to a surge in aircraft deliveries – 1,400 in total, coupled with the earlier mentioned slow down in traffic. As a result, we expect yields to be flat.

**The Asian Aviation industry has been particularly vital this year. How do you think they will perform next year?**

It is good news indeed when I report that Asia Pacific will continue to drive the recovery. The Asia Pacific profit forecast for 2010 has a strong showing and has been upgraded from \$2.2 billion to \$5.2 billion. Behind this is a 33 per cent improvement in cargo traffic and a 23 per cent increase in intra-Asia business travel. China is the biggest key driver with 9.9 per cent gross domestic product growth driving exports. India is also playing the catch up game, which also adds to the overall Asia Pacific gain.

Looking ahead to 2011, we expect Asia Pacific to continue to be the leader with a \$3 billion profit.

**Another issue that has gripped the international arena is climate change. What is the aviation industry doing to tackle this issue?**

Our achievements are impressive and our targets are ahead of those in the other transport sectors. The industry had great credibility at the recent International Civil Aviation Organization (ICAO) Assembly where governments endorsed broad targets and agreed on a global framework to manage aviation's emissions. Furthermore, there was clear confirmation from the United Nations Framework Convention on Climate Change (UNFCCC) and governments

that ICAO has the responsibility for aviation's international emissions. For the first time, governments took a huge step forward in the climate change movement and agreed to collective aspirational goals for improvement in fuel efficiency and for carbonneutral growth from 2020.

The presence of the ICAO resolution represents the best of all other possible outcomes. It puts ICAO at the forefront of other UN agencies that deal with climate change. I will be heading to Cancun in December, alongside ICAO, to present aviation as a role model for others to follow. We will work with ICAO to strengthen and deepen the resolution for the next Assembly. As an industry, we remain united in our determination to achieve our targets.

**With the issue of aviation security in the limelight in recent years, has there been any progress on government/industry cooperation on security?**

Coordinated security responses with collaboration between industry and government have made much progress in the last 10 months. Governments and industries are now aligned with a common goal.

In the past year, the US Department of Homeland Security Secretary Napolitano and other government leaders have understood that working with the industry is definitely the way forward to enhancing and progressing aviation security. The US recently created an International Working Group for Aviation Security and the ICAO Executive Committee last month agreed that industry and government objectives should be aligned, which I think will see the start of a new era of cooperation. We must use this momentum to move from words and agreements, to actions and results.

Air freight drives the world's economy and the issue of cargo security has recently made it to the top of our agenda with the events in Yemen. Furthering the inter-government collaborations, the Saudi government was quick to provide the initial alert which led to the coordinated actions of the UK, US and UAE to avert loss of life or property. In this instance, it can be seen that the response between governments is crucial. Industry also has a role and it is not just airlines. The entire supply chain, from manufacturer to airport, has a responsibility for secure shipments and this supply chain approach must be driven by government and industry cooperation on investment, processes, technology and risk assessment.

**You have been a big proponent of the need to consolidate the aviation industry. Why do you think this is important?**

It is critical that this industry has the commercial freedom to merge and consolidate where it makes business sense. That is the only way that we can get the margins to normal levels of profitability and be in a position to fund growth and our environmental projects.

One positive development for this year and next is the acceleration of industry consolidation. We see it in Europe. The latest being British Airways with Iberia. North America has seen two major consolidations – United and Continental, and Delta/Northwest.

The TAM and LAN airlines in Latin America have also announced an intention to merge. This could be a major force for consolidation since their market capitalisation exceeds \$12 billion. The other groupings are in the \$7-8 billion range.

**What do you see for the future of aviation?**

At our Annual General Meeting in June, I announced Vision 2050. This initiative will be looking four decades ahead. Our goal is to build an industry that is even more successful at serving its customers. So successful, that they will be our biggest advocates.

My vision for aviation in 2050 begins with safety where we aspire for very near zero accidents. Technology is key in driving change in the air and on the ground. On climate change issues, we will work towards halving carbon emissions and using biofuels. Air traffic management will be enhanced, where queues will be eliminated with integrated systems and progress towards operating with almost no delays in globally united skies. As a consolidated industry of a dozen global brands supported by regional and niche players, everyone will share costs and profits equitably across the value chain, thereby delivering value to investors.

With steps taken and work starting towards the goal of Vision 2050, I predict that in just over a decade, we can expect to see \$100 billion in profits on revenues of \$1 trillion. As we near 2050, this 10 per cent margin will become more robust.

I will host Vision 2050 in Singapore with a group of 25 global leaders working with Professor Michael Porter of Harvard University and with the inspirational support of Singapore's Minister Mentor Lee Kuan Yew, where we will look at critical issues affecting our industry's successful development. The discussion will be based on four cornerstones of environmental responsibility, efficient infrastructure, effective business models and satisfied customers. The work of the group will be presented at our 2011 AGM in Cairo and passed on to our future leaders to continue the crusade.