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## the global advocate



A Conversation With...

Giovanni Bisignani  
director general and CEO  
International Air Transport Association

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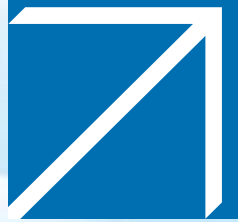
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# the global advocate





## A Conversation With...

**GIOVANNI BISIGNANI**  
director general and chief executive officer  
International Air Transport Association

Almost by definition, the air transport industry is global in scope. Ever since Charles Lindberg crossed the Atlantic with his single-engine "Spirit of St. Louis," airlines have connected people across continents.

Yet, ironically, air transportation remains one of the most protected, regulated, fragmented industries in the world. In other business sectors, such as banking and the auto industry, globalization has become the rule rather than the exception. Still, the industry that in many ways makes such globalization possible continues to lag behind.

For years, the International Air Transport Association, the industry's main advocacy organization, has argued for a more liberalized approach to commercial aviation. For the most part, air traffic is still regulated through series of bilateral agreements between nations that limit the number of airlines and flights. Most countries also restrict ownership of domestic airlines, requiring majority local control.

Governments have also seen the industry as an easy target for taxes, imposing levies for everything from security to third-world aid. The combined effect, IATA argues, of such measures serves as an anchor keeping the industry from reaching its potential.

Air transportation, once the domain of the wealthy, has now become a "mass transit system" that carries 2 billion passengers a year. According to IATA, air transport supports US\$3 trillion of global economic activity — 8 percent of the global gross domestic product — and 29 million jobs despite the artificial barriers imposed on the industry.

IATA, founded in Cuba in 1945, is the prime vehicle for inter-airline cooperation in promoting safe, reliable, secure and economical air services. It has more than 270 members

from 140 nations around the world representing 94 percent of scheduled international traffic. In its role as the voice of the industry, IATA has taken an increasingly high-profile position campaigning for its member airlines, including arguing for increased liberalization.

Since June 2002, the organization has been led by Giovanni Bisignani, the former chief executive officer and managing director of the Italian airline Alitalia. Prior to assuming his current role with IATA, Bisignani also served on the IATA executive committee and was chairman of the Association of European Airlines. He also launched and directed Opodo, the first European airline-owned online travel agency, and held high-level positions with ENI, an energy company, and IRI Group, the Italian industrial conglomerate. He served as president of Tirrenia di Navigazione, the largest Italian ferry company, and CEO and managing director of SM Logistics, a logistics and freight-forwarding company partially owned by GE Capital.

Speaking to the Wings Club in New York City, New York, earlier this year, Bisignani noted that, "Air transport has never faced greater challenges. But these are also opportunities for the change that our industry desperately needs."

Recently, he shared his thoughts on the industry's need for increased openness.

**Question: In your speech to the Wings Club earlier this year, you said, "The flags on the tails of our aircraft are sinking the industry." How is the national character of airlines adversely affecting the industry?**

**Answer:** Airlines are businesses. Full stop. Airlines are the US\$450 billion heart of a value chain that contributes US\$2.9 trillion to the global economy. But basic commercial



Photo courtesy of IATA



Under the direction of Giovanni Bisignani, the International Air Transport Association has long advocated increased openness in the air transportation industry. IATA, which represents more than 270 member airlines around the globe, supports efforts to reduce barriers to a more global industry.

freedoms are critical to further maximize this wealth generation. Instead, we are stuck with a 60-year-old set of rules — known as the bilateral system — that date from an era when national carriers were extensions of foreign policy. Times have changed.

In 1944, air transport served an elite clientele of 9 million passengers, and the DC-3 was the backbone of the fleet. As the industry makes preparations for the Airbus A380 and Boeing 787, 2.2 billion passengers are expected to fly this year. Air travel is more accessible than ever. We are a different industry, and we need new rules of engagement.

What freedoms do we need? The freedom to serve markets where they exist. The freedom to access global capital. And the freedom to merge or consolidate. The future of our industry should be defined by competition and by markets. Most other industries take these for granted. But in the case of airlines, governments are painfully slow at accepting the need for change.

**Q: Why are governments still reluctant to change?**

**A:** The role of governments is to anticipate and lead change. But in air transport, too often the result is to block or delay change. Even an agreement between the United States

and Europe is being held hostage. It makes no sense that two markets so similar — the same dimension, the same level of technology and the same level of development — are still struggling to get beyond politics mired in an obsolete vision of the industry. While there are still delays, it now appears that we could be on the verge of an agreement later this year. Together, these markets comprise two thirds of aviation — 105,000 seats every day. A substantive agreement on liberalization and regulatory convergence would be the watershed that the industry has been waiting for. And it would set the stage for a full treatment of ownership rules.

But if the leaders of today are not able to deliver results, the good news is that leaders of tomorrow — China and India — are building a solid foundation.

China offers another model of effective policy coordination. The government is challenging its carriers to compete globally with a staged and transparent approach to liberalization. Consolidation is strengthening the global competitiveness of its carriers. The level of investment is also significant to ensure there will be sufficient infrastructure to support growth that could see as many as 100 million Chinese tourists traveling internationally by 2020.

In India, recent policy changes have revitalized the aviation industry, taking it from two state-run airlines to a vibrant industry with more than 10 players in a very short space of time. Aircraft orders placed in 2005 will more than double India's fleet — testimony that India is aviation's greatest potential market. Currently only 4 percent of the Indian population flies each year — equivalent to 40 million passenger journeys. If that expanded to even 25 percent of the population, we would have a market the size of the United Kingdom with 250 million journeys a year. The critical question will be whether we can match policy progress with appropriate infrastructure. The hubs of Delhi and Mumbai need immediate fixes to ease current capacity limitations. And we need to start work on new facilities to meet the demand when today's aircraft orders are delivered.

**Q: The International Civil Aviation Organization set the direction for a staged approach to liberalization in 2003, but you've said the follow-up has so far proven disappointing. What needs to happen to get back on track?**

**A:** We heard nice words from the Fifth ICAO Air Transport Conference in 2003. Governments agreed a course for progressive liberalization. Nobody expected — or wanted — the world to change overnight. But that cannot be an alibi to do nothing. As we all know, agreement and results are very different things. The question is: how do we move governments? By shouting politely but loudly with facts and figures. The benefits of liberalization are undeniable. Industries that have liberalized are prospering.

Look at the telecoms sector. Liberalization with the freedom to merge and consolidate across borders has seen a 30 percent drop in real prices to consumers while the industry remains largely profitable. A deregulation of half-measures in the airline industry has seen a similar drop in consumer prices — but we have accumulated over US\$40 billion in losses in the last five years. Not all of this can be pinned to the failure to liberalize. But as the industry struggles to reduce costs and improve efficiency, the lack of basic commercial freedoms has held us back like a boxer trying to fight with one hand tied behind his back.

Ending the bilateral system would add US\$12 billion to airlines' bottom line, not to mention the ripple effect throughout the global economy. Over that last five years, that would have made a tremendous difference to the industry's financial situation.

**Q: You speak of consolidation. Are there too many airlines?**

**A:** We have some 260 member airlines and the total number is well over 1,000. What other industry is this fragmented? If you look at



other strategic industries such as steel, ocean shipping or automobiles, there are only a handful of players and nobody is concerned. But for some reason, as soon as two airlines try to do almost anything together, the regulators slow or stop the process. An industry that competes globally needs regulators with a global vision. There is some good news. Air France and KLM are delivering some of our industry's best results as a result of merging despite complex and restrictive requirements by governments. And the Lufthansa-Swiss partnership looks set to do the same. But these are the exceptions. We need to see much more.

**Q: Is security not a concern?**

**A:** It is a concern for any government, but it is not a stopper to the liberalization process. Golden shares and other such methods can be employed to ensure capacity in times of national emergencies. But even at that, look at the merchant marine. There are very few national fleets left. But in times of crisis, supplies get to where they are needed by letting markets work. We need to avoid flags of convenience issues that have plagued maritime shipping. Governments must maintain strong roles in safety, security, regulating monopoly suppliers and maintaining a level playing field. But beyond that, airlines should be treated like any other industry.

**Q: Taxation of the airline industry has been a major issue in many regions. What are you doing to convince governments to lower the tax burden on airlines?**

**A:** The most frustrating and baffling aspect of governments' approach to aviation over the years has been counter-productive taxation. Airlines generate 29 million jobs that support 8 percent of global gross domestic product. But instead of nurturing the industry as an engine for growth, too many governments see us as a cash cow.

There is no better example of this than the French government's decision to tax airline passengers to fund development in poorer countries. The tax came into force in France on July 1, and ranges from €1 (US\$1.28) to €40 (US\$51.20) per flight depending on distance traveled and type of ticket. It is forecast to raise €210 million (US\$268.8 million) annually for developing countries — a mere 2.5 percent of the French aid budget.

No one opposes helping developing countries. But this tax hurts the very things it is designed to help. No industry has done more for development. In Africa, air transport generates employment for 470,000 people adding US\$11.3 billion to African GDP. More importantly, air transport provides transportation links to areas that would otherwise be inaccessible. Making air transport more expensive is akin to biting the very hand that feeds development.

**Q: How do governments justify imposing deep taxes on airlines while at the same time subsidizing their rail competitors — even though the aviation industry has been faced with such challenging times?**

**A:** It cannot be justified. European rail is subsidized by €50 billion (US\$64 billion) each year while airlines contribute €5.9 billion (US\$7.6 billion). Let me explain the market distortion in concrete terms. Each journey by rail in France is subsidized by €7.40 (US\$9.47), while each journey by air contributes €8.40 (US\$10.75) in taxes and charges. In many cases, air transport competes direct-

ly with high-speed rail. It's wrong, and we must change the image of our industry to reflect the reality. The 2.2 billion passengers who will travel by air this year are not all millionaires.

**HIGHLIGHT**

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They are people traveling for business, to meet family or enjoy a vacation. There is no reason why they should be subject to taxation schemes akin to alcohol and tobacco.

**Q: If the airline industry achieves true globalization, what impact do you foresee that having on the industry?**

**A:** Full liberalization would lead to a far more efficient and financially healthy industry — one that maintains affordable travel for consumers and continues to deliver global economic benefits. It won't happen overnight. But it must define our future.

**Q: What role are alliances playing in globalization? Can they do more?**

**A:** Alliances are helping airlines achieve greater network reach and cost reductions through joint purchasing initiatives as an example. They are not an excuse to avoid liberalization.

**Q: In recent years, you've lobbied not only for "bilateral open skies" but for "wide-open" skies. How does one differ from the other, and are wide-open skies a foreseeable part of the air transport industry of tomorrow?**

**A:** Open skies are bilateral agreements without capacity constraints — an extension of the bilateral system. Wide-open skies are a

**Q: Airlines around the world have varying degrees of technology — from the latest high-tech systems to those that still perform functions manually. How does IATA's Simplifying the Business initiative help with globalization?**

**A:** Technology knows no borders. The problem in the past has been the lack of industry-wide coordination of its implementation. However, our Simplifying the Business initia-

tive demonstrates that a coordinated effort can unleash the value of technology across an entire industry. Simplifying the Business' five core projects — 100 percent e-ticketing by the end of 2007, bar-coded boarding passes, common-use kiosks for self-service check-in, radio frequency identification for aviation and IATA e-freight — increase the convenience of travel and the ability for airlines to increase efficiency on a global basis. None of the technology is new. Competitive advantage is not an issue, industry health is. Ultimately, it will save the industry US\$6.5 billion annually.

**Q: What is your vision for the industry five years from now?**

**A:** Airlines have delivered tremendous results in the last four years. Non-fuel unit costs decreased by 13 percent. Labor unit costs decreased by 33 percent. And distribution costs were slashed by 10 percent. In the last two years alone, fuel efficiency improved by 5 percent. To help quantify this, the industry fuel bill went from US\$40 billion in 2002 to US\$91 billion last year. We expect the 2006 bill to be US\$112 billion. The industry is in the red. But losses will decrease despite the rise in fuel prices.

In five years' time, we need to be delivering returns to our investors — regardless of the price of oil. At the same time, we must maintain our constant focus on improvement in safety, security and environment issues. And we must be further ahead in convincing governments of the need for continued change — hopefully in an already liberalized environment. **F**