



**Does Air Transport Infrastructure
Provide For Competitiveness?**

**Giovanni Bisignani
Director General and CEO
International Air Transport Association (IATA)
Swiss Air Transport Congress
Zurich
30 May 2006**

Good morning. It's impressive to see so many key representatives from the Swiss aviation community and government. And I am very pleased to note the presence of the President of the Confederation.

- We have talked often about efficiency in air transport.
- I congratulate the President and the government for initiating today's dialogue.

Switzerland has been IATA's home for nearly 40 years. Our executive offices in Geneva

- employ over 350 people
- manage US\$240 billion of industry settlements
- and coordinate our relations with governments

Globally IATA has 78 offices that cover 115 countries. One of our missions is to bring a global perspective to our local aviation communities. It is a view that recognises

- that dialogue between industry and government is critical
- and that aviation is a global industry that needs global solutions

And it is a view that is important to any nation's competitiveness

- Airlines are at the core of a global value chain that supports US\$3 trillion in economic activity
- US\$270 billion in Europe alone

Air transport is a growing industry. Traffic this year is 6% above 2005 levels. And IATA member airlines are forecasting 6% growth for the entire period 2005-2009. But the regional picture is diverse.

North America

In North America, restructuring under Chapter 11 helped carriers bring labour costs down

- Labour productivity improved 34% since 2001

Domestic competition is strong

- But improved capacity discipline is helping yields

The US\$4 billion debt-financing burden will take some time to overcome. But there is no doubt that North American carriers have emerged as more efficient and competitive carriers. And we forecast 5.2% annual growth for passenger traffic until 2009.

Latin America

Latin American carriers posted traffic growth of 11.4% last year. One of the highest in the world. While the region's financial crisis continues, carriers have been innovating. Subsidiary companies are over-coming bilateral barriers. Governments need to catch up with liberalization. And to solve the many problems remaining from airport privatisations in the 1990's. Optimism is supporting expected average annual growth of 4.9% to 2009.

Middle East

The Middle East is the fastest growing region in the world. Airlines there have placed record aircraft orders to match market growth. Traffic growth will likely slow from its current double-digit levels to average 6.7% between 2005-2009. Careful capacity management will be critical.

Africa

Africa will see robust passenger and freight traffic growth of 5.7% and 4.8% respectively. However safety levels in the region must improve. Or the benefits of growth will not materialize.

Asia Pacific

Asia is the most profitable region in the world. China and India are rising stars. China's double digit growth is impressive. It is supported by an effective set of government policies to

- Consolidate and strengthen local carriers
- Liberalise, bringing competition and raising service levels
- And build infrastructure to keep pace with demand

The sleeping giant of India is waking up quickly. India has over 330 aircraft on order—more than the existing fleet of 210. The challenge will be to catch up with infrastructure investment. I am confident in the future of both these important markets.

Europe

This brings me to Europe. We expect passenger traffic to increase by 5.3% each year to 2009. Some consolidation has brought efficiency and profitability. But many important issues remain.

Forecasts

Our forecasts for growth are good news for airlines and for the economy. But growth without profitability is meaningless. It is not sustainable. And forecasts are only valid if the environment is predictable. Recent shocks—SARS, 9.11, war, terrorism, fuel prices—have shown how quickly and dramatically things can change. How do we turn growth into profitability? We need to solve industry problems.

- And improve competitiveness
- Efficiency is the driver

Competitiveness is constantly improving efficiency to provide better value to customers And doing this with speed!

Effective air transport policies—based on global standards—will have a positive impact throughout the economy. Airlines live in a competitive world that demands constant change. Our Simplifying the Business programme is a good illustration. IATA is leading industry efforts to use technology to make travel more convenient while saving US\$6.5 billion annually. Achieving 100% electronic ticketing by the end of 2007 is the top priority. This is a fundamental but necessary shift in the way we do business. Airlines need the US\$3 billion in

savings 100% ET will bring. Just look at the enormous change that has taken place with Swiss in the last years. Across Europe airlines have delivered on efficiency over the last 4 years by

- Cutting operating costs by 9%—even with record high oil prices
- Reducing distribution and back-office costs by 24%
- And improving pilots productivity by 14%

Consumers benefited with a 30% drop in real term prices for air travel in the last decade. And more people than ever are flying. We must then turn to infrastructure. The drive for efficiency is absent in many parts of the world. And competitiveness suffers as a result. In Switzerland we have a long way to go on some very important issues to ensure infrastructure supports competitiveness. But I am convinced that with your strong support and efforts will help

We need to ensure that infrastructure capacity meets demand. Not that demand is managed by available capacity. Along with efficiency, investment will be needed. But it must be the right investment

- safe
- backed-up with cost-benefit analysis
- and supported by user consultation

Unfortunately, the managers of infrastructure are not contributing enough to competitiveness. Compare what airlines have achieved on operating cost per passenger to the cost of infrastructure per passenger between 2001 and 2005.

BA—the most profitable European network carrier—reduced passenger costs by 9.9%. But their infrastructure costs rose by 0.9%

In Switzerland, costs per passenger at Zurich increased by 7%—on top of charges that were already high. By contrast, we all know the enormous cost cutting and re-structuring that SWISS has achieved.

Governments must take leadership. This is particularly relevant to Switzerland with a small market. Cost competitiveness is critical to operating an efficient hub. The 2004 Swiss national air transport policy statement set a good direction. Recognising the economic benefit of air transport and its role in trade and tourism. Understanding the need to be internationally competitive. And acknowledging the role of the state in security and ATC. Now we need action and results—quickly.

Air Traffic Management

Air Traffic Management efficiency is a concern in Europe and Switzerland. We need three things

- Add capacity to meet demand
- Do better on harmonisation and
- Implement change efficiently and quickly

Capacity

Delays are costly. In 2004 14.9 million minutes of delays in Europe cost the industry EUR 800 million. 10% of delays involved Skyguide at a cost of EUR 80 million. And the delay cost per flight hour is the highest in Europe. EUR 188 versus EUR 52—the European average. Much of this points to the cost of fragmentation. Consolidation is the way forward. We began 2006 with a big disappointment—CEATS. A great idea to reduce costs and improve efficiency turned into an even bigger bureaucracy. Political will to make difficult decisions was dead. After 10 years we had no concrete results for our EUR\$ 40 million airlines invested.

I had no choice but to withdraw IATA's support and ask that no further investment be made. Skyguide's chairmanship of a CEATS Task Force helped bring these long buried problems to the surface. The Single European Sky initiative must learn from these mistakes. When I was chairman of AEA—in 1991-92—I was told that a Single Sky would take a few of years

Today we still have 35 ANSPs. This costly failure is an embarrassment to Europe. Unit costs for ATC in the US and Australia are 30 and 60% cheaper.

We appreciate the role that Vice President Barrot has played in SESAR. Functional Airspace Blocks are a concrete step that we can take today. We appreciate Skyguide's functional airspace block initiative with the French ANSP. Now we look forward to some results:

- 20% improvement in controller productivity
- And a 25% reduction in support costs
- And they must be delivered in both ANSP's by 2010

And we must not lose sight of our goal. A Single European Sky.

We also need to agree on harmonisation

IATA's Global ATM Roadmap, accepted by ICAO, is our guide. The US and Europe are taking diverging approaches. Harmonisation is critical—for competitiveness and for safety. We have the technical solutions. The problems are all political. Zurich is a case in point. Unilateral German restrictions on flights using Zurich set a damaging precedent for the industry. And impact both Swiss and German economies. It is difficult to understand why an agreement is not possible between such close neighbours. And 6 years is far too long to wait. France and Switzerland came to an agreement in Geneva. There is no excuse for this problem to persist.

Cost Efficient Air Navigation Services

Finally, cost efficiency must be everywhere in our industry. We have a successful programme of benchmarking and good relations with CANSO. The weighted Average unit rates for Eurocontrol member states reduced by 12.5% between 2003 and 2006. But these good results are still mostly the result of increased traffic volumes. The story is similar in Switzerland. In 2003 Switzerland had the highest unit rate in Europe. Now it is fourth.

We are now working with Skyguide for a longer term progress. Starting with separating cost base growth from traffic growth. The target is to bring Swiss to 8th place by 2008. And this must be just a first step of a continuous process. For this, I welcome the support of Mr. Rossier.

Now let me turn to Airports

Many of Europe's airports are not matching airline efficiency efforts. 15 of the 25 most expensive airports in the world are European. Charges at Zurich rank 4 in Europe and 10th in the world. Lower charges at Geneva are supporting stronger traffic growth.

Overall the costs per passenger at European airports rose 13% between 2001 and 2004. Some airports achieved double digit decreases between 2001 and 2004—Manchester, Rome and Birmingham.

But others have double-digit increases

- Aeroports de Paris +44%
- Amsterdam +34%
- Stockholm +35%
- Spanish Airports +24%

Meanwhile airlines are reducing costs:

- Air France/KLM -7.3%
- SAS -14.8%
- Iberia -4.0%

These airports are embarrassing examples of airport monopolies living in the dark ages. And with limited transparency and no cooperation on benchmarking, the situation is difficult. We cannot afford a relationship where airports spend and airlines and their passengers pay the bill. Vice President Barrot acknowledged the problem in Europe. We asked for robust national economic regulation of airport monopolies. Regulation must ensure transparency and stakeholder engagement. If we pay the bill, we need to have a say in what is being bought...at what price...and agree how it is financed. We need profitable airports providing safe infrastructure, investment to meet demand and greater cost efficiency. This is exactly what airlines have achieved.

Environment

Before I conclude, let me remind you that efficient infrastructure contributes to environmental responsibility. Our approach to the environment is

- factual in assessing the current situation
- proactive in planning further improvements

Let's start by killing 3 common myths

Myth Number 1: Air transport is a major source of Greenhouse gas emissions

Fact: Our contribution is small—2% of global CO₂ emissions. But we generate 8% of the world's economic activity.

Myth Number 2: Air transport is the most polluting form of transport

Fuel consumption by modern aircraft is 3.5 litres per 100 passenger kilometers. And new aircraft will take this well below 3.0 litres. Not even hybrid cars can achieve this.

Myth 3: Air transport is getting a free ride—it does not pay fuel tax

Fact: Air transport pays entirely for its own infrastructure—US\$42 billion a year. By contrast rail is subsidized by US\$50 billion a year in Europe. Setting the record straight alone is not enough. IATA's Board approved a 3 point approach to environment:

1. Investment technology must continue to drive our efforts at fuel efficiency

Taxes must not rob us of that ability to invest

2. Emissions trading may be a part of a global solution

It is not the time to get distracted with regional solutions. I urge Switzerland to contribute to an ICAO solution at the 2007 assembly.

3. Efficient infrastructure must be part of the pollution

We reduced CO₂ emissions by 8 million tonnes and saved US\$1.2 with work on 300 air routes last year. Airlines are ahead of target to deliver a 10% fuel efficiency gain between 2001 and 2010. Now government must deliver by

- Making a Single European Sky a reality
- And supporting operational measures like continuous descent approaches

To conclude

We all have a role in building a more competitive aviation environment in Switzerland. It needs to be seen from a global perspective. Customers don't consider borders when deciding what is best for them. Infrastructure providers must match airline efficiency gains. Governments must

- Make progress on environment issues with efficiency and technology
- Keep global standards and harmonisation are the core of aviation policy
- And ensure cost-effective infrastructure that is safe and meets demand

To do that infrastructure providers and the Swiss government must work together to:

- Take aggressive action on the implementation of Functional Air space Blocks
- support SESAR as a realistic approach to a Single European Sky
- take quick, concrete measures that back up the national policy on air transport
- and make transparency and consultation a hallmark of Swiss aviation

I am known for being direct in saying what needs to be done. My direct style does not mean that I do not understand the political realities you face. But I am convinced that you all understand the tremendous role that air transport can play in driving economic growth. With your leadership, you have a great opportunity. To put a more efficient air transport sector at the heart of a more competitive Switzerland. Thank you.

CHARTS

