Opening Plenary

Sponsored by: Boeing
WORLD PASSENGER SYMPOSIUM

October 15 – 17, 2014
San Diego, CA, USA
IATA Opening Remarks

Aleks Popovich
Senior Vice President, Financial and Distribution Services (FDS), IATA
Welcome Address by Principal Airline Sponsor

Keeping on Course

Jerry Foran
Head of Product Delivery, Revenue Management, British Airways
100 years of commercial aviation, what’s next?

Tony Tyler
Director General and CEO, IATA
Economic outlook:
Where does the industry come from? Where is it going?

Julie Perovic
Senior Economist, IATA
Key trends
The demand cycle has been turning up

Source: CPB Netherlands, Markit

Global industrial production, trade and business confidence

PMI index level, 50=no change

% change

Source: CPB Netherlands, Markit
Air travel growth has been robust.

World industrial production and RPK growth

Source: IATA, Netherlands CPB
Variation among regions, but solid overall

RPKs by region of airline registration

Indexed to 100 in May 2010

Cycle peak for market total

Middle East
Latin America
Europe
Asia Pacific
Africa
North America

Source: IATA
Passenger business has supported industry revenues

Source: IATA, ICAO
But financial performance has been mixed

Source: IATA, Airline Analyst
Part of the difference is capacity

Source: IATA

ASKs by region of airline registration

Asia Pacific airlines
+38%

European airlines
+18%

N America airlines
+2%

Source: IATA
Ancillaries are also making a difference

Ancillaries as a % of revenues

Operating margin, % revenue

Source: IdeaWorks, Airline Analyst, IATA
Overall the picture is improving

Return on capital invested in airlines and their cost of capital

- **Cost of capital (WACC)**
- **Return on capital (ROIC)**

Inadequate returns

Source: IATA, ICAO
Our passenger forecast service

A joint partnership between:

IATA

TOURISM ECONOMICS

AN OXFORD ECONOMICS COMPANY

www.iata.org/pax-forecast

Source: IATA, Tourism Economics
Forecast overview: 2014 - 2034

- North America: 649m (3.3%)
- Europe: 591m (2.7%)
- Middle East: 237m (4.9%)
- Latin America: 363m (4.7%)
- Africa: 177m (4.7%)
- Asia Pacific: 1,793m (4.9%)

Source: IATA, Tourism Economics
What are the downside risks?
Growth in air travel depends on Asia-Pacific

Middle Class in 2009 and projected for 2030

Source: OECD, Standard Chartered Research
The outlook for China is fragile

• The IMF still expects the Chinese economy to expand by 7.4% in 2014

• But there are concerns over:
  • Sharp decline in house prices
  • Unregulated borrowing

• A slowdown in China will impact the entire region

Source: IMF
The Eurozone economy is waning

Markit PMI and eurozone economic growth

Source: Markit, Eurostat
Trade and economic openness is important.

Air cargo, air travel, world GDP and world trade

Indexed to equal 100 in 1970

Source: ICAO, Haver, IATA
And impacts business travel growth

Premium Passengers and World Trade Growth

% Change over year

Source: IATA, CPB Netherlands

Source: Thomson Reuters Datastream
Trade was expanding faster than local output.
But the relationship has broken down

Source: Netherlands CPB, IATA
Trade barriers need to be resisted

Cumulative net restrictions introduced by G20 member countries, including tariff and non-tariff measures.

Source: World Trade Organisation, Global Trade Alert, B20
Rising geopolitical risks

In addition to a global escalation of risk, there are three broad areas of geopolitical risk in Russia / Ukraine, MENA and Asia:

**Global: Material rise in global geopolitical risk**
- Escalation of conflicts across multiple regions, driving up oil prices and hampering trade and global growth
- Geopolitical tensions escalate into trade wars or sanctions, also curbing trade and global growth
- Tail risk event, e.g., nuclear or large scale terrorist attack, pandemics (e.g., SARS), natural disaster

**Russia / Ukraine: Escalation of crisis**
- Despite conciliatory signals from Ukraine government and from Russia, an escalation can’t be ruled out
- A downside scenario could see a deepening of the conflict – with US and EU introducing level 3 sanctions (trade and financial sanctions), and Russia freezing Western assets

**Further escalation in Middle East or North Africa**
- Multiple potential hotspots which could see further instability, leading to disruption in oil production and a rise in oil prices, and threatening global growth
- Could take the form of:
  - Regional spill-over of sectarian conflicts in Syria / Iraq
  - Further escalation from Israel / Palestine tensions
  - Israel / Iran escalation
  - Rise in unrest in Egypt
  - Islamist threat in North Africa / Nigeria
  - Political upheaval in Saudi Arabia or other major regional power

**Asian latent disputes escalate into economic or military conflict**
- Intra-regional territorial disputes (e.g., China vs. Japan / South Korea / Vietnam) escalate
- North Korea collapses, or triggers military attacks on neighbouring countries
- Rising tensions between India and Pakistan (both nuclear powers)

Source: Deutsche Bank Research
The event for a century of aviation and beyond

Eric Leopold
Director, Transformation, IATA
Digital Transformation
Mobile transformation

First international iTunes in 2004

Apple Pay launched in 2014
Media transformation

First Facebook homepage in 2004

More than 1bn users in less than 10 years
Personal transformation
Personalize your trip

Customize your trip with a variety of products and services. By choosing from this à la carte menu of extras, you can make your travel experience a little more relaxing and rewarding.

Booking Options
- FareLock℠
- Trip Insurance
- Gift Certificates
- Gift Registry

Onboard Options
- Premium Cabins
- Economy Plus®
- United Wi-Fi
- Choice Menu
- DIRECTV®

Arrival Options
- Hotel Reservations
- Ground Transport

Airport Options
Disruptions ahead?
Towards value-add services?

Source: IdeaWorks, Airline Analyst, IATA

IATA Economics www.iata.org/economics
More choice and transparency?

Air examples:
- Checked bags
- Preferred seating
- In-flight meals
- Early boarding

Non-Air examples:
- Hotel revenue & commissions
- Car rental commissions
- FFP miles sales

Air Value-add
Air un-bundled
Air core
Towards door-to-door?

Trip planning

Fulfillment – intermodal

Real-time information

Delivery – Pax & Bag
Relevance today?

- Years of travel history
- FFP preferences
- Shopping behavior
- Business & leisure patterns

Executive Club GOLD

More of the USA and Canada for 20% less

Dear Mr Leopold,

It's time to book your next escape. British Airways is offering a 20% discount on all World Traveller and World Traveller Plus flights to the USA and Canada*. Book by 31 October 2014 at ba.com and travel up to 30 April 2015.

BOOK NOW
Towards life experiences?
Simplifying the Business StB
The first 10 years of StB

Enhancing passenger end-to-end journey

- Shopping
  - Product differentiation
  - Receipt for misc. orders
  - Tickets

- Departure
  - Security check-point
  - Airline self-service
  - Check-in kiosks
  - Boarding passes

- Flight

- Arrival
  - Bags
Tickets

Paper tickets

Electronic tickets
Boarding passes

Paper boarding passes

Electronic and mobile boarding passes
Self-service check-in kiosks

Airline dedicated kiosk

Shared common-use kiosks
Fast Travel

Manual boarding gate

Self-boarding gate
Border Control

Manual Border Control

Automated Border Control
Objective 1
Airline Products

To empower airline retailing and merchandising.

Objective 2
Real Time Interaction

To provide customers with trusted, accurate and real-time information from all operators throughout their journey.

Objective 3
Seamless & Hassle Free

Reduce industry complexity by eliminating unnecessary processes and related wait times throughout the passenger journey.
Customer Order Transformation
The Invisible Highway

NARRATED BY HARRISON FORD

AVIATION
THE INVISIBLE HIGHWAY

COMING 2015
The 1st Passenger innovation award
Welcome Reception & Gala Dinner
World Passenger Symposium (WPS) 2014
How industry collaboration is driving value through innovation

15-17 October 2014
Hilton Bayfront, San Diego, CA, USA

100 Years of Aviation: From Exclusivity to Commodity, Is Flying Still Glamorous?
http://eventmobi.com/wps2014

#iatawps
Digital Transformation

Simplifying the Business StB

World Passenger Symposium WPS
Thank you
100 years of flying; 50 years of reservation and customer service systems

Gary Doemhoefer
Consultant, former IATA General Counsel

Bryan Wilson
Director, Industry Architect, Transformation, IATA
FIRST SCHEDULED AIRLINE
TONY JANNUS & ABRAM C. PHEIL 1914

Jannus & Abram C. Pheil prior to takeoff during operations at St. Augustine, FL.
FIRST SCHEDULED AIRLINE, 1914
AA’s Magnetronic Reservior

1952
1929: First US guide is 24 pages.

1954: Global guide is 528 pages.

1962: Begins feed to CRSs.
Pan Am teletype operators in 1940’s

Aeronautical Radio Incorporated
founded 1929

SITA founded 1949
Since deregulation, a technological revolution has changed the face of the US
travel industry. Over the next 18 months that same revolution will sweep Europe.
The American Airlines computer reservation system, Sabre, hopes to lead the
charge. John Bailey looks at the opposition it faces.

I t was January 1981, shortly after the Congress voted to open the American Civil War to allow passengers to travel on a single airline system with a single computer network. The Western Union Telegraph Company completed its first transcontinental cable, linking the Atlantic seaboard with the Pacific. Six weeks later the Pony Express was out of business.

The story clearly illustrates the potential impact of new technology on the
industry. It can be terminal (if you will forgive the pun) but, with a little foresight, is possible to mitigate the consequences. As Terry Jones, vice-president, product development of Sabre, the American Airlines computer reservation system, says: "There's no reason why the guy who
ran the Pony Express couldn't have become the telephone guy. He could have, if he'd been smart." Over the next 18 months the American Airlines computer reservation system faces a technological revolution of similar proportions, as the two European CRs consortia, Amadeus and Galileo, grow closer to "on line", and the rival American systems struggle to achieve a "breakthrough." This revolution has been a long time coming. Europe, even though computerized reservation and passenger processing systems are a fact of life in the airline business since the 1960s, the development of systems which show how automated information and distribution technology to the travel agent gives the airlines a competitive edge. The access to the most direct marketing tools the industry has ever devised. For the first time it allowed the airlines to control the distribution of information to the travel agent - not only about the host carrier's services but, more critically, on the services provided by competing airlines.

The airlines themselves were slow to realize the potential applications of these automated systems developed for their own internal use in the late 1960s and early 1970s. It was not until 1977 that a joint working group comprising representatives of the US travel industry and the major airlines began to explore ways of applying this technology to the business of travel information and distribution.

By 1978 they had devised a model for a unified automated travel distribution system, but the project failed when United Airlines withdrew and decided to market its own system to travel agents instead. The following June American Airlines announced that it, too, would market a system, but that it would be sold under its own brand name and not by the joint working group. This was the system which was followed by TWA's PARS and Delta's Data II.

The companies which were not to exploit these CRSs to enhance the sale of their services, at least initially, were Sabre. Max Hopper, Sabre's senior vice-
president, said, "We were working closely with the development of automated passenger reservation systems. We had not really addressed the issue of travel sale, if you will. Sabre's displays were biased to favour the service provider. However, we had done a lot of work with the display of rival carriers' CRSs now we can see what they look like, and if we are going to sell our product, we have to show the displays of rival carriers' CRSs and we want to make sure that the system is capable of showing displays of rival carriers' CRSs if they are doing something that we think is better.

The House of Commons recently appointed a select committee to investigate the impact of CRSs on airline competition, and the European Civil Aviation Conference is considering a code of conduct along the same lines. However, Richard Botwood, director-general of Sabre, says: "Whatever the legal position, we believe that our displays will always be a step ahead."

In Europe, the Americans who are showing some concern about the code of conduct, arguing that they are too competitive, are the Europeans who are showing some concern about the code of conduct, arguing that they are too competitive. European airlines are concerned that American CRSs are too competitive.

European airlines have a code of conduct which states that they will not advertise their services in any way which could be considered misleading. American CRSs are not bound by this code and are free to advertise their services in any way they choose. American CRSs are also free to advertise their services in any way they choose. American CRSs are not bound by this code and are free to advertise their services in any way they choose.

American CNs are advertising that American will be the only airline in Europe to offer a full-service CRS. American CNs are also advertising that American will be the only airline in Europe to offer a full-service CRS. American CNs are not bound by this code and are free to advertise their services in any way they choose.

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1994

A great year

Friends

Tom Hanks is Forrest Gump

The world will never be the same once you’ve seen it through the eyes of Forrest Gump.

July 6
Los Cabos Airport to reopen on October 8: Learn More

Flight Search

What type of trip do you want to take?
- Round Trip
- One Way
- Multiple Destinations

Where and when do you want to fly?
- Depart Date: dd/mm/yyyy
- Time: Anytime
- Depart Cabin: Economy
- Return Date: dd/mm/yyyy
- Time: Anytime
- Return Cabin: Economy

Who is traveling?
- Adults (age 18 to 64):
But quickly followed…

First OTA
12 March 1996

But quickly followed…

OCT 1996

EXPEDIA.COM
DEBUTS ON THE WEB AS
MICROSOFT EXPEDIA TRAVEL SERVICES
Summary of last 50 years

1. First computer reservations systems
2. Expansion of reservation systems to travel agency desktops
3. Failure of joint industry efforts leading to the ‘arms race’ fueled by deregulation
4. Use of CRSs as competitive weapons which attracted government regulation
5. CAB’s choice not to follow DOJ’s advice on who should pay for CRS use
6. Expansion of CRSs into Global GDSs
7. Combination of ETs and the Internet leading to Direct Sales
8. OTAs to support industry shoppers
9. “Full Content” negotiations
Networking Coffee Break

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NIIT technologies
Opening Plenary

The Voice of the Customer

Facilitated by Rajan Datar, Correspondent, BBC
Opening Plenary

Aviation: “The Invisible Highway”

Brian Terwilliger
Film Director, Terwilliger Productions
Opening Plenary

100 years of aviation and beyond: The lense of the customer

Moderator:
 però Rajan Datar, Correspondent, BBC

Panelists:
peror Steven J Peterson, Thought Leader, IBM's Global Business Services Travel & Transportation
peror Brett Snyder, President, Cranky Flier LLC
peror Brian Terwilliger, Film Director, Terwilliger Productions
peror Ben Schlappig, Founder and Blogger, One Mile at a Time
peror James Gichuru Kirubi, CEO, Belvoir Holdings Limited
peror Jonathan Lieberman, Recruitment Specialist, Allstate Insurance Company of Canada
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100 years of aviation and beyond: The lens of the customer

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➤ Jonathan Lieberman, Recruitment Specialist, Allstate Insurance Company of Canada
From exclusivity to commodity, is flying still glamorous?

**Moderator:**
Rajan Datar, Correspondent, BBC

**Panelists:**
- Thella Bowens, President and CEO, San Diego County Regional Airport Authority
- José Luis Garza, CEO, Interjet
- Christoph Mueller, CEO, Aer Lingus
- Marty Salfen, General Manager, Global Travel & Transportation Industry, IBM
- Otto de Vries, CEO, Association of Southern African Travel Agents (ASATA)
Lunch

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