

International Air Transport Association (IATA)

IATA. What is it, what is its mission and what are the objectives?

The International Air Transport Association (IATA) is a trade association of the world's airlines, it represents some 320 airlines comprising 83% of global air traffic. IATA provides a platform for airlines to cooperate in ensuring safe, secure, and sustainable air transportation. It also sets standards for airline safety, security, efficiency, and sustainability, as well as facilitates the sale of air tickets, sets baggage policies, and develops industry solutions for various challenges faced by airlines.



IATA's mission is to represent, lead, and serve the airline industry.

- ▶ **Representing the airline industry**
We improve understanding of the air transport industry among decision makers and increase awareness of the benefits that aviation brings to national and global economies. Advocating for the interests of airlines across the globe, we challenge unreasonable rules and charges, hold regulators and governments to account, and strive for sensible regulation.
- ▶ **Leading the airline industry**
For over 70 years, IATA has developed global commercial standards upon which the air transport industry is built. Our aim is to assist airlines by simplifying processes and increasing passenger

convenience while reducing costs and improving efficiency.

- ▶ **Serving the airline industry**

We help airlines to operate safely, securely, efficiently, and economically under clearly defined rules. Professional support is provided to all industry stakeholders with a wide range of products and expert services.

Air transport is an important component of the global transport and commerce value chain. Can you outline the current strengths and weaknesses of air transport? I imagine the experience of the consequences of the pandemic and war can give us a clue. What other challenges does the industry face?

IATA announced strengthened profitability projections for airlines in 2023, which will then largely stabilize in 2024. However, net profitability at the global level is expected to be well below the cost of capital in both years. Very significant regional variations in financial performance remain.

Outlook highlights include:

- ▶ Airline industry net profits are expected to reach \$25.7 billion in 2024 (2.7% net profit margin). That will be a slight improvement over 2023 which is expected to show a \$23.3 billion net profit (2.6% net profit margin).
- ▶ In both 2023 and 2024 return on invested capital will lag the cost of capital by 4p.p., as interest rates around the world have risen in response to the sharp inflationary impulse.
- ▶ Airline industry operating profits are expected to reach \$49.3 billion in 2024 from \$40.7 billion in 2023.
- ▶ Total revenues in 2024 are expected to grow 7.6% year over year to a record \$964 billion. Expense growth is expected

to be slightly lower at 6.9% for a total of \$914 billion.

- ▶ Some 4.7 billion people are expected to travel in 2024, an historic high that exceeds the pre-pandemic level of 4.5 billion recorded in 2019.
- ▶ Cargo volumes are expected to be 58 and 61 million tonnes in 2023 and 2024, respectively.

Overall revenues in 2024 are expected to rise faster than expenses (7.6% vs. 6.9%), strengthening profitability. While operating profits are expected to increase by 21.1% (\$40.7 billion in 2023 to \$49.3 billion in 2024), net profit margins increased at less than half the pace (10%) largely due to increased interest rates expected in 2024.

Revenue: Industry revenues are expected to reach an historic high of \$964 billion in 2024. An inventory of 40.1 million flights is expected to be available in 2024, exceeding the 2019 level of 38.9 million and up from the 36.8 million flights expected in 2023.

Passenger revenues are expected to reach \$717 billion in 2024, up 12% from \$642 billion in 2023. Revenue passenger kilometers (RPKs) growth is expected to be 9.8% year on year. While that is more than double the pre-pandemic growth trend, 2024 is expected to mark the end of the dramatic year-on-year increases that have been characteristic of the recovery in 2021-2023.

The high demand for travel coupled with limited capacity due to persistent supply chain issues continues to create supply and demand conditions supporting yield growth. Passenger yields in 2024 are expected to improve by 1.8% compared to 2023.

Reflecting the tight supply and demand conditions, efficiency levels are high with the load factor expected to be 82.6% in 2024, slightly better than 2023 (82%) and the same as in 2019.

IATA's November 2023 passenger polling data supports the optimistic outlook.

- ▶ A third of travelers polled say they are traveling more than they did pre-pandemic. Some 49% indicate that their travel habits are now similar to pre-

pandemic. Only 18% said that they were traveling less.

- ▶ Looking ahead, 44% say that they will travel more in the next 12 months than in the previous 12 months. Only 7% say they will travel less and 48% expect to maintain similar levels of travel in the coming 12 months as in the previous 12 months.

Cargo revenues are expected to fall to \$111 billion in 2024. That is down sharply from an extraordinary peak of \$210 billion in 2021, but it is above 2019 revenues which were \$101 billion. Yields will continue to be negatively impacted by the continued growth of belly capacity (related to strong growth on the passenger side of the business) while international trade stagnates. Yields are expected to further correct towards pre-pandemic levels with a -32.2% decline in 2023 followed by a -20.9% decline expected in 2024. They will remain high by historical standards, however. Note that yield progression has been extraordinary in these last years (-8.2% in 2019, +54.7% in 2020, +25.9% in 2021, +7% in 2022, -32.2% in 2023).

Expenses: are expected to grow to \$914 billion in 2024 (+6.9% on 2023 and +15.1% on 2019).

Fuel price is expected to average \$113.8/barrel (jet) in 2024 translating into total fuel bill of \$281 billion, accounting for 31% of all operating costs. Airlines are expected to consume 99 billion gallons of fuel in 2024.

High crude oil prices are expected to continue to be further exaggerated for airlines as the crack spread (premium paid to refine crude oil into jet fuel) is expected to average 30% in 2024.

Industry CO₂ emissions in 2024 are expected to be 939 million tonnes from consumption of 99 billion gallons of fuel.

The aviation industry will increase its use of Sustainable Aviation Fuels (SAF) and carbon credits to reduce its carbon footprint. We estimate that SAF production could rise to 0.53% of airlines' total fuel consumption in 2024, adding USD 2.4 billion to next year's fuel bill. In addition, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSA) is a global market-based carbon offsetting mechanism designed to stabilize

international aviation emissions. The CORSIA-related costs are estimated at \$1 billion in 2024.

Non-fuel expenses have been controlled relatively well by airlines despite inflationary pressures. With fixed costs being distributed over a larger scale of activity as the industry recovered from the pandemic, non-fuel unit costs are falling in line with pre-pandemic level. In 2024 we expect non-fuel unit costs of 39.2 cents per available tonne kilometer (ATK) in 2024 which is 1.6% above 2023 levels and matches 2019 levels. Total non-fuel costs are expected to reach \$633 billion in 2024.

Risks

The industry's profitability is fragile and could be affected (positively or negatively) by many factors:

- Global Economic developments: Easing inflation, low unemployment rates, and strong demand for travel are all positive developments. Nonetheless, economic strains could arise. In China, for example, slow growth, high youth unemployment and disarray in property markets if not managed properly, could impact global business cycles. Similarly, should tolerance of high interest rates weaken, and unemployment rise significantly, the strong consumer demand that has supported the recovery could weaken.
- War: The operational impacts of the Ukraine war and the Israel-Hamas war have been largely limited to re-routings due to airspace closures. On the cost side, the conflicts have pushed up oil prices which is impacting airlines globally. An unexpected peace in either or both cases would bring benefits to the industry, but any escalation could produce a radically different global economic scenario to which aviation would not be immune.
- Supply Chains: Supply chain issues continue to impact global trade and business. Airlines have been directly impacted by unforeseen maintenance issues on some aircraft/engine types as well as delays in the delivery of aircraft

parts and of aircraft, limiting capacity expansion and fleet renewal.

- Regulatory Risk: On the regulatory front, airlines could face rising costs of compliance, and additional costs pertaining to passenger rights regimes, regional environment initiatives, and accessibility requirements.

For more information on the Aviation Value Chain (2022), please refer to this page: <https://www.iata.org/en/publications/economics/reports/aviation-value-chain-brief-15-february-2024/>

The Western world is becoming greener and more inclusive. That means an increase of costs referring to zero pollution and the aim of catering for a wider array of users. Is it a stepping stone for competitiveness or a stumbling block to compete with others?

Sustainability in general and transitioning towards net-zero carbon dioxide (CO₂) emissions by 2050 is the greatest challenge for the air transport industry. The aviation industry took the momentous decision to reach net zero CO₂ emissions in 2021, at the 77th International Air Transport Association (IATA) Annual General Meeting in 2021. Member States of the International Civil Aviation Organization (ICAO) also agreed to a long-term aspirational goal (LTAG) of net-zero CO₂ emissions by 2050 in 2022. Therefore, governments and the aviation industry are wholly united in the mission to ensure that international aviation continues to develop sustainably in recognition of its vital role in global economic and social development.

The importance of this co-commitment between governments and the aviation industry to achieve net zero CO₂ emissions by 2050 is difficult to exaggerate because airlines have scant control over most of the developments upon which success will hinge. Airlines do not produce their own fuel and multiple parties own or operate the corresponding supply chain. Airlines do not build aircraft but either buy them from Original Equipment Manufacturers (OEM) or lease them from lessors. Airports have

varying ownership and operating models. Air Traffic Management (ATM) is under government responsibility who designate their Air Navigation Service Providers (ANSP). Ground handlers may or may not be airline owned. Every participant in this complex chain which together allows people and products to flow freely in our global economy must be united in this quest to achieve net zero CO₂ emissions, and equally called upon to fulfil its obligations in order to bring about this historic transformation of international civil aviation.

Reaching this ambitious target will require rapid CO₂ emissions reduction in the aviation sector while the demand is expected to continue to grow, particularly strongly in emerging economies. To achieve this ambition, a basket of measures that covers aviation energy transition, aircraft technology breakthrough, operational improvements, market-based measures, and policy support is required. The net-zero objective will be met through a combination of maximum elimination of emissions at source and the use of approved offsetting and carbon capture technologies. The key elements of the emissions reduction strategy are:

- ▶ The use of Sustainable Aviation Fuel (SAF), sourced from feedstocks that do not degrade the environment or compete with food or water; We estimate that SAF could contribute around 65% of the reduction in emissions needed by aviation to reach net-zero in 2050. This will require a massive increase in production in order to meet demand, and for fuel producers and suppliers to play their part, while supportive governmental policies are also set in place. In 2023, SAF production tripled to 600 million liters from 300 million liters in 2022, representing 0.2% of global jet fuel use.
- ▶ Investment in new aircraft technology, including radical new aerodynamic and alternative propulsion (electric or hydrogen) solutions.
- ▶ Continued improvement in infrastructure and operational efficiency, with a particular focus on improved air traffic management.
- ▶ The use of approved offsets including carbon capture and storage technology.

The investment needed to bring about aviation's transition to net zero by 2050 could be as high as USD 5 trillion over the period to 2050. The annual investments required in that case would be close to USD 180 billion. This is not disproportionate to the annual investments in other industries (notably it represents a mere third of annual funding of new oil and gas projects), nor to investments in wind and solar energy, whose industries' global employment is incidentally comparable to that of global air transport. Most crucially, public support is necessary at the early stages of project development when investors assume all the risks. De-risking the investment case during this and the capacity building phase would be where most of the public financial support would be needed, the total of which could represent one third of the overall investment needs. Once technologies have matured enough to show tangible commercial promise, supported by the requisite policies, there is every reason to believe that private capital will be available to shoulder the dominant share, likely two thirds of total investment requirements. Most private capital is likely to be deployed during the 2035-2050 period. Moreover, public support is necessary to:

- ▶ Advance technologies which enable the progressive elimination of CO₂ and non-CO₂ emissions in air transport.
- ▶ Engage all types of financial institutions, from supra-national to local, public and private, in the financing effort.
- ▶ Address regional disparities regarding the allocation of investments. ●

For more information...

- Annual General Meeting IATA: <https://www.iata.org/en/events/agm/>
- IATA Annual Review 2023: <https://www.iata.org/contentassets/c81222d96c9a4e0bb-4ff6ced0126f0bb/annual-review-2023.pdf>
- Global Outlook for Air Transport: <https://www.iata.org/en/iata-repository/publications/economic-reports/global-outlook-for-air-transport---december-2023---report/>