Remarks of
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Good afternoon and thank you to Mia Wouters and the European Aviation Club for the kind invitation to address you early in my time at IATA.

A year ago, I was the CEO of Cathay Pacific Airways—a company that I had been with for over three decades. During that time I witnessed one of the great stories of our time—the opening-up and growth of China. Traditionally Hong Kong was the gateway into China. To ensure its relevance in a rapidly growing and changing China, Hong Kong placed a priority on having world-class transportation links—both air and sea.

Cathay Pacific’s relationship with the government had its challenges. But the government’s focus was on strategically using aviation to shore-up Hong Kong’s other business interests.

This approach is not unique to Hong Kong. For example, China uses aviation strategically to spearhead economic development. It solved the safety problems of the early 1990’s, consolidated the industry and is building a world class infrastructure. Between 2000 and today, the size of the Chinese aviation industry increased almost five times when measured in passenger kilometers flown (RPKs). It is now the second largest domestic market next to the US, with about 240 million passengers in 2010. And we expect it to grow to 425 million in 2015.

Fueled by Chinese growth, Asia Pacific is now the biggest market for air services. In 2010 about a third of all passengers traveled on routes associated to, from or within Asia Pacific. Routes associated with North America and Europe accounted for about 31% of travelers each. There is some overlap because of traffic between these regions. And the picture is relatively balanced among the regions.

By 2015, Asia Pacific is expected to increase its share to 37%, while Europe and North America fall back to 29% each. The balance is shifting eastward. And this has profound implications for aviation…and for economies in general.

So why am I starting my speech in the heart of Europe by talking about China and Asia Pacific? Because aviation in that part of the world is a startling success story – and it’s a success story from which valuable lessons can be learned and applied in other more mature economies and markets – like Europe.

Any successful modern economy, needs a competitive air transport sector. With austerity budgets across Europe, export revenues from cargo and tourists are critical to support jobs and GDP growth. Thirty-five percent of the value of goods traded internationally are shipped by air. Six hundred and fifty-five million people flew in the EU last year. And the aviation supply chain sustains millions of European jobs. Even more important are the jobs and growth in industries supported by aviation—including export businesses and manufacturing. These became very visible during the April 2010 volcanic ash crisis when assembly lines came to a standstill in the absence of supplies.

European policy makers have aviation in sight. And it is quite clear that Brussels wants to influence the global air transport agenda. But, are European governments—and Brussels—focused on the right things to be competitive and capture the benefits of air transport’s growth?

As a relative newcomer to Europe, I do not see aviation policies being made to drive growth and prosperity, as was my experience in Asia. The general direction is on “restricting and taxing”. Put more
bluntly, instead of “enabling” policies, they seem focused on “disabling”. That comes with a big cost to competitiveness at a time when Europe can ill afford to be disadvantaged by the unintended consequences of its own rules.

Let me illustrate this by looking at safety, security, capacity and environment.

**Safety, Security and Global Standards**

Let’s start with the good news area of safety—aviation’s top priority. Very soon we will announce final safety numbers for 2011. The Western-built jet hull loss rate will likely be the best in aviation history. That is thanks to the coordination and common purpose that is shared among regulators and the industry. A good example is the agreement between the International Civil Aviation Organization (ICAO), the European Commission, the US Department of Transportation, and IATA to share safety information.

It is also due to global standards. Aviation grows safer when global standards are consistently implemented. The IATA Operational Safety Audit (IOSA) is helping to improve safety in the air with the commitment of the 369 airlines on the IOSA registry and the support of regulators around the world. We are doing the same with two important ground safety initiatives—an audit (IATA Safety Audit for Ground Operations - ISAGO) and a manual (IATA Ground Operations Manual - IGOM). I appreciate the recent pledge of the European Civil Aviation Conference to support their development.

Contrast that to the European List of Banned Carriers—formerly called the European Black List. A political imperative brought the regulation into existence. But banning, for example, all carriers from Mozambique because of lack of oversight—including LAM which is on the IOSA registry—does not improve safety. And it shows how aviation regulation, particularly when politicized, can have unintended consequences.

We must not repeat this mistake with Europe’s proposal for a Red List on cargo security. This would have similar unintended consequences of isolating countries that are most in need of help and putting pressure on the capacity capabilities of neighboring countries which would have to deal with the diverted cargo flows.

I am not saying that global standards should not evolve. They must and do. But they must do so globally.

Passenger security offers a good opportunity. Every traveler wants an early evolution from today’s security checkpoint experience of queuing, unpacking, liquids and gels controls, disrobing and sometimes invasive checks. One of my priorities for IATA is to see the Checkpoint of the Future succeed. This would combine differentiated screening based on passenger information with technology solutions to allow passengers to walk through checkpoints without stopping or unpacking.

The key to delivering the Checkpoint of the Future is global coordination with industry and among governments. And it is happening with support from major players such as the European Commission, the Chinese Government, the US Department of Homeland Security and Interpol. Moreover 16 countries have endorsed a statement of principles for such a checkpoint. Of course, moving a global system along will take some time. But I am convinced that with this level of government support, we will be able to make major improvements to the airport security experience and its effectiveness.

**Capacity**

Let’s now turn to capacity. To grow, the industry needs airport capacity. Europe has some of the most constrained airports in the world—Heathrow being the most famous. In fact, 89 European airports require slot coordination because they don’t have enough capacity to meet demand.

For a businessman, unmet demand is a wasted opportunity. For Brussels, it is seen as an opportunity to regulate and a review of slot regulation was included in the recent Airports Package.
Many aspects of the package are positive, including competition in ground services and the formalization of secondary slot trading. And the Commission did listen to some of the concerns we had with the issues they were considering at an early stage. But several problems remain. For example, there is an intention to change the use-it-or-lose-it 80:20 rule to 85:15. Why?

80:20 is an accepted and fundamental principle for IATA’s Worldwide Slot Guidelines that are used at 161 airports globally. This ensures that slots are redistributed if they are not intensely utilized. And it achieves utilization rates of over 98% at key airports such as Heathrow and Frankfurt. But it also allows the flexibility for airlines to adjust schedules at times of low demand or to take account of uncontrollable circumstances such as technical problems or bad weather. Changing to 85:15 incentivizes airlines to fly when demand is not there. Flying empty planes does not improve competitiveness or environmental performance. Surely this must be an unintended consequence?

There are some lessons to learn:

- Don’t fix that which is not broken
- Work with industry….we have a common interest to improve competitiveness and can sometimes provide solutions without reverting to legislation
- Address the problem you want to solve directly.

In this case, tighter regulation does not create the capacity to grow. It simply provides a regulatory process to decide which businesses and jobs will be turned away from Europe’s airports.

Where is the grand plan for building the airport capacity that Europe will need to keep connected to growing economies such as China and India? The UK has stopped airport expansion in the Southeast—where it is most needed. Frankfurt built a fourth runway and promptly saw a ban on night flights that are vital to cargo operations. Some airports such as Madrid and Paris have room to grow. But they will not be able to absorb all the growth opportunities. Europe needs to think much bigger and more strategically.

Environment

The debate on capacity expansion is enveloped in environmental issues—particularly in Europe. In fact, Europe should take credit for promoting the aviation and environment issue up the global agenda. This helped focus the industry—airlines, airports, air navigation service providers and manufacturers—to make global commitments to reduce its carbon footprint:

- Improving fuel efficiency by an average of 1.5% annually to 2020
- Capping net emissions from 2020 with carbon-neutral growth and
- Cutting our carbon footprint in half by 2050 compared to 2005 levels.

We also achieved consensus on a strategy to attain these targets with improved technology, more efficient operations and infrastructure, and positive economic measures.

Biofuels

These commitments present Europe with major opportunities.

For example, a successful sustainable biofuels industry could create jobs, reduce dependence on foreign oil supplies and shrink aviation’s carbon footprint. Over their lifecycle, biofuels have the potential to reduce emissions by up to 80%.

Biofuels are technically proven. But to move from demonstration flights to being a major component of the industry’s consumption we need the price to drop and the supply to increase. Current policy is having the unintended consequence of driving available biomass and investment towards road transport – a sector that has alternative energy sources. This urgently needs to be redressed, not via blend mandates but by
providing the right policy incentives to attract investment and de-risk the scaling up of commercial aviation biofuels projects.

**Single European Sky**

The progress towards the Single European Sky (SES) is another opportunity. It would save 16 million tonnes of CO2 annually. But governments are not investing the political capital to get the job done. The last SES progress report was depressing reading.

By 2014 European governments agreed to reduce average flight delays to 30 seconds and improve cost efficiency 3.5% per annum—improving the competitiveness of European aviation by EUR 1.1 billion between 2012 and 2014. But only five out of 27 states are on track to meet their targets—Belgium, Denmark, Lithuania, Luxemburg and the Netherlands.

States also agreed to have nine Functional Airspace Blocks in place by the end of this year. Only one is on target—Denmark/Sweden.

Meeting SES targets is critical to European competitiveness—ensuring airspace capacity, improving safety, cutting emissions and halving costs. European governments cannot afford to fail. The next six months will indeed determine whether a real commitment exists across European governments to deliver the SES. I appreciate the urgent efforts of Vice President Kallas. If states cannot deliver results, then it will be time for the Commission to drive a top-down approach.

**EU ETS**

In stark contrast to the SES, Europe is spending much more political capital to force international aviation into its Emissions Trading Scheme (ETS). Positive economic measures such as emissions trading are a necessary, if temporary, bridge to reach aviation’s environmental targets. But measures must be globally coordinated and avoid market distortions.

IATA and its airline members supported the EU ETS when it was proposed as a solution for intra-European travel and with the understanding that it would avoid the proliferation of environmental taxes and charges.

Then look at what happened. The European Parliament extended ETS beyond Europe’s borders. And aviation still faces a bill of well-over EUR 4 billion from departure taxes in the UK, Germany and Austria—all of which were introduced as environmental measures. At current market prices for UN issued Certified Emissions Reductions that would offset all the world’s aviation CO2 emissions about one-and-a-half times. And ETS is being added on top of all that!

The reaction of other countries to Europe’s move to levy costs on their airlines, even when flying in their airspace, was widely predicted — even before the draft Directive was adopted by the Commission and submitted to the Parliament.

Again, the unintended consequences are significant. For airlines, unilaterally implementing ETS will distort the market, making airlines with hubs just beyond Europe’s borders more competitive for long-haul European traffic. Non-European governments see this extra-territorial tax collection as an attack on their sovereignty and are taking action.

- The ICAO Council has adopted a resolution urging Europe to change course.
- The US is processing legislation to ensure US carriers are not required to participate.
- China’s State Council has taken similar action.
- At least 43 states have publicly made their opposition known—including other major trading partners such as India, Japan, Canada and South Africa. These states will meet in Moscow shortly to plan next steps. Some are threatening retaliatory measures against European carriers or other European business sectors.
Aviation can ill afford to be caught in an escalating political or trade conflict over EU ETS.

There is a way forward—ICAO. About a decade ago, ICAO achieved a globally accepted balanced approach to noise that averted a conflict over Europe’s unilateral plans. And they have consistently built many of the global standards that make flying safe. And ICAO can do the same for climate change. The 2010 Assembly agreed to 15 principles for economic measures and committed to develop a framework for a global trading or compensation scheme by the next Assembly in the third quarter of 2013. There is widespread agreement that ICAO is on the right track, even if the pace of progress is not sufficient for some European politicians. What is needed is continued patience for the international process to run its course and for European states to be wholehearted participants in that process.

I am sensing a growing recognition here in Brussels that a global scheme developed and implemented through ICAO would provide a superior solution to the problem of airline emissions. It would also offer a solution to the political problems caused by the inclusion of extra-European aviation into the regional European ETS.

This is encouraging, and IATA will do all it can to support the development of a global scheme. I can’t help feeling this would be easier if other states did not feel they were under duress from Europe, but we will do all we can to promote a pragmatic solution.

Time isn’t on our side. I’ve already mentioned that airlines from Europe may face some form of retaliatory action. And that some airlines from outside Europe may have to choose whether to obey the law of their own land or that of Europe. Two more unintended consequences of regulation.

Benefits of Aviation

Of course, one must be realistic. Aviation will always be on the radar screen of both European governments and the Commission.

So what is needed is a litmus test to prioritize regulatory measures. Obviously safety and security come first. Then efforts should focus on initiatives that

- Support economic growth and job creation
- Enhance competitiveness
- And support sustainable development.

Now, I would not cast aspersions on the good intentions of regulators, especially those in Europe. But the fact is that the Commission does not fully control the process of developing regulation, and what emerges from the full legislative process is inevitably, as it is elsewhere in the world, the product of political compromises and pressures. And so we often have more unintended consequences.

If aviation’s importance is misunderstood by governments and regulators, some of the fault is our own….for not making our case more clearly. And if there ever was a critical time to correct that, it is now—particularly in Europe.

The only durable solution to the European sovereign debt crisis is economic growth and job creation. But, the sorry state of government finances also creates an urge to tax. The challenge is to show governments that aviation has an important role in the former and that we cannot fulfill that role if we are a target for the latter.

Aviation is a $600 billion a year industry. Our best-case scenario for 2012 is a global profit of $3.5 billion for a profit margin of 0.6%. European airlines are expected to lose $600 million. If we are correct about
2012, then the global airline industry will have lost since 2001 over $26 billion on revenues of $5.5 trillion. I have said many times, it is all about turnover…with nothing leftover.

The fortunes of aviation—and of national economies—could be vastly better with policy decisions that recognize our role as an economic catalyst. I saw that a lot in Asia….but it is rare here.

To make this case clearly in all markets IATA commissioned 54 national studies by Oxford Economics quantifying the benefits aviation brings by connecting economies to key overseas markets, supporting jobs and GDP contribution. Here are some European highlights:

- Aviation supports 1.4 million jobs and 5% of UK GDP while connecting it to more than 50 mega-cities of over 10 million people.
- France gains one million jobs, 3.9% of GDP and 52 mega-city connections
- While Germany enjoys 1.1 million jobs, 2.6% GDP contribution and 92 mega-city connections.

These studies provide a factual platform to engage policy makers on making aviation deliver even more economic benefits. In Europe that means

- Applying global standards to a global industry wherever possible,
- Ensuring sufficient capacity
- Delivering the Single European Sky
- Taking a global approach to climate change and
- Ensuring that taxation policies and regulation enable safe, efficient and sustainable growth.

Conclusion

Europe is an important partner in global aviation. There are enormous common interests between what is good for the industry and what is good for Europe. I look forward to spending time in Brussels to find ways to align our activities more closely with the Commission where we have common interests. As IATA’s Director General, I am committed to working with all who can help build a brighter future for aviation. That will contribute to a better future for our global community through connectivity that only aviation can provide.

I am passionate about aviation. It is a force for good that generates wealth both material and of the human spirit. Every plane carries almost unlimited possibilities by connecting people to business, products to markets, reuniting families and friends or enabling journeys of discovery. It is our shared responsibility to ensure aviation’s success.

Thank you very much.