

## European Aviation Club

Brussels

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“Aviation and Environment –  
A better approach”

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CEO

Virgin Atlantic

Chairman

Association of  
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Ladies and gentlemen,

Thank you for those kind words of introduction. It is great to be here at the European Aviation Club again – several years ago I spoke in my guise as Virgin Atlantic CEO. Today I am here as Chairman of the Association of European Airlines (AEA).

I've been to the UK Aviation Club on many occasions, so it is a pleasure to be given similar exposure here. Many people struggle to get their heads around the workings of the institutions here in Brussels and that makes the role of the European Aviation Club – in demystifying those processes – very important.

I was asked whether I wanted to represent Virgin Atlantic or the Association of European Airlines here today. I can only say that my issues and concerns, both as both AEA Chairman and Virgin CEO, are joined at the hip.

Virgin Atlantic has benefitted from the liberalisation of the European aviation industry, allowing greater competition, more investment in customer service and innovative products, and therefore delivering a better deal for the travelling public. But so have our competitors, with whom we sit round the table at the AEA.

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We all know that – thanks to the very liberalisation that has allowed us to grow our businesses – we must adapt and change our product, our service and our networks to deliver what our passengers want. After all, here in Europe, customers benefit from so much choice and competition that they can always fly with another airline.

It's crucial that this ability to compete, to innovate and to respond to what our customers want is not impeded, especially as an unintended consequence of regulation.

It always amazes me, and here I speak as the Chief Executive of a major British airline – in fact a major British business – as well as Chairman of AEA, just how often aviation's role is underestimated, if not taken for granted. Take some figures from just the AEA. The 36 members of the association:

- employ 392.000 people,
- operate 12.000 flights a day
- and transport 377 million passengers a year to 630 destinations
- Generate around 4.5 million jobs
- Contribute € 275 bn to the European GDP(1,3%)
- Carry about 40% of merchandise by value in and out of Europe, that is €650 bn of good trade value.

All European airlines are a key promoters of tourism ( 28% of European tourists travel by air, or nearly 75% to Britain); aviation

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therefore promotes international tourism spending of €300 bn annually in Europe.

In fact, aviation is a huge export industry in its own right. € 35 bn of our tickets are sold outside of Europe. Exporters are generally loved by regulators, but aviation is not seen like that. We really need to hammer this point home. We are exporters. Aviation generates more exports than European textile manufacturers, or the steel sector.

Aviation's role as a key economic generator is often overlooked. The product we sell – connectivity – is the backbone for the growth and exports of all other globally active sectors.

Just about every deal has an aviation component in it – at some point someone somewhere has got on an aircraft to sign or extend that deal.

I know I am preaching to the converted, but what we enable in terms of global trade is vast and very often we don't tell this story as strongly as we should.

This value was particularly noticeable in 2009 as air freighting increased, as manufacturers and retailers replenished their inventories in anticipation of economic recovery.

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Looking back at last year's volcanic ash crisis and the subsequent closure of much of Northern Europe's airspace, not to mention the snow disruption at Heathrow and the paralysis that caused in the run up to Christmas, the answers should be all too apparent.

You would normally expect that, in view of the important role aviation plays, and the support that major exporters normally receive, regulators would support us and be on our side. And in many parts of the world they are.

In Latin America, regulators are allowing aviation to become an engine for growth.

In North America, airlines have been through some very challenging times in the last decade and many of our US competitors have been through Chapter 11 restructuring. The way that Washington has been batting for the corner of US airlines is very different to the goings on in Europe.

You know what has been done in Asia. All I will say is that China will build 45 whole airports while we are debating just one extra runway at Heathrow. It is extremely embarrassing.

We don't even need to talk about the Middle East. Their entire strategy is driven by aviation.

Have we got the same situation in Europe? No, I don't think we do.

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Europe is different. Its economic recovery is lagging behind, it is preoccupied with the salvation of the Eurozone, in fact some entire national economies are ailing, and most if not all nations face a debt crisis of such dimensions for which only painful and protracted structural change will provide an adequate remedy. Europe has shifted its attention to short-term crisis management, to austerity measures, to capping debt levels, but not to investments into infrastructure, into the Single Sky, into SESAR.

And – especially in comparison with our international rivals - Europe’s airlines are over-taxed and over-regulated.

The UK APD and the German Aviation Tax have had a negative impact on market growth. Just last month, the UK Government revised its growth forecasts for our sector downwards – at a cost of £1.7bn to the UK economy. The Dutch tax was so negative for the national economy that it was withdrawn after one year. Several other taxes, in Malta, Ireland and Belgium were abandoned when calculations revealed that the macro-economic disadvantages of the measure by far outweighed the desired fiscal revenues.

I like to believe that the UK is the cradle of aviation technology and innovation; it should certainly be, the United Kingdom is, after all, an island. Britain has also assumed leadership in several other fields, in particular environmental protection. Over the last few years, climate change action has become mainstream politics not

only in the UK, but across the entire continent. In the short- and mid-term, climate change action is one of, if not the most important areas to address. The aviation sector has certainly taken the issue to heart.

We have experienced a 70% energy efficiency improvement in the past 40 years. Virgin Atlantic's first flight was between London and New York with a 747-200. The aircraft we operate to New York now emit 20% less CO<sub>2</sub>. The Boeing 787s which will enter our fleet very shortly will emit a further 27% less CO<sub>2</sub>, using less than 3 litres of jet fuel per 100 passenger-km. This matches the efficiency of most modern compact cars.

It is now three and a half years since Virgin Atlantic operated the first ever flight by a jet aircraft using biofuel. There were huge doubts that biofuel would ever reach the same standards as conventional fuel, but a lot of work has been done to support the development of sustainable alternative fuels for our sector. And I stress the word sustainable. Not just that, but these fuels are already certified for normal use. From demo flight to commercial flight in less than four years is something that not even Virgin Atlantic thought possible.

More than any other sector, airlines, manufactures and other key stakeholders in aviation have come together in calling for a united, international solution to the global problem of climate change. It was airlines, with the initial impetus from the AEA and other

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colleagues, that went to Copenhagen asking for an appropriate mechanism for aviation's inclusion in a climate change framework. Whilst this might take a little bit longer than any of us first hoped, that commitment continues. And we look to ICAO to continue the work they have started in developing a framework for the carbon neutral growth of our sector.

The AEA has long called for market based climate change solutions for the sector, so that further innovation, and therefore further progress towards carbon neutral growth, can be funded. We believe in the EU ETS as a sensible first step in that direction. But the EU ETS must of course deliver the environmental ambitions on which it is based.

Ladies and gentlemen, I am concerned that – despite the best intentions of our regulators – the success of aviation's inclusion in the EU ETS risks being undermined and this must be addressed. We daily hear about legal challenges, threatened trade wars and other difficulties with the implementation and enforcement of this Directive.

At Virgin Atlantic we have lobbied consistently for an environmentally effective and economically efficient EU ETS. We want it to work. But it's imperative that the Commission and our Member States recognise the competitive risk to European airlines – not to mention the undermining of the scheme's environmental effectiveness – if our concerns are not taken seriously.

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I will be speaking at the EU-Russia Aviation Summit next month; it will be important to listen to the Russian side, and understand their response to EU ETS. We have also seen an anti-EU ETS bill emerge in the US and speculation Chinese retaliation.

The developments of the past weeks are expected to continue and heighten in the coming months. But let me pause here for some important observations:

1. The ETS will cost European airlines €3.1 bn annually until 2020, of which €1.1 bn will flow into the coffers of the Treasuries of European governments.
2. This money will not be available for airlines to invest into modern technology, aircraft or engine development, or fleet renewal programmes.
3. Contrary to discussions in other sectors, such as car manufacturers or the maritime sector, the airline ETS discussion has become a debate about fiscal revenues and trade issues. We need to bring the discussion back to where it belongs, namely on how to achieve international consensus on the best manner for aviation to play its part in global climate change targets.

There must be a constructive way through this. A solution where

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- EU ETS can deliver on day 1
- EU ETS will not be changed or challenged
- There is international understanding of norms and standards required for noise, NOx *and* CO2. Aviation’s environmental impact has been regulated at global level for many decades; for noise, the first ICAO standard was adopted in 1971. And the first ICAO standard for engine emissions on local air quality was adopted in 1981. Since then, standards were continuously made more stringent to promote further technological improvements. This week, “as we speak”, (12-16 September), ICAO’s committee on Environmental Protection is meeting in Beijing to agree on more stringent noise and emissions standards, but also to continue their work on a new CO2 standard for manufacturers which airlines want to see adopted without delay. In a nutshell, the industry has been lobbying for a global agreement on aviation’s greenhouse gas emissions for years, but States have so far not been able to reach their objective: a global scheme. States are failing to meet their environmental commitments, not the industry!
- International Agreement on deadlines for progress towards a global sectoral solution for CO2 emissions.

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- Adherence within Europe on deadlines for the implementation of Single European Sky. The fact remains that The Single Sky Package 2 is the single biggest and most important environmental protection programme, it will increase cost efficiency, it will reduce CO 2 emissions by 12 million tonnes, it will reduce delays, and it will impact technology on board and on the ground
- Generate revenues to invest into research and development – aviation is a high-tech industry. We must have an international consensus that revenues which are generated are re-invested into research and technology. We have ACARE programs, and sustainable bio fuel programs.
- EU-US leadership as a key element of pressure and consensus

Ladies and Gentlemen, we have to get the EU ETS right; as one of the four pillars for addressing our sector’s environmental impact. Getting EU ETS right will deliver benefits for the climate, the consumers, and the carriers by improving planning stability, reducing costs, and securing growth. In order to do this, the AEA is committed to working with the Commission to explore solutions.

Let me conclude with three remarks:

Firstly, one of the reasons my own airline is a solid, profitable, leading stand-alone airline, is that we have a vision and a clear understanding of what the customers need, and of what the future has in store for us in terms of technological innovation, new products and new services. It's this that makes me confident that the solution is out there. If we apply some of that thinking into creating and finding the solutions out there, we might just be able to solve some of the problems I have outlined.

But as an international sector, serving global markets, it is critical that we must pursue a climate action policy as a global sectoral approach.

Thirdly, let us not forget that a vibrant and competitive aviation sector is a cornerstone of economic stability in the European Union or – dare I say it – even economic growth.

Thank you for listening.

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