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2011: A Year of Many Crossroads

Keynote Address by
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Ladies and gentlemen,

Thank you for those kind words of introduction. It is a pleasure to be in Barcelona. My sincere compliments to the organisers for the excellent professional organisation, the choice of venue, the ability to show all conference participants the marvels of this city and the advantages of networking.

I suppose in a keynote address you will to want to hear something easy to digest at the outset, and yet inspiring, in a way without unduly rattling the nerves; insights without resorting to speculation.

Had I been here, say, 10 years ago, I would have expressed a true and deep admiration for the impact aviation has on national and global economies. I would have outlined a correlation which still holds true to this day, namely the correlation between mobility prosperity: the greater the affluence of a nation, the greater its need and desire for mobility. Alone in Europe, air carriers

- Generate around 4.5 million jobs
- Contribute €275 bn to the European GDP
- Fly more than 650 million passengers per year
- Enable international tourism spending of €300 bn annually in Europe
- Carry about 40% of merchandise value in and out if Europe, that is €650 bn of good trade value.

And here I am only referring to the airlines as part of the aviation value chain. What a sales story!

Where then is the problem, why not simply carry on doing a good job? It was the 16th president of the United States who said that the best thing about the future - is that it comes only one day at a time.

That definition of 'future' by Abraham Lincoln makes it a lot easier to make forecasts about 2011. Unfortunately for us, we cannot plan for the future one day at a time. We do not have that luxury. We are a fast-moving, dynamic, ever-changing industry that requires substantial long-term planning, from fleets to infrastructure to policy.

So what are the changes we can expect, the challenges we face, the effects of adverse circumstances on the industry and trade we all work for? A dynamic, a momentum, has been created in the market that calls for new solutions, a new dimension. I suggest that 2011 continues to be the first of several years of cross roads. If we take the right decisions now, aviation will play its role for the citizens, the industry and global trade.

If we don't, who knows? But, in my humble view, it is time to do, not delay, to act, not angst and to move ahead, not fall behind.

Let me turn your attention to three issues in particular. I believe that if we do not tackle them, 2011 will have been a year lost. Crossroads yes, but wrong direction.

As Ella Wheeler Wilcox, the great American poet, said:

One ship drives east, and another west
With the self same winds that blow,
'Tis the set of the sails,

And not the gales
That tells us the way to go.

When we look at the bigger picture, and see what we generally call "adverse circumstances" preventing us from simply extrapolating the status quo, we can indeed either stick our heads in the sand; or we can cry foul and complain and moan about how unfair the world has become; or we identify the problems, and deal with them.

I believe in the latter. It is indeed not the wind that counts; it is how we set the sails. So how should we set the sails?

First of all, by tackling the environmental challenge.

The widely held perception is that man-made CO2 emissions must be contained to regain control of greenhouse gas emissions, and thus begin to slow the speed of climate change. To this end, the EU argues that aviation should be included in so-called market-based measures because aviation is a growth industry and perceived to be incapable technologically of reducing its increasing contributions to the problem in the near term. As you know, all EU institutions have agreed that aircraft emissions should be included in the EU ETS as of 1st January 2012.

Applying Emissions Trading to airlines has, however, the uncanny specificity that aircraft are factories with wings, and the question has therefore become: which governments can tax emissions in which airspace? The EU believes that it can impose its scheme for all flights to and from the European Union. Major non-EU countries strongly disagree, have sought to address the issue legally, and have even indicated their intention to politically oppose the measure.

Indeed, if the EU persists in its approach, which some observers have called "imperialist", the question arises if and how the EU would impose compliance on non-EU airlines.

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. The Scheme, if applied as announced, will help lawyers, but not necessarily the environment, because non-EU governments will not permit the European Union to de facto tax emissions emitted in the airspace over their respective countries. The EU faces a serious risk of some form of retaliation, and concerns have been raised that such trade conflict could well dwarf the international disputes witnessed several years ago around hush-kitted aircraft.
4. Contrary to discussions in other sectors, such as car manufacturers or the maritime sector, the airline ETS discussion has squarely left the field of environmental objectives and is now in the sector of 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 meet environmental targets.

This I say in the interests of the climate, the consumers, the airlines – and, because I believe it is in the interests of aircraft manufacturers, engine manufacturers, traders, financiers – people like your good selves.

In a workshop held about two years ago, an aircraft manufacturer's CFO teamed up with an airline CFO to organise a discussion with bankers on the EU ETS. I could see the bankers pale when they realised what would happen if the EU ETS goes wrong:

- the effect of the certificate purchases on the P&L,
- the effect of ETS on the aircraft and even airline value of certificates are not purchased and the EU does apply compliance measures,
- the effect on the share value of publicly traded airlines if the constant bickering about environmental KPIs continues and airlines find themselves unable to tell their sustainability story.

Ladies and Gentlemen, we have to get the EU ETS right; it is an EU law which cannot just be ignored, but if the regulators get it wrong, it will have consequences on image, on finances, on growth perspectives, and, in some cases on survival of airlines, the clients, the lessees or purchasers of aircraft and engines.

In a recent article published on 25 August, the Financial Times reported that the UK government alone had dropped its forecast for air passenger growth by 22% over the next 20 years, due to a combination of government policy and economic factors. And guess what – ETS figured prominently in the long list of these factors.

A second factor which will impact the way this industry ticks is infrastructure, or better: the absence of sufficient investments into infrastructure.

Countries that invest into infrastructure on the ground invest into the future. Dubai will be able to handle 170 million passengers by 2017 annually. The single most important international airport in Europe, London Heathrow is capped for the foreseeable decades at 70 million. And the third runway has not materialized. Dubai has 7.

The issue of sensible infrastructure investments is linked to the environmental debate – the onus is on the industry to coherently demonstrate that growth of infrastructure, and aviation, does not equate automatically with emissions growth.

The debate on infrastructure is about airport capacity and about air navigation organisation.

As you know, in Europe, we need not only our next generation technology, SESAR, which must for the same reason be a public-private partnership, but a European re-organisation of the air space, a Single Sky as opposed to a set of 27 national ones. The good news is that political will was shown, a Second Single Package adopted to set deadlines for implementation of the Single Sky, which includes the creation of the 9 Functional Air Space Blocks that would replace the national systems. In the past months, intergovernmental agreements were signed to actually create European FABs, notably the one involving the largest area over France, Germany, the Benelux countries and Switzerland.

The question is: will governments walk their talk? Labour in some countries has yet to be convinced that this is the way forward to secure competitiveness and thus employment. And the EU is evidently facing severe issues in the Euro zone which easily and quickly can, and have, changed political priorities for the foreseeable future.

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. The ATM investments heavily impact the manner in which airlines will operate.

If we can get that right, it will deliver benefits for the climate, the consumers, and the carriers by improving planning stability, reducing costs, and securing growth.

Then there is a third factor which will pose enormous challenges. As a consequence of globalisation, we are beginning to, and will increasingly continue to, witness gravitational shifts of growth to Asia. This is not just about Europe having to get its act together quickly as a region; or about European airlines losing connecting traffic to non-EU hubs. These gravitational growth shifts will affect business in Europe, traffic patterns, airline survival, fleet requirements, financial independence of European airlines, European airports' future role, and far more.

For some time now, Europe has been lagging behind in terms of growth. In the past, creating Europe had meant tearing down border barriers, trade barriers, and thereby hugely increasing export opportunities for European companies. That was a good step, but the consequences of creating a European single economic market were not fully realised. A single market needs a single framework, needs fiscal and monetary steering instruments for transactions to take place in a sustainable manner. And these are still insufficiently mature, or do not have teeth; so the discussions about a European central economic government are only now starting.

And all the while, growth is taking place elsewhere. Fantastic product improvements, service improvements and traffic growth have propelled airlines from Latin America, USA, the Arab world and Asia to consistent growth rates within their regions and internationally. The regions within which those airlines operate have the necessary hunger for growth and prosperity. And the aviation sector of these regions is permitted, indeed encouraged, to deliver the necessary products and services as backbone for sustainable growth.

In Europe, in the absence not of a *vision* for Europe, but of the *tools* to make it work, industries are adapting. In the airline sector we are now in a learning process. Costs are the *intra-European* problem, size is the *international* challenge.

And competition from international gateways, fiercer than ever, will drive costs even further down, given that long haul point-to-point services - in combination with self connecting short haul traffic - could become a further competitive option to the integrated network operations we now have today.

After a conference I attended recently in Munich, I spoke to the waitress in a restaurant who told me she would go on vacation to Thailand. I asked which airline she would fly on, thinking of my member airlines, of course. She replied that her first choice was “evidently" Emirates.

“Evidently”? Yes, in 2009 Emirates became the world’s largest international airline, in passenger-km terms. For a large proportion of European travellers, it offers a one-stop transfer product to all the major Asian, Australasian and African destinations. And it is growing, massively. Its CEO is on record as saying that its planned fleet of 90 A380 superjumbos could be increased to 120 if stand capacity were available at its Dubai hub. And, I suspect, Dubai will certainly accommodate Emirates' need for yet further capacity on the ground.

But the phenomenon is not restricted to the United Arab Emirates. Just up the desert highway about 230 miles from Dubai and 185 miles from Abu Dhabi is the city-state of Qatar, whose airline also has global aspirations, and is growing massively.

These three airlines have more wide-body seats on order than the entire US industry has in its current fleet. 425 brand-new long-haul aircraft in the next five years – where will they fly? The answer, of course, has to be everywhere.

Here I ask: Does growth of this magnitude really make sense?

Yes, it does make sense even for a region with, in global terms, a limited population size, to invest heavily into infrastructure, on condition of course that the investments generate a sufficient return. We all know that investments flow to regions and companies with higher cost efficiency and productivity – according to publications, the airlines are delivering those returns for their respective regions and national economies, and they themselves continue to grow.

To attain global competitiveness, European airlines also need to achieve economies of scale and scope, if they are to compete sustainably in the global market. But the jury is out on whether Europe will once again also be a global player.

From a European perspective, costs will drive survival on the short-haul, size and efficiency will determine whether an airline will have impact in the market internationally. As an airline association, we have argued that the global market needs a framework for fair competition as well. But that is a discussion for another Conference.

Here today, I submit that both reality and perceptions are moving on, as we drive forward, and continue to look in the rear view mirror in the belief that tomorrow will be like yesterday.

I am firmly convinced that the airline landscape will change fundamentally in the coming decade to meet the changing market expectations, and with it the product and services will change, and with that, a new string of projects for aircraft and engine manufacturers. Large international airline groups, as well as large point-to-point carriers and niche players – all with highly differentiated expectations for flexible reactions to the rapidly changing market dynamics – will determine the name of the game in the future.

In their combination therefore, environmental, infrastructural and structural changes to the airline landscape will drive, in my humble opinion, a paradigm shift in aviation.

Let me please add one final, personal remark. During many years in the aviation industry, I noted that airports, airlines, aircraft manufacturers, and other players in the aviation value chain, tend to have their own conferences, and talk about their own issues.

As much as I appreciate being here, and meeting so many wonderful and fascinating personalities, I should have been seeing you years ago, my intervention today should not be an exception, but part of a regular exchange within the aviation value chain; we have so much in common.

Let me therefore conclude my remarks, as I began them, by quoting another famous American poet, Robert Frost:

Two roads diverged in a wood, and I—
I took the one less travelled by,
And that has made all the difference

Ladies and Gentlemen, in 2011, we, too, must take the road less travelled, think out-of-the-box, evaluate the new trend factors driving this industry, and begin to imagine the challenges a global economy poses for traditional international aviation.

That said, *if* we travel, then let us also foresee travelling to conferences such as ISTAT - which promote networking within the value chain of aviation!

That should make all the difference in securing a stable, prosperous, sound global aviation environment for all of us.

Thank you.