



## KEY POLICY ISSUE

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## EUROPEAN POLICY PERSPECTIVES FROM A FORMER DGCA

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My recent role as Director General CAA UK has given me a useful vantage point from which to give a policy-makers perspective on a number of the key policy issues facing the industry in Europe – namely environment, infrastructure and trade protectionism.

This is a very dynamic industry where opportunity and risk can change the direction of its participants quickly. The current period of global instability shows how heavily the industry is interlinked, and more importantly how sensitive it can be to external influences. History has shown us that if there is one certainty in the airline industry it is one of change.

In its 100 years of development we have come from short range aircraft taking days to get to destination, to the transcontinental travel which we have today, taking us almost anywhere we wish to go in 24 hours. Today's modern aircraft is a tribute to the vision of aviation pioneers delivering high value travel opportunities to millions of passengers and freight tonnage each year.

The GDP of economies with well established systems such as the EU countries has increased due to greater mobility allowing global commerce between traditional partners as well as emergent markets such as far East Asia. Aviation programmes support travel and investment programmes world wide, this support brings with it economic development through tourism, as well as more tangible trade and the ability to visit friends and family worldwide.

In addition cargo, and in particular high value cargo such as electronic items, are carried to companies to support manufacturing of goods in IT, foods can be delivered to market in fresh condition, and mail transferred worldwide. Allowing companies to physically deliver goods and services via global arms under the same brand maximising sales and supporting the provision of 'just in time' inventories on a global scale, are to name a few of the uses of the aviation system. Aviation therefore is no longer just a system for the wealthy to travel the world, but a global logistics programme supporting humanity in its endeavours to trade and communicate.

Globally this contribution makes the airline industry a key driver of a modern economy. However despite this contribution a number of key challenges exist which need to be addressed to maintain aviation as a successful business. As this last year has shown, a crisis in another industry has had the undesirable effect of thrusting the airline industry back into heavy losses in excess of 8 billion USD. Having only just recovered from the effects of 911 and SARs the effects are reducing investment and lowering returns on this global infrastructure.

These effects are detrimental to the long term sustainability of the aviation programme. History is littered with examples of poor investment choices in this industry and some markets show the effects of this with constraint on the profitability of their system. Aviation requires constant attention and this provides challenges which need to be addressed to ensure that it remains healthy. These challenges are in my view: Environment, infrastructure investment, and global trade distortions and protectionism.

## **Environment**

The discussion on the environmental footprint of aviation is the key challenge. Lack of understanding of effects from aviation led some to believe that doing nothing was an option. This is not the case, as was shown in the 1970's, when noise was major issue and the world airlines had to invest in quieter machines. Doing nothing is not an option. This time the challenge is more fuel efficiency along with addressing global warming impacts generally.

The global warming effects may be disputed by some but the reduction of fuel burn is obvious: more fuel efficiency means a leaner and fitter business. It is possible for the aviation industry to meet its environmental challenges and reduce the operational cost of airlines through the four-point strategy laid out by IATA leading to carbon neutral growth and eventually through the development of aviation technology to a zero emission industry. This grand "Victorian vision" used by many of the great engineers of that era is possible today. All that is required is the willingness to travel that path and the funds to invest.

Significant investments will need to be made, not only on technology, e.g. leaner burn engines and more efficient airframes, but also in fuels. The current dependency on aviation kerosene is not sustainable long term so the development of aviation bio fuels is essential to maintain viability. This takes money.

If the aviation industry continues to have significant sums of money taken from it in taxation, either directly or indirectly, then this will not be possible leading to constraints being placed upon it as its share of greenhouse emissions grows. This is not sensible.

As was shown over the noise issue, governments eventually had to step in and provide investment for technologies to adapt. This is not necessary today – the airline industry can fund its own developments but only if it is left with the means to do so. Therefore it is essential that governments, airlines, fuel companies and manufacturers work together to address the issue and not just tax it to provide 'economic incentives' to change.

## **Infrastructure Investment**

Here governments play a large part - as owners and operators of the air traffic system the greatest influence on the system behaviour is set by States. The interaction of this wholly state-owned enterprise with largely, non-state airlines sets the tone for what can be done. Interactions with airports are critical to success and here the whole industry needs to make a step change in the way aircraft are managed.

The holding of aircraft airborne wasting fuel and reducing system efficiency is wasteful and that is why the recent Single European Skies initiative is a great step forward. Along with the SESAR programme it can make a big difference to the way we manage and control aircraft of the future. The investment requirement is huge - probably the biggest single investment that will be made in aviation over the next 25 years - but long term the benefits are large too. They include more efficient use of airspace, better interaction with airports through gate-to-gate processes, which will also help manage emissions, and reduction of reliance on ground based navigation aids which should reduce industry costs. Overall it means a better deal for the freight and passenger customer through lower costs and higher reliability.

## Global Trade Distortions

Inevitably, when there is a down turn in any economy, the tendency for market regulators is to protect what they have in order to assure employment for its citizens and ensure that market forces transferring trade elsewhere are minimised. This is an issue when dealing with manufacturing and services – especially in a truly global business such as aviation where borders are difficult to define. Protectionism, in any form, is very damaging.

As has been shown in the European region, the advent of the open skies agreements has fostered a competitive market with airlines competing within a common framework. It is still not perfect as problems still exist but it is a good start, and with key regions and countries joining the system through agreements at EU level, the system grows stronger. Removing such trade barriers gives consumers more choice making aviation more effective.

However despite this success of the last ten years, there are still markets which impose barriers. One such example is the EU-US agreement. Following this landmark stage one agreement, which has opened the market to true competition, the next big challenge is to complete the task. Negotiation teams have already met to lay out the concerns, but in the current economy liberalisation initiatives will be difficult to discuss as some parties may push for more restrictive deals.

Whilst this may work for the short term it is in the long term that true market rewards will be established. To allow opportunity to grow in an open and competitive transatlantic economy, what must be considered is the long term of the aviation industry. A good deal has significant benefits to both the European and US aviation industries. An agreement on this scale will require maximum participation, discussing the difficult, and occasionally sacred cow, issues to ensure a sustainable and effective agreement.

As I take up my new post at IATA I look forward to addressing these challenges in Europe which I believe will provide for opportunities to continue grow our industry so that it is not only this generation, but also future generations, who can reap the rewards that travel and global commerce brings.

***The views expressed in this article are the author's and not necessarily those of IATA.***