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Aviation has faced a lot of challenges in recent years.

The effects of the 9/11 atrocities in the US, SARS, the wars in Afghanistan and Iraq, the general economic down-turn and the current high price of oil.

But in my view, none of these challenges is as threatening to the long-term future of aviation as the policies that could potentially be introduced to address our industry's effects on the earth's climate.

It is really quite astonishing how climate change has moved so swiftly into the mainstream of public policy, and even more so that it has become an issue of such widespread public awareness.

It was only in 1997 that Kyoto was negotiated. And here we are, at the third annual Brussels climate change conference, with the Kyoto Protocol now in force and a live EU-wide Emissions Trading Scheme in place, covering 45% of the EU's industrial greenhouse gas emissions.

Aviation arrived late at the climate change debate.

In 1997, when Kyoto was negotiated, the climate impacts of air transport barely featured, outweighed as they were – and still are – so massively by the impacts of other industrial sectors.

The focus of the world's Governments was on the emissions caused by power generation and by manufacturing industry, which together accounted for some 45% of global CO<sub>2</sub> emissions.

Household consumption accounted for another 23%.

Aviation, at the time of Kyoto, was responsible for just 2% of CO<sub>2</sub> emissions: policy makers had bigger fish to fry.

When Kyoto was being negotiated, the focus of my own company, BAA, was on securing permission to build Terminal 5 at Heathrow, and we were in the middle of the longest planning inquiry in British history.

The big ticket environmental issues which threatened our ability to expand in the UK, and which have faced airports across Europe, were primarily associated with the impacts of aircraft noise and local air pollution, and the effects on the surface transport system of growing numbers of passengers travelling to and from airports.

All these are, of course, important issues, and I don't underestimate them.

These issues did not only apply at Heathrow. They applied too in Paris, for Charles de Gaulle's two new runways, and in Amsterdam, for Schiphol's fifth runway and are still in play at Frankfurt, where Fraport is hoping to build another runway.

Governments and communities were primarily concerned with the localised environmental impacts of airport expansion: our impacts on the planet's climate just didn't feature.

But a lot has happened in these six years.

The debates about climate change and aviation have moved on.

So while noise, air quality and surface transport remain key features of approvals for airport development, the policy context for airport expansion is now located much more within a global environmental framework.

The aviation industry's growing climate impacts are central to that global framework in the minds of public policy makers and those who influence them.

And Governments' attentions have shifted from introducing measures to deal with the impacts of the biggest emitters – notably in the UK through the Climate Change Levy and in the EU via the Emissions Trading Scheme – to dealing with those contributors to climate change which are not doing their share.

So, in the last two or three years, aviation has stepped centre stage.

In the UK, the profile of aviation has been growing steadily, as a range of commentators have produced a raft of reports, and held a plethora of inquiries into the environmental impacts of aviation, spurred by the debate into the UK's future airport capacity needs, which the UK Government launched in 2002.

And while the Government's policy analysis has now concluded, with a policy White Paper supporting four new runways in Britain by 2030, the debate about the environmental impacts of such expansion has continued.

And not just in the UK.

Across an increasing number of countries, work by academics, pressure groups, think tanks, political parties, legislators and governments has drawn attention to aviation's rising greenhouse gas emissions.

And all have concluded that something must be done about it.

I agree. Both with the broad consensus of analysis of what the issue is, and with the conclusion that something must be done.

Not everyone agrees. The US administration, for instance, heavily influenced both by big business and by its citizens' demands for low fuel prices, rejects both the

analysis of the threat to the earth's climate and the action that Europe and other countries believe needs to be taken.

America resists adopting the prescriptive policy approach embraced by Europe, fearing that it will undermine American competitiveness.

We hear this message very clearly from US airlines and from the FAA at ICAO.

And this is not just confined to environmental policy, but also to social and employment policy, in which Europe and America often embody very different approaches.

Of course, as a business leader, I understand that American businesses are resistant to additional costs and protective of their market position.

And I understand how US politicians fear the wrath of voters, who believe in a right to cheap petrol.

But as a world citizen, I believe that we have a responsibility to protect future generations from our actions today and that no-one – whether a nation or an industry – should stand on the sidelines.

I don't believe that aviation is a special case. We have the same responsibility as other industries to address the impacts on the planet's climate of our activities; the same responsibility to help reach the goal of stabilising emissions at a level that will prevent dangerous interference with the climate.

Our share of greenhouse gas emissions is small, yes, but it is growing, and we have no special rights or privileges to stand separate from the rest of industry and society.

I accept, too, that the impacts of aviation are more than just carbon emissions from burning kerosene in flight.

Nitrous oxides are also greenhouse gases, and there is a further, uncertain, but potentially significant, impact from condensation trails.

The aviation industry in Europe accepts that it causes these effects, although there are differences of opinion about the extent of the non-CO<sub>2</sub> impacts, the pace at which action is needed, and the type of action that is needed.

I believe, today, that we are at a pivotal moment for the aviation industry in Europe, and that this industry is facing two potential and divergent futures.

A market-driven future will see aviation continue to grow, to provide the connections that our businesses and economies need, to be successful in a global economy, and that our people demand in an affluent society.

And an alternative, over-regulated future will see aviation constrained by an ever-increasing spiral of regulatory, legislative and fiscal measures, designed to contain

the damage caused to the climate by our industry, putting at risk the social and economic goods that aviation can deliver.

I'm sure that many other people in the industry see these alternative futures too.

But some believe that the market-driven future of growth and competitiveness is only achievable if we resist our environmental responsibilities.

They believe that we need to resist, postpone, defeat attempts to deal with our total climate impacts, because dealing with these impacts will impose costs on the industry.

With additional security costs and high fuel prices, now is not the time to impose more costs on the aviation industry.

It never is. There is always a reason to say "not yet, not now".

But policy makers are tired of hearing this from our industry.

They want action and solutions, not pleas and excuses.

So I don't believe that a future exists in which aviation can get away, scot-free, without fully accounting for our growing impacts on climate change.

Anyone who thinks such a market-driven future is possible with our industry shirking its responsibilities is living in a fool's paradise.

Look around you.

In the UK, we already have Air Passenger Duty – an environmental tax on aviation – which can be increased with effortless ease if the Government is minded to do so.

The EU has passed a directive which makes it possible for Member States to impose taxes on fuel for transport between any two or more Member States who agree.

The Swedish Government has imposed a CO<sub>2</sub> limit on Stockholm Arlanda airport.

The French and German Governments have called for a tax on flights to fund development programmes to fight world poverty.

No, a future in which no measures are imposed to deal with aviation's greenhouse impacts does not exist.

So the two futures I see are these:

In the market-driven future, environmentally-credible market-based measures are used to incentivise innovation, to drive performance improvements, at least-cost, to deliver genuine reductions in greenhouse gas emissions.

In such a future, the economic and social benefits of aviation are secured, and our industry continues to grow, with Governmental and societal permission, because we are dealing with our climate impacts.

We will reach this future through a combination of emissions trading for those carbon impacts we cannot internally mitigate or eliminate, and technological and operational innovation for the NOx and contrails impacts that I hope can be tackled internally.

Let's be open: an environmentally-credible emissions trading scheme will have a cost. And that cost will have some impact on demand in the future.

But emissions trading is the most effective way of reaching the environmental outcome that we are all aiming for – a stable climate in the future.

And since it is effective, more draconian measures can be avoided: constraints on growth or limits on airport expansion won't be the policy tools being used to address climate change.

In this future, the climate will not be a constraint on growth or a limit on the expansion of aviation, or of airports.

That is why the EU airports industry is so publicly committed to EU aviation being incorporated into the EU Emissions Trading Scheme at the earliest opportunity, as the first, necessary step towards a global solution for aviation.

And we're committed to working with policy-makers to set out a roadmap towards addressing our total climate change impacts, with clear policy milestones towards that goal.

In the UK, the entire aviation industry is developing a Commercial Aviation Sustainability Strategy, which includes a solid commitment to emissions trading.

We think this is achievable and desirable. It is environmentally effective and economically efficient.

The over-regulated future is also achievable, but it is far from desirable.

In this future, those who are resisting the current positive steps towards addressing greenhouse gas emissions through emissions trading will push policy makers into adopting some, or all, of the alternative measures in their armoury.

Emissions charges and taxes would be used, first and reasonably, to capture the monetised environmental costs of aviation's climate impacts, so that the polluter pays for its impacts.

But later, when it is clear that this alone is not enough to slow the growth of emissions, there would be a clamour for further tax rises to be imposed, underpinned by capacity constraints, to slow or eventually halt aviation growth, as a crude, blunt and expensive way of containing emissions.

This over-regulated future is economically inefficient, environmentally ineffective and would not only undermine the economic and social benefits of air transport, but could, over the longer term, even end growth in our industry in Europe.

And many of these measures are already the basis for policy for a number of political parties across Europe.

Greens, liberals and even some conservatives support elements of such approaches – though often in addition to, not instead of, emissions trading.

The proposals by the French and German governments to tax flying to fund international aid shows us how vulnerable aviation has become, as a result of our perceived failure to deal with our environmental impacts.

And if public concern about the climate impact of flying continues to grow, and politicians and society believe that our industry is not taking the issue seriously, then these sorts of measures could be politically achievable.

Flying remains popular, but so is driving. And in London and Singapore, society has reluctantly accepted the need for congestion charging.

So society could, on the one hand, still enjoy flying, but on the other hand believe that flying is damaging to the environment and that action should be taken to curb this damage.

Many people already feel slightly uncomfortable about being able to fly so often, so cheaply.

It may not be politically popular to take this action, but it could be politically permissible.

After all, air passengers have absorbed the various surcharges for rising security and fuel costs that airlines have imposed in recent years, without any lessening of their desire to fly.

I truly believe that public opinion is at a cusp, and could be persuaded to accept a tax-based approach to aviation and climate change, believing it to be environmentally and morally justified.

Let me give you an example from some public opinion polling that BAA commissioned in the UK last year.

Half of the British people believed that air transport has done too little to address our environmental impacts, against just 13% who thought we have done enough.

46% thought that we should pay more tax to cover our environmental impacts, against 23% who thought we shouldn't. That is two-to-one in favour of taxing aviation more.

I would imagine that the results would be similar if the polls were conducted in other EU countries.

Some of you may think that my two futures are extremes, and maybe they are. But I don't want to take the risk of ending up in the wrong future.

I have a society and shareholders to whom I and my company are accountable, and I am motivated by the long-term interests of my company and our industry.

Airport operators plan in ten, 15, 20-year horizons. Our investments take years to complete and pay back over decades. I have to think, today, where our industry will be in 2020, in order to make rational and responsible judgements about investments which will cost billions of Euros.

So I, and my colleagues in other airport companies across Europe, speak out when we see that our own long-term futures could be threatened by the wrong policy measures being adopted.

Airlines are necessarily much more short-term in their thinking, because they are more responsive to the vicissitudes of short-term events and costs.

I understand this and of course airports want to see profitable and growing airlines, because our growth depends on this.

And I do understand the fear that airlines have of the cost implications of emissions trading, and I appreciate why some in the airline industry have avoided the climate change debate, in the hope that it will go away.

But it won't, and I believe that the tactic of brinkmanship and resistance that worked so well in delaying change in the past is doomed to failure.

That is why, increasingly, far-sighted airlines and airports have already opted for the market-driven emissions trading future.

Of course, there are issues about implementation – there were for the other industries – and these have to be ironed out. But some major airlines have accepted the principle of emissions trading, and are co-operating with the European Commission on implementing this approach.

Only last month, at the Aviation and Environment Summit in Geneva, Jean-Cyril Spinetta, Chairman of Air France-KLM said:

“Many of us trust that emissions trading could enable greenhouse gas reductions targets to be achieved in the most cost-effective manner, as recommended by ICAO. I feel that an emissions trading scheme could be feasible, as long as it replaces all forms of fuel-related taxation and charges.”

In January, Rod Eddington, CEO of British Airways, wrote in the *Financial Times* that he supported emissions trading, because:

“...emissions trading is likely to be the most effective and efficient instrument for dealing with greenhouse gases from aviation”.

He repeated this view in Geneva last month.

Similarly, Sir Richard Branson of Virgin, also writing in the *Financial Times*, said:

“There is a growing consensus that the way forward is an emissions trading scheme. Virgin Atlantic has been a strong supporter of such an approach for aviation, and we are pleased that the UK Government intends to seek agreement on a Europe-wide scheme during its presidency of the European Union.”

Airik Nertun, the group director of environmental affairs for SAS has said:

“An emissions trading scheme is the only system that’s both cost-effective and environmentally friendly and applicable to airlines.”

And these views are not confined to the traditional scheduled airlines. Ray Webster, CEO of easyJet, said last year:

“We have voluntarily given our support to aviation generally, and easyJet specifically, joining the EU Emissions Trading Scheme, proposed to start in 2008.”

These things weren’t being said in 1997, when Kyoto was negotiated, so it’s not just policy makers who have moved: the leaders of our industry have also moved a long way in the climate change debate.

I believe that we are all at a moment of choice.

None but a few mavericks deny that aviation has impacts on climate change which have to be addressed. The question is how to address them.

Pressure groups who oppose aviation growth in principle favour taxes and charges, because they see this approach as the best way of constraining the industry.

Their voice is loud and in a political climate in which politicians and the public increasingly believe that aviation is not meeting its external costs, those voices resonate.

So I am calling for three things, today.

I call on those – like Europe’s airports, BA, easyJet, SAS, Air France-KLM and Virgin – who believe that the emissions trading approach is the best approach, to be more active and vocal in bringing this about.

Work with the Commission, influence your Governments, lobby your partners and competitors to deliver what you know is in the best long-term interests of our industry.

I call on those who are playing brinkmanship – in the hope that this issue will disappear – to look beyond the brink and consider what sort of over-regulated, long-term future you may be encouraging.

What you think is the right thing to do to protect your short-term commercial interests could bring about our industry's long-term stagnation. Protecting your long-term future is not incompatible with your short-term interests. There is no opt-out here, so don't hold out for one.

And I call on legislators in Member States, in the European Parliament and in the European Commission, to listen to the positive voices from the responsible companies who are honestly engaged in seeking the best climate solutions for aviation and work with us to achieve them.

This isn't just the right thing for the environment, but it's right too for our economies and societies.

We need a growing aviation industry in our global economy. We need Europe to be prepared to provide the links to the expanding economies of China and India.

We can't do this if we shackle the industry with taxes and constraints. We can do this if we use innovative market mechanisms to deliver aviation's environmental obligations.

And if we are ever to break America's opposition to tackling climate change, it won't be through escalating taxation; it will be by demonstrating that market mechanisms like emissions trading do work, and don't hobble our industries.

For Europe's aviation industry, this is the best moment of opportunity we are likely to have to couple environmental responsibility with economic growth.

The time is right, the measure is right and society is ready: don't let this moment slip by.

This IS an industry you can work with – work with us.

There may not be unanimity, but there wasn't among other industries when you brought in the first phase of the Emissions Trading Scheme.

We WILL support you. So press ahead with emissions trading, work in partnership with us to secure a better understanding of the non-CO<sub>2</sub> effects of aviation, and develop the measures with us, over time, that will allow us to meet our total climate change obligations, in ways which allow us to flourish, as our societies and our economies demand.

The actions that we take in the coming short months will lay the foundations for the future of our industry.

Let it be the right future.

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