

**MONDAY 13 OCTOBER**

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**"Towards sustainable aviation:  
Our future, our choice"**

Check against delivery

BAA Aviation and climate change seminar

**London, 13 October 2003**

Good afternoon. I'm delighted to be here with you again today to take forward our discussion on aviation and climate change.

The importance of this issue is illustrated by the fact that Tony McNulty and Margot Wallstrom are here today.

What I've got to say today will in places be a bit technical. That's unavoidable so at the outset, I want to stress a more fundamental point.

Climate change is the biggest single environmental challenge we face. I believe that business has a huge responsibility to respond seriously, creatively and imaginatively to solve this problem.

So I would like to thank all those who have been working with us over the last 6 months. Many of you came to our March workshop. Since then, some of us have taken part in a stakeholder steering group, involving Government, industry and NGOs.

I would like to thank the Department for Transport for their generous co-funding of the OXERA analysis - based on Terms of Reference set not by BAA alone, but by the steering group as a whole. A summary of this report is in your pack.

I believe we have learned much from this process of working together. More than we could have achieved on our own. We're on a journey that will lead to greater clarity and real action.

Before we get into the specific issue of climate change, let's look at the wider context. We will soon have the UK Aviation White Paper – a 30-year policy framework for aviation.

As the Government has recognised, effective transport systems are vital to the modern economy and modern lifestyles. Economically, aviation plays a crucial role in promoting high value-added industries, such as electronics, pharmaceuticals, media and finance.

Air travel is also essential to the way modern societies work. People need to travel for business, but also to visit their friends and family. And we all enjoy travel – it enriches us culturally.

And real understanding and tolerance of each other's cultures is not going to happen via video screen or telephone. When Bill Clinton was over here recently, he commented that – in 1923 – it took a team of US translators a week to figure out that “bangers and mash” was not some kind of veiled British threat!

Most of all, air travel is a key aspiration of the many, not the few. It is no longer the privilege of an elite. So – for social and economic reasons – stopping growth or airport development in the UK is not the right way forward.

And it's important to remember that aviation is public transport. It caters for mass movement of people.

Sure, there is no aviation fuel tax, but aviation does pay around £900 million per year in Air Passenger Duty. It also pays for virtually all of its own infrastructure and running costs, as well as contributing to the road and rail networks.

And aviation is not subsidised by central or local government. In the last 4 years, of the £35.9 billion public expenditure on transport, only £199 million went to the aviation industry, and that was to pay for lifeline routes in the Scottish Highlands and Islands. The rest went to roads, buses, rail, and London Transport.

Let me be clear: we are not asking for aviation to be subsidised like the railways.

Aviation has proven itself to be extremely effective in meeting its own capital and operating costs. But there is no case for taxing aviation fuel, or any other form of public transport, at the same rate as cars.

The cold truth is that trains pay just 4.2p a litre red diesel, buses receive a fuel duty rebate and ships pay nothing.

That said, I do recognise that aviation faces a particular challenge over climate change – since an alternative fuel for aircraft is nowhere in sight.

I also recognise that airports are in the public frontline on all of aviation's negative impacts. We don't fly the planes, but the reality is that unless we take these issues seriously, airports will not be allowed to grow. So we have a responsibility to lead change within the industry – working with our airline customers, our communities and with our other stakeholders.

We need to start with a couple of fundamental questions. First, should aviation, like other industries, pay its external costs over time?

My answer is an unequivocal: "Yes".

But it is essential that the means of internalising external costs passes 3 key tests. Any instrument should be:

1. Environmentally effective
2. Economically efficient, and
3. Deliverable

By these tests, the current UK Air Passenger Duty fails because it crudely raises revenue without providing any incentive to improve environmental performance. We need well targeted, smart economic instruments, not blunt ones.

The second fundamental question is this: Are we ducking the debate on demand management?

No, we're not: we recognize that the consequence of a regime of smart, well-targeted instruments will be higher costs and reduced demand. But we need the

smart instruments first, not the blunderbuss of crude taxes designed to make travel unaffordable.

We strongly believe that each environmental impact should be targeted individually, with the objective of reducing or mitigating its impact, using the most effective policy instrument. That could be a planning condition, local or national regulation, economic instruments or voluntary action.

Where the policy tool is an economic instrument, any payment should be proportionate to the scale of the impact and the revenue raised should be used to reduce the impacts. This is smart and responsible demand management.

I also accept that growth needs to respect absolute environmental limits.

On climate change, the earth has a limited capacity to handle greenhouse gases.

We must try to agree, by democratic means, how we should share that limited capacity. Meeting vital human development needs such as clean water, food, sanitation - as agreed by Governments in Johannesburg - will rightly take up some of this environmental capacity.

However, there is a powerful case for aviation to take up some of the remaining capacity, so long as it pays to reduce emissions in other parts of our global economy, so the global cap can be maintained.

The need for action on climate change is urgent.

We welcome the leadership shown on this issue by Prime Ministers Tony Blair and Goran Persson in calling on all EU leaders to commit to dramatic CO<sub>2</sub> emissions reductions against 1990 levels by 2050. 60% CO<sub>2</sub> emissions reductions is a challenging target.

The UK Energy White Paper makes clear that such reductions are needed. This policy context matters to airports, which are major users of industrial energy, and it matters when planning aviation capacity growth over 30 year time horizons.

We need to take climate change seriously, and not just aviation's CO<sub>2</sub> emissions. Margot Wallstrom has made this clear and so shall I - we need to deal with aviation's total climate change impact.

This includes energy use at BAA airports, where BAA has been publicly committed to delivering 5% absolute emissions reductions against 1990 levels by 2010. I am proud to announce today that we are now committed to delivering a 15% reduction.

In May this year, Margot Wallstrom rightly challenged business leaders and wider civil society to "start reflections on the international climate change architecture beyond 2012".

Our stakeholder dialogue over the last 6 months has looked ahead to 2050, and this has helped us develop our BAA views. That said, I want to emphasise: We're not claiming to speak on behalf of the steering group or anyone else.

Let me spell out who's side we're on. We stand with those who want solutions to aviation's climate change impact, whilst rejecting the extremists on both sides. We cannot afford to be seduced by those in our industry who say there is no need for action.

Nor can we give ground to those parts of the NGO movement who want to tax away demand without regard for the economic and social consequences.

So where are we coming from? We should apply the normal environmental hierarchy: That is, first to reduce the impact, then to mitigate the impact, leaving compensation as the approach of last resort.

In terms of reduction, there may be some scope for this on the non-CO<sub>2</sub> impacts of aviation over the longer term, and policy should take this into account. I will explain our thinking on this later.

I also think it is helpful to divide the discussion on solutions into two time horizons: before 2013 and after. From 2013, BAA's position is that aviation should be integrated into emissions trading on an environmentally credible basis.

For intra-EU flights, we believe this has to mean on the basis of aviation's total climate change impact. We believe the impacts of aviation's CO<sub>2</sub> and NO<sub>x</sub> emissions can be targeted directly. Ideally by 2013, given prior investment in research, it will also be possible to quantify the contrail and cirrus impact of any given flight.

However, if this possibility fails to emerge, an averaged impact per passenger kilometre could be assumed to account for aviation's contrails and cirrus cloud impact. But we should reject a crude 'CO<sub>2</sub> multiplier' approach, as this will shift attention away from finding much needed climate solutions within aviation.

For wider international aviation, we need to be pragmatic and recognise that in order to get broad international agreement, emissions trading should begin with CO<sub>2</sub> and move towards total climate change impact over time.

Long term, BAA would like to see all aviation inside a global emissions trading system covering total climate change impact.

Of course, 2013 is a decade away, and the question remains: What do we do in the mean time?

One proposal under discussion is a substantial EU aviation emissions charge – raising up to 8600 million Euros a year, according to the analysis for the European Commission by consultants CE Delft.

This is a huge cost to the EU aviation industry, and what do we get in return? A 13% and 15% reduction in CO<sub>2</sub> and NO<sub>x</sub> emissions against Business As Usual projections - meaning, in real terms, continued emissions growth against 1990 levels.

As the European Commission itself has emphasised: "this growth in emissions is not sustainable and must be reversed".

By comparison, OXERA's analysis demonstrates that emissions trading is a win-win. It can deliver more for the environment than a charge, at greatly reduced costs to industry.

In an ideal world, we would want each of aviation's CO<sub>2</sub> and non-CO<sub>2</sub> climate impacts fully integrated into emissions trading, so that aviation could both buy and sell on the EU emissions trading market. To give maximum opportunity for innovation and cost effective action, we must try hard to move towards that ideal.

But let's be honest. This will take time, given the legal and scientific obstacles. Legally, aviation's non-CO<sub>2</sub> climate impacts are not Kyoto Protocol effects. And, scientifically, though we have global averages, it is not yet possible to quantify the contrail or cirrus climate impact of any given flight.

The key obstacle to full integration before 2013, as Margot Wallstrom has highlighted, is international aviation's special treatment under Kyoto and the legal problem of allocating international aviation emissions to country governments.

So let's get pragmatic about interim action. This is not about delaying tactics. We still need something simple to implement, which delivers for the environment, and that remains cost effective for the industry. We need some creative thinking.

What we suggest is this: that EU aviation's CO<sub>2</sub> and NOx emissions should be partially integrated into the EU emissions trading regime.

Aviation would be allowed only to buy emissions allowances, not to sell them.

Partial integration can be very simple. A legally binding CO<sub>2</sub> and NOx emissions reduction target would be set, and airlines would be required to reduce their emissions or buy enough allowances from the EU trading market to deliver the target.

A simple "exchange rate" could be used to convert NOx emissions into "tonnes CO<sub>2</sub> equivalent". Effectively, as with full trading, aviation would be paying for reductions in other industries.

Equally, an airline that improved its emissions performance would be rewarded, by needing to buy fewer allowances from the EU trading market.

Based on bilateral discussions with DEFRA, we believe this partial integration idea deals with 3 key issues:

1. The legally binding framework could be developed through normal EU political processes.
2. It can be implemented without needing the legal allocation of international aviation emissions.
3. It can be implemented without aviation's non-CO<sub>2</sub> impacts being legally designated Kyoto gases.

It also doesn't create perverse incentives over NOx emissions by only focusing on CO<sub>2</sub>. It has the advantage of being one simple, single instrument. And we believe it can begin from 2008. The point is: It is environmentally effective, economically efficient and deliverable.

In terms of interim action on aviation's contrails and cirrus impact, we would recommend a significant programme of scientific research, funded by a moderate EU en route charge per passenger kilometre. A moderate charge would guarantee the research funds – and it doesn't ask the general taxpayer to pick up the bill. And it's not a blunt penalty for the industry, it is a smart investment for the future.

Long term, it might be possible to reduce aviation's NOx, contrail, and cirrus cloud impact through advanced air traffic management routing of aircraft – i.e. by avoiding climate sensitive parts of the sky.

I appreciate the complexity of this concept and that there are many ifs and buts. But, for the long term future of aviation and the environment, it's better to find deliverable climate solutions within the industry, rather than to rely on emissions reductions in other sectors.

Of course, there is another question, beyond the EU. What about the United States?

Yes, it would be better if we could have global agreement, and now. But we mustn't let the best be the enemy of the good.

We may want to think more about partial trading for wider international aviation.

Could part of our own APD be paid in emissions allowances, to guarantee climate change benefit? When the science can verify it, could we have a 2 tier approach to APD - with a lower rate for those international flights not generating a contrail and cirrus impact?

These are just ideas, and they are not fully formed, but we need ideas if we are to engage the US and move towards effective global action.

To conclude, lets remind ourselves of the wider EU context. We have slow economic growth within the EU. Sweden has voted "no" to the Euro. And we have the French Government saying "no" to the EU fiscal stability pact.

At the same time, with the development of EU emissions trading, the EU has the potential to regain the upper hand - delivering social and environmental responsibility, whilst maintaining EU competitiveness. Aviation is an opportunity to continue this EU success.

It is our future, our choice. And it is time to decide.

Let me try and sum up what we all need to do to achieve a solution to the issue of aviation's impact on climate change. United we can deliver a solution to this global challenge. Fragmented we will fail. What does this mean in practice?

For the European Commission, it means making a link between EU aviation and EU emissions trading. We can compromise. A link does not have to mean full integration. We should be willing to give up the right to sell permits. The point is - we believe this can and must be taken out of the "too difficult box".

For the UK Government, it means strong, clear political leadership for an EU

approach to emissions trading. That support should be clearly expressed in the Aviation White Paper and vigorously prosecuted in negotiations with EU colleagues. A Government led implementation process, bringing together the interested parties, could help drive forward action and provide formal accountability. BAA is ready to play its full part.

For the aviation industry, we must settle our differences and unite behind a practical approach to a problem which demands a solution. This means accepting higher costs. But it also means avoiding a future in which politicians feel impelled to impose ever higher taxes.

For NGOs, no one doubts your commitment to addressing the problem of climate change. But you too need to focus on solutions that deliver.

I challenge all stakeholders – NGOs, airlines, manufacturers, airports and Government – to agree to this approach and actively pursue it at every level – UK, EU and globally. United we can solve this problem. And if you doubt that we're capable of moving forward, I ask you to look how far we've come in our discussions this year.

1. Internalising our environmental costs over time? Yes
2. Total climate change impact, not simply CO<sub>2</sub>? Yes
3. Commitment to research to find climate solutions within aviation, funded by a moderate EU charge? Yes
4. A refusal to hide behind ICAO and the US? Yes
5. Legally binding interim EU action, with an absolute guarantee of climate change benefit? Yes
6. A refusal to undermine the Government's leadership position on climate change? Yes

Now tell me we're not trying.