

Rt Hon Douglas Alexander MP
Speech to the International Aviation Club
Washington DC
4 October 2006

1. Russell¹, Members of the Board, Ladies and Gentlemen, thank you for a very warm welcome to the International Aviation Club.

2. It is hard to overstate the significance of the aviation industry in our modern world.

3. And that world calls us to respond not just to the widely recognised challenges of economic globalisation, but also to the equally powerful but less discussed force of interdependence.

4. That means economics, plus communications, plus travel, plus a clearer and more immediate sense of the ways people live their lives right around the globe.

¹ Russell Bailey, Senior Counsel of the Air Line Pilots' Association of America and President of the International Aviation Club. He will introduce you.

5. The growth of aviation has been a powerful catalyst for these changes. Our global economy depends on aviation, shrinking the world and ensuring passengers and cargo can reach their destinations in the shortest time.

6. Your industry continues to grow, you need to plan ahead to meet the challenges and opportunities of growth.

7. But civil aviation stands at an important crossroads - and if it is to prosper and flourish then three important and difficult challenges need to be addressed.
Challenges I would like to talk about today.

8. Firstly, the need to recognise that the expansion of aviation must not come at the cost of recognising and responding to our shared environmental obligations.

9. Second, in an increasingly globalised world, we need to free the aviation industry to allow it to develop as an international industry like any other.

10. And third, we must continue to address the very real threat to the industry from global terrorism.
11. I would argue that Governments across the globe have a key role to play in working with you to address these challenges.
12. For my first point, environmental concerns are real, they are growing, and we need to work together to address them.
13. And climate change is undoubtedly the issue which most clearly highlights this challenge.
14. Environmental problems such as air quality and noise can have different impacts according to location - but climate change emissions don't stay within borders and boundaries. They affect the wellbeing of the ecosystem and citizens across the planet.
15. Aviation currently represents just a few percentage points of global CO2 emissions, but it is a sector where significant growth is happening. And the growth of the

sector is outstripping any improvements in carbon efficiency - meaning that emissions will continue to rise if we do nothing.

16. My Government has made our view consistently clear that climate change is a priority issue for the global community, and one where concerted action is essential.
17. For example, we need to develop a coherent strategy encouraging and promoting technical improvements and operational gains - not just in aircraft design and fuel technologies, but also in areas such as air traffic control, which can have a significant impact on emissions.
18. But relying on technology alone is not enough. We also need to develop appropriate economic instruments. The United Nations Climate Change Convention has requested the International Civil Aviation Organisation to take action on aviation emissions, recognising that a global approach is essential.

19. But meanwhile, I hope to see Europe set an example by bringing aviation within the EU's emissions trading scheme. Trading is an attractive option as it is market based and allows airline operators the flexibility to consider how best they individually respond to the discipline of a carbon exchange. I look forward to the early presentation of European proposals on this.

20. We are also pressing for action on air quality to be taken forward at the international level. Emissions charges, such as those already in place at Heathrow and Gatwick airports, help to encourage the use of aircraft which emit lower levels of NOx.

21. These charges are neutral overall, with the revenues off-set against airport charges, but they do start to send out important price signals. I know that in the International Civil Aviation Organisation, work is underway to develop guidance on such emissions charges, and I look forward to seeing progress on this.

22. For my second point - opening up markets and letting airlines behave like normal commercial businesses is the key to continuing prosperity in an increasingly competitive global market place. And a healthy, competitive airline industry is good for passengers and good for the wider economy.

23. That is why we are all striving to secure the liberalisation of the world's biggest aviation market – that which spans the North Atlantic.

24. The diplomats and negotiators who crafted the Chicago Convention in 1944 were visionaries in their time. World War II had delivered a step change in aviation technology, now they wanted to see it used for peaceful means, regulated internationally, by an arm of the emerging United Nations.

25. The structure they created has provided the basis for the spectacular growth of international travel in the intervening 60 years.

26. But, perhaps because of its birth in international diplomacy, these same negotiators established the idea that the rights to operate air services between two countries should be very tightly regulated and used as an instrument of foreign policy; negotiated and traded; withdrawn and returned; restricted and protected.
27. The so-called 'freedoms of the air' were in reality the exact opposite. As negotiators devised ever more arcane ways of dissecting and complicating the equation, the regulators got out of control.
28. The infamous Bermuda II agreement between the UK and the US is a classic example of this – running to 87 pages with annexes, tables and charts, tightly constraining the operation of air services between our countries.
29. It is so complicated that my officials claim there may be only one person on each side of the Atlantic who fully understands it – and just as worryingly, my officials didn't reveal that individual's identity!

30. While such complexity may have been good diplomacy, it certainly does not make good business. As you know, following on from the example of the US, the European Union liberalised its internal aviation market in 1992, sweeping away the edifice of permits, bilateral agreements and price controls that was strangling our industry, while of course maintaining necessarily strict controls over safety, security and fair competition.
31. The results have been dramatic. Fares have fallen and passenger numbers have risen. The low-cost model pioneered by Southwest Airlines has been successfully imported into Europe, with carriers such as Easyjet now beating most national flag carriers in terms of passengers carried.
32. And flying within Europe is now within reach of almost everyone: connecting families and businesses more easily, and more cheaply, than ever before.
33. So the case for liberalisation and the benefits it brings has long been recognised on both sides of the

Atlantic. Is it not odd then that the transatlantic market between the European Union and the United States, 40% of which is represented by the UK-US market, remains so heavily restricted?

34. And why is it that the process of reaching agreement on a potentially ground breaking EU-US aviation agreement is proving so long and difficult?
35. Let me be clear. The UK is in favour of liberalising the North Atlantic market. And we believe that the best way to achieve that objective is through a comprehensive EU-US agreement.
36. But it has to be an agreement that is clear, meaningful, robust and balanced. Clear, so that everyone knows where they stand and can invest and plan ahead on a sure footing.
37. Meaningful, in that it delivers real benefits to our economies, passengers and aviation businesses. Robust, in that it is backed with political certainty to

ensure that its provisions are fully and properly implemented.

38. And balanced, to ensure real access to each others' markets, so that our respective aviation industries can compete with each other on a fair and level playing field and within a common – or at least consistent – regulatory environment.
39. That is what an EU-US agreement was intended to achieve and what we want to see it deliver. Progress has been made over the past year towards a first stage agreement that could meet the criteria I have mentioned. But, in my personal view, we are not there yet.
40. Ownership and control of airlines is one area where there remains imbalance, and where modernisers on both sides of the Atlantic are calling out for deregulation.
41. I know that the issue of relaxing the rules on foreign investments in US airlines has been a matter of

much internal debate here in Washington over the past few months.

42. I hesitate to become embroiled in that debate. But, like many of you, I was disappointed that the Administration's final directions in this regard have been further delayed.
43. However, I note the comments made by Jeff Shane to this very gathering last month, where he reaffirmed his commitment to the rule-making process, and the Administration's desire to move forward to resolving this long-standing issue.
44. Jeff made quite clear this would not be possible ahead of the next meeting of European transport ministers, now just a few days away. But it remains possible that a meaningful final rule – one which delivers real, practical benefits to the aviation industry – could be issued ahead of our next meeting in December.

45. Removing the arcane and unnecessary restrictions on the ownership of airlines is one important way in which the industry needs to be brought into the modern world.
46. As I said a few moments ago, the case for liberalisation and deregulation has long since been made and accepted on both sides of the Atlantic. The world which produced the Chicago Convention no longer exists. I believe our aim should be – in so far as is possible – to treat aviation like any other global industry, free to invest and do business wherever market conditions dictate, and open to international flows of capital.
47. I can assure you that we in the UK take national security, and aviation security, every bit as seriously as you do on this side of the Atlantic. But for me, the nationality of the owners or managers of a business is irrelevant – as long as that business is well-run and thriving.

48. One of our leading carriers was for many years run by an Australian, and now has an Irishman as its chief executive. Our main airport operator was recently taken over by a Spanish company.
49. When that takeover was happening, my concern was not over which passport the new owners happened to hold; it was to ensure that they were able to manage and improve our airport industry in line with Government objectives.
50. But protectionism remains a powerful force in many corners of the aviation industry. It is holding back the development of modern, global aviation businesses.
51. The job of governments and politicians should be to create the conditions in which those businesses can thrive in an increasingly competitive global marketplace, and to facilitate, not obstruct, their ability freely to transport people and goods.
52. The rest of the world is rapidly getting the message. If we do not look beyond the narrow,

protectionist view, our own industries will be the losers in the long term.

53. For my third point, I want to say something more about aviation security. This city, and those who live and work here, experienced at close hand the full horror of 11 September 2001. And, as recent events in the UK have shown, aviation remains an iconic target for terrorists.

54. August 10 was an extraordinary day for everyone in the UK aviation industry, for Government and for air passengers. But thanks to the efforts of the police and Security Service an appalling atrocity was averted.

55. We needed to respond quickly to the threat from liquid explosives which was uncovered, during the course of events. And it is a testament to the skill and professionalism of those who work within the airline industry that they managed, for the most part, to keep flying under very challenging circumstances.

56. The threat from liquid explosives has evolved and it is now very real for air travel. And sadly, we know that the type of attack planned in the UK could be used in or against any state.

57. That is why we continue to work with our international partners to develop a harmonised approach to addressing the specific threat of liquid explosives more widely.

58. The very close working relationship between my security experts and those in the Transportation Security Administration is fundamental to our chances of achieving that and is very much valued.

59. Together, we continue to strive to meet the challenge of delivering the best standards of security whilst allowing passengers to travel as freely as possible. Overall, in the face of a determined, resourceful and adaptable enemy, I believe we have managed to maintain a reasonable balance. But we can never afford to be complacent. The reality of the terrorist threat is something that your industry will have

to live with, and continue to work against, for the foreseeable future.

60. Aviation is the quintessential international industry. Connecting the countries of the world, it has to survive in a global environment. But, when faced with challenges of the scale I have outlined in my remarks today, challenges that require concerted action by governments and the industry, we should take care to ensure that globalism does not act as a brake on adapting to the severe challenges ahead.
61. Because these are international problems, problems that will only be solved by the major players in world aviation working together. Our two great countries have a long and proud history of such co-operation, which I am sure will give renewed impetus to our efforts to foster a strong, sustainable and secure aviation industry.
62. That is our shared opportunity. That is our shared responsibility. And working together – that can be our shared achievement.

[2,350 words]