

“THE FUTURE OF AVIATION – CAN WE GET THERE FROM HERE?”

Pierre J. Jeannot, O.C.
Director General and CEO – IATA

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Mr. President O’Connor, Chairman Sir Malcolm Field, Governor Baliles, Carol Hallett, David Plavin and Ladies & Gentlemen.

First, I would like to thank David O’Connor for inviting me to speak to this distinguished club. Of course, David is also associated with IATA, and I must say that it’s kind of nice to have a President working for you! David *has* to listen to me sometimes but you do not, so I am grateful for this opportunity to share a few thoughts with you.

In an industry such as ours, where the partners are so inextricably interdependent, it is absolutely essential that we listen to each other and that means everyone – airlines, regulators, policy makers, airports, air navigation and other service providers and manufacturers. Our combined efforts will continue to fall short of the expectations of the ultimate users-- the travellers and the shippers-- unless we all listen carefully to what the market and the public is telling us.

In very simple terms, we are being told that the service we provide must be improved. It needs to be of better quality, affordable by most everyone socially acceptable and safer still. In my view, there are three critical issues facing the air transport industry today - issues that have to be tackled head-on if the industry is to get “from here to there”. I mean where it wants to be, where it needs to be.

These critical issues are *infrastructure*, the *environment* and *safety*.

Let me start with safety because the DRIVE for continuous improvements in safety is, as always, IATA’s prime strategic objective. But of course we all realise that these issues are not independent of one another. As it should be obvious, for instance, that a safe operation requires a good infrastructure. In fact, here in the United States it was Secretary Mineta who stated that “the issues of better funding mechanisms (for infrastructure) and improved safety performance are inextricably linked.”

Central to this was the sense that public confidence in our excellent safety record could slowly erode over the next 10-15 years “if significant steps are not taken to further improve aviation safety.” We fully agree with Norman Mineta’s remarks and, incidentally, we on the international scene are equally delighted by his appointment as Transport Secretary as you are in the U.S.

In 1996, IATA proposed to its Members the ambitious goal of reducing by half the accident rate comparing the year 2004 with the base year 1995. Now, at the halfway mark, we observed that we were still slightly short of expectations, and this led us to further increase our focus on the major elements contributing to accidents and to seek more synergy with other major safety initiatives within the airline industry.

Our Safety Strategy 2000 focuses on:

The programs required for reducing Controlled Flight Into Terrain (CFIT), Approach & Landing, as well as Loss of Control accidents. Here, there is a crying need for all of us to work together. Major progress could be made if we were to get agreement to expand the civilian use of GPS. If we can use the flawless terrain-mapping technologies achievable through the use of satellites, combining that with the attributes of GPWS and TCAS capability and make sure that all commercial aircraft have transponding/receiving capabilities, then I believe that we could virtually eliminate CFIT types of accidents. And that could halve the total annual number of accidents!

Other key elements of our Safety Strategy 2000 include:

- Targeting *regional* conditions and requirements because the challenges in Latin America are different from those in Asia, for example.
- Reinforcing CEO responsibilities for safety matters
- Working towards harmonised safety audit standards and encouraging all our members to use safety audits as routinely as financial audits.

At the same time, the worldwide introduction of mandatory operational quality audits for *new* Members last year has strengthened qualification criteria. The credibility of our industry and its continued high degree of acceptability by the public demands that we reach a new significantly improved safety level in the coming decade.

Our industry is uniquely international, and because of that it needs one universally agreed and accepted set of *environmental* standards. Failure to achieve that could seriously reduce operational flexibility, customer convenience and increase costs.

I am somewhat relieved that we have been able to avoid, at least for the time being, the “tit-for-tat” threats which had characterized some of the discussions last year. As Ghandi would have said “when adopting a policy of an eye for an eye, there is a risk that the contestants will become blind!” It is gratifying that it is still possible to achieve significant international agreement on environmental matters!

At ICAO’s Committee on Aviation Environmental Protection (CAEP), on 17 January, a draft agreement was secured to improve aviation’s longer term environmental impact over the next decade. On aircraft noise, CAEP produced a balanced set of proposals:

- A new “Chapter 4” for new aircraft designs which is 10 decibels quieter, that is about one third on a cumulative basis, than the already tough Chapter 3 standards in effect today.
- A proposal for new take-off noise abatement procedures; and
- Publication of guidance material on land-use planning.

On aircraft engine emissions, CAEP recommended:

- The development of an open emissions trading program to assist aviation in limiting or perhaps, more appropriately, compensating for its emissions of greenhouse gases;
- The development of voluntary mechanisms to further limit these emissions; and
- The publication of guidance material on operational measures to minimise fuel consumption and reduce emissions.

Significantly, CAEP agreed that the cost/benefit data did not justify a “global” phase-out of the current Chapter 3 aircraft in North America, Europe or Asia. But that is still a problem and we will have to bite the bullet sooner or later. Some sort of international framework to protect the value of chapter 3 aircraft is going to be needed! Hopefully, with enough flexibility to accommodate the various regional requirements and aspirations.

Less than two weeks ago, in this city, was held an “Air Transport Summit” which I believe was attended by many of those present here today. It is my understanding that this meeting reached a very clear consensus that if the US aviation congestion problem is not solved soon it will have harmful effects on the US economy. And not just today’s economy.

The Chairman of Delta, Leo Mullin, pointed out at that Summit that the number of passengers flying within the US last year was 670 million, and that the forecast for 2009

is one billion. “Those one billion,” he pointed out, “are not imaginary characters. They are people already born and who are absolutely going to fly because airlines have become the way this vast nation chooses to travel, whenever any significant distance is involved.”

As the ATA reported at the end of January, delays in terms of frustration for frequent air travellers ranks way ahead of complaints on baggage or food. I am reminded of that when Secretary Mineta was *Chairman* of the National Civil Aviation Review Commission, he delivered an excellent report in December '97 which said, among other things, referring to A.T.C. and I quote:

“Increasing operational costs overshadow capital investments. The funding system forces trade-offs which substitute operational costs for capital investments.

The system is in a downward spiral where increasing operation and maintenance costs driven by outdated equipment are ‘freezing out’ new investments under current federal budget cap assumptions.

Future system capacity will be reduced in real terms from today’s capacity.”

Now, in light of today’s situation would anyone here want to alter that conclusion? And I would be pleased to echo what my old colleague Bob Crandall said at the Summit: “DOT and FAA do not need more studies.”

So, let me offer some comments on infrastructure for a few minutes.

The US is not the only nation trying “to get there from here” and rather than try to tell the only world superpower how to fix its aviation system, let me come at it from a non-US perspective. I believe there are some common characteristics, some common requirements, and perhaps some common answers.

In Europe over the past three years, flight delays have reached gridlock proportions during summer peaks. Nearly 50 percent of all delays originated from ATC system deficiencies, of which approximately 75 percent were due to insufficient capacity in the upper airspace.

In the longer term, technological solutions can be expected to increase capacity. But since in the longer term we may all be dead, we felt that there was a need for more immediate action! So IATA developed an action plan which contributed to rallying the critical support of EU Transport Commissioner and Vice President, Mme. de Palacio to the resolving of this key issue.

The present system could give us much greater capacity if it was organised properly if it was structured and operated as a “Single Sky.” This basic first objective could be achieved if we can generate enough political will. But in addition we had, and still have, the fundamental aim of liberalising the provision of Air Traffic Services so that providers have the freedom, within the appropriate regulatory regimes, to compete to become more customer-driven and to expand the capacity ahead of anticipated demand.

So we are promoting independent, autonomous air traffic services providers separate from but subjected to the safety regulation of an independent regulatory agency. The new governance mechanism of the UK National Air Traffic Service is a good example of how it should work in practice. The ATS provider should design and plan the service with input from its customers. The regulator sets the standards that must be applied in the airspace, the separations, approach and landing rules, taxiway holds, etc.

Now, changing the *ownership* of something does not necessarily make it more efficient, or cheaper. However, removing an entity from the hand of government, corporatising it in some way, *does* force the entity to think in terms of customer needs, productivity targets and to seek financing on the open market.

The funding of air traffic services within the national budget-making process has needlessly politicised infrastructure capacity planning, on both sides of the Atlantic and failed to respond to the demand.

In Europe, with the multiplicity of airspace jurisdiction there is an urgent need not only to plan the airspace as one sky, but also to encourage regrouping of various national operations to seek synergies and economies.

Turning to the financing of those ATC corporations-- we are not advocating a financial structure that would rely on direct government funding nor do we favour setting up privatised corporations whose main duty would be to look after their shareholders. In fact, we believe these corporations can be debt financed as in some of the cases I have already quoted, for example NavCanada and possibly for UK NATS Public/Private Partnership, etc.

But I have to say, ladies and gentlemen, that I realise that there is a major drawback in suggesting such an idea in the U.S.

In Europe, there is an established practice whereby civil aviation pays user charges for its aviation services and that is whether those charges are paid to the national government as owner of the facilities or to a corporatised entity. There is no such charging practice here in the U.S.. Elsewhere in many parts of the world, working with our Member airlines, IATA has accumulated much experience in addressing aviation infrastructure issues, proposing charging policies and user fees required to repay the various investments.

IATA has become the account manager for a number of airspace jurisdictions around the world. We collect the ATC charges directly from the airline through our Clearing House and use the proceeds to rectify the deficiencies and to pay the provider of the ATC services. Some 30 such infrastructure enhancement and financing projects are presently in operation around the world, as yet mainly in developing countries, and you can think of some of these representing our contribution to your U.S. program of "Safe Skies over Africa."

While those current financial arrangements are all of relatively short-term nature, it would seem to me that an opportunity exists for various financial institutions, working with us in IATA, to develop a new type of low-risk, long-term debt financing for aviation infrastructure-- a brand new aviation financial instrument.

These could, typically, be 25-year certificates carrying a suitably attractive rate of interest commensurate with the monopolistic nature of ATC operation, and with their viability guaranteed by the cash flow from future user charges backed up by long-term airline commitments, airlines could be entering into long-term commitments to the use of the air space.

Of course, when addressing the infrastructure issue our discussions would be most incomplete if we did not also stress the need for more *airport* capacity. And indeed, we know that the lack of airport capacity could be even more growth-limiting than inadequate ATC capacity.

Over the years, in many areas additional airport capacity has been the result of many small steps and continued pressure by all of us whether this was to achieve a few aircraft movements here or two new airbridges there, etc. At the other end of the scale, we have spent seven years trying to convince authorities to give the go-ahead for a new Terminal 5 at Heathrow. And many more years in urging various countries to move ahead with the planning of badly required greenfield airports.

Look at other examples, closer to home:

Some expansion of regional hubs in the U.S. has been running up against local opposition. Logan Airport has been trying to build a short runway for regional services since the 1970s hampered by a planning process which has been described as "open-ended and ill-defined." In Phoenix, Sky Harbour Airport finished a runway in 1999 that it had been trying to build for 28 years!

And yet, airport capacity can help a great deal in reducing delay frustration. Leo Mullin has pointed out that when the fifth runway at Atlanta's Hartsfield airport is completed in

2005 it will reduce the average delay per flight from 15 minutes to five. Obtaining an additional runway is almost always tough slugging!

We welcome the development of the Runway Coalition here in the US, with airlines and airports joining together to advocate and promote the construction of much-needed runways across the country. That is the kind of listening, talking and *doing* which we all need in order to get “from here to there.”

With the very significant growth of trans Atlantic traffic and the strength of airline alliances, European infrastructure capacity is of increasing importance to U.S. airlines. I want you to shift your gaze across the Atlantic for a moment where the situation is indeed worrisome. Today, most of Europe’s major air hubs are congested and, looking at a time horizon of 2015-2030, few major hubs are being planned.

If no new major hubs are to be built in the next 10 years, we have suggested that it is perhaps time to look at the development of regional, secondary, hubs with good railway feeders. So perhaps Lyon, Marseilles, Barcelona, Naples, Strasbourg, Manchester, Munich, etc., could have a role to play.

Experience here in the US since deregulation has shown us that as traffic grows, previously considered “secondary hubs” can develop into major new players. By contrast to the United States, in Europe high-speed train networks are doing wonders for short-to-medium connections between large urban areas: Paris – London; Munich – Frankfurt; Brussels – Paris.

In such cases, a continuing need for high frequency, strictly O&D air services is likely to be increasingly questioned. One of the reasons I mention such an array of cities and city-pairs is not to enable you all to join the “National Geographic” quiz team, but to point out that in terms of distances you could lose most of them, not just in the US northeast quadrant but in upstate New York!

The growing perception in Europe is that the Continent needs an integrated transport system based on a rational and thorough cost/benefit analysis, which takes properly into account the economic, social and environmental impacts of the different transportation modes and proposes a *mix* of transport solutions.

And a proper mix of transport solutions implies a need to achieve an interface between the modes, efficient intermodality at every potential opportunity. For passengers, this is not a feasible approach for the U.S. although for cargo intermodality has existed for some years with truck links as integral parts of complete journeys.

Finally, airport capacity improvement is not just a question of more runways, more gates or more bridges. We need to seriously re-look at the multiplicity of hurdles which we inflict on our passengers at any airport, the way we handle check-in security screening, passport checks, boarding control and baggage etc. With proper harnessing of new

technologies, all of these activities could be simplified, integrated streamlined, considerably speeding up throughput-- reducing wasted time and frustration.

IATA's Simplifying Passenger Travel - SPT - was launched one year ago to regroup all interested stakeholders. The project now numbers 5 airports, 10 airlines, 6 control authorities and 17 technology suppliers. Two of our larger European members are now engaged in a pilot project with the BAA and the UK Immigration Services, and another one will probably get under way shortly in Australia.

As they say, "out of acorns grow oak trees." For the sake of all future users of airports, we think this one can and must grow!

Lastly, and if you allow me one more comment and suggestion regarding infrastructure and more particularly the future air navigation system. A vital component of universal safe skies in the future will consist of worldwide use of satellite-based navigation systems what ICAO terms CNS/ATM.

For the moment, CNS/ATM applications rely heavily on use of the United States GPS system. Of course, its use can be denied at any time that the military deem appropriate. With the U.S.'s now-stated intention to proceed with the new more sophisticated space-based high-precision systems, would it not be possible to turn over this old GPS to civilian use without any threat of system interruption?

Then why not combine it with the European Galileo system to form the basis for a truly international, civilian, independent corporation dedicated to meet the need of civil aviation for increased safety and air navigation capacity?

The "Economist" described the airline industry the other day as "America's most successful disaster." I suppose that you could call that a rather controversial, blunt statement! But even if the term "disaster" was appropriate it most certainly would not be confined to North America.

By any yardstick, the airline industry has been very successful.

The progressive worldwide liberalisation of the air markets, combined with major technological advances, have made air travel accessible to billions of people, brought the people of the earth a lot closer and created substantial economic wealth and employment. Are we simply a victim of our own success? Is our inability to accommodate this success now likely to lead to a disaster?

The answer I would suggest lies in our collective ability to tackle head-on the critical issues facing our industry today-- namely those of infrastructure, capacity, environment, and safety.

Getting to where we need to be is simply meeting the expectations of today's and tomorrow's air travellers and shippers in terms of choice (quantity), quality, affordability, acceptability and safety. "Getting here from there" is not going to be an easy task but we certainly have the means at our disposal. Now what we need is the will to get it done!

And in this case, as in so many other world issues, the leadership of the United States would be of paramount importance.

Thank you