

Speech to Airport Operators' Association

Speech by:

The Rt Hon Philip Hammond MP, Secretary of State for Transport

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Airport Operators' Association

Introduction

Thank you, John, for that introduction.

It's a pleasure to be here today at one of the keynote events in the aviation calendar.

This is the first formal opportunity I have had to engage with the industry since my appointment 5 months ago. Although to those of you who know some of the leading players in UK aviation it will not surprise you to hear that that does not mean I have been left unaware of the industry's views!

Indeed, almost my first challenge as SoS for Transport was to learn to say Eyjafjallajökull. And as I spent my second day in the job shuttling between a windowless COBRA meeting room and a volley of thermo-nuclear emails from various well-known airline bosses, I was never in any doubt that aviation was going to be a key part of the brief.

I want to address you this morning at two levels: of course as representatives of the aviation industry with very specific concerns about the challenges facing your sector, but also as business people with a stake in the success of UK Plc.

Because I know that, as key figures in one of our leading industries, you will recognise the importance of getting our economy, and our public finances, back on a sustainable path.

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Economy / Spending Review

When the Coalition Government came to office, we inherited an economy teetering on the edge of an abyss.

Britain was saddled with the biggest budget deficit in the G20 and had just limped out of the longest and deepest recession in our peacetime history.

Every single day we are adding £400 million to our national debt.

And if we had kept to the spending plans we inherited, British taxpayers would be paying out nearly £70 billion a year in debt interest alone by the end of the Parliament. And the debt would still be rising as a percentage of GDP.

That's more than we spend on schooling our children and defending our country combined.

If we were to keep interest rates low, dealing with our debts was unavoidable.

Tough decisions had to be taken. And this Government is taking them.

Immediately after coming to office we identified, and cancelled, £6 billion worth of planned public spending this year – by doing the kind of things that the private sector had already done a couple of years ago in response to recession – hiring restraint, a pay freeze, cuts to discretionary spend, renegotiation of contracts.

Our Emergency Budget in June set out an ambitious four year plan to eliminate entirely our structural deficit and get debt falling as a percentage of GDP. And to do the majority of it by reductions in public spending, with less than a quarter of the fiscal consolidation being delivered through increased taxation.

And because we understand that, ultimately, only strong economic growth can secure Britain's future; and we understand that in a global economy we will only secure that growth by being competitive.....

.....We announced a phased reduction in corporation tax, even at a time when taxes overall are set to rise.

Recognising the crucial role that private sector businesses and private investment will play in Britain's recovery.

We set up an independent Office for Budget Responsibility to bring honesty back to official economic forecasts.

And five days ago, we reached the next major milestone on our journey to fiscal and economic recovery with the delivery of the conclusions of the Spending Review – setting out precisely how we will deliver the ambitious spending reductions mapped out in the June budget.

We now have firm and fixed spending totals for government departments for the rest of this Parliament, alongside far-reaching reforms to welfare and our public services.

And as we seek to cut the bills of a decade of debt, restoring the confidence businesses and individuals need to invest in Britain, we are prioritising expenditure that will set Britain back on the path to prosperity.

That means investing in the future - prioritising the infrastructure that will secure long-term growth and a greener economy.

And we're already reaping the dividends of taking early action to balance Britain's books.

In just five months, we have moved from the danger zone with Spain and Ireland to safety –

From our credit rating being in peril, to our AAA status reconfirmed.

And with interest rates on British Government debt falling dramatically since the election and continuing to fall since the Spending Review announcement to a record low - demonstrating the restoration of market confidence in the UK.

From being on the international watch list, to getting a clean bill of health from the IMF who described the budget as 'essential' to securing the conditions for sustainable economic growth.

But now the hard work really begins, as we seek to build on that early progress, and implement the tough but fair measures that will get Britain moving again while adapting to the new economic reality.

Laying the foundations for building a strong, competitive economy for the longer term whilst delivering on our climate change targets.

I do not pretend that it will be easy.

And we do not expect it to win us short term popularity!

But we owe it to our children not to pass on to them the legacy of debt that the previous government ran up.

The decade of irresponsibility is over and we are resolved to take the tough decisions that are in our collective long term interest and to see them through.

Because we are certain that this is the way to a better future for all our people.

Role of aviation

So growth – green growth – is the key.

And I see transport – and the aviation sector – as integral to securing that future growth.

Our airports, airlines and associated industries generate billions of pounds of economic output.

They also create, and sustain, hundreds of thousands of jobs, while bringing people, communities and countries closer together than ever before.

Now, I know you have been through some tough times in the last few years.

First, a worldwide recession that dented consumer confidence, cut passenger numbers, and hit jobs and profits.

Then an Icelandic volcano that blasted millions of tons of ash into the atmosphere, leading to unprecedented airspace restrictions across Europe.

Add that to an intense debate on the environmental impact of aviation, and the need to protect against the ever-present risk of terrorist attack, and it is clear that your industry has had its fair share of challenges.

I accept that. And I know, too, that some of you harbour fears that this government is somehow anti-aviation.

So let me be clear: This government understands the social and economic benefits of aviation. We understand the important role aviation plays in our economy. And we want to work with the industry to address the challenges of climate change so that aviation can play its part in securing sustainable future economic growth.

3rd Runway

We will not agree on everything. Our first act was to cancel the third runway at Heathrow. A decision that the majority of you will not support.

Nor has it been greeted with universal acclaim by the wider business community – although it is also true that not all businesses favoured the runway project. In taking that decision, we listened not just to business, but also to those who would be most affected by the local environmental impacts of proposals for expanding Heathrow, Gatwick and Stansted.

And we carefully considered the wider environmental impacts in the context of our – and our predecessors’ – clear commitments on climate change. I believe we made the right judgement call for the right reasons.

No government with a commitment to carbon reduction targets can adopt a crude “predict and provide” approach to aviation capacity while aircraft CO2 remains an unresolved issue.

And no responsible government can ignore the local environmental impacts – especially noise – of airport development. I hope we can now draw a line under the decision we have taken on runways and work together to map out how best to secure the future of the sector within the constraints that we have accepted.

Ensuring that, while that decision marks the closure of a chapter in the aviation debate, it can also mark the opening of an important new one.

Better not bigger

Our immediate challenge is to modernise and improve our major airports – to make them ‘better not bigger’.

When you travel, your first encounter with any city is often through its airport.

And, when you arrive in a country, the airport should say something positive about the kind of place that country is – a great place to visit; a great place to do business.

Our forthcoming Airport Economic Regulation Bill will help ensure that this country’s largest airports always give the right greeting and leave the right memory.

And we will achieve that through better alignment of the economic incentives facing operators with the interests of passengers.

We will replace the outdated one-size-fits-all framework with a new regulatory licensing regime that is better tailored to meet the circumstances of individual airports.

And we will give the Civil Aviation Authority a new primary duty to promote the interests of passengers and a duty to encourage investment – as well as new powers to tackle anti-competitive behaviour.

Meanwhile, our South East Airports Task Force – chaired by my Minister of State, Theresa Villiers, and comprising key sector stakeholders – is looking at ways to make the best use of existing airport infrastructure and improve conditions for all users.

The initial focus of the Taskforce is action at our three biggest airports – Heathrow, Gatwick and Stansted.

But we recognise the vital importance of Britain’s regional airports in supporting the economies of areas outside London. Wherever they are located, all of our airports matter.

So I am delighted that the AOA is a member of the taskforce – and I hope you will continue to play an active role in it over the coming months.

And yes, Ed, it will be looking at UKBA activity and the roll out of new technology at the border as part of its work.

Policy framework

However, I also agree with Ed [Anderson] when he calls for the Government to provide a positive policy framework for aviation.

I recognise the need for a policy framework which supports economic growth and protects Heathrow's status as a global hub as well as addressing aviation's environmental impacts, and it is my intention to develop such a policy framework over the next year or so.

And I recognise that, just as we have done with strategic roads, we need a policy not only to address the situation we face now, but to be able to look ahead to potential technological changes that will affect aviation's future environmental impacts – both local and global.

Of course I will want to draw on the expertise of those who understand best the benefits and impacts of aviation – and the likely future development of technology.

So in the New Year DfT will issue a scoping document setting out the questions we are seeking to answer as we develop this policy.

Then we will open a dialogue with a wide range of stakeholders to seek their views and to draw on their knowledge and experience.

My intention is to publish a draft policy document for formal consultation early in 2012.

Climate change

Of course, any aviation policy framework we set out cannot duck the climate change debate.

We must work together to create an aviation sector that continues delivering social and economic benefits, while reducing carbon emissions.

The Committee on Climate Change has provided valuable advice about how reductions in aviation emissions can be achieved. And, building on this, my Department is working on a robust assessment of the abatement potential and cost-effectiveness of a range of different policy measures, which will inform our response to the CCC next year.

Let me clear: just as with road transport, the enemy is not the car, or the motorist – it's the carbon.....

.....So with aviation, the enemy is not the airlines, or their passengers. The enemy is the carbon emissions.

So I want to look at how we can incentivise the decarbonisation of air travel – and encourage businesses in the industry to invest in low-carbon technologies and fuels.

How we can lead the global debate and shape a low-emission aviation sector of the future – without disadvantaging UK airlines or UK airports.

So far, the progress that's been made is encouraging.

At the 37th session of the ICAO assembly, the UK led the way in pushing through the first global deal for the international aviation sector. The agreement reached wasn't perfect – we concede that - but it was an agreement and that in itself is a major step forward.

And as Ed highlighted, there's the AOA's own scheme to reduce ground CO2 – an innovative programme that will help airports, airlines, air navigation service providers and ground handling companies cut their emissions.

Meanwhile, we're seeing the development of aircraft that pollute less and carry more passengers; the development of lightweight composite materials; more fuel-efficient operations; the future use of sustainable biofuels – all of these have the potential to make a real difference.

With a new aircraft today typically using 70% less fuel than sixty years ago, it is clear that technology can and must provide a convincing answer to those who see demand management as the only solution in the medium term to aviation-produced carbon – just as electric and plug-in hybrid cars will, over time, provide a robust answer to those who say the car can have no place in future transport policy planning.

If technology can play a role in mitigating the carbon impact of flying, so can it too in mitigating the noise impacts that are often the principle objection to airport expansion.

Noise contours around airports have shrunk dramatically of course over the last 40 years – but at the same time, so has the tolerance of those who live in them.

I want to understand where the industry believes it can get to in the next ten, twenty, thirty years

I want to understand what technology is likely to deliver and I want to understand what scope there may be for noise-beneficial changes in operating practice, when and if the principle focus becomes noise mitigation rather than carbon reduction.

Of course, reforms to aviation taxation can play a key part in changing behaviour. But let's be frank – they can also play a key role in deficit reduction. I know the industry has serious concerns about what these reforms might look like, their impact on route viability, and their interaction with aviation's forthcoming inclusion in the EU Emissions Trading Scheme.

APD reform is, of course, a matter for the Treasury. But I and my officials will work closely with Treasury colleagues as the government develops its proposals.

Security / User pays

Security is and will remain a continuing challenge to the industry and the delivery of effective aviation security must be at the heart of the aviation policy debate.

I have listened to your concerns regarding the need to reform the regulatory framework for aviation security.

And I intend to develop a new regulatory system - one where the Government concentrates on setting the security outcomes that need to be achieved, and frees up

operators to devise the security processes needed to deliver them in line with EU requirements.

Further announcements, as they say, will follow in due course.

It goes, I hope, without saying that all our policy objectives will have to be met from a reduced budget. Though in the case of transport, not nearly as reduced as I had read in the newspapers it was going to be.

That is the inevitable consequence of fiscal consolidation.

We must, of necessity, review everything that the Department does and ask ourselves the questions: does it really need doing? Are we best placed to do it? Who should bear the cost?

Our plans to extend the “user pays” principle will shift costs and responsibility for certain activities - sometimes to the independent regulator; sometimes to the industry itself.

In some cases that will mean greater freedom and flexibility; increased scope for innovation. But with the flip-side being a direct responsibility for delivery in areas where government has previously sought to both specify and provide.

Conclusion

These are times of challenge and change – no doubt about it.

But I know that the aviation sector has the talent, the capacity for innovation, and the determination to meet the challenges head on.

I want to see you playing a full part in our future transport strategy.

I cannot promise that we will agree on everything. But I can promise that I will continue to engage with you, with an open mind and an open door, as we develop our strategy for aviation over the coming months.

Working together we can build a prosperous and sustainable aviation industry for the future. An industry that can support our economic growth objectives, without undermining our climate change targets.

Thank you.

(This speech represented existing departmental policy but the words may not have been the same as those used by the Minister.)