

**GREENER SKIES 2008****KEYNOTE SPEECH by  
Tony Tyler, Chief executive Officer, Cathay Pacific Airways**

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Thank you, Tom, for the kind introduction.

I think the first order of business for me as head of the host airline is to bid you all a very warm Hong Kong welcome. I am delighted that you are taking part in this very important gathering as I believe it's absolutely critical that all parts of the industry come together on this environment issue. Your presence here today encourages me to believe that we are at one on that.

Second, I'm sure you would all join me in congratulating Orient Aviation for its initiative in organising this, the second Greener Skies Conference. I had the pleasure of attending last year's 'maiden' event and I think we would agree that it was very valuable in effectively kick-starting the debate in Asia on aviation's role in climate change.

It's a debate that is bound to run for a long time yet. And so it should, for we face no greater global challenge than that of climate change – particularly those of us who are in the aviation industry.

As I have said many times, we are part of the problem and must be at the forefront of the solution.

From that perspective, it's interesting to see how far we have moved forward since we discussed these issues at this very venue last year. I believe there has been progress on a number of fronts and some continuing worries on others.

You may recall that Philip Chen in his opening address last year announced that Cathay Pacific had committed to introducing a carbon offset programme.

We have delivered on that promise and, with our sister airline Dragonair, began operating our Fly Greener programme for staff travel from the beginning of 2007 – the first airline in the region to do so. We began offering offsets on a voluntary basis for passenger travel with effect from December last year.

To encourage uptake, we allowed passengers to use their Asia Miles to offset – one of the first airlines to do so – and for the first three months we will be matching passenger uptake.

It's far too early to say how well or otherwise Fly Greener is doing. It's such a new concept to this part of the world that our passengers are going to take a while getting used to it.

But early results are not discouraging and we will continue to identify opportunities to further promote the initiative to help our customers better understand the fundamentals of offsetting and, hopefully, increase their participation in the programme.

While Cathay Pacific is committed to our own programme, we recognise that not all airlines in our backyard feel the same. I know of only three other airlines in the Asia Pacific that have established carbon offset schemes. But in the longer run, I believe it will become the norm, as it is increasingly so in Europe and the US.

This is, of course, but one aspect of the way we as an airline are tackling the issue of greenhouse gas emissions. We certainly don't see it as a one-stop solution.

Fuel efficiency, technological development, operational best practice and improvements to air traffic management and air space design remain vital elements of our climate change strategy.

Taking fuel efficiency as an example, our efforts to reduce fuel wastage continue to produce year on year efficiency gains – a gain per RTK that now stands at 22 per cent over the last 10 years.

Fortunately, Cathay Pacific has a young and therefore relatively efficient fleet. Consider this: in 1997, when Hong Kong became a Special Administrative Region of China, the airlines of the Cathay Pacific Group had 67 aircraft. That number had doubled by 2007 and will be trebled in just four years time when the Group will be 200 aircraft strong.

And when you look at large number of 777-300ER aircraft that will become the backbone of our long haul fleet – we have 30 delivered or on order – I think we can confidently say we are on target in terms of the efficiency gains of our hardware.

It's also pleasing to note that IATA, in its interface with the Mainland authorities, has made significant progress in addressing key issues such as separation and the straightening of flight paths. The improvement to the Yankee 1 route, now used by many of CX flights from Europe to Hong Kong, is but one example of that.

An innovative and warmly welcomed solution by the Air Traffic Management Bureau in Beijing has enabled the early introduction Reduced Vertical Separation

Minima of 1000 feet throughout China. This has resulted in a significant reduction in delays for flights to Mainland cities.

The Bureau continues to make significant progress in opening up new routes across China. This expedites traffic flow and therefore reduces emissions.

This is good news.

A lot more needs to be done, and it may take time. But the important thing to remember here is that the Mainland authorities recognise— if for no other reason than the need to harness the phenomenal growth of commercial aviation in China - that these issues need to be resolved.

It's pleasing, too, that our own Civil Aviation Department has announced plans for a major upgrade of its air traffic control system and facilities.

We welcome this. We believe it is vitally necessary for the upgrade to be in place as soon as possible if we are to maximise the potential of our marvellous Hong Kong International Airport which is already suffering from capacity and slot constraints.

The future of the HKIA is a big issue for Hong Kong. As I believe many of you would know, Hong Kong is probably the only place on earth to be mandated by its constitution to develop its international aviation hub.

Cathay Pacific's core strategy is to grow the Hong Kong hub. That accounts for the tremendous growth of our fleet that I detailed earlier, and is the reason why we have tendered for the rights to build and operate the third cargo terminal at HKIA.

We believe in the future of the Hong Kong hub and have invested many billions of dollars to back up that belief, and intend to spend many billions more.

Hong Kong is by far the most successful and efficient hub in a rapidly-expanding aviation enclave in the Pearl River Delta, with its five different airports.

And while we understand and support the need for co-ordination of the future development of aviation services in the PRD, we would not want to see that happen at the expense of the Hong Kong hub.

That is why it is so important to get the future development of the HKIA right.

Let's look at the facts.

Less than 10 years after its opening, HKIA is already a heavily slot-constrained airport for most of the day. Runway slot capacity is presently set at 55

movements per hour, much lower than the 75 movements envisaged by the HKIA master plan.

We believe movements per hour can be raised with the use of new ATC equipment, revised procedures and resolution of air space issues, to possibly as high as 75 movements per hour.

However, as welcome as such improvements would be – and they are not immediately visible on the horizon – they would only delay the day when HKIA becomes fully slot-constrained. That would mean HKIA becoming sidelined as other regional and local hubs predominate.

At an annual 6% growth rate, and even with 75 movements per hour, HKIA will be fully slot-constrained through the day by 2014.

Hubs like Guangzhou and Shanghai are planning third, fourth and even fifth runways: Hong Kong faces the very real danger of gifting our competitive advantage away unless we move quickly and decisively on the third runway.

There is a debate developing about the need - or otherwise - for a third runway for HKIA. That is as it should be. The success of the Hong Kong hub is critical to the long-term health of the Hong Kong economy.

Strangle the hub and you'll squeeze a good deal of life out of the Hong Kong economy as well.

I believe that airlines know as much, if not more than anyone about airports and we should be a key player in the debate. That is why I have consistently urged the Hong Kong Airport Authority to involve the airlines in the feasibility study that it is now conducting on the third runway issue.

There have been suggestions of all kinds of alternatives to a third runway – a sort of London-Gatwick configuration for HKIA and one of the PRD airports, for example, based on the proposed rapid rail link between HKIA and Shenzhen.

We have nothing against such a rail link. It could provide greater general connectivity between Hong Kong and the PRD, in particular to Western Shenzhen and Dongguan.

It could also provide a link to Shenzhen Airport for passengers to take flights to points in the Mainland which do not have sufficient demand to justify direct flights from HKIA.

So, while a rail link could address some of Hong Kong's needs, it would at best be complementary to a third runway at HKIA. Why would travellers want to come

to Hong Kong and get on a train into the Mainland to pick up another flight when they can do it at HKIA as they do now?

The rail link certainly would not be a substitute for that third runway.

Now, as this is a conference about the environment, let me acknowledge up front that I am more than acutely aware about the environmental issues that would be involved in a third runway. Those issues will be properly addressed by an Environmental Impact Assessment.

But environmental and other challenges provide no reason to look for unworkable alternatives. They are all the more reason to involve the key stakeholders in finding the right responses to these challenges.

Mr. Chairman, I have digressed. So allow me to address one more point of great concern to the industry – one of the continuing worries I mentioned earlier.

I refer to the European Union's plans for an emissions trading scheme. We know it is still grinding its way through the mysterious machinations of the EU, but the betting is that it is likely to come into effect in 2012.

We support the industry position on emissions trading: we believe a cap and trade approach is the way forward. It is much more equitable than punitive tax and charges regimes, the revenues from which would only find their way into various government treasury coffers rather than be deployed in the fight against the effects of climate change.

We need to look no further than the UK for proof of that.

But we couldn't agree more with the industry in robustly opposing the extra-territorial notion that airlines entering EU air space should be charged for their emissions from the moment they turn over their engines at the point of departure.

That proposal simply defies logic and any sense of fair play. It is surely right that we need a global scheme to which we can all sign up, and not have the EU imposing its solutions on the rest of the world.

It's no accident that the US, Canada, China, Australia, Korea and Japan have signed a joint objection to the EU on this proposal. I really can't see how such a scheme could be introduced in the face of such opposition.

Apart from the principle involved, look at it from a practical point of view. If, God forbid, such a system ever came into effect, it would instantly lead to differential pricing.

So a CX flight from Hong Kong to Europe, for example, would be charged all the way, while a Middle Eastern carrier, on the other hand, would only be charged from its stopover somewhere in the Gulf. We have enough problems competing with Middle Eastern carriers without that kind of extra burden.

Tom, before I really get going on that pet subject, I had better wind up.

And I want to do that by saying we have a wonderful opportunity here in Asia to shape the debate about aviation's role in climate change.

If we don't, we may find ourselves lost in the same Bermuda Triangle of misleading information as the industry in Europe, where aviation has become a sort of pariah in the climate change debate.

The fact that aviation is responsible for something like two per cent of global greenhouse emissions, and the industry has a strategy of carbon neutral growth in the medium term, has been completely lost in a welter of anti-aviation propaganda.

In my experience, Asia is a more sensible and down to earth place. People here value economic development and growth. They know that this can be achieved by expanding rather than narrowing horizons.

Aviation has been at the heart of globalisation. The results of that may not be universally perfect. Our contribution to climate change is seen by some as one of its unwanted side effects.

But globalisation has lifted millions of people out of poverty and has the capacity to liberate many millions more from deprivation and want.

We need a sense of proportion about all of this.

I started out by saying that aviation is indeed part of the problem, and that we need to be part of the solution.

I believe the industry has firmly come to grips with this reality, and is demonstrating that it is determined to achieve positive results.

But those efforts will be less than effective unless we get that message out. I hope that what transpires at this conference today will go some way towards achieving that worthwhile aim.

Thank you.

*(25 February 2008)*