

Green Growth and Travelism

Letters from Leaders

Maurice Strong Ghassan Aidi Akbar Al Baker Mike Ambrose
Rick Antonson Raymond Benjamin Madan Prasad Bezbaruah
Giovanni Bisignani Richard Branson Geoff Buckley Lucian Cernat
Tony Charters Felix Dodds Thomas Enders Patricia R. Francis
Edwin Fuller Angela Gittens Harold Goodwin Gloria Guevara
Peter Harbison Donald Hawkins James Hogan Brian King
Chris Buckingham Karen Kotowski Gerald Lawless Manfredi
Lefebvre **Chris Lyle** Francis Mccosker Supachai Panitchpakdi
Jeanine Pires Randy Powell Taleb Rifai Ignace Schops
Daniel Scott Vanessa Scott David Scowsill Sonu Shivdasani
Alain St. Ange Lyonchhen Jigmi Thinley Valere Tjolle Tony Tyler
Marthinus Van Schalkwyk Dawid De Villiers Gordon Wilson
Reto Wittwer Ian Yeoman Shanzhong Zhu

(G) Published by Goodfellow Publishers Ltd, Woodeaton, Oxford, OX3 9TJ
<http://www.goodfellowpublishers.com>

Copyright © Goodfellow Publishers Ltd 2012

All rights reserved.



Design and typesetting by P.K. McBride, www.macbride.org.uk

This extract is not for circulation or reproduction. Green Growth and Travelism, edited by Geoffrey Lipman et al can be bought from www.goodfellowpublishers.com, all good bookshops and as an e-book from all major online vendors



Chris Lyle

CEO Air Transport Economics

Aviation's role in green growth for developing countries

Chris Lyle is the Chief Executive, Air Transport Economics, and Representative of the World Tourism Organization to the International Civil Aviation Organization. Chris's career spans British Airways, the UN Economic Commission for Africa and ICAO where he led economic environmental and regulatory strategic programs. More recently his work has included development of essential tourism air services and policy aspects of the economic regulation of air transport; much of his focus has been on aviation sustainability and climate change. Chris has led delegations to meetings of international governmental and non-governmental bodies, participated in high-level negotiations on aviation environmental regulatory matters. Chris is a graduate of Cambridge University and a Fellow of the Royal Aeronautical Society.

'Aviation sustainability is an oxymoron.'

There is some substance behind this assertion in the context of aviation's impact on the climate. For example, air transport directly represents globally some 2% of anthropogenic carbon dioxide emissions but just under 1% of GDP, a ratio of about 2:1 which is presently rising. Growth in air transport is likely to continue to outpace technical and operational improvements for the foreseeable future, although biofuels should reduce the margin assuming the not inconsiderable challenges of full life-cycle assessment, scale-up and production sustainability can be achieved.

But therein lies a lesson of 'silos'. While air transport in isolation may not easily become sustainable, travel and tourism together, in which air transport makes a crucial contribution, may not only be sustainable but actually be a primary driver of green growth. In comparison with the above figures, 'travelism' (encompassing the air transport component)

represents globally about 5% both of global carbon dioxide emissions and of GDP, a ratio of 1:1.

Air transport's value lies in delivering social and economic goods and services. Nowhere is this message more important than for developing countries. Take Seychelles for example. Tourism is the principal economic sector, predominantly dependent on (long-haul) international air transport. Tourism has enhanced the establishment of nature parks and marine protection areas. Partly in consequence, the country is a *net absorber* of greenhouse gases.

Air transport and the three pillars

While sustainability is often equated with the environment, there are two other pillars of sustainable development, namely social and economic, in which travelism can produce a matchless payback, particularly in developing countries. The challenge is to find a balance amongst the three pillars of sustainability and the approach should be to position travel and tourism *collectively* as a strategic industry, with air transport as an interconnected core, not an isolated entity.

In this context, let's assess aviation in developing countries directly against each of the three pillars in turn and identify the challenges faced from the sector in making green travelism growth truly sustainable.

The first pillar is social. Here, of course, aviation's contribution is primarily as a catalyst for the considerable potential from tourism. For aviation in itself to be sustainable, however, it does require uncompromised commitment to safety and security, as well as to facilitation at airports. Aviation is in the vanguard of global safety and security by any measure and, thanks to the efforts of ICAO and IATA, the standards generally apply effectively in developing as well as developed countries. But air transport is struggling to cope with the security-driven facilitation requirements at airports. In a number of developing countries, inadequate quality of terminal infrastructure can also lead to a poor passenger experience. Facilitation of travel also has broader aspects (for example regarding visa availability and processing) which are having a substantially negative impact. Travel and tourism *collectively* need to address these issues.

The second pillar is environmental. The crucial issue here is aviation's contribution to climate change, although there are other aspects

such as local air quality and aircraft noise which are also important and which continue to be addressed in appropriate contexts. On climate change, it is by now widely recognized that some form of market-based mitigation measures for air transport will be necessary. But exactly what form remains to be determined at a global level even after many years of consideration – one important reason is that thinking has been focused within the air transport ‘silo’. This means that fundamental factors such as the following are not fully taken into account:

- Imposition of air transport levies in originating markets impacts not only airlines but can have a greater impact on destination economies (for example, the effect of the United Kingdom’s Air Passenger Duty on tourism to Caribbean countries)
- Imposition of market-based measures only on airlines with principal place of business in major markets would still impact destination markets to which these airlines fly whether or not airlines from destination markets are exempted.

As stated in the Rio+20 zero draft, ‘priority needs to be accorded to the special needs of Africa, small island developing states, least developed countries and landlocked developing countries’. Such provision should apply equally to air transport, but with aviation in its silo it has so far not been possible to find a widely acceptable formula. The time is ripe for a cross-silo conversation and for some lateral thinking, for example to differentiate by *route* or *route group* to exempt the above countries rather deal with them in the same way as the services of richer states or airlines.

The third pillar is economic. As with the social pillar, the predominant role for aviation is as a catalyst, and it is an extremely effective one. Figures from international aviation studies suggest the following multiplier effects for developing economies: every \$100 of revenue produced by air transport triggers an additional average demand of \$400; and every 100 jobs generated by air transport trigger an additional average demand of well over 500 jobs in other industries. Of course air transport and tourism are in a symbiotic relationship and it could be argued that tourism acts a catalyst for air transport rather than *vice-versa*, but the point is clearly made.

Perhaps the major contribution that air services can make to developing countries is through international tourism. Tourism facilitates

poverty reduction by generating economic growth, providing employment opportunities and increasing tax collection, while fostering the development and conservation of protected areas and the environment. Green growth indeed!

At the present time there is a growing fiscal concern for air transport in the form of unsubstantiated levies. While the industry should contribute its due, there is an increasing proliferation of taxes and charges which can actually produce a net *disbenefit* to the general economy. Developing countries are often the victims of what can effectively be trade protectionism, but the situation is exacerbated when retaliatory levies or other action are applied which in effect targets their own tourism exports. This is killing the goose which lays the golden egg and needs to be addressed by collective positioning of the benefits of travel and tourism.

Air transport is a global industry whose maturity continues to be denied by arcane economic regulation. A key factor, for developed and developing countries alike, is the growing need for market liberalization. The concept of air service reciprocity, associated with protection of 'national' carriers, takes precedence in too many countries over a more rational assessment of net national economic and social benefits from tourism and trade. Separate sectoral policies on air transport and tourism in many states results in a fundamental and often conflicting disconnect which is a severe constraint on the development of travelism as a whole and thus of each of its components.

A primary concern on the regulatory front is that air carrier ownership and control is still vested in the citizens of single states or, in the case of Europe, a group of states. This puts severe constraints on access to capital (in a capital-intensive industry) and on market access (in a transnational industry). It has led to indirect and ultimately unsatisfactory means of obtaining market access such as alliances and code-sharing. Nowhere is this more of a constraint than in developing countries. But in Latin America, to some extent in Asia, and now potentially in Africa, innovative and pragmatic means have been found which not only overcome these constants but demonstrate leadership and benefits in liberalization.

Developing economies with high growth tend to be those where the tourist sector is key to economic activity. Many of the developing countries which have liberalised air transport continue to experience

travel and tourism growth above the world average. At the same time there are quantum changes in originating markets and the South-South paradigm is changing the face of air transport as well as tourism.

Concern is raised by western carriers regarding the increasing global reach of rising airline stars from the Gulf and China. But if such airlines can bring in the tourists cheaper and more efficiently with net benefit to a country, why not let them? The host countries of these airlines offer a valuable lesson through seamless integration of trade, tourism and aviation policy. Attempts are being made to emulate this lesson in a few developing countries which are primarily tourism destination markets and, not incidentally, are a consolidator of 'green growth'.

Concerns about continuity of service in international air transport are a factor in the reluctance of many developing countries to embrace the liberalization process. In today's world, the risk of foreign carrier withdrawal is lessened since if one carrier withdraws there is often another to take its place, and through 'hubbing' even small markets can be made profitable as 'spokes'.

Furthermore, ICAO and UNWTO issued a joint study in 2005 on Essential Service and Tourism Development Routes (ESTDR). This important liberalization concept, originally developed as a safeguard, applies to international 'poor country' routes which are socio-politically equivalent to thin traffic domestic routes in developed countries currently supported by essential air service schemes, with associated subsidy and market protection. There is now a case for the concept to be applied more widely, for example in support of route franchising to reduce market fragmentation in Africa. Also of relevance is that the framework of regulatory and exemption/financial recompense principles and provisions set out in the study might well apply to resolution of the climate change impasse described above, since *inter alia* it is consistent with both UNFCCC and ICAO provisions; an example of fertilization across economic and environmental silos.

The conclusion regarding the economic pillar is that thinking beyond the silo provides synergy and positive results. It creates a larger box: an integrated, collective vision for travelism.

International tourism and air passenger transport are locked at the hip. International air passengers are predominantly tourists (business

and leisure travellers). Over half of international tourist arrivals globally are by air, with much higher proportions for long-haul destinations. International tourism and air passenger transport traffic and revenues tend to move in lockstep.

International tourist arrivals are forecast by UNWTO to reach 1.8 billion by 2030, compared with an estimated figure of 1 billion for 2012. Of particular interest is that emerging economy destinations will surpass advanced economy destinations by 2015 and have a 58 per cent share by 2030. Air transport market share compared with surface will continue to increase, if at a slower pace than in recent years.

But, as illustrated above, if all this is to be achieved, and particularly with the increasingly fundamental focus on green growth, some challenges have to be overcome, including institutional self-interest. Aviation will not surmount these challenges on its own. As stated in the January 2012 report of the UN Secretary-General's High-Level Panel on Global Sustainability, 'We must overcome the legacy of fragmented institutions established around single-issue "silos".'

On the travelism front, UNWTO has already taken some initiatives in the form of a *Global Leaders for Tourism* campaign (with WTTC), the T20 (a Tourism Ministers forum leading into the G20), and a programme on *Tourism and the Millennium Development Goals*. Air transport now needs to be seen at the core of positioning travelism as a strategic industry. ICAO is in the early stages of an initiative on sustainable development of air transport and IATA is focusing on a value chain which not only encompasses airlines, airports, air navigation service providers, and manufacturers, but also plans to link up with travel and tourism, calling for a single voice on such issues as economics, taxes, liberalization, security and facilitation, and the environment. The time is now ripe for an overarching, collective approach, aimed at green growth, with developing countries and their institutions, both public and private, playing a key role.