

GREENER SKIES

Rob Fyfe lunch speech

Tuesday 6 October 2009

Action speaks louder than words

Intro

Thank you ...

I'm convinced that today's *inconvenient truth* is that we continue to invest enormous resource, the world over, in debating climate change regulatory frameworks and yet we are failing to take even the most basic steps to actually reduce emissions.

These policy discussions and the hand-wringing over agreeing emission reduction targets are interminable and they are distracting us from the far more important focus of taking action. This is simply a travesty.

International policy

To my mind, the UN climate change discussions amplify all that is wrong with global politics. Whether under the Framework Convention on Climate Change, ICAO or elsewhere – it's the same procrastination; multiple conferences of many thousands; turgid presentations and inequitable albeit politically acceptable backroom deals determining the shape of unwieldy global agreements at a glacial pace.

From our small country alone, hundreds of long haul hour sectors will have been flown this calendar year by government officials to take part in UN climate related talks. Frankly, I would rather forgo the revenue we get from this bureaucratic circus.

I am very happy to see a price on carbon – it should be applied equitably across geographies; uniformly across all industry sectors; and it should incentivise improvement and investment in new green technologies rather than simply penalise all activity.

I look forward to the day when we all stop protecting our respective butts in the endless policy debates and start focussing, globally, on concerted action. Just imagine what we could achieve if a 10th of the global bank bailout funds from the past 12 months were directed towards the environment instead.

Domestic policy

I'm sure what has happened in my country in terms of domestic climate change politics will have been mirrored in other countries around the world. When I joined Air New Zealand in 2003, the New Zealand government was pondering a carbon tax. Today, six years later, our government is arguing for its third year over details of an emissions trading scheme. No one has yet faced one cent of cost on their carbon emissions.

Businesses in New Zealand, as everywhere, have been heavily incentivised to engage in the regulatory process and invest countless hours and millions of dollars on consultants' fees to protect their own self interests and minimise their particular carbon liabilities. As sector after sector has argued its special position domestically in New Zealand, responsibility for meeting the country's Kyoto targets is squeezed on to the shoulders of a smaller and smaller proportion of our population and business community.

There have clearly been winning and losing sectors from climate change lobbying in New Zealand. I get most frustrated though that the environment continues to lose out in the face of all this unproductive hot air that is expended arguing regulatory technicalities. This is a travesty given this focus and resource could be channelled into capital investment; operational improvements; and research and development into clean technology.

Air New Zealand – incentivised to act

Within Air New Zealand, it is a no-brainer for us to prioritise emission reductions.

First, there is the direct link between burning fuel and greenhouse gas emissions. Fuel is our largest cost. For an airline that made a normalised profit of \$143 million New Zealand dollars in our last financial year, our fuel bill

was \$1.7 billion. We have an enormous financial incentive to reduce our fuel consumption and therefore our carbon emissions.

Secondly, New Zealand is one of the most pristine, youngest and least spoilt environments in the world. Food production and tourism are the foundation of our economy and both are dependent on sound environmental management and maintaining our country's environmental credibility so we can continue justifiably to market ourselves as 100% Pure New Zealand.

And third, our airline is a large employer in our small country and is an integral part of our country's economy. Consideration for future generations comes naturally in this context.

These are the reasons why, at Air New Zealand, we spend only a small fraction of our time on the interminable climate change policy debates and instead we invest our efforts into actions that are making material differences in terms of the environment.

The need for us to act was brought home to me in an interview I gave in the UK a little while back. The journalist told me that she has always wanted to visit New Zealand to experience its natural beauty first hand but she felt that actually to visit New Zealand from the UK would be like going to a Greenpeace rally in a Hummer. I wasn't happy with the analogy, but it was a catalyst . . . a rallying cry for us to do something about our emissions and genuinely make a difference so we could continue to appeal to our most important Tourism and export markets.

I've challenged my team to position Air New Zealand as the most environmentally responsible airline on the planet. We've identified the initiatives that can make the biggest difference in pursuing that goal and I'll touch on just a few of these. But our approach is constantly evolving as we identify new opportunities and new technologies.

New fleet

First and foremost is our fleet investment. There is no bigger step we can take than to invest early in the most efficient aircraft available.

Next year we will take delivery of the first of our order of 777 300ERs at a 15 percent greater fuel efficiency than the 747s they will replace. As launch customer of Boeing's 787-9s we're looking forward to the achievement of up to 20 percent fuel efficiency over 767s ... and the delays in this programme are causing us immense frustration. Nonetheless on completion of these deliveries, our long haul fleet will be a mix of 777 and 787 twin engine jets with vast efficiencies over what we currently have. The 787 9s could easily have been designed for Air New Zealand – based in a small country a long way from many of our key in-bound tourism markets. When I talk fit for mission, this aircraft is what I am visualising. It is ideal for Air New Zealand's current network and our growth strategy of serving new markets point to point.

We don't want to rest with these efficiency gains – airframe and engine innovation will continue to be our greatest opportunity for improvement. Along with our Star partners, for example, we're challenging manufacturers to deliver a 30% fuel efficiency gain in the next generation of narrow body jets and, crucially, to bring that technology to market before the end of the next decade. There is an enormous prize for the manufacturer that can achieve that.

Fleet improvement

In terms of enhancements of our existing fleet – this year, we revisited and approved an internal business case for retrofitting winglets on our 767 fleet. These 3.4m high kinked tips will save us 1.3 million litres of fuel on each aircraft they are fitted to and 16,000t CO₂ annually.

And, just to illustrate the range of our investment consideration, we're also investing \$US 4.5 million in installing zonal dryers to our jet fleets to reduce residual water within the fuselage insulation which in turn reduces on-board weight and fuel burn and emissions.

Operational initiatives

Making the right fleet choices is key, but operating the fleet as efficiently as possible is equally important. For example a simple but significant improvement that we've made is to reduce the volume of potable water that we carry. Instead of filling the tanks and landing with them half full, we're now

filling them to levels we know we will require and avoiding the fuel burden of carrying superfluous water.

Our focus on reducing fuel burn has been relentless; on the back of an IATA review in 2006 our Ops Team has been examining all our operating procedures and practices looking for efficiency and emission reduction opportunities.

On the ramp and in the air we've moved from a relatively conservative approach to fuel management to one that better reflects conditions on the day of travel. Examples of changes implemented include:

- Minimising use of Auxiliary Power Units
- Refining the fuel uplifted to reflect the actual aircraft payload
- Flying slightly slower to optimise fuel consumption
- Optimised selection of landing flaps
- Minimising use of engine reverse thrust; and
- Taxiing with one engine shutdown.

Discretionary fuel uplift is an area of intense focus from our pilots who all now get regular updates on their fuel uplift in comparison to their peers.

Working with BMB Fuel in Canada, we have also invested in a fuel efficiency database *FuelSmart* that provides the statistical basis for this better fuel management.

Importantly we have worked closely with our pilots to ensure they are an integral part of our strategy and committed and aligned to Air New Zealand's goals and objectives. I'm really thrilled with their commitment and support of our programmes. Our pilots are now one of our biggest sources for identifying new ideas and opportunities for reducing our emissions.

ASPIRE 1

While on the topic of operational initiatives, it's important to mention the ASPIRE 1 flight that we took part in late last year.

The Asia and South Pacific Initiative to Reduce Emissions was a partnership with Airways NZ, the FAA, and Airservices Australia and is a great example of how government agencies and industry *can* cooperate to innovate. Tagged “the perfect flight”, it was designed to demonstrate the carbon reduction potential of flying under optimal planning conditions. We flew a 777 200 ER from Auckland to San Francisco with all practical operational restraints removed. First, we took into account all our operational fuel reduction initiatives; then we took optimal flight paths based on up to the minute weather conditions; we had priority takeoff and landing clearances; and finally, a tailored arrival into San Francisco.

The results exceeded our expectations in that we reduced emissions over a typical flight by 11 tonnes of CO₂. It may sound modest but, added up in terms of the many flights into a port like SFO, this bodes very well given everything that was demonstrated is achievable within *today's* technology.

Biofuel

In December last year, in partnership with Boeing, Rolls Royce and UOP, we completed the world's first commercial aviation test flight powered by a sustainable second-generation biofuel from a jatropha feedstock.

The learnings from this test flight have been invaluable, however our ongoing environmental and commercial analysis highlights that the best results are derived from feedstock produced and sourced as geographically close to the fuel pumps as possible. Given the growing conditions required for Jatropha this is likely to mean that alternative feedstocks will ultimately be at the heart of Air New Zealand's Biofuel programme and some exciting alternatives are emerging on the horizon.

For renewable fuels to have a place in aviation, many of us will need to cooperate, including fuel companies who need to step up to the plate if we are to overcome supply chain issues.

Green team

As a final example of what's going on in Air New Zealand, I'll talk about something we call the “Green Team”. Out of our 10,500 staff around 3,000 have signed up to be a part of this environmental team. This is all about staff

getting a better understanding of their own personal and corporate environmental impact and taking action to minimise these impacts. A small measure of success of our Green Team is that we're now fielding countless calls from other companies that want information to set up their own similar initiative.

Results

On an overall emissions basis our initiatives are paying off. Along with the capacity reductions that we put in place over the last financial year, our efficiency programme delivered a 10 percent fuel burn saving lowering our emissions by over 350,000 tonnes of CO₂ as compared to FY08.

Our emission intensity improvements since 1995 are approximately 10% and we expect another 15% on our jet fleet over the next 10 years. I challenge other airlines and industries to come up with like or better intensity improvements.

I am incredibly proud of our action and I'm confident that Air New Zealand's brand image, brand awareness and passenger bookings are already benefitting from the leadership stance we have taken. Conde Nast Traveller recently awarded us its Preservation Award for leading the way in exploring alternative fuel sources – this type of profile translates into real value for us.

I hope the things we are doing at Air New Zealand can point the way for others to follow.

Aviation industry

In the aviation industry we have no excuse for inaction - *emission reductions* make sense irrespective of the science of climate change and irrespective of the cost of carbon.

Whether you believe in the science or not, it's an indisputable fact that the aviation industry is a polluter and has an adverse impact on the environment. We could argue indefinitely on how we quantify that impact and how we take into account the corresponding benefits of aviation. The fact remains: we are polluters and we need to take responsibility for that.

It should be irrelevant whether international aviation emissions are addressed under a UNFCCC¹ umbrella or under an ICAO one. It is more important that we focus on action.

I am appalled at ICAO's paralysis on this issue. While I deplore the EU's money grabbing imposition of its ETS on air transport sectors, both to and from Europe, I applaud it for taking action.

My applause does not extend to the UK with its Air Passenger Duty that purports to be environmental in nature but has no incentive for carriers to reduce environmental effects. It can only be described as a money grab. It makes no difference, for example, under the APD if an airline carries 150 passengers on a full A320 or an A380 at a load factor less than 50%. Similarly, passengers pay the same whether they fly in a 20 year old 747 or a 6 month old 777 300 with its far greater fuel efficiencies.

Before I close, I'll share an example of what I believe is the sort of behaviour and attitude that makes the aviation industry an easy and justifiable target for the green lobby.

On one of our key routes groups between Australia and New Zealand across the Tasman sea – we have seen one of our competitors fly the equivalent of 7 empty A320s every day for the 4 months of May through August this year

For this competitor, the Tasman sectors are an easy add-on to their long haul flying and an opportunity to earn revenue at only marginal cost and load factors down around 50% seem to be of no consequence.

Let me read from this airline competitor's annual report:

“I was at the World Economic Forum in Davos in January and was aghast at the global warming hysteria sweeping the place, with airlines being demonised for their alleged 1.4 per cent contribution to global emissions. ... If the Green extremists, and their cohorts in governments and the media have their way, hundreds of thousands of jobs in the travel and tourism industry will be lost in the years ahead, against a very dodgy maybe, unsupported by any conclusive

¹ United Nations Framework Convention on Climate Change – a Convention and a Secretariat e.g. Kyoto Protocol; December Conference of Parties in Copenhagen

evidence, and with a tide of evidence now sweeping in the opposite direction.

....

There is now a multi-billion dollar industry invested in the myth that the future of the planet is at serious risk through global warming caused by what people do. The Green extremists are impervious to argument, and tend just to quote Al Gore's regrettably persuasive but fundamentally misleading An Inconvenient Truth at you."

Flying the equivalent of 7 empty A320s daily across the Tasman feels like environmental extremism to me.

Close

In closing, I firmly believe that we all have a responsibility to minimise the emission intensity of aviation. This is a responsibility to act – first to give effect to the improvements that are already available, then to support innovation to deliver further improvements.

As an industry, we can be seen as a leader not because we have the biggest emission reduction target, or have the longest submissions to parliamentary committees but because we operate in the most responsible manner – flying 'fit for mission' equipment, with high load factors, investing in continuous operational improvements and putting our collective efforts towards developing and embracing leading edge technologies that make a difference.