Thank you, Nick, for your kind introduction and for the invitation to address this distinguished gathering.

The title of my speech suggests that aviation is at a crossroads – not for the first time. But I think most of us in this room would agree that the crisis that first hit us last year is deeper and more unpredictable than any crisis we have seen before.

And we have seen plenty in our business.

If there’s one thing I’ve learned during my airline career, it’s that just when you think things couldn’t get worse, they usually do.

As one of the airline analysts in Hong Kong likes to say: in the airline industry, things can always get worse.

For myself, I cannot remember the industry being in such bad shape in the 30 years I have been involved in it.

Yes, recessions have hit now and then, but nothing like this one.

Yes, the Asian financial crisis hit us hard, but that was in Asia.

Yes, after 9/11 traffic collapsed – but mostly only on routes involving North America and Europe.

This time it’s global. It’s passenger and cargo.

And the worst of it is that I cannot at this stage honestly say that I see the end of it. Not immediately in front of us, at any rate.

Not that I am a pessimist – far from it.

But I am from Hong Kong, where optimism is a way of life – but so is pragmatism.

My views about the state of the industry are perhaps influenced by the fact that Cathay Pacific is an Asian airline.

And Asian airlines have been hit harder than their European and US counterparts in the Great Financial Meltdown.
The latest IATA figures show that air traffic in Asia Pacific has performed the worst of all the regions.

I think the main reason for this is to do with the collapse in front-end traffic.

Big regional players like Cathay Pacific, and our friends from three hours south, as well as the Japanese airlines, have a high degree of dependence on premium passengers, who we all know are staying at home in droves.

And, of course, CX and our friends from three hours south do not have any domestic markets – generally, domestic markets have remained quite resilient.

Of course, everyone knows that the Chinese economy has weathered the financial storm remarkably well – aided of course by some massive state intervention.

And it’s true that domestic air traffic in the Mainland of China has picked up significantly – over what was a very poor year in 2008 for a variety of reasons.

But it’s interesting (in both the standard sense and the Chinese sense of “interesting times”) that international business in and out of the Mainland is in pretty much in the same trough as international traffic everywhere else.

There’s another reason why things have gone very badly for Asian carriers. In general, we are much more dependent on cargo than are airlines in other parts of the world.

In a good year, cargo can account for as much as 30 per cent of Cathay Pacific’s revenue. Sadly, that will not be the case this year.

Cargo traffic, and especially yields, have collapsed even further than passenger. What did I say about things always finding a way to get worse?

Now, it is true that people in some parts of the world are talking about the green shoots of recovery.

We’re not seeing much of that kind of plant life ourselves.

But there has been a stabilising of the big drops in cargo and passenger numbers that we witnessed right up to the summer months of this year.

The question is: is this seasonal or structural?

I don’t know, but I have a pretty good guess.

This is traditionally a good time for us on both the premium passenger and freight fronts. And we are seeing that this year.
But whether it heralds a return to greener pastures - to continue the agricultural analogy - remains to be seen. We'll have a better idea by the end of the year.

I remain cautious. What I think is happening is a slow recovery effect exaggerated and amplified by seasonal factors.

The longer the seasonal effect lasts, the easier it is to kid ourselves that we are seeing a sharp rebound. I'm not so sure.

One thing that I am confident about, though, is this:

While Asia has been hit harder than elsewhere, it is likely to bounce back more quickly when true recovery comes.

That is the nature of the region.

Asia is sharply focused on economic development, it is on strong financial foundations and it's entrepreneurially nimble and agile.

And it is home to one particular huge, fast-growing economy.

I'll talk more about China later.

In the meantime, I'm still wondering the direction the airline industry is going to go in, if it really is at a crossroads as I have suggested.

Every time we plunge into crisis, the rallying cry goes up that it will all lead to consolidation within the industry.

It never has yet, and I don’t think it will this time either.

If anything, governments get even more protective of their national airlines in bad times than they are in good.

And many of them are happy to pour taxpayers’ money into them.

At least we all know these funds won’t get paid out in bonuses – the gravitational pull of some airlines’ big black holes is too strong for that to happen!

But as we all know only too well, because of the sovereignty of traffic rights you don’t get the mergers across political borders in aviation that you get in other industries.

This is the main reason why our industry is so fragmented.

In turn, one of the reasons profitability in the industry is so chronically poor.
In the last 60 years, airlines have made an average net profit margin of 0.3 per cent – a high of just under 3 per cent in the peak years.

In an ideal world, real consolidation would lead to fewer but stronger airlines and a more competitive industry, but unless we tear up the rule book governing international civil aviation things are not going to change.

And we know that’s not going to happen any time soon.

But back to reality. And from one cheerful topic to another.

I don’t have to spell out the magnitude of the problem facing us on the climate change issue.

Lord Adonis did a good job of that when he addressed this club about a month ago.

Since then we have had the ICAO High Level Meeting in Montreal which adopted the industry’s goals on future emissions targets, but fell short of endorsing our call for a global sectoral approach for the industry.

From my position as Chairman of the Board of Governors, I know how hard IATA worked to achieve this result.

The Montreal Declaration means that the door is very much open for the industry to continue to work with ICAO, beyond Copenhagen, to make recommendations for a global approach to the next ICAO Council in 2010.

And let’s be clear about this: the industry remains united behind the idea of a global approach.

IATA’s view is that we need to maintain pressure for a global sectoral approach going into Copenhagen.

The next - and final - meeting of the UNFCCC in Barcelona next month represents another important opportunity for the industry to highlight the importance of a global scheme for aviation.

But time is running out to secure a global deal.

The Montreal meeting showed clearly that the argument over Common But Differentiated Responsibilities as applied to aviation – call it Kyoto v Chicago - is still a problem.

My worry is that that Copenhagen could well have a similar outcome as Montreal, with no global solution within the UNFCCC being achieved.

The consequences are potentially disastrous for the industry.
We could end up with a patchwork of national and regional Emissions Trading Schemes with overlapping taxes and levies that distort competition and contribute little or nothing to actually reducing carbon emissions.

Which surely has to be the objective of any climate change prevention scheme?

That brings me to a bit of a hobby horse of mine.

Britain’s Air Passenger Duty, or APD.

Introduced and still promoted as a Green Tax.

I prefer to call it a Brown Tax.

What contribution does it make to reducing aviation’s greenhouse gas emissions?

None.

But I can see it being used as a role model for revenue-hungry Treasuries around the world if we don’t get a global sectoral scheme.

I’m pleased – indeed proud – to say that our Government in Hong Kong believes in low taxation. It’s actually bound to do so by its constitution – Article 108 of Hong Kong’s Basic Law, if you’d like to check.

But it’s an honourable exception to the general rule that governments love taxes, and love hiking them just as much.

The APD, for example, kicked off at 5 pounds for a short haul flight and 10 pounds for a long haul trip when it was first introduced in 1994.

In the interests of fairness I should point out that this was by a Tory Government.

APD has been rising in quantum and complexity ever since, to the point that come next November the APD on a first class ticket between London and Sydney will cost 170 pounds.

It’s hard enough to make money in this business without this kind of skyway robbery.

Governments are not the only ones looking to skin the airline cat.

Some of our suppliers do a pretty good job.
I recently raised a few industry hackles when I suggested that suppliers were taking a bit more than their fair share out of the value chain which leads from passengers through airlines to manufacturers and service providers.

For various reasons, there simply isn’t enough competition in the supply chain. However, there’s plenty in the travel market, so the airlines in the middle are caught in a nasty squeeze.

After my speech on this topic, the press all wanted examples. So here’s one.

Some of our regional aircraft still have video-tape driven inflight entertainment systems. There are as many as 20 tape-drives on board each plane.

For lots of reasons it would be good to replace them with DVD players.

But cost isn’t one of those. Have a guess how much each DVD player will cost – and we’ll need one for each video player it replaces.

You can buy a DVD deck at Currys for 29 pounds 99.

By the time it’s been certified and is ready to be installed on an aeroplane – 17,000 US dollars.

Someone, somewhere, is taking the mickey. The regulators? The suppliers? An unhealthy and unrecognized conspiracy between the two?

Go figure.

I told our boys to shop around for a better deal.

Another example.

I read recently about someone working for a US carrier discovered they were paying 385 US dollars for a toilet paper roller tube – yes: 385 US dollars for a toilet paper roller tube.

This was in the bathroom of a Boeing 737.

His answer was to work with a US-based injection moulder to develop and certify another one.

He was frightfully pleased with the savings he achieved.

He got them made for 55 US dollars.

What a bargain: only 55 US dollars for a toilet paper roller tube.

You will not be surprised, then, to learn that our First Class seats cost as much as it does to buy a brand new Porsche in the UK.
So for all you bankers here today – please spend your bonus on sitting in one of our First Class seats instead of that Porsche you’ve been waiting 12 months for!

I promised earlier to say a few words about China.

In my post-colonial outpost, I get a respectable UK broadsheet daily on my desk.

I have a theory that all it runs about China are a few human interest and colour pieces from the Mainland.

I tested this theory while I was writing this speech by skimming through the latest copy I had in hand.

Sure enough – the only item I could find about China was a story about a young Brit who is selling hamburgers in Shanghai.

And that was in an advertorial placed by UK Trade and Industry.

I prefer siu long bao myself, but good luck, Will Bray – more power to your elbow!

But my point is that if that’s all the average Brit is reading about China over his morning cornflakes, people here are in for a surprise.

For us, what’s happening there isn’t a surprise.

For us, China is the good news. We can feel it and touch it.

As an airline, we are strongly bullish on China.

It is the future for us.

As you know, three years ago we did a share realignment that gave Cathay Pacific and Air China strategic cross-holdings, and made Dragonair a wholly-owned subsidiary of our company.

The integration of Dragonair into our Cathay Pacific Group has given us the access to the Mainland market that we lacked.

It is a perfect fit for our international network operating out of the Hong Kong hub – Asia’s finest, and the fifth largest international passenger hub in the world.

The largest international cargo hub too, by the way.

It’s also a hub where our alliance oneworld competes very evenly with the others.
Having strong alliance competition like this has driven traffic over the hub and resulted in a wide choice of carriers for anyone traveling to or from Hong Kong. Regulators in the EU and US please take note.

Back to my theme - Hong Kong is superbly positioned to reap the benefits of being part of the Mainland of China, and the economic and cultural synergies that implies.

Our community sits at the doorstep of the Pearl River Delta – or PRD as we call it - in Guangdong Province, whence most Hong people originate.

Forgive me for spouting some statistics, but you won’t be reading them in your newspaper, and I think it’s important to understand the scale of what’s happened in our backyard.

Guangdong Province has a population of 110 million- similar to Mexico’s population or that of Italy and Spain combined - and accounts for about one third of China’s exports.

Exports from the PRD in 2007, the latest available figures, were more than double those of India.

Ah yes, you may say if you are better informed than a Telegraph reader (there, I’ve said it!) but other Asian countries are surely going to take over as salaries and costs go up in the PRD.

Well, they’ve a long way to go.

The GDP of both Guangdong’s capital Guangzhou, and Shenzhen, the city which borders Hong Kong, are each bigger than that of Vietnam.

When I first went to Hong Kong just over thirty years ago, I was taken to the Chinese border to look out over a collection of paddy fields. Now those fields have become Shenzhen - it stands today as towering metropolitan metaphor for China’s extraordinary growth over that time.

Today China has a rapidly-growing middle class with all the aspirations of the middle classes anywhere.

For example, they want to travel. They want to fly. They want to see the world.

Three million Chinese flew 30 years ago. 200 million will fly this year. The figure will be 600 million in another 20 years.

The country will take delivery of a commercial airliner every 2 ½ days for the next two decades.
Today there are almost 100 new airports on the drawing board in China – 45 of them due to open in the next two years – with over 40 being upgraded.

Who is going to stop the aviation growth all this will drive?

The radical Green fringe that wants to curtail our rights to fly or to stop us flying altogether?

We need a sensible and robust debate about aviation and climate change, but having one side just say it can’t happen won’t get us anywhere.

We all know the liberating and uplifting effects of aviation. We don’t talk about them often enough. We are too defensive.

Aviation is a key driver of world trade that has lifted hundreds of millions out of poverty and will continue to do so.

And as Lord Adonis said to you last month, in this time of global recession we need to make trade easier, not harder.

Amen to that.

In telling the China story, I am proud to say that little Hong Kong – just 7 million of us - has been an important part of it.

Since the late 1970’s, Hong Kong has acted as a primary conduit between China and the outside world as the Mainland has re-engaged massively with the global economy.

Through our world-beating airport, Hong Kong has made a unique contribution to realising China’s priorities - attracting trade, investment and business links with the world’s leading multinationals.

More recently, it has played an equally critical role in enabling fast-developing Mainland enterprises to explore global markets, to build their own global businesses, and to meet potential partners, investors and buyers from all parts of the world.

The development of Hong Kong as one of the world’s leading aviation hubs has played a pivotal role in China’s re-engagement with the global economy.

But how critical will this distinctive Hong Kong role as an aviation hub be for China in the future?

China has three other international hubs – Beijing, Shanghai and Guangzhou. Will they reduce, or put into question Hong Kong’s distinctive value to China?

We have commissioned a study which concludes that Hong Kong airport still has a distinctive and crucial function to perform.
Based on the study findings, we believe Hong Kong will continue to deliver unique benefits to China’s economic development, complementary to other Mainland airports.

But … there’s always a “but”.

There are still air space management problems in the PRD. Working with IATA and the local authorities, many problems have been resolved already, and those remaining are being dealt with.

The Hong Kong hub itself needs to maintain its momentum to keep regional competition at bay.

That means at some point – and probably quite soon – a decision to build a third runway has to be taken by our government.

The Hong Kong Airport Authority is conducting an engineering and feasibility study but there is a long way to go.

The community will need to debate the economic merits and environmental compromises that may need to be made.

But I believe we will have a more measured debate over this than you have seen over the third runway for Heathrow.

Hong Kong’s continuing economic success depends upon it, as does London’s.

Mr. Chairman, I am sure I have over run my allotted time. I am grateful for your forbearance and for your interest in hearing a view from Asia.

I look forward to being grilled with questions in the honourable tradition of this fine Club!

Thank you.