

**Speech by Willie Walsh,**

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**British American Business Inc**

**New York City**

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Ladies and Gentlemen,

Good morning. Let me say at the outset how delighted I am to be here in New York. British Airways first flew to New York in 1946 and we've been coming back ever since.

Frank Sinatra told us that New York was such a good city, they named it twice.

Well, at British Airways we think it's so good, we fly here from London Heathrow 11 times a day – and once a day from Manchester.

We fly more frequently to and from London than any other operator – and we are the only overseas carrier to have our own dedicated terminal at JFK.

We are always looking at ways of improving our customers' experience at JFK, and are currently in the middle of renovating the various shopping and food outlets. The refurbishments will be completed by the Fall.

We also have a major renovation taking place at Newark, where we fly to Heathrow three times a day. We have moved into our new check-in areas in Terminal B, which are more spacious and customer-friendly.

The British Airways presence in New York pumps more than \$130m a year into the local economy – excluding capital projects at the airports and our offices, which have been worth \$300m over the last ten years.

So we are very well-established in serving New York – and indeed in serving the 17 other US cities we fly to. We are a big player in the transatlantic air market.

And let me make one thing absolutely clear: we intend to become a bigger one after the so-called ‘**Open Skies**’ agreement between the European Union and the US Administration comes into effect next March.

You may be aware that when the EU-US deal was first proposed three months ago, British Airways was severely critical of the way in which it was unbalanced in favour of carriers based on this side of the pond.

We pointed out that it would give American carriers access to all European airports, including Heathrow, and the right to pick up passengers and fly them on to other EU destinations.

Meanwhile, European carriers would not be granted the equivalent right to operate between US cities.

We pointed out that the deal would allow US airlines to fly on from EU airports to destinations in the Middle East, South Asia and the Far East – some of the most lucrative air routes in the world.

Meanwhile, the reciprocal rights for European operators flying on from the US would be limited to the much slimmer pickings of Central and South America.

On ownership, American companies would be allowed to hold 49 per cent of the voting stock in any EU airline. But EU companies could hold no more than 25 per cent of the voting stock of a US operator.

We made clear that you did not need a degree in higher mathematics to see that this was not a good deal for Europe.

We made all these points – and we stand by them today without qualification.

But we are realists. We accept that, despite our views, the deal was endorsed by the European Union and will be implemented next spring.

So we are preparing ourselves for this new phase of transatlantic aviation.

Earlier this month, we lodged with the US Department for Transportation our formal blanket application to fly from anywhere in the EU to anywhere in the US – as the new treaty will allow.

A number of US carriers have made similar applications. But British Airways is the first European operator to do so.

What do we intend to do with this additional freedom? We are looking extremely seriously at the launch of new services from the US to major business centres in continental Europe.

These would be direct flights, bypassing London and the UK altogether.

So we are looking at linking New York and other US cities with Paris, Frankfurt, Amsterdam, Brussels and Milan.

We would fly Boeing 757s or 767s either in a two-class configuration, or perhaps as exclusively business class services.

This would be a radical departure for British Airways: the first time in our 88-year history that we have operated long-haul flights that neither take-off nor land in the UK.

But we are convinced this is a feasible proposition. As I said earlier, we have deep roots in the US, an established reputation here and a strong brand.

We are also extremely experienced - and successful – in the transatlantic business market. We pride ourselves on knowing what transatlantic business travellers want, and on keeping in touch with how their needs and preferences change over time.

That is why we have introduced our new Club World product on 96 flights a week between JFK and Heathrow, and are rolling it out over the rest of our long-haul fleet at the rate of three aircraft a month.

As many of you know, British Airways was the first airline to introduce fully-flat beds in business class – and our new Club cabin takes standards of in-flight service and comfort to even higher levels.

Customers enjoy more luxury, more space, more choice, more privacy and an even better sleep in fully-flat beds that are 25 per cent wider than our original.

So our new services between the US and continental Europe would be a further development of our expertise in providing for the transatlantic business market.

It would be an extension of what we do best. Our project team is currently working up the proposals in great detail – and we are extremely serious about carrying it through.

And that is not the only opportunity we will exploit under the revised Open Skies regulations.

Our services to Houston and Dallas Fort Worth, which we currently fly from London Gatwick, will be moved to Heathrow from next March.

Both routes will benefit from the much stronger feeder traffic at our main base, and customers landing at Heathrow will have a far greater range of onward connections to the rest of Europe, Africa, the Middle East and beyond.

There will be two flights each day to Houston and a daily service to Dallas Fort Worth, all of which will be flown with Boeing 777s.

We hope these services will be of particular benefit to the oil and gas industries, as business travellers will be able to transfer with greater ease at our new Heathrow Terminal 5 to important commercial destinations such as Lagos, Luanda and a range of oil and gas centres in the Middle East.

I want to tell you more about **Terminal 5** – because it becomes British Airways' new home in nine months' time... or 272 days 13 (?) hours and 30 (?) minutes. Not that I'm counting.

Terminal 5's customer facilities will be streets ahead of anything ever provided at Heathrow or any other UK airport. The building is light, spacious and modern, and offers exciting new views of the world's busiest international airfield.

For the first time in 40 years, British Airways' core operations will be brought together under one roof. Flight connections will be smoother than they have ever been, and baggage systems will be speedier and more efficient.

Customers will progress through the airport much faster, and have the benefit of unparalleled standards of comfort and convenience.

Terminal 5 will be the envy of Europe – and it will be used exclusively by customers of British Airways.

I know that one of the reasons why Heathrow may not have been your favourite airport over the last few months has been the strict rules the UK Government has laid down over **carry-on baggage**.

We recognise how irritating it is for people flying from the US, having carried on two items of security-cleared luggage at their home airport, to be told at Heathrow that they must check one item into the hold if they want to catch a connecting flight.

To be effective, security has to be credible. The truth is that the UK's current one-bag rule is not credible.

If it were felt to be a worthwhile security measure, it would be in force here in the US – and in the rest of Europe. It is not.

This is a UK Government rule. Not a British Airways rule. We have been lobbying the UK Department for Transport very hard on this issue.

We have also been lobbying Heathrow's owners, BAA, to ensure that their screening systems can cope with an increase in carry-on bags.

The customer has been given a very raw deal from this regulation – and we are on the customer's side.

It is not in my power to give you a date, but I am hopeful that our efforts to have this needless restriction lifted will meet with success in the coming weeks.

On security more generally, we are strongly in favour of achieving standardised security procedures that apply across both the EU and the US – so that the process of passing through an airport is seamless and efficient, as well as secure.

Of course, we recognise that when the new Open Skies deal comes into force, there will be more competition across the Atlantic.

There will be **new entrants in the Heathrow-US market** – and despite all the talk in the past about the alleged impossibility of acquiring slots at Heathrow, new US operators have found little difficulty in obtaining slots from their European alliance partners.

Let me say loud and clear: we thrive on competition. One of the biggest myths in the transatlantic aviation debate in recent years has been that Heathrow is a bastion of protectionism where normal market forces cannot operate.

The truth is that Heathrow is the most competitive airport in Europe. There have been four major carriers flying between Heathrow and the US – more than from any other European airport.

If you look at seats per week, you find that British Airways faces at least five times as much competition to the US from Heathrow as Lufthansa faces from Frankfurt or Air France from Paris.

So we are extremely familiar with competition, and we look forward to taking on fresh rivals in markets in which we know we have a good track record.

Let me make one more point before I leave the subject of Open Skies.

I have made no secret of the fact that we were disappointed with the original terms of this agreement – not just because we believed they were unbalanced, but more importantly because we felt they reduced the chance of achieving a **more radical liberalisation** of transatlantic aviation which would lead to much greater benefits for air travellers.

This industry is crying out for transformational change – not just between the US and Europe, but all around the world.

Aviation is the industry that underpins globalisation. Yet it is prevented from enjoying the benefits of globalisation because of thousands of outdated inter-governmental restrictions on how and where airlines can operate - and who can own them.

These restrictions mean that airlines simply cannot achieve the kind of sensible consolidation across national boundaries that is taken for granted in banking, telecoms, pharmaceuticals, electronics and so many other industries in the modern world economy.

The result is inefficiency – and an industry almost permanently in the red.

There are too many airlines. There is too much state ownership and interference. And there is too much subsidy.

I do not want to dwell on this in detail today – but it is well known that in recent years US airlines have been among the biggest receivers of subsidy on the planet. Chapter 11 has been a rest home for failing carriers.

A life-support machine for airlines which otherwise would have been killed off by the free play of normal market forces.

We need an end to this needless regulation and failure-rewarding subsidy.

We need a new world order for aviation, in which the structure of the industry is determined not by government intervention or hand-outs, but by the needs of the travelling public.

In other words, we need inter-continental aviation to be much more like the deregulated domestic air markets of the US and Europe.

The travelling public do not care who owns airlines. They are not interested in governmental rules on which airlines can fly where and how often. What they want are safe, secure airlines flying where they want to go at a price they are willing to pay.

It will not be easy to achieve this new order of a flexible, profitable, consolidated industry.

That is why some of us objected to a relatively limited Open Skies deal in the hope that a more far-reaching liberalisation, including the removal of nationality-based ownership restrictions, could be agreed.

Well, some of us still have such hopes.

We have embraced this first-phase deal. But we were very pleased that the agreement included a provision giving the EU (or any individual EU state) the right to terminate the new deal if by 2010 the US has not made sufficient progress toward acceptance of a genuine Open Aviation Area – with equal traffic rights and removal of ownership restrictions.

We want these Phase II negotiations to begin as soon as possible – and it is disappointing to report that there seems little appetite among either US Government officials or their European counterparts to start the process and keep up the momentum the Phase I deal created.

But make no mistake. When the second round of discussions does start, we at British Airways will monitor progress very closely over the next three years – and we will hold the UK Government to its word to nullify the existing deal if a true liberalisation is not achieved.

We will also see whether a new administration in Washington after 2008, and perhaps a stronger US airline industry, brings a change in the US negotiating position.

The opportunity to agree a genuine, world-changing liberalisation is there. Let's get on with it, and let's make it work.

The structure of the world's aviation industry is extremely important. But so is the industry's impact on another global issue – namely, **climate change**.

Let me say at the outset:

- I am in no doubt whatsoever that aviation is a polluter
- I am in no doubt whatsoever that aviation emissions contribute to global warming
- and I am in no doubt whatsoever that aviation must play its full part in containing and ultimately neutralising those emissions.

At British Airways, we have taken climate change seriously for a long time. More than a decade ago, we became the first airline to set a target for improving fuel efficiency – aiming for a 30 per cent improvement by 2010, compared with 1990.

Up to now, we have achieved a 28 per cent improvement, cutting carbon dioxide emissions by more than 60 million tonnes during this period.

And we are ordering new longhaul aircraft, which will be between 17 and 30 per cent more fuel efficient than the ones they replace.

We were the first airline to allow customers to offset their flight emissions – and we have sponsored research into alternative fuels.

We have pioneered operational practices that reduce fuel burn and emissions, such as enabling aircraft to descend continuously before landing rather than make a traditional 'stepped' approach.

And perhaps most importantly of all, we have led the way for the last eight years in advocating carbon emissions trading as the most environmentally effective means of tackling aviation's climate change impact.

We are the only airline in the world to have actual experience of emissions trading – through our participation in the UK's voluntary scheme.

Carbon trading gives companies in all industries a simple choice: if you don't cut your emissions, you must pay for someone else to. If that extra cost makes you inefficient, you will face the commercial consequences.

We reached a milestone last December when the European Commission formally proposed draft legislation for aviation to be included in the EU's existing carbon trading scheme from 2011.

There are still many details to be resolved, but there is real momentum behind this project now. Emissions trading is no longer some vague, theoretical idea for airlines. It is going to happen.

As the proposals stand, the scheme will be confined for the first year to flights that take off and land within the EU.

It is then proposed to extend the scheme to all flights in and out of the EU. Carriers from the US, Asia, the Middle East and all the other regions of the world would there be included and have to meet the emissions costs of their European services.

I know the US industry is unhappy about this. And I share its concerns. The EU scheme is a ground-breaking initiative with the potential to lead to a global solution for airlines.

But I do not believe the EU should over-complicate this scheme within 12 months of introducing it.

Trying to impose carbon trading arrangements on airlines and governments from outside the EU will lead to legal challenges and perhaps outright retaliation against EU airlines.

There would be a serious risk that the scheme would become discredited almost before it began, leaving aviation with huge question-marks over the seriousness of its response to climate change.

However, I would respectfully suggest to the US industry that it cannot turn its face against carbon trading for ever. Political sentiment on global warming seems to be changing on this side of the Atlantic, as we saw at the G8 Summit earlier this month.

I have been encouraged by American carriers' increased interest in the environment in recent industry forums. And if there is one lesson I would urge the industry here to learn from Europe's experience, it is this:

Don't let your response to climate change lag behind that of your customers and your politicians.

The European airline industry, as a whole, has been perceived to be responding too slowly – which is why we have been vulnerable to unjustified additional taxation.

In **conclusion**, let me reiterate that British Airways is in very good shape.

We are looking forward to the implementation of the first stage of the new Open Skies agreement next year – and we will continue to press very hard for the second stage to bring us a much more extensive liberalisation for the benefit of customers on both sides of the Atlantic.

We will use the first stage to offer more routes to Heathrow from the US, and we will continue to develop our plans for introducing brand new services across the Atlantic to the main business capitals of continental Europe.

Within the next 12 months, we will extend our new Club World product across all our long-haul routes and we will be settled into our new home in Heathrow's Terminal 5, offering all our customers a dramatically improved airport experience whether they are ending their journey in London or catching a connecting flight.

We will also ensure that we play our full part in addressing aviation's climate change impact – and urge the American airline industry not to get left behind on this fundamental challenge we all face.

Ladies and Gentlemen, British Airways has played a major role in serving the travelling public of the United States for the last 60 years. In the future, we are absolutely committed to doing so in a more comprehensive way than ever before.

Thank-you for listening, and I will do my best to answer any questions you may have.

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