‘Mike Clasper
ACI Europe Annual Assembly & Congress

Under embargo to 00.01 hrs Thursday, 12 June 2003

I would like to start by joining Claudio in paying tribute to Mike Hodgkinson, from whom I took over the stewardship of BAA last week. From Mike, I have inherited a world-class company.

In his ten years at BAA, first as group airports director and then as chief executive, Mike has won the admiration and affection of his colleagues at BAA as well as those across the aviation industry.

I am personally grateful to him for his guidance and advice over the last two years while I have been getting to know the company and the industry, and I want to wish him well with the challenge he is facing as chairman of the Post Office.

Good luck and thank you, Mike.

As you know, I am a newcomer to the aviation industry. Not as an end-user, as I have taken more than a thousand flights and visited more than a hundred airports during my previous career running a global business for Procter and Gamble.

But I am new to the challenges of managing and developing the crucial airport infrastructure and services which are the backbone of aviation.

And what a tough time to have joined.

Globally, the industry has been shaken by the terrible events of September 11, which has had a short-term impact on demand and on airline and airport profitability, but which will have an enduring impact on safety and security, the very core of our airport responsibilities.

For BAA alone, it means the recruitment, training and security clearance of an additional 1,500 security staff in order to meet the ever stringent regulations and processes required to provide a safe environment for our passengers and staff in the current climate.

This has been a huge task in itself, and we will not be finished until the end of July.

At the same time, there have been downturns in the economies of north America and the Far East, which have affected the pattern of demand.

There have been two wars – in Afghanistan and Iraq, and we are living with the fear of SARS, particularly in Asia.

All of these are having short-term impacts on the industry.

But longer term, there are some important drivers which will affect the industry, in ways we won’t yet fully anticipate.

The future role of hubs is being reassessed – not least in this conference – which could have major implications for airport development and airline strategies.

The Airbus A380 will place the most intensive infrastructure and logistical demands on airports since the introduction of the Boeing 747 over 30 years ago.

Meanwhile, in Europe, there have been mergers, and attempts at mergers and alliances, as airlines have sought to consolidate their positions and secure operational benefits.

And, crucially, the emergence of low-cost airlines has challenged the traditional, scheduled airlines in important short-haul markets, especially in Britain, and has begun to change the way airlines price and sell their tickets.

We cannot yet know what the long-term effects of this new sector will be on the industry.

Opinion seems to be divided between those who think it spells the end of many full-fare airlines, and others who think that the low-cost airlines will soon find themselves facing rising costs, since, once they have mopped up all the cheap, available capacity, they will have to start paying the full costs of the infrastructure they are using.

At the same time, the UK aviation industry is deeply involved in the biggest consultation of the future development of air transport in this country’s history.

The British Government is committed to establishing a 30-year policy framework that should give UK aviation the certainty and capacity it needs to plan its growth.

In every region of the UK, the Government is asking the fundamental questions of how much demand should be met, how should it be met and where should it be met.

In the congested South East of England, we and others are arguing that aviation needs up to three new runways over the next 30 years if UK aviation is to continue to grow, remain internationally competitive and facilitate the productivity, wealth creation and competitiveness of UK business.

For BAA, this consultation has forced us to focus critically on what our role is in securing the certain future that we need.

We have concluded that we can no longer simply provide impartial, technical advice to Government and await the outcome of the Government’s deliberations, but that we have a duty to argue the best case for the industry, not just with Government but with all relevant interests.

So we have carried out robust, technical work on airport layouts, on the infrastructure that will be needed to support new runways and the rail and road links that will need to be developed.

But we have also provided our best analysis of the negative impacts, in terms of air pollution and noise, land-take and the consequential need to buy out and remove housing.

And we have sought to improve upon the options put forward by the Government, by proposing alternatives of our own which would meet the Government’s objectives, but would do so in a way which maximises operational effectiveness and minimises community impacts.

We have subsequently taken a high-profile communications route, engaging positively with our stakeholders, because this is not a closed Government issue.

We believe that if new runways are to be approved and delivered, then we must work now on the best way of delivering them, understanding and responding to community concerns, and seeking to work co-operatively with them, rather than in conflict against them.

This is a tremendous challenge for BAA, but we understand that if we don’t do this right, we won’t get the capacity we need, and we will therefore slip behind our European neighbours and competitors and we won’t have a world-class aviation industry.

Our South East runways are already full at peak times, and at Heathrow they are full all day.

Without new capacity, we will be absolutely full in ten years and the UK can kiss goodbye to the comparative advantage it currently enjoys in aviation.

Across the EU, Governments and airports are engaging on these growth issues, because they recognise, as our Transport Secretary frequently says, that “doing nothing is not an option”.

They recognise the crucial role that aviation plays in a modern, global economy and they know that aviation must be enabled to grow if it is to continue to play that role.

In facing up to these issues, the UK Government will not just have to consider how many runways to approve and where to put them, but it will also have to grapple with the question asked in the title of this conference: what is the future of the hub airport?

Our view is that London will never have a hub airport along the model of an Atlanta, or a Charles de Gaulle.

There simply isn’t a plausible prospect in the UK of building an airport with five or six runways, allowing major carriers to operate waves of connecting services.

So instead, we have developed Heathrow as a network hub, providing a range of connecting short and long-haul services.

But Heathrow is also an essential part of the three-airport system, along with Gatwick and Stansted, that is operated by BAA, supported by smaller airports such as Luton and City, which are not owned by us.

This system has provided a firm but flexible platform for the growth of what is, by any standards, a highly-successful UK aviation industry, from British Airways and Virgin to a thriving charter sector and the rapidly-growing low-cost airlines like Easyjet and Ryanair.

And with the system management of the three BAA airports, BAA has been able to raise investment in the private sector to develop infrastructure on a scale which is unprecedented in UK public transport.

But in considering the future of UK aviation, and especially the importance of the hub, a big question for the aviation industry and the Government is what are the risks to the UK if another runway is not delivered at Heathrow?

If we cap Heathrow at roughly the 90m passengers a year it will achieve after Terminal 5 opens, will this damage the competitiveness of some airlines and the UK as a whole?

I don't think the answer to this question is obvious because it depends upon how the aviation industry develops in the coming years.

Even without a third runway, Heathrow will be a major international airport, but it will increasingly attract larger aircraft on long-haul services – and it will be increasingly difficult for it to play its role in providing global connections for the UK regions.

If the Government asks us to build runways at Gatwick and Stansted, some of these problems will be alleviated.

But it doesn't alter the fact that constraining growth at the UK's one and only major international hub airport represents a risk.

But it's a judgment only the Government can make.

Elsewhere in the EU, challenges like these have been faced up to earlier than they have in the UK.

I look across the channel to Charles de Gaulle with a degree of envy at the way ADP has been able to deliver two new runways within a firm Government policy framework, with broad community support and within a realistic timeframe.

I look at Schiphol with similar admiration at how the Polderbahn has been delivered, to safeguard the airport's competitive future.

And I look at Frankfurt, with three runways already, making clear progress on securing support for a fourth.

In the UK, we need similarly firm decisions by our Government on where new runways are going to be permitted, backed up by a clear timetable, a long-term plan for how they are going to be delivered and a planning system that will make them happen.

What we are desperate to avoid in Britain is for our aviation industry to follow the failed route of delay, congestion, under-investment and decline that our railways have taken.

But it is not just a question of international competitiveness.

I want to return to a neglected but critical aspect of the current debate on UK aviation, the issue of regional access.

Aviation has a central role to play in supporting regional competitiveness and in spreading economic growth and wealth throughout regions.

There are two key elements to this.

The first is the provision of direct air services between regional airports and London.

The UK's regions are currently very well served by London's airports, with a range of competing and complementary services operating between Heathrow, Gatwick, Stansted, Luton and City and airports in the regions and nations of England, Scotland, Wales and Northern Ireland.

The second element is the provision of access to the larger airports for passengers from the regions who wish to connect to a wider range of short-haul and long-haul destinations than can be sustained by their regional airport directly.

Clearly, growth will itself help regional airports serve a wider range of direct destinations and reduce their reliance on connecting to these destinations via a major London airport, and regional airports should therefore be given every encouragement to expand.

BAA wants to grow the range and frequency of destinations from its three Scottish airports, and is committed to £60 million of expenditure on direct Scottish route development to achieve this.

But the fact remains that Heathrow, and to a lesser extent, Gatwick, will continue to connect geographically-peripheral areas with the rest of the world.

Paris Charles de Gaulle and Frankfurt play similar roles in France and Germany, providing their regions with links to destinations and markets across the planet via their hubs.

So hubbing is as essential for regional economic development and competitiveness as it is for national competitiveness.

Of course, where capacity is abundant, as it now is at Charles de Gaulle, it is easy for an airport to provide a hubbing operation linking the regions to the rest of the world, as there is no pressure on airlines to use the slots on other routes.

But at slot-constrained airports like Heathrow and Gatwick, airlines competing on international routes are frequently reassessing the extent to which they can continue to serve domestic routes, especially where the returns from these routes may be lower than on their long-haul services.

So a critical question that the UK Government has to answer is how to continue to provide the UK's regions with international air links to the rest of the world where the UK's natural gateways are capacity constrained.

What is the role of the hub in that situation? To support the UK's national best interest, or to balance the interest of the UK economy with interest of the economies of the regions?

The Government could simply allow the market to decide, and allow the continuing erosion of domestic services into Heathrow and Gatwick, and the growth of services from the UK's regions to continental hubs.

Market forces have achieved a lot in terms of added competition and lower prices, but their effects need to be kept under review to ensure that the outcome does not undermine the development of national and regional economies.

Schiphol already has more services from UK regional airports than Heathrow does, funnelling long-haul passengers from the UK onto KLM flights, rather than on flights on domestic carriers like BA, bmi and Virgin. In fact, this is part of Schiphol's stated business plan.

But for global companies like Procter and Gamble, with major activities in the regions, the loss of access to a domestic hub means a loss of access to its markets.

Procter and Gamble's R & D organisation, based in Newcastle, relies on air links to Heathrow.

If those are lost, then businesses like P&G won't simply switch to hubbing via Schiphol or Paris – these business will pack up and move there or to London.

This is a real risk to regional economies and social inclusion.

British Airways, in its own submission to the Government on runway development, suggests that a new runway at Heathrow could be accompanied with the reservation of a proportion of slots for domestic regional services.

This is a welcome starting point for discussion and something the Government will no doubt wish to consider.

In fact, the option of a short runway at Heathrow is, by definition, already reserving slots for short-haul services, many of which would be domestic, as the runway could not take the larger aircraft used on long-haul services.

But careful thought would need to be given as to whether the market, or the Government, should decide how slots are most effectively allocated.

Of course, the UK Government's decision on a runway at Heathrow will not hang just on regional access.

It will hang on the extent to which the undoubted economic benefits – regional and national – justify the significant environmental impacts that a runway would bring.

And these impacts ARE significant – 30,000 more people would be affected by noise and up to 700 homes would have to be removed if there were a third runway.

But if the Government decides that the risks to the environment are too great, they must accept the risks to the economy of an even more constrained Heathrow.

I can't say what the right answer is. This is the job for elected politicians.

Of course, I realise that aviation's future is not just dependent on Government decisions, crucial as these are.

So let's move on to the key challenges where our fate lies in the hands of our own industry.

There are two absolutely critical groups, travellers and local communities, whose interests are central to the future of the industry.

There is a perceived tension between traveller interests and community interests.

The answers to some of these tensions can polarise the views of airlines and airports.

While some of these tensions and stresses are real, I believe that airports need to take the lead in reconciling the issues and pulling together the industry's response.

This will require the current changing relationship between airlines and airports to continue to evolve.

In a consumer-focused, quality-driven society, that relationship must be more than simply one of supplier and customer. We need to work together, focused on our common target, the traveller.

The demands of mature, sophisticated travellers for high-quality facilities, services and experiences in our airports are increasingly important in a 21st century consumer-society.

Travellers are no longer prepared to accept basic quality and service, nor should they, especially as enhanced security is requiring them to spend longer at our airports.

So we need to be better at anticipating and finding out what they want and giving it to them.

We also need to work together in respect of our local communities.

The voice of communities and those representing the environment are rightly being heard much more clearly than ever before.

So we not only have to listen and respond to the concerns our stakeholders raise, tackling more aggressively the issues of noise, of pollution, of congestion, of climate change, but we need actively to engage with them and make our case in a way we have generally not had to do in the past.

This means being more open, fair and transparent than we might be comfortable with in facing up to and addressing the adverse impact of our activities.

We are making progress.

Across the UK the aviation industry has reached agreement that we should accept our responsibility for our share of greenhouse gas emissions, and we have concluded that the best way to meet our obligations is through aviation joining an open, international system of emissions trading.

Under such a system, either we reduce our own emissions, or we pay other industries to reduce theirs on our behalf.

UK aviation is actively lobbying the UK Government to press internationally for this, and the first step is almost certain to be involvement in the EU emissions trading scheme due to come into being in 2008.

But we, as airports, might sometimes want to go further than our airlines to tackle some issues.

On noise, airports are pushing for the faster phase-out of noisier aircraft than airlines would like, and for new, stricter standards to be brought in more quickly.

And in the UK, airports penalise airlines which breach noise limits with hefty fines, which are recycled directly into noise mitigation measures in communities.

On NOx, we as airports can make progress in reducing on-airport and off-airport emissions, through green-fuelled vehicles and improved public transport, and through fixed ground power and pre-conditioned air.

But, fundamentally, airlines need to operate cleaner, lower-NOx aircraft.

And to tackle road congestion, we have to invest in public transport, and airlines have to accept the responsibility of their customers to pay for this.

The right balance is clearly not an easy one to achieve.

But it is a necessary balance.

All in all, I believe that the way in which we do business as airport companies is evolving, as we are continuing the long-term shift away from being managers of state transport infrastructure to being responsive and dynamic commercial entities, pursuing a range of often competing economic, social and environmental objectives.

We have the chance to succeed and to grow, but we need to change how we do some things.

I have suggested some key themes, which in summing up I will briefly recap.

BAA has accepted that we must be active, rather than passive, in the runway debate.

The industry is recognising that regional inclusion is a neglected, but critical factor which must be addressed in that debate.

And we can’t leave everything up to the Government: airports and airlines must work as partners to address the needs of travellers and local communities.

The way we go about this is critical to our long-term future, and I believe that we have to demonstrate, as companies and as an industry, that we are responsible, that we can be trusted, and that we behave in a manner which makes us good corporate citizens and partners.

If we embrace the challenges of sustainable development, long-term planning, stakeholder engagement, consumer-focus, partnership working, then we will continue to flourish as an industry and provide world-class aviation for Europe and its people.

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