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Transport Times Conference
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Good afternoon ladies and gentlemen. I would like to thank the Transport Times for organizing this conference, and for inviting me to speak.

The invitation came at a good time, nearly three months after I started as Chief Executive of BAA. It's been an eventful three months, to say the least – and I wish I could say that the next three look less so, but I doubt it.

So today provides a welcome opportunity to reflect on the wider picture before we move on..

I am, as some of you know, an engineer. I think it is important to simplify complex issues into something practical and understandable, and that is what I have spent some of the last three months trying to do – in between dealing with the odd crisis or two. And, while I wouldn't claim that I had completed that process, today I would like to share with you at least some of my conclusions to date.

None of which, of course, takes away from the pressure and necessity for us to deal with the daily operational challenges we face as a company and, in particular, our commitment to deliver a quality service to our passengers.

Indeed one of my core convictions about BAA is that it is only as we daily prove ourselves operationally competent that we earn the right to be heard on the bigger picture.

So, let me be blunt: as a company we have made our fair share of mistakes. But, the good news is, I have joined a company that is committed to delivering better services for passengers and which, I would argue, has made considerable progress in doing so in the past year. .

But, perhaps inevitably, the successes have been obscured by the focus on things that have gone wrong. That's life. And I am not complaining.

The opening of T5 summed up the paradox: a magnificent architectural and construction achievement undermined by a series of mistakes – some on our part, some on others – which, under the pressures of an opening day, added up to significant disruption for our passengers, which we deeply regret.

The damage to BAA's reputation was real – and, while the building today is operating superbly, and, as was originally designed, I have to accept that the road to reputation recovery will be long and hard.

As elsewhere in our business, the final verdict will only be in our favour when thousands, and millions, of passengers have used the facility and had a good experience. We understand that, and are changing BAA to deliver that operational consistency across the board.

Last month at Heathrow 95% of passengers waited five minutes, or less at security queues – a significant improvement, but we need to drive that progress consistently across all our airports, and across all areas that touch the passenger. We accept that quality of service has to be the key.

But while operations are at the core of everything I do as Chief Executive, the last three months has also confirmed something else in my mind – that we have big and complex issues to confront, not just because of the huge sums of money involved in constructing these large infrastructure projects, but also because of the multiplicity of currents and cross-currents we have to deal with. Let me list some of them:

- First, the cost issues, such as the very real impact of \$130 a barrel oil on the airlines;
- Second, the quite legitimate demand that we take account of our environmental impacts;
- or the need to provide extra capacity, particularly in the South East of England;
- or the reality of increased global competition – not just from our traditional European competitors, but also from new ones such as Dubai;
- or the emergence of a new and a different world order in which global travel patterns will also change;
- or the sad fact that security will continue to be a major actual, and financial, factor in all we do.

But simply because this is complex is no excuse for being muddled. Indeed, quite the reverse. The complexity means there is an absolute imperative to be particularly clear.

That is why my starting point is the need to be clear about our respective roles – as government, as regulators, as BAA, and as airlines – in meeting the aviation needs of this country.

Let me be clear: I do not believe it is the job of BAA, or indeed any private company, to decide aviation policy in this country. That is the role of government.

Not only are the investments long, complex and long-term, but the issues involved are not all measurable financially.

How does a company balance the conflicting needs of local communities, business, the environment, the short-term pressures on airlines, – never mind, the future position of UK PLC in the world ? It can't, and it shouldn't. That can only be the job of a democratically elected government.

And that is why, I believe, it was entirely right and proper that the government should have set out its strategic vision in the White Paper of 2003.

Our only regret is that it didn't come sooner. From the 1980s to 2003 this country, effectively, was without a clear aviation policy. The result: we fell behind. While Paris, Schipol and Frankfurt were developing the extra runways that give them the basic resilience that Heathrow doesn't have, we fell behind.

In the absence of clear, government policy T5 took 22 years to go from conception to reality. Why ? Because, in part, the planners were having to guess what government aviation policy was – and then balance that with the other economic and environmental factors. There was no clear, defined policy to act as a reference point.

And that is also why we in this country have not built a single, major new runway in the South East of England since 1946 despite the huge transformation in global aviation in that period.

And the result ? Year on year, more and more congestion at Heathrow, our gateway to the world. Less resilience as the airport has got fuller and fuller. More stacking, as planes wait to land, and taxi-ing before they take off, with the consequences of that for the environment and costs.

And the impact isn't just felt at Heathrow, or in London. It affects the whole country. Inward investment is key to the development of this country as a whole, but investors from overseas need to be able to connect to their destinations, and return. And yet, because it is so full, the number of domestic destinations out of Heathrow has now fallen by 50%.

And that, for me, is the fundamental point: that the absence of government policy doesn't mean the status quo, it means the country loses out.

We lose our international advantage, and, in particular the historical advantage we gained through Heathrow's global role down through the decades as Europe's gateway to the US and beyond.

That is why the White Paper, in my view, is so precious, and should not be lightly set aside by this government, or, indeed, a future one. It addresses that challenge head-on. It fills the vacuum left by an absence of government policy in the past.

But it isn't just having clear government policy that is vital. It is also due regard for that policy, and a recognition that it should over-ride other perspectives. An acceptance that once an elected government has decided its strategy and its policy, as it has, other agencies should set about operating within that strategy and that policy. It is not just an optional extra.

That may seem a harsh, and indeed a somewhat brutal statement. It is meant to.

In my three months as Chief Executive I have been astonished, and indeed more than a little alarmed, at the view that seems to be held, to differing degrees, and in differing ways by both the CAA and the CC, that the White Paper is to be treated almost as just another point of view, which should be given no more weight than any other point of view, and which, therefore, they can set aside in favour of their own, partial view. That, in some way, competition can be substituted for policy, or that the CAA can be neutral on the issue of capacity.

And, before Harry Bush or Christopher Clark, storm the stage: let me freely admit that the BAA view is partial too.

And that the viewpoint of the airlines, quite rightly, is driven by commercial self interest

None of us are disinterested observers, but that is the point.

None of us has the democratic mandate of a government charged with balancing those individual viewpoints with the needs of the nation, now, and in the future. None of us, therefore, should think we have the right to over-turn the White Paper. We don't. It's not our role.

And what in any case, would an alternative policy look like ?

What would happen if, for instance, we apply what appears to be the logic of the Competition Commission's Emerging Thinking document.

What if, for the sake of argument, Stansted and Gatwick were in direct competition to build a new runway today ? On what criteria would that decision be taken ?

Perhaps the lobbying skills of the owners, or their financial capacity ? Or the different weight the respective planning processes place on environmental issues, or perhaps even just the comparative time each process takes ?

And would competition incentivize the timely addition of competition ? The first priority for any new owner would be to maximise the returns from the existing facilities – not to make the commitment in terms of money, time and sheer effort necessary to push a new runway through the planning process.

Quality of service would, in fact, go down, not up as capacity shortage becomes chronic.

Even then, there would be voices urging caution before making any commitment to new investment, voices asking: what if there was an economic downturn that delays the arrival of new passengers ?

And then, there are the other questions you cannot, quite rightly, escape.

- In a market based solution, how do you cost the price of carbon ?
- And the legitimate concerns of local residents ?

And that is why in this area, just as in other areas such as the debate over nuclear energy, it is only the government, with its electoral mandate, that can provide the strategic answer for the country as a whole. And why we, as organisations without that mandate, should respect that answer, whilst clearly remaining entitled to comment from our individual perspective.

And that is why the White Paper remains the cornerstone – especially for runway capacity in the South East.

Let me, at this point, deal with what I think is a red herring: the question of ownership.

BAA is not scared of the ownership debate – indeed I, personally, have a certain reputation in that field. Of course, ownership is a legitimate question. But, in this case, I think it is a distraction from the main game. Break-up does not answer the difficult questions around capacity.

What was striking, I believe, about the CC's emerging thinking document was the absence of evidence to support the suggestion that a change of ownership would speed up the delivery of new capacity – and, yet, it is capacity that is the key to providing better quality service.

But, even more worryingly, there seems to be a failure to think through the consequences of putting a blight on the process set in train by the White paper Break-up is likely to de-rail that process – and delay the construction of new runways in this country by at least ten years, and possibly even a generation.

It took five years, from 1998 to 2003, just to get from the original intention for a White Paper, to the actual document itself. It has taken another five years to get us to where we are now – where we have lodged, at Stansted, an application for a second runway, and at Heathrow are waiting for the government's verdict on the consultation exercise.

If you start to unravel that process, say by forcing the sale of an airport where expansion is planned, then, at the very least, you are putting the process on ice. What planner is going to grant permission when he or she doesn't know who the new owner is going to be and whether they will live up to any commitments ?

And, inevitably, that will call into question the rest of the White Paper. The view is likely to be that, precisely because it was consulted on as a whole, any substantial change would need a new round of consultation – and the first time that meant considering half a million contributions.

That is why cherry-picking the White Paper, or forcing through actions which have the same effect, is likely to send us back to the start of the process all over again, with all that that implies for the future of the country..

That is a prospect which should concern everyone involved in the future of aviation, and those charged with guarding the country's economic well-being.

Given our various problems – and mistakes – the calls for a change of ownership sound easy. But they miss the point and, to some extent, become an excuse not to think about the fundamental issues that do make this industry different. And it is on that, that I want to focus for the rest of this speech.

At the heart of that analysis stands Heathrow.

If I had one settled conviction on entering this business three months ago it was that Heathrow is different.

Heathrow is a hub airport. What does that mean ? Passengers use it, not just to fly to, or from London, but also to connect with other flights, to other destinations.

One third of Heathrow's traffic consists of these transfer passengers. Why not just get rid of them to create extra capacity ?

Some say transfers contribute nothing, either to Heathrow, or to London, or to the UK economy.

That is not just wrong. It is thoroughly dangerous. Getting rid of transfer passengers would be a fundamental, strategic error reducing Heathrow, in effect, to a regional airport on the margins of Europe – at a time when this country's direct connections to the rest of the world could not be more important.

Why ? Because it is those transfer passengers who under-write many of those connections. Look at the route map of Heathrow – and then compare it to that of any other British airport.

Heathrow's map covers the world. The strength of its current network means that seven out of the top ten business routes in the world have Heathrow at one end.

In contrast other airports' route maps go hardly any further East than Dubai, or further South than the Caribbean.

India, China, Japan, Australasia – all, largely, beyond their reach. If airlines could profitably operate those long-haul routes from regional airports they would, but they can't. And don't.

Why? Because without variable amounts of transfer traffic to smooth out the peaks and troughs across the hours of the day, the days in the week, and across the seasons, airlines cannot justify either the range of destinations, or the frequency of flights to those destinations that Heathrow has.

And, yet, it is precisely those two factors – network strength and frequency – that are the top criteria for the business travellers who already make up forty percent of Heathrow's traffic.

Heathrow is the base for only a fifth of the UK's flights, but it accounts for two-thirds of our long-haul flights. Why? Because business people know they can fly **when** they want to, **where** they want to from Heathrow – and that is only possible because it is a hub airport, supported by transfer traffic.

That is why 75% of passengers flying into Heathrow from Manchester each day are transferring on to other flights. Heathrow is their daily connection to the world. And people outside London know that.

I was speaking recently, in similar terms, to representatives of all the airport consultative committees from throughout the UK. I was worried that my focus on Heathrow would offend those from regional airports. Far from it. Many of them made a point of telling me how urgent it was for their success that Heathrow operates successfully as a hub.

And the significance of that connection can only become more important, not less, in a globalised world in which this country will compete on its ability to deliver highly skilled, and highly mobile people and products to every corner of the world.

Already Heathrow accounts for some £35bn worth of exports from this country per year. Why – because it has the network of flights to deliver the goods directly to their destination at the time when they are ready, and needed.

And that can only become steadily more important as the emerging markets in the East grow in significance. No-one, for instance, would seriously suggest that this country should not have a regular link to a cities such as Bangalore or Chennai – and yet what makes these services viable is that more than half of the passengers are, on average, transfer passengers.

The transfer market does make a real, and vital, contribution to Heathrow and this country.

Stop that flow, andsurely, common sense alone finishes the rest of the sentence for me.

Does anybody seriously think that if people living and working, not just in London, but in the rest of the country, had to go to Charles De Gaulle, or Schipol to fly to the rest of the world our economy would not suffer ? That inward investors would not think twice before they consider, not just London, but the rest of the country as well ?

Business people want to be able to return home from a business trip any day of the week. How long will they put up with no direct daily service before they decide to take their business elsewhere ?

For the business traveller, network strength and frequency of flights are even more important in terms of the quality of service, as good terminals and short queues. Erode that, and the impact on inward investment into this country will be real.

The idea that Canary Wharf will become a Disney theme park overnight is of course hyperbolic. But, over time, why would a corporate headquarters base themselves in a city which did not have direct flights to the rest of the world ?

And to those who say: well, then just make Heathrow a business airport and get rid of the rest of the traffic – the same argument applies. Many of these flights are only viable – precisely because, in addition to the forty percent of passengers who travel for business, we have a further 33% visiting friends and relatives, and 27% going on holiday.

And that is why an airline paid £100m to move a slots from Gatwick to Heathrow. And why, in reality, we need a third runway today.

Heathrow still is a global leader on the two key factors of frequency and network strength. On the third, reliability, it is not. Why does that matter ? Because disruption equals not just time lost, but also waste, pollution, costs and aggravation.

But reliability depends on capacity, and on that the figures speak for themselves. Heathrow operates at over 99%. Schipol, and other European airports, at a maximum of 75%. They have three, four or five runways. We have had two since the Second World War.

That is why Heathrow is so vulnerable to the least disruption, whether it be fog, or, as we saw the other day, the arrival and departure of the American president.

Only a third runway will give us that flexibility. So, to those who say make Heathrow better, before you make it bigger, I say that is a false choice.

Of course we can, and are making our terminals better – and that is why we are planning to spend £4bn at Heathrow in the next five years. But without extra runway capacity, all that means is that passengers will be waiting in nicer looking surroundings. The answer is not either new facilities, or a new runway. It is both.

Of course, there are those who say, blithely, the answer is to move the airport. What they don't mention is the cost – three, or four times that of a third runway. Or the additional environmental impact. We fully recognise that expanding at Heathrow is not impact free, but environment groups say that an estuary airport would be the most destructive development ever undertaken in the UK.

And then, of course, there is the impact on jobs. because if you create a new hub airport in the Thames Estuary, then Heathrow would inevitably close – and the seventy two thousand people it employs, either directly or indirectly, would either lose their jobs, or have to move from West to East London because two hubs so close together would create huge inefficiencies for the airlines.

And what, above all, they do not mention is the inevitable substantial delay there would be whilst all these issues were debated, decided and implemented – delay in which this country would fall further, and further behind its international competition.

The blunt truth is that the issues around the future of our national hub airport have not changed since the debate over Maplan Sands all those years ago, or the more recent discussion about Cliffe. The fact is a decision has been taken. The question now is whether we, as a country, and as a city, have the will to face up to the decisions that are necessary now.

But what about the rest of our point to point airports ?

The role they play is completely different. And the demands they make of us, as owner, are completely different as well – because they do not require the “connectivity” – the baggage and transit systems – that make transfer traffic possible at hub airports.

That means that they should be looked at in a completely different way from Heathrow. Efficiency and flexibility, not connectivity. Or, in airline terms, low-cost, not network. They can be responsive to changes in the market place, and a different kind of relationship between us and them Moving beyond the possibility of a one-size fits all approach.

But, they too need capacity.

Given what I have said about the White Paper, it should come as no surprise that I believe there is no alternative but for the government – and no-one else – to set out a national runway policy, both for Heathrow, and elsewhere.

But, whilst the 2003 White paper set out a new aviation strategy for the country, the regulatory framework for delivering it remained unchanged.

That framework was set in place during the 1980s when the priorities were to incentivize a newly privatized British Airports Authority to become more commercial, whilst also driving down the cost of travel. Hence the policy by which profits from retail, subsidize landing charges for airlines.

Today, as I think everyone recognizes, that regulatory framework, and the priorities it reflects, are no longer suitable. It is outdated, and fails to reflect the clear distinction between Heathrow and the other airports.

But what should replace the existing framework ?

Personally, I welcome the Secretary of State's decision to establish a regulatory review. Reaching a consensus will be easier by treating Heathrow separately from the rest. I don't think what I have said today will offence Willie Walsh, or Andy Harrison of Easyjet.

But let me sketch where I believe it would be most productive for the Review to start from.

For all the airports there are three key issues: how you incentivize new capacity where it is needed; how you encourage quality passenger service; and how you ensure that environmental impacts are addressed. Those are all issues regulation has to address at all our airports.

But the next step must be to recognize the key difference between Heathrow and the rest.

Heathrow does not compete with other airports in this country, whether owned by BAA, or not. If it did, slots would not cost as much as they do at Heathrow, compared to Gatwick or elsewhere. Heathrow does not compete with Gatwick or Stansted.

Heathrow competes with other hubs in other countries. It operates in a different market.

Given that unique position, it is clear that regulation fulfils a different role at Heathrow, in terms of guaranteeing that quality of service and incentivising that longterm investment government policy says is necessary to maintain Heathrow's position as a pre-eminent hub airport.

That must be the priority – and the new regulatory framework for Heathrow should reflect that – and the need to meet the environmental standards the government, rightly in my view, have set for the planned expansion.

The starting point for the other, point to point, airports is quite different. Yes, it will still have to be government that decides national runway policy. And regulation must reflect the need to incentivize that capacity.

Competition is still, particularly in the South East, constrained, for all the reasons we have repeatedly set out, not least in our official response to the CC's Emerging Thinking.

But, where the potential for competition is judged ultimately to exist, equally the extent of price regulation should be lessened. That should be the essential balance. Where competition is thought to be possible, then regulation should not be necessary.

Our relationship with the airlines at point to point airports should be more flexible. One size fits all is not appropriate at these airports. Different airlines will have different priorities and we should be able to reflect that in a way which, given the pressure on slots and the demands of connectivity, just isn't possible at Heathrow.

Regulation, at these airports, should act as a backstop if we and the airlines are not able to agree.

There is, of course, much more to think about in the months ahead – and I have no doubt that events will prove their usual distraction, for good and bad reasons.

And, let me repeat, our focus on operations cannot for one moment be diverted by these larger issues. Get that wrong, again, and we will lose the right to be heard, again.

But, that is not an excuse for not thinking through the strategic issues which will shape the future of aviation in this country. I do not pretend a monopoly of wisdom, either for myself (after just three months), or indeed BAA. What I do hope for, is a serious debate, based on a serious analysis which lives up to the huge responsibilities we all bear. Thank-you.