

The following text is the basis for a speech given by BAA chief executive, Mike Clasper, to the President's Forum of the Edinburgh Chamber of Commerce, on Tuesday, October 12th, 2004.

- Introduction
 - It's great to be in Edinburgh – I spend a lot of time in Scotland and it's always good to be in this country's thriving capital city.
 - I know that the Washington Post once told its readers that when the Edinburgh International Festival “explodes” into life every August, this city becomes “simply the best place on earth” – judging by Richard Jeffrey's traffic and retail figures for that month, I would happily endorse that view.
 - And I'm very much looking forward to spending some time tomorrow with Donal Dowds and Richard and the team at Edinburgh to see for myself the exciting developments which are taking place across the operations there.

- What is BAA?
 - BAA is widely regarded as the world's most successful airport company. We are totally private sector funded and our investments, nearly £1 million a week in Scotland, cost the taxpayer nothing.
 - We are an international business operating in a truly global industry. However, we are obviously a business which is bound into communities and neighbourhoods across the United Kingdom and throughout the countries in which we have interests.
 - Additionally, we have a duty to the wider public. This extends from providing clean, working and friendly airports for the travelling public and our airline customers to leading pioneering work to make airports across the world safe and more secure at a time when they are without doubt in the line of fire.
 - In fact, BAA is a prime example of what a local MP, the Chancellor of the Exchequer, has referred to in the past as a “public interest company”. We operate at the boundary between private sector obligations to our shareholders and customers and public sector responsibilities to provide quality public infrastructure for the country.
 - We also drive national efforts, particularly here in Scotland, to attract and sustain new air routes.

- By our nature, it is very often our airports which link the UK, and Scotland, with many points across the world and I am proud of the way in which we are developing a strong and sustainable route network for Scotland. This good work will continue, as will our financial incentives for carriers.
- On an international level, this is undoubtedly a time of considerable uncertainty.
- The constant threat of terrorism and all its implications for airport security, coupled with rising oil prices and the well-documented financial challenges faced by some international airlines, especially the American carriers, means that we, BAA, have to be more focused on the future, and our efficiency, than ever before.
- Let me dwell on the issue of airport security for a moment. Safety and security are the foundations on which the aviation business is built. If you allow these foundations to be undermined, then public confidence, and the business, will fall down. It's as simple as that.
- That is why BAA is spending around £40 million a year on safety and security.
- In addition to the constant pressures faced by a business operating in the sights of global terrorism, there is an ever-present context of change.
- There is unprecedented consolidation taking place within the world airline industry – it is no secret that low-cost airlines such as easyJet and Ryanair are competing hard with the more traditional carriers, like BA and BMI. They are driving costs down across the board in their relentless pursuit of passengers. The impacts of this strategy are felt by the whole industry on a daily basis.
- A new generation of airports, for example Stansted and the secondary, out-of-town airports favoured by the likes of Ryanair, are vying for market share with existing European hubs such as Heathrow, Paris Charles de Gaulle and Schipol.
- BAA must react cleverly, and continuously, to that change. To do this, we have spent the last two years focusing more than ever on cost, efficiency and providing better customer service, alongside that important and consistent investment in safety and security.

- Our ability to get this right has been brought into sharp focus by the Government's 2003 White Paper.
- For example, there has been considerable comment and speculation around whether the new runway at Stansted will require what is known as "system pricing" or "cross subsidy" by users of other airports in the South East.
- The CAA's policy states that our South East Airports must be run and regulated on a stand-alone basis, however we will reserve the right to make the case for cross-subsidy if there are compelling reasons for doing so.
- Today, it is far too early to say whether such compelling reasons exist or are likely to exist. We will not know for some years.
- However, if we think the reasons are compelling, it will be our duty to argue the case and we will do so.
- Looking broadly at the future, it is my view that BAA's continued success or otherwise rests around three important criteria.
 - 1. The first revolves around the "on the day" airport experience. Our ability to provide clean, working and friendly airports is an important basis on which we will be judged by airline customers, travellers and our broad range of stakeholders in politics, the media and beyond. That again includes safety and security.
 - 2. To maintain and increase the confidence of our investors, we must spend capital wisely. I will talk later about our extensive capital investment programme for Scotland but rest assured – particularly if you are a shareholder - we have vigorous processes to ensure that capital expenditure is directed only to where it is required and decisions are carefully scrutinised.
 - 3. To grow our airports, we must consistently earn the valuable support of our stakeholders, from our neighbours in the community to our national and local political leaders. Effectively, we can't simply decide to grow - we need permission to do so –and we are constantly alive to that fact.
- Perhaps another important element of how we are judged is one which is occupying minds in Scotland at the moment. It is a question around the ability of private sector companies to deliver important public services.

- There is no doubt that our facilities must be of a standard and quality which meets the needs and demands of our airlines as well as the travelling public. That can often present a challenge in itself – on one hand I have airlines lobbying me for lower airport charges (and in Scotland that is what they are getting).
- But on the other hand, the UK, and Scotland, rightly expects world-class, high-quality airport facilities which can comfortably handle the millions of passengers a year who use them and adequately serve future generations.
- I know that the Scottish Executive has asked Eric Milligan to visit six of our seven airports in the UK to judge what the first impressions of international visitors might be. So the quality of our facilities, and the welcome we offer, is clearly viewed as an important element of our collective ability to develop tourism in support of regional and national economies.
- That brings me neatly to the politics of aviation. BAA operates in a political environment – that is never in question. There are many areas of our industry – from the development of long-term strategic policy such as last year’s White Paper to our role in promoting national security and striking the right balance between the promotion of social and economic growth and reducing environmental impacts, all of which can only be addressed by Government.
- Only ministers can effectively and credibly balance the long-term economic needs of the UK and its regions with local communities, which not surprisingly expect the impacts of aviation to be managed to their ultimate satisfaction. We have long maintained that it would not be right to allow a private company to make decisions, the impact of which is felt well beyond the airport fence.
- The environment is critical to me, as it is to BAA. That is why we are at the forefront of the debate on how the impacts of our industry – climate change, noise, air quality etc - are managed in the best interests of the environment and of the economy.
- Despite the fact that BAA does not fly the planes which cause aviation’s biggest impact on climate change, we acknowledge that, without innovative solutions to environmental impacts, the ability to grow our airports will be constrained.

- During 2003, we led a vocal lobby which seeks to bring aviation into the forthcoming EU Emissions Trading scheme. We continue to advocate this proposition in our regular discussions with Government and EU officials.
 - In short, emissions trading is where industries which cannot reduce their own emissions buy permits from those industries which can, within a stringent cap.
 - This has been identified as the most effective mechanism for industry to meet its emissions targets quickly and at low cost.
 - In principle, it should not matter who generates the emissions, as long as the total volume generated does not breach the cap.
 - That is one area in which BAA is leading a constructive debate on international policy, which we hope will lead to a long-term solution which promotes the competitiveness of UK aviation and removes the need for blunt instruments such as Air Passenger Duty, which puts British aviation at a distinct competitive disadvantage.
- Scotland
 - A similar political climate exists in Scotland. Here, we have a new, vibrant politics with an Executive determined to grow Scotland's economy and a Scottish Parliament equally determined to scrutinise it every step of the way.
 - I can assure you that they also scrutinise BAA's activities in Scotland.
 - What do they find? Today, we are a little over the halfway stage of BAA's 20-year investment plan to develop our three Scottish airports, at a cost of around £1 billion.
 - This, more than anything, is an exciting vote of confidence by the BAA board in the future of our businesses here in Scotland.
 - We have significant terminal developments planned for Aberdeen.
 - At Glasgow, Transport Secretary Alistair Darling recently opened a second check-in facility, T2. That facility was a low-cost investment, built on time and on budget and directly in line with the needs of its principal customers such as easyJet. In other words, it is a good, efficient use of capital. We will also

deliver terminal and pier developments and new aircraft parking stands.

- At Edinburgh, we are extending the taxiways to improve runway capacity and building a £10 million air traffic control tower. We are expanding the terminal building in a series of phases and developing the baggage handling facilities. And, last month, we opened a £20m multi-storey car park, ahead of time and ahead of budget.
- That investment in airports – that investment in quality - costs the Scottish Executive, and the taxpayer, nothing and provides high-quality facilities, which provide that positive first impression of Scotland about which Jack McConnell and his Executive are rightly concerned.
- Our capital investment programme will transform our three Scottish airports and allow us to safely and securely manage an annual throughput which stands today at just below 19 million but which could treble over the 30-year period considered by the White Paper.
- That investment is over and above our support for new direct international services, in support of business and commerce. We know as much as you what value is placed on direct links to markets, for the movement of both goods and people.
- By 2008, we will have committed around £95 million in discounted airport charges and marketing support, taking on a considerable element of the commercial risk faced by airlines launching new services in difficult markets.
- Since Donal Dowds launched our route development fund in 2002, somewhere in the region of 30 new services have been launched into Scotland.
- Each one of those is supported, financially and significantly, by BAA Scotland, and we will go on supporting those routes, helping Scotland to do business on an international level and helping the country's tourism agencies to attract in-bound visitors.
- But we are mindful of the fact that the strong growth in Scotland comes with the same environmental and community challenges as we face around our South East airports.
- This might not yet be on a directly comparable scale but for communities, and the people who live in them, the impact is felt

just as much around Edinburgh and Glasgow as it is around Heathrow and Gatwick and our commitment to communicate our plans and seek the trust and support of our neighbours will be as big a priority in Scotland as it is elsewhere in the UK.

- As is the case in the South East, and as I have previously outlined, there has to be a balance between these issues and the continued growth in direct social and economic impacts stemming from our airports.
 - BAA's three airports in Scotland are, according to the Fraser of Allander Institute, worth some £1.5 billion to the Scottish economy every year and on top of that they support 32,000 jobs.
 - That scale of impact is not generated by accident. BAA's business model, and its undoubted strengths and successes, play a significant part in firing Scotland's two principal economic engines – the cities of Edinburgh and Glasgow.
- Summary of key points made
 - To conclude, let me make a few key points again.
 - We live and work in tough times – you don't need me to tell you that. There is a good deal of uncertainty around the aviation industry and in other businesses.
 - However, I believe that BAA is in good shape and is ready to rise to the new challenges which we face and drive this business forward, creating a world-class airport system, which provides clean, working and friendly facilities, which meets the needs of all our customers and society as a whole and which, most importantly, offers travellers safe and secure gateways to increasing business and leisure travel opportunities.
 - In short, I believe that we are fulfilling our important role as a "public interest company".
 - Finally, I will say again as I have said before. BAA's commitment to Scotland is total.
 - We have the investment plans in place to deliver large-scale development, which I hope will serve you and your organisations well over the coming years. I also have a very

strong and innovative management team, led by Donal, eager to get on with the important job of delivering for Scotland, and for BAA.

- Thanks for your time.