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Good morning. It's a great pleasure for me to be able to speak to this CBI business summit at the beginning of my time as chief executive of BAA, one of the UK's most consistent corporate performers.

I only took over as CEO a week ago, after a two-year period learning the job at the elbow of Mike Hodgkinson, who I'm sure is well known to you.

The transition at BAA is a credit to Mike, the BAA board and to the quality of the company.

Now, for me, the real challenge begins.

I came to BAA with a background in Procter and Gamble, a global consumer goods business, which is a long way from airport development and management.

I'd like today to set out my thinking about the key issues which lie ahead and particularly two big issues which I think face a number of leading UK companies today:

- Corporate citizenship – or, if you prefer, corporate social responsibility
- And the questions of how monopolies in the UK are and should be regulated, and how their activities can be made more effectively and creatively contestable.

At a time of great debate about the modernisation of our public sector, and increasing experimentation across the public-private sector boundary, I believe that BAA offers some pointers to the values, behaviour and performance we should be looking for from that significant part of corporate UK which exists in a regulated marketplace.

But let me begin by bringing you up to date with BAA's business.

Since privatisation in 1987, BAA has grown to become the world's most successful airports operator.

As well as running seven UK airports, including Heathrow, the jewel in the global aviation crown, we own, manage or have interests in another 12 airports overseas, in North America, Europe, the Middle East and Australia. Together they handle around 200 million passengers a year.

But BAA's success is not simply measured in passenger volumes.

Across a range of performance measures, BAA is demonstrably a leading edge company.

Our pre-tax profits have grown five-fold since privatisation and we have provided the best return for shareholders of any privatised UK company.

These returns provide a sound platform for the £5 billion of investment we have made in the last 16 years, and the £8.9 billion we are committed to investing over the coming decade.

Meanwhile, our charges have declined by 15 per cent in real terms, and are now among the lowest of any of the major airports in the world.

Our productivity – measured in terms of passengers handled per member of staff – has more than doubled, and we have the highest runway productivity in the world – in terms of passenger throughput.

We also have the highest retail return per square foot in the UK, which is critical given our retail income underpins our ability to invest at this very high level.

We are also world pioneers in security – the first company to introduce 100 per cent hold baggage screening.

And we are one of the UK leaders in corporate social responsibility or, to use a more demanding word we're not afraid of: sustainability.

BAA has this week published a refreshed policy on sustainability, building upon the powerful inheritance of the Contract with the Community programme pioneered by my predecessors, and committing BAA to a rigorous engagement with all its stakeholders on the factors which make up the sustainability agenda:

- Economic growth
- Social progress and inclusion
- Prudent use of natural resources
- Minimising environmental impacts.

I'll say more about this corporate citizenship agenda later.

As CEO, I think I have three key challenges going forward.

These are:

- To deliver our hugely ambitious capital programme to time and budget and to ensure that this happens in a way which fully supports the business needs of the airlines.
- At the same time, we have to extend our licence to grow. We have secured licence to grow at all three of our London airports, Heathrow, Gatwick and Stansted, through a rigorous process of negotiation with local communities and other stakeholders. But the runways at these airports are already full at peak hours. We have to add to our infrastructure to meet growing demand – and that means building new runways.
- Thirdly, there is the remorseless challenge of delivering quality service to airlines and passengers, day in day out. Inside BAA, we call this our “clean, working, friendly” programme and it requires a very different set of skills, even a different culture, from the one which is good at delivering massive construction projects. At BAA we have to be world-class in both departments.

- These challenges face us at a critical moment in our company's evolution. We recently emerged from a protracted and at times bruising regulatory review with a set of charges which will enable us to fund the substantial, almost £9 billion investment programme I mentioned earlier.

These investments, which will be made entirely from private funds, represent considerably more than our £5.4 billion market capitalisation and could involve an increase in our gearing to around 80 to 90 per cent at the peak. It goes without saying that our relationship with our shareholders and lenders is critical.

We are investing for the long term. Our job is to build facilities which meet the stated requirements of the airlines as they exist now, but which will also serve the aviation industry in 20 years' time.

All we can be sure of in that period is that there will be much that is unexpected. No-one can foresee what will happen to the structure of this most volatile of industries.

But we should never forget how well the UK economy has been served by the firm but flexible BAA system of three London airports, supported by smaller players like Luton and City, to deliver sustained, highly-competitive growth in a very congested economic area.

Our three-airport system has provided the base for the growth of some of the world's most outstanding global carriers, for the boom in charter traffic, for the crucial and fast-growing air freight business and, most recently, for the astonishing growth of low-cost scheduled airlines.

We are investing in the system to improve the quality of our product, to increase operational efficiency, reduce delays, improve passenger processes and provide better value for money so that we can help our airlines to succeed – because our business depends on the success of their businesses.

But beyond this investment programme will be the challenge of delivering additional runways.

In this area, we are falling behind our European competitors, several of which have enjoyed more rapid growth in recent years than our own airports.

It is easy to forget that Amsterdam's Schiphol airport alone now has more runways than Heathrow, Gatwick and Stansted combined, while Charles de Gaulle has added two new runways in the last four years.

Against this background, last month, we gave our response to the Government's consultation on runways in the South East of England, and we indicated that up to three new runways will be needed over the next 30 years, one of which needs to be delivered within the next decade.

I hope that the forthcoming Air Transport White Paper, promised for the end of this year, will not be delayed, that it will provide clarity about three runway locations in the London area and about the planning and process regime which will support the necessary land-safeguarding and building programme.

We can't afford a re-run of Terminal 5, which will have taken 23 years from concept to operation, when this magnificent new gateway to Britain opens in 2008.

The Transport Secretary, Alistair Darling, said on this issue in July last year that "doing nothing is not an option" and I welcome this political leadership in an area where there are few short-term popularity gains.

I look to the Government to deliver upon Mr Darling's pledge and to the CBI to play its part in ensuring there is no slippage.

Our current best estimate is that each of these runways will cost between £2 billion and £4 billion to deliver, although the costs of environmental mitigation and compensation are not yet fully factored into these estimates.

By any measure, the level of investment we are planning is challenging, and for transport infrastructure of this scale to be delivered entirely without recourse to the public purse is unprecedented in the modern era in the UK.

A short-termist business view might suggest that instead of investing, we should sweat our existing assets, pushing up prices to extract higher returns as demand to use our capacity outstrips its supply.

But we have never been a company for the short-term, and we don't intend to see UK aviation follow the route taken by the railway industry and the London Underground of under-investment, congestion and decline.

Our role, as the custodian of vital public infrastructure, is to provide safe, efficient, productive and growing capacity so that aviation in the UK can prosper and be competitive.

Our investment provides the capacity that facilitates competition among airlines on existing routes, allows new routes to be established, and encourages new airlines to enter the market – such as the low-cost carriers at Stansted – to provide more choice and lower prices for consumers.

We have a clear public interest role, with obligations which go far beyond those that most other private companies ever have to consider.

For in embracing the challenges of commercialisation and privatisation, we never surrendered our public duties and responsibilities. Let me mention our main stakeholder obligations.

As a private sector company we have clear obligations to our shareholders, to maximise shareholder returns in the medium to long term and to manage the company well, efficiently, profitably and safely.

We also have an obligation to our employees, to respect what they do, treat them well, pay them appropriately and involve them in our business.

We have an obligation to our airline customers, giving them what they need to grow and operate effectively, profitably and safely.

We have an obligation to the business community – to ensure that our airports play their part in UK business success.

We have an obligation to our travellers, to treat them well and provide them with high-quality services that meet their aspirations in a 21st century consumer society.

We have an obligation to be a good neighbour to the communities in which we are located, not just sharing among them the wealth and employment that we generate, but minimising and mitigating the negative impacts, such as on air quality, noise and road traffic.

And we have an obligation to the Government, to maintain and develop these strategic assets for the nation.

We also have very clear obligations to our regulator.

The point about these stakeholder responsibilities is that none of them is optional.

It's not shareholder return OR local sustainability. We must pursue profitability AND sustainability. We must satisfy our airlines AND the Government. We must become more efficient AND treat our employees well. We must be ethical AND commercially aggressive. We must build great projects, like T5, for the medium term, AND ensure that our airports are clean, working and friendly, whichever day you happen to find yourself using one of them.

This is what makes BAA a company truly at the cutting-edge between the public and private sectors, balancing and combining the values of good business with service to a wider community. It's from this perspective that I see the corporate citizenship agenda going forward.

None of this is easy. Nearly all of our stakeholders have strong voices and active leverage over BAA. We have to balance their interests, while maintaining a clear vision and momentum.

Where a particular stakeholder lacks a well-defined voice and purchase on our affairs, I believe that it is our job, along with that of our primary regulator, the Civil Aviation Authority, to ensure that the voice is nurtured.

So, in terms of the sustainability agenda, we have worked closely with organisations like Forum for the Future, and other environmental bodies, to make our internal behaviour on sustainability issues, and our reporting, more robust and transparent.

We are leading the aviation industry debate on international emissions trading, which we believe is the only way the aviation industry will be able to make an appropriate contribution to the management of global warming and climate change.

And just as we have brought our critics into consultative forums at our airports, we are now seeking to bring them into our corporate headquarters, establishing a panel of expert external advisers on sustainability issues, to influence BAA at the highest level in moving this agenda forward.

These are all positive steps which we have made, voluntarily and willingly.

One area where I think we have work to do is on the consumer interest in aviation.

It's striking to a newcomer to the aviation business that the passenger voice is not one of the loudest: as a result I don't think we hear enough from the majority of people in the UK who want to be able to fly more.

BAA has made some progress on this, having developed a range of Quality of Service Measures, derived from interviewing over 100,000 passengers a year. This provides us with a mechanism for an aspect of self-regulation: in which we respond to customer concerns and act on them.

No doubt a more active consumer presence in the industry would present challenges to BAA and others about the industry's quality of service, but I believe that's something we should all welcome.

A strong consumer voice in aviation is one of the ways in which we can ensure that there is a countervailing influence to the interests of a monopoly provider of a core national service, like the London airports system.

It can, of course, be argued that the right way to deal with this problem is simply to break up the monopoly and fragment the system.

But this proposition has been frequently examined and dismissed by the competition authorities, among others.

I don't think the example of rail privatisation has provided much support for those who argue the merits of fragmented and competing elements within an integrated piece of transport infrastructure.

What is NOT needed in aviation is the replacement of a large, well-managed and effective, regulated system with three financially weaker monopolies, which would also require regulation.

What's needed is a constant effort to ensure that the regulation is as sharp and concise as possible; that wherever possible there is contestability – as there is, for example, in the way our retail outlets compete with off-airport retailers in a Europe which has abandoned duty-free.

If we can get the regulation and the contestability right, the UK can relax and enjoy the benefits that come from the strength of a company like BAA.

Because it is our size and financial strength which allows us to raise capital for investment at competitive rates, to spread the risk and cost of major investments across the group and to attract world-class management talent without offering financial rewards at the top end of even the UK corporate scale.

Our strength enabled BAA to carry losses for ten years after we opened Stansted airport, which is only now turning in an operating profit, but in the meantime has become the fastest growing airport in Europe.

It is our investment which contributes to UK productivity growth – and we all know that productivity is not growing in the UK as healthily as we need it to.

Our long-term approach allowed us to create the Heathrow Express: hugely valued by our passengers, but not a route to high short-term financial performance.

Equally, our pioneering work on security has set the benchmark for airport security standards world-wide. It was to BAA that the American aviation industry turned after September 11.

So, the benefits of our management of the main London airports are clear. But the drawbacks need to be clearly understood, so that contestability can be developed.

This can be achieved in a number of ways. Within the airport, it is possible to disaggregate some services among a range of suppliers.

Where competition makes sense, such as with baggage handling, cleaning, catering, retail, aircraft de-icing and other services, it has been done. These services have been out-sourced and opened to the discipline of competition.

But the operation of the airport itself needs to be managed as a whole – as the experience of Railtrack has shown.

What, then, are we entitled to expect from our regulators in improving this framework of contestability? I believe that we should set ourselves three objectives:

- We should simplify and make the regulatory system more concise
- We should make it more transparent to consumers and other stakeholders, so that it is comprehensible and actionable outside the highly-specialised world of airport operators and airlines
- And we should make sure that regulation provides, wherever possible, incentives for the parties directly involved – the airports and airlines – to regulate their own affairs. As John Kay argues in his new book, *The Truth About Markets*, the best regulation is that which encourages the most effective self-regulation. The Better Regulation Taskforce's work also pointed in this direction.

Nobody could accuse the current regulatory system of conciseness. You might find it hard to believe, but we have two regulators, and in the course of the last review, BAA alone produced almost 800 papers for the CAA and the Competition Commission.

I believe that it's an anomaly for aviation to have dual regulation, rather than the model more familiar among utilities where the Competition Commission acts only as a point of appeal. Again, the Better Regulation Task Force agrees with me on this.

I hope the Government will take the opportunity to deal with this anomaly in the Air Transport White Paper.

To go a step further, the competition authorities also need to identify those areas where market forces provide contestability. Here, the right regulatory response is to let the market work without heavy intervention.

An example is airport retailing, which competes with off-airport retailing. Where the market can deliver contestability, the regulator should step back.

Where this is not the case, for example in the setting of airport landing charges at airports, the regulator's job is to set prices in a way that incentivises investment and effective management and utilisation of resources, backed up by performance measures to ensure appropriate levels of quality and service.

At present, BAA's revenues from both aeronautical charges and retailing are regulated together, so our retail income effectively subsidises airline landing charges.

I think it is time to start talking about a new regulatory deal, under which we can separate those activities which should be subject to market competition from those which need to be regulated, but to do this in a way which does not deliver windfall gains for BAA.

I recognise the difficulty airlines would face if their historic subsidy from our non-aeronautical earnings were suddenly to be removed.

So what I suggest is that the current cross-subsidy remains within the baseline of charges, but that BAA should in the future be allowed to retain any additional non-aeronautical earnings which we may achieve through innovation and performance

improvements, providing us with a spur to greater competitiveness and efficiency without disadvantaging the airlines.

This is how in practice, we could move towards a greater degree of both self-regulation and greater contestability. In advancing these thoughts today, my aim is to start a conversation. We will get the best outcome if we can give ourselves time, soon after one regulatory settlement, to discuss the best way forward.

Contestability through market forces where that makes most sense, and where it doesn't, contestability through lean regulation, which takes account of the full range of stakeholder interests which go to make up the public interest.

In this address to you today I have laid strong emphasis upon the multi-faceted nature of BAA's own business model, which must respond to the claims of this wide spectrum of stakeholders.

Our approach, I believe, echoes the thinking of the Chancellor of the Exchequer, who, in his his speech to the Social Market Foundation in February, spoke of the role and limits of government and markets.

He said that the best industrial policy for success in a global economy is to help markets work better, with the state intervening only where markets cannot deliver public interest objectives.

In aviation, we need the state, primarily through the agency of its empowered regulator, to be the guardian of that public interest.

But it also requires a business institution like BAA, a mature and highly-successful member of the privatised industry club, to deliver to its multiple stakeholders a set of outcomes: profitability and sustainability; growth and responsibility.

That, for BAA, is the meaning of corporate citizenship.

This is not a question of a little social philanthropy at the periphery of our business.

For us, corporate citizenship is at the heart of our business model.

Thank you for listening me today. And if you have any experience of our airports you wish to share with me, I'll always be delighted to hear from you.