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BATA ANNUAL LECTURE, 2016

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Check Against delivery

Ladies and Gentlemen,

Let me begin by saying thank-you to BATA for giving me the opportunity to speak to you today.

I must confess I was a little concerned when I saw the venue was a transport museum – and wasn't entirely sure this was the place the head of British Airways should wish to be.

So let me reassure you that I am not here as an exhibit – and that, as I will outline shortly, there is a great deal going on at British Airways in the present and we are planning an extremely active future.

But I very much want to thank BATA – Jane Middleton, Tim Alderslade and their team – for the work they do in seeking to promote the interests of the UK's airlines.

And they have a very tough job. As I look around the world, it never ceases to amaze me how Britain is almost unique in attaching so little importance to the development of aviation in its public policy-making.

In China, India, the Gulf states, Turkey and elsewhere in the Middle East, governments are doing everything they can to help aviation invest and grow. In much of Europe and North America, the same kind of expansionary investment happened decades ago – yet in the UK we seem content to let opportunity pass by.

BRITISH AIRWAYS

I will examine some of those public policy issues in a few minutes. But firstly, let me say something about British Airways.

More than 30 years ago, I boarded a plane for the first time. It was a British Airways 757 from Bilbao to London. And it was a very different era for our industry. Competition was very limited. There were no low-cost carriers, no deregulation within the EU and no 'open skies' across the Atlantic.

Life could not be more different today. I've spent quite a few years in the most competitive aviation market in the world, European short-haul. But the development of low-cost long-haul carriers, the revitalisation of the US majors and the continuing growth of the Gulf 'super-connectors' mean that the competitive temperature is rising in almost every market in which British Airways operates today.

That's the challenge for me – and I find it fascinating, and exciting. There is a great deal of passion and pride within our organisation and I have every confidence the competition can be beaten.

One of the advantages British Airways has today is that we are not facing this challenge as a stand-alone airline, but as part of a bigger group, IAG. In the five-and-a-half years since the founding merger with Iberia, the group has absorbed my old airline, Vueling, and Aer Lingus, and integrated bmi. IAG is now the third largest airline group in Europe and, by revenue, the sixth largest in the world.

We continue to develop cost and revenue synergies across the group, and the network and scheduling opportunities we can offer, as well as greater investment potential resulting from improved financial robustness, brings real benefits for customers.

In addition, we have two joint businesses - over the Atlantic with American Airlines, Iberia and Finnair, and between Europe and Japan with JAL, Iberia and Finnair. And a third will start at the end of this month – with another member of our **oneworld** alliance, Qatar Airways. This will offer customers better links between the UK, continental Europe, Asia, Middle East and Africa, with a greater choice of flights and enhanced frequent flyer benefits – and is another very important ingredient in the geographical spread of our network partnerships.

NETWORK GROWTH

Network is one of British Airways' distinctive strengths, and one that we have developed more than many people realise over the last five years. In that period, our total of routes has risen from 177 to 253 – that's an increase of 43 per cent.

Part of that reflects our integration of bmi at Heathrow, but it also reflects a recovery at Gatwick and spectacular growth at London City. Another factor has been a more flexible use of our slot portfolio to match seasonal demand and offer a more varied range of leisure destinations.

This year has been particularly notable for new routes: we launched three long-haul services in early summer – to Lima, Costa Rica and San Jose in California. We started to Tehran six weeks ago, will open direct services to Qatar and Oman at the end of this month, and will open to the Chilean capital of Santiago in January. On Gatwick's long-haul programme, we also reinstated New York in March and will add Cape Town next month.

And I'm hoping we will have more long-haul routes to announce soon.

Our network planners have been just as busy on short-haul: with a net increase of 16 routes this year, including our first operations from Stansted.

FLEET RENEWAL

We continue to upgrade our fleet. In the last three years, we have taken delivery of 12 A380s, six Boeing 777-300ERs, eight 787-8 Dreamliners and 15 of their 787-9 siblings (complete with a new First class cabin) - with one more to come in December.

We have refurbished 18 of our 747s (to a great reception from customers) and our short-haul fleet has welcomed 20 new A320s and a refurbishment of the remainder at Heathrow and Gatwick. At London City, we have added six Embraer 190s.

This has been a big fleet improvement programme – and it will continue. Customers will also welcome our plans for onboard wi-fi connectivity, which involve Gogo's latest connective technology being fitted across most of our long-haul aircraft over the next two years.

BUY-ON-BOARD

I suppose I shouldn't end this short update on British Airways without mentioning one issue that has attracted some media attention in recent weeks – namely our plans to improve choice and quality in short-haul catering through our unique partnership with another great British brand, Marks & Spencer.

We've known from extensive feedback from customers and crew that much of our existing offering was not valued. So in January we're moving to a buy-on-board model that will offer a wide range of M&S's most popular on-the-go products. The choice will be regularly refreshed and customers will be able to pay by card or with our loyalty programme currency, Avios. We're confident this adds up to an economy catering offer that none of our short-haul competitors can match.

But what about those public policy issues that set a crucial framework for our efforts as individual airlines, and are the focus of so much BATA work?

BREXIT

Well, you can't watch TV, look online, listen to the radio or read a newspaper these days without the first one hitting you in the face: namely, Brexit.

Neither British Airways nor our parent group IAG took sides in the Brexit debate but, like everyone in the UK, we can't ignore the outcome. Before the referendum took place, IAG did a lot of detailed analysis and concluded that in the long term the UK's secession from the EU would not have a significant impact on our business. However, we have seen some effects in the short-term. There

was a weaker than expected trading environment in the weeks running up to the referendum, and there has been a fall in sterling.

The Prime Minister told us last week that Article 50 will be invoked by the end of March next year, and obviously there will be a long period of discussion and negotiation before the shape of the UK's future aviation relationships with the EU and wider world becomes clear. Our airline group will certainly take part in that process, and we will press strongly for full maintenance of access to international markets and continuation of effective regulatory arrangements.

RUNWAY CAPACITY

The second very topical issue is, of course, runway capacity in the South East. There is no issue that better demonstrates UK politicians' historic lack of genuine commitment to aviation development than this one. This audience is all too familiar with the sorry catalogue of inquiries, studies, recommendations, consultations, decisions and decision reversals that have littered the last half-century.

It is already 15 months since the Davies airports commission presented its final report to the Government, recommending a third runway at Heathrow – and we still await a substantive response from ministers, though the media tell us we may not have to wait much longer.

There is an overwhelming case for extra capacity at the UK's aviation hub. But not at any cost. Heathrow is already the most expensive hub airport in the world, and any notion that the financial burden of expansion should be met by airline customers before the new runway comes into use is simply unacceptable.

If the Government does give the nod to Heathrow, then it should be the airport's shareholders who bear responsibility for the development costs, with no impact on passenger charges. Heathrow's investors do pretty well out of its monopoly hub status – typically receiving about three times the

financial returns of an average FTSE 100 company. Heathrow should put its own money where its mouth is, not impose a runway tax on our customers for 10 years before it opens.

And if the Government chooses to reject its own commission's recommendation, then it must be possible they will propose a second runway at Gatwick. In the last couple of years, we have been growing our operation at Gatwick and in a few months we will move into new customer facilities in the south terminal. It's a good airport. But it would be an astonishing move to favour runway expansion there over Heathrow.

There is no business case for a second runway at Gatwick. That is why the airport's two biggest users, ourselves and EasyJet, do not support the idea. There is simply not sufficient demand, from either customers or airlines, to justify it. Experience shows that the majority of long-haul operators who start up at Gatwick either give up or switch to Heathrow at the first opportunity.

The harsh truth is that it is hard to see how a second runway would attract a large influx of airlines – unless Heathrow was closed.

AIR PASSENGER DUTY

We know the Government is concerned about the local unpopularity that a runway project would cause. So let me suggest a way for ministers to gain some popularity in aviation policy – by abolishing APD.

APD is by far the highest aviation tax in Europe for both short-haul and long-haul departures, and in all classes of cabin. It is more than three times the equivalent levy in France and more than double the equivalent in Germany. Indeed, if you look globally, you will struggle to find a single national government that regards its aviation industry as more of a cash-cow than ours.

UK airlines, it seems, are never knowingly undertaxed.

The new Conservative government has been suggesting that it wants to give top priority in economic policy to growth rather than deficit reduction. Well, scrapping APD would certainly help.

Detailed economic modelling by accountancy firm PwC shows that abolition would increase GDP by 0.5 per cent in the first year alone, with continuing additional growth for at least five years. It could create 61,000 new jobs and would pay for itself immediately – with the extra economic activity generating more revenue from other taxes than would be lost from APD's disappearance. Within five years, PwC estimates, the Treasury could be £2bn a year better off!

The longer APD remains, the more harm is done to trade, tourism, businesses and families.

It is no wonder that the Scottish Government has seized its new powers over taxation to commit to a 50 per cent cut in APD from 2018 as a first step to abolition. That decision will call into serious question the tax treatment of airports in the north of England, and further strengthen the case for withdrawing APD across the board. It is a levy whose time has gone. The UK Government should back growth, support job creation – and axe the tax.

AIR TRAFFIC DISRUPTION

Some policy issues are completely within the control of the UK Government, and some require international action. One of the latter is disruption to normal air traffic control procedures – which severely damaged the interests of UK airlines this summer and has become a depressingly familiar problem for our customers.

Since 2010, strikes by air traffic controllers have disrupted Europe's skies on more than 250 days – that's one day in 10.

For members of the Airlines 4 Europe group, which includes IAG, EasyJet and Jet2, this industrial action has resulted in 30,000 flight cancellations, ruining the travel plans of more than two million customers. Many more customers have suffered delays – with consequent negative effects on business and tourism.

I'm not going into the rights and wrongs of these disputes in Greece, France, Italy, Spain and elsewhere, and I'm not challenging anyone's right to strike. However, I do think there is a need for a consistent policy framework across Europe so that this kind of spontaneous localised action cannot have such disproportionate adverse effects on the travelling public.

This framework could include:

- a requirement for arbitration or conciliation procedures before any industrial action takes place;
- a notice period of 21 days before any strikes take place;
- more scope for co-operation between air traffic service providers so that they can act more effectively to reduce the impact of industrial action at one provider.

Whether in the EU or not, it is not in the power of the UK Government to implement any such framework across Europe, but I would certainly urge it to play a full part in pursuing agreement on a package that can bring an end to the unnecessary and excessive ATC disruption we have seen far too many times in recent years.

ENVIRONMENT

The biggest international policy issue for aviation is, of course, how the industry deals with its carbon emissions.

Considerable technical advances have been made in recent years, with new aircraft far more fuel-efficient than their predecessors – and continuing experimentation with alternative fuels.

But there is no issue more global than climate change, and our industry cannot possibly make a worldwide impact on CO₂ emissions without international political support.

So I was delighted that the UN ICAO meeting in Montreal last week, attended by delegates from nearly 200 countries, approved a global carbon-offsetting programme that will come into effect from 2021. This is a historic decision – the first time governments from all around the world have agreed a common approach for dealing with the emissions of a specific industrial sector.

It's a great step forward and one which I'm proud to say reflects a great deal of patient behind-the-scenes work by a number of European aviation players, including British Airways and IAG, over the last six years.

CONCLUSION

Ladies and Gentlemen, I have spoken for long enough.

I have tried to give you an insight into where British Airways stands today, and our position on policy issues that affect the whole of our industry.

My job is to run an airline. It is not to press for progress on these issues day after day after day. That is the role of BATA, and I'm sure we all wish them well in their endeavours.

If my observations have raised any questions in your minds, please articulate them – and I will do my best to answer.

Thank-you!