

EMBARGOED UNTIL 1900 BST WEDNESDAY OCTOBER 14, 2009

Speech by Willie Walsh,

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Washington International Aviation Club

Wednesday October 14, 2009

INTRODUCTION

Ladies and Gentlemen,

It's a great honour to be here in Washington today to have the opportunity to address one of the most distinguished aviation audiences in the world.

I feel particularly honoured as it is only two years since my first appearance here as British Airways chief executive.

As you've invited me back, I must have said something right – but I will resist the temptation to deliver the same speech, not least because in many ways aviation looks very different today from how it looked in the autumn of 2007.

Then we were enjoying aviation's best financial year of the decade, and we at British Airways were well on our way to securing the first 10 per cent operating margin in our history.

Now the industry is staring at a second year of colossal global losses - \$11 billion, according to the International Air Transport Association's latest forecast.

And at BA, we too are heading for a second consecutive year in the red - an event that has never happened before.

But I am not going to go into detail on the financial woes of the industry, because you are still digesting your lunch.

What I want to do today is take a step back and look at the airline business in the general context of the transatlantic economy.

How can air transport do more to sustain and bring further benefits to the economic relationships between the United States and the European Union?

How can we benefit consumers through increased competition?

And how can we grow to meet those economic objectives while at the same time meeting our vital environmental objective of reducing greenhouse emissions?

TRANSATLANTIC ECONOMY

The combined population of the US and the 27 EU countries is around 800 million, or roughly 12 per cent of global population.

The combined GDP of the US and EU is around \$30 trillion, representing more than half of global GDP.

So the transatlantic economy is huge and extremely valuable.

And the flows of trade and investment across the Atlantic are massive. It is calculated that in the first eight years of this decade, 57 per cent of all foreign direct investment from the US went to Europe. The top two countries for US overseas investment are not, as some might think, Canada and Mexico. They are the Netherlands and the UK.

Investment in the other direction is just as significant, accounting for more than 70 per cent of all foreign investment in the US in 2007.

In employment terms alone, these flows translate directly into seven million jobs.

The states that show the biggest gain in jobs from this are New York, New Jersey, California, Texas and Pennsylvania. And on the east side of the pond, the biggest beneficiaries have been the UK, Germany, France, Italy and the Netherlands.

And perhaps the most striking fact is that as economic development has powered ahead in developing regions in Asia and South America, the links within the transatlantic economy have not weakened, but strengthened.

Two-way trade in goods between the US and the EU totalled more than \$600 billion in 2007, a 47 per cent increase in just four years.

There can be absolutely no doubt that the ties between the US and the EU represent one of the most crucial bilateral trading relationships in the global economy.

The prosperity that relationship generates for US and EU citizens is immense, and there is every reason to believe that such benefits can increase further if outdated or unnecessary trade barriers are removed. And some of those barriers lie within transatlantic air transport.

US-EU OPEN SKIES

The Stage One Open Skies agreement between the US and the EU, which came into effect 18 months ago, represented a milestone in transatlantic aviation.

It permitted any carrier from either side to fly to any airport they chose. The old Bermuda II agreement, which limited access to Heathrow to just two carriers from each side of the Atlantic, was swept away.

The benefits of the new agreement were clear and immediate.

Within one season of it coming into force, four additional American airlines and one more European carrier began transatlantic services to and from Heathrow.

More than 20 new services a day, representing nearly 900,000 extra seats over the season, were made available to transatlantic

customers. Some people had argued that it would be impossible for new competitors to gain access to Heathrow. They were wrong.

At British Airways, we took advantage of the new freedoms of the Stage One agreement in a further way - by launching direct services from New York to Paris, our first non-UK destination from the US.

So customers on both sides of the Atlantic have already seen the benefits of increased competition from the first stage of liberalization. And in Stage Two, we need to reach out for much larger benefits by securing the big prize of a fully open aviation market between the US and the EU.

Restrictive ownership and control requirements that prevent airlines in the US and EU from integrating and constrain their access to capital need to be swept away as quickly as possible.

With better access to capital, airlines can modernise their fleet, provide better products and services for customers, and compete more effectively with the growing number of lower-cost longhaul operators from around the world.

Protectionist measures that prevent true competition, such as the 'Fly America' policy, should be consigned to the history books.

However well-intentioned, they breed inefficiency. High tariffs served to prolong and exacerbate the Great Depression. There are no comparable Fly UK or Fly Europe programmes, and such protectionist instruments really have no place in an open market economy of the 21st Century.

So let's be open. Let's be positive. Let's allow the benefits of a genuine open transatlantic aviation area to increase opportunities and wealth for citizens in all parts of the US and EU.

And let's create a template for the rest of world aviation to follow.

There are signs of liberalization elsewhere, but nothing would give more of a spur to the industry's Holy Grail of an open global marketplace than the creation of an open marketplace across the Atlantic.

I know the negotiations over Stage Two have moved slowly so far.

Given the global economic backdrop, perhaps that is not surprising. However, the original agreement identified 2010 as the critical year for making progress. I am convinced it is in everyone's interest that progress should be made.

BA'S TRANSATLANTIC OPERATION

At British Airways, we have been serving the needs of the transatlantic economy for a very long time.

Our forerunner company, BOAC, began civilian flights between London and New York in 1946, flying Lockheed Constellations.

In 1958, we opened the first commercial jet service across the Atlantic – just beating Pan-Am to the punch. And in 1977, we launched supersonic flights with Concorde.

Recognising the needs of eastbound travellers in particular, in 2000 we became the first airline to provide fully-flat beds in business class.

And we continue to innovate across the Atlantic. Two weeks ago, we started services from New York into London City airport,

which is located right on the doorstep of London's financial districts.

This is a service that really breaks the mould.

It is the first longhaul route ever operated to and from London City. And it is an all business-class service with just 32 seats and the feel of a private jet.

It is the first service on which customers from the UK are treated effectively as domestic passengers on arrival in the US, having already cleared US immigration during a brief refuelling stop in Shannon in the west of Ireland.

And it is the first service between the US and the UK on which customers in mid-flight can keep in touch with the ground by email and texts. It is the most time-efficient and productive

means of travelling between the business capitals of America and Europe.

Eastbound flights, of course, are non-stop – and yesterday, we launched the second daily service.

With our experience of transatlantic air travel, we understand that it is a complex market – and likely to become more so.

While it involves point-to-point journeys for some, it involves connecting journeys for many.

Last year, we had the pleasure of carrying nearly six million customers between the US and London – and more than half of them were flying on to other destinations in Europe or beyond.

Overall, British Airways flies to London from 18 cities in the US – and we will add a 19th later this month when we begin

services from Las Vegas. That amounts to 38 departures a day - 36 of them to our London Heathrow hub, where Terminal 5 now offers the best connection experience in Europe.

We also shipped 127,000 tonnes of freight eastbound. And we are a significant employer in our own right in the US, with the equivalent of about 1,200 full-time staff.

Because we acknowledge the importance of the transatlantic economy, we have set up a special scheme this year to bring US owners of small businesses and entrepreneurs to Europe to help them maximize their opportunities at a time when wider economic pressures may make them cautious about travelling.

So yesterday, under our 'Face to Face' campaign, we provided a complimentary flight for 250 business people from Los Angeles to London to enable them to meet personally with existing or

prospective customers, suppliers and investors in the UK or beyond.

On the same basis, we sent over a planeload of business people from New York last month, and we have a flight from Chicago scheduled for November.

To keep the momentum going, we will be giving 100 small US companies a year's worth of business travel and other support in 2010.

The future of the transatlantic economy is about much more than the big names on Wall Street or in the City of London, vitally important though they are. Economies are dynamic beings – and air transport should seek to serve all sources of that dynamism, irrespective of size.

ATI

As and when the global recovery takes place, the strengthening transatlantic economy will need strengthening air transport provision to sustain and develop it.

You can cross the pond by ship, but the chances are your competitor will arrive ahead of you.

It is our desire to improve provision for transatlantic travellers which lies behind the transatlantic joint business agreement proposed by British Airways and our partners in the oneworld alliance, American Airlines and Iberia.

If approved, the agreement will bring substantial benefits to US-EU customers by offering an expanded route network, improved schedules and connectivity, greater access to discounted fares,

fully reciprocal frequent flyer programmes and integrated corporate deals.

Above all, it will provide customers with choice.

As I'm sure everyone here knows, the Star and Skyteam alliances already operate across the Atlantic with the benefit of anti-trust immunity. But surely a market of 800 million potential consumers deserves a choice of more than two network providers.

If Star and Skyteam remain the only immunized alliances across the Atlantic, we could end up with an untouchable duopoly. I do not believe that customers would want that.

Giving oneworld regulatory parity with Star and Skyteam would mark a step change in competition in the US-EU market – and consumers could only benefit.

Concerns that may have existed in the past over access to London Heathrow do not bear scrutiny.

The first phase of the US-EU Open Skies deal made Heathrow an open airport. As soon as it came into effect, the number of operators flying between Heathrow and the US more than doubled.

Slots can be bought, sold or leased – and such trades can take place between alliance partners.

Slots at Heathrow are available – just ask the Star alliance. Star already possesses more than a quarter of the slots at Heathrow, far more than any other alliance at a competitor's European hub.

Yes, Heathrow is busy. But that is a consequence of the fact that it is the most competitive hub in the EU, with more airlines and more flights on transatlantic routes than any other airport.

The oneworld application for ATI has been with the Department of Transportation since April. We were told then to expect a decision by the end of October. We look forward to that timetable being maintained – and we are optimistic about the outcome.

In July, we noted the DoT's approval of Continental Airlines' application to switch from one immunized alliance, Skyteam, to the other, Star. The Department said that granting anti-trust immunity to Continental within the Star alliance would benefit consumers and enhance competition.

We agree.

So let's have more benefits for consumers and more competition by allowing oneworld to compete on exactly the same basis. That is all we are seeking.

We want the opportunity to demonstrate that we in oneworld can offer better products, services and value than the established players of Star and Skyteam. We do not see how consumers could lose out from that. Let's bring it on – and let customers decide.

ENVIRONMENT

I said in my introduction that aviation cannot grow to meet the needs of the transatlantic economy without also meeting the needs of the environment.

The UN's Copenhagen summit in December represents a great opportunity for aviation to join the mainstream of the world's efforts to combat climate change.

International aviation emissions were not included in the UN's Kyoto Protocol 12 years ago. Now we must seek to rectify that omission.

International aviation does not fit within traditional geographical definitions.

At British Airways, we believe that the post-Kyoto framework should treat aviation emissions as an indivisible global sector total, rather than being apportioned to individual states.

There can be no doubt that aviation is a global industry – perhaps the most visible global industry of all. So a global

approach to tackling aviation's emissions must be the right way forward.

The alternative would be the development of a patchwork of conflicting and potentially overlapping national and regional policies – which would not only risk endless international disputes and distort the air travel market, but weaken the overall objective of reducing emissions.

The gaps between different regional policies, whether carbon trading systems, taxation or other instruments, would create perverse incentives for traffic to shift from airlines meeting the costs of the policy to competitors able to service the same market but avoid the costs.

For example, if carbon trading for airlines went ahead in the EU in the absence of a global deal, a passenger wanting to travel from

Mumbai to New York would have a choice of connecting routes.

They could fly via a European hub, in which case both legs of the journey would be subject to carbon allowance costs.

Or they could fly via a Middle Eastern hub, in which case neither leg would touch EU territory, thus avoiding the costs of the EU scheme.

Because of its cost advantage, the operator on the latter route could win more traffic by offering lower fares. It might well put on more flights, thus creating more emissions – and in any case would have little incentive to replace older, cheaper aircraft with new, less polluting fleet.

There are other ways in which this “carbon leakage” could occur.

And none of them are good for the atmosphere.

Single-country initiatives are even less effective. Sadly, airlines in the UK have long experience of so-called environmental taxation in the form of Air Passenger Duty.

According to the UK Government's own figures, APD is already charged at a level that equates to more than airlines' environmental costs.

That is not preventing the Government from planning increases in APD of up to 112 per cent over the next year.

There is no environmental justification for this whatsoever.

Taxation does not target emissions reduction. It just raises revenue.

It gives airlines no incentive to invest in greener equipment. And in the case of APD, the proceeds are not even spent on specific

environmental objectives – they merely add to the Government's general income.

So a global approach is absolutely central to providing aviation with a sustainable environmental future.

Yes, aviation faces more technical obstacles than many industries – but I believe we can make sufficient improvements in aircraft and engine manufacture, in alternative fuels and in air traffic and airport infrastructure to begin making real cuts in actual emissions over the next 40 years.

And if we do not make fast enough progress in these areas, then a global carbon trading system would require us to pay for equivalent emissions reductions in other sectors.

The costs of carbon trading would provide the whole industry with a powerful incentive to ensure that we do make the technological and infrastructure advances that are necessary to reduce absolute emissions, while meeting increasing demand for air transport across the Atlantic and in the rest of the world.

CONCLUSION

In conclusion, let me say this:

The transatlantic economy makes a massive contribution to the wealth of the world, and brings huge benefits and opportunities to the peoples of the United States and Europe.

We want aviation to play its full part in increasing those benefits and opportunities, but hand-in-hand with a global

environmental approach that ensures we can be green as well as grow.

Sustainable expansion of air transport's benefits and opportunities can best be achieved by removing artificial restrictions on aviation relationships across the Atlantic, and by encouraging competition.

In the last two years, we have started to make progress in removing restrictions.

But let us be bold – and move faster toward the kind of cross-border liberalization of markets and capital which are taken for granted in almost every other global industry.

Let us embrace competition – and ensure a level playing-field for all airline alliances that serve the transatlantic economy.

Fair and vigorous competition is the best guarantor of improved services for customers.

Thank-you for listening – and I will do my best to answer any questions you may have.

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