

**SPEECH BY WILLIE WALSH**

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*Check against delivery*

Ladies and gentleman, it gives me enormous pleasure to be invited to speak here again. This is the fourth time that I have spoken at the Aviation Club and each time I've had a different job though, to be fair, on one occasion I was between jobs but you still let me come along and gave me a free lunch! So, thank you.

The last time I spoke here was in 2010 when I was chief executive of British Airways and we were finalising our merger with Iberia and creating IAG. Five years on, IAG is firmly established as a leading airline group that has not just achieved but exceeded its targets.

## **IAG**

Since our launch in January 2011, IAG has acquired three airlines each of which have brought great value to the Group.

bmi was successfully integrated into British Airways enabling the airline to use its increased Heathrow slot portfolio to launch, among others, new routes to the east such as Seoul, Chengdu and Kuala Lumpur.

Vueling added a new dimension to IAG – a low cost airline with an established cost-efficient culture at its core. In the last few years, it has not only expanded but done so profitably, with its focus on developing intra-European flights outside Spain and establishing a new hub operation in Rome.

And earlier this year, we completed the acquisition of Aer Lingus. The airline is well-run, efficient and provides IAG with more access to the transatlantic market with the added bonus of immigration and customs pre-clearance at Dublin and Shannon.

Our original airlines, British Airways and Iberia, have also strengthened since the merger.

British Airways has built on the benefits of the bmi integration and is performing well. It has matched its profitable longhaul operation with a profitable shorthaul performance at all three London airports from where it operates. The airline has built strong foundations for the future and has successfully integrated both the Dreamliner and A380 into its fleet, garnering much positive feedback from customers. I am delighted to say that it is also the UK's number one Superbrand.

Under the leadership of Luis Gallego, there has been a remarkable transformation at Iberia. In 2012, the airline was burning 1.7 million euros of cash every day due to a combination of a

legacy cost base and outdated working practices exacerbated by the economic crisis is Spain. This year, Iberia has returned to profit and the airline has been revitalised with new aircraft, updated cabins, new routes and a modern brand.

Since the creation of IAG, our share price has gone up by 116 per cent in London and 163 per cent in Spain. Our initial financial target was an operating profit of 1.5 billion euros for 2015 – something that many questioned whether we could achieve. We are now targeting an operating profit of between 2.25 billion and 2.3 billion euros this year. Similarly, our initial annual cost and revenue synergy target of 400 million euros has been superseded each year. This year we expect to generate more than 850 million euros in synergies. Last month, we announced IAG's first ever dividend payment, indeed it was 2008 when both British Airways and Iberia last paid a dividend.

But we are not going to rest on our laurels. We need to keep the momentum going and have set ambitious new financial targets. We are determined to succeed – we have the right airlines with the right attitude operating in the right markets.

What also helps us is that I believe that we have got the right structure at IAG. A structure that is unique in the airline industry and one that I am surprised others have not followed. Having said that, we are not deal junkies. Many airlines have contacted us wanting to join IAG but we are very fussy about those we target. We need to ensure that only the right airlines join IAG – ones that strengthen the Group and enhance our profit levels.

## **KEITH/ALEX**

Before I finish talking about IAG, I would like to pay tribute to someone who was instrumental in setting it up and is a major contributor to its success and that is Keith Williams. Many of you know Keith and are aware that, last month, it was announced that he is to retire next year having been BA's chief executive for the last five years. Keith has had a long and distinguished career at British Airways and we have worked together for the past 10 years. I have enjoyed every minute of working with Keith. He is a good friend, truly inspirational, hard-working and incredibly committed to making British Airways a success.

Many of you also know Alex Cruz who is a worthy successor to Keith. Alex has done a tremendous job at Vueling and has been a member of the IAG management committee for the last couple of years so has a good knowledge of the opportunities and challenges at British Airways.

## **RUNWAY CAPACITY**

Expanding the airline's home base at Heathrow is the proposal put forward by the Davies Commission and we are all awaiting the Government's decision, or indecision, about where to build new runway capacity in South East England. We have not engaged in the debate about where to build new runways this time.

While I think that the Davies Commission's report looks very thorough, the costings were out of kilter with building an efficient, affordable piece of UK infrastructure. I am not going to pre-judge what the Government will say though a decision to undertake further consultations will underline what we have said all along. That there is no political will to build a new runway and that, yet again, the opportunity to harness aviation's economic benefits for Britain will be lost.

It would be very difficult for the Government to opt for a second runway at Gatwick. Not only would it overrule the Davies Commission but there is no business case for expanding

Gatwick. Very few airlines support the proposal and no one would move there while Heathrow remains open.

That leaves a Government decision to back a third runway at Heathrow. Any expansion at Heathrow must only be undertaken if it's done cost effectively – and the financing proposed in the Davies Commission is anything but cost-effective.

Heathrow is currently the most expensive hub airport in the world costing £20 per passenger for each take-off and landing. IAG estimates that this will double, peaking at £40 each way. £80 a return trip in airport charges will turn Heathrow into a white elephant.

A 17.6 billion pound project where only £182 million – around one per cent of the cost - is for the actual runway is not sustainable and we will not pay for it. What airlines want is a new runway so how come a new terminal, handling the same number of passengers as Terminal Five, would cost three billion pounds more in today's money? Why do you need a 6.5 kilometre underground train track to T2 when the majority of transfer passengers come from oneworld airlines mainly in T5 with some from T3? Why does a new car park cost more than £800 million to build?

Yet again, we see a monopoly airport supplier looking to gold-plate facilities and fleece its airlines and their customers.

We won't pay for it and we most certainly won't pre-fund the construction of any new infrastructure. Why should IAG's customers pay today for tomorrow's customers? Some people may say that we have no other option. Actually we do. Heathrow is not IAG's only hub – we can develop our business via Madrid which has spare capacity and Dublin where there are plans for a cost effective and efficient second runway.

## **EUROPEAN UNION**

Turning from the UK to wider European issues, on a personal level I believe that Britain should remain part of the EU. Having said that, I do believe that there is a need for fundamental reform when it comes to aviation issues. While I support the EU, I am shocked by my own experience of dealing with the Commission over the years – especially the lack of business knowledge about our industry by those who make decisions that affect it.

Earlier this week, the European Commission published its aviation strategy. Along with Air France-KLM, easyJet, Lufthansa Group and Ryanair, we welcomed the Transport

Commissioner's objective to develop the strategy as we believe that it is a positive step forward to set out the industry's future priorities.

However, we also need to see action now to support airlines and their customers. While we need regulation, it needs to be effective so that the industry can flourish bringing economic benefits and jobs across the continent.

I would like to look at three specific areas of EU regulation today – Single European Sky, airport charges and consumer legislation EU 261.

## **SINGLE EUROPEAN SKY**

Redesigning Europe's airspace through an integrated air traffic control, rather than individual national ATC systems, would reduce the continent's airline emissions by around 12 per cent. As the Paris Climate Change talks draw to a close, it's important to stress that this would reduce European CO2 emissions by 20 million tonnes each year – a very significant amount.

Yet this initiative has remained stranded at the starting line for 16 years. Blocked by several member states with the EU seemingly toothless to push it through, the vision to implement a single European sky is one that must be realised. If the substantial environmental benefits were not enough, redesigned airspace would mean shorter routings leading to quicker journeys and lower fuel costs.

We must put aside national self-interest and drive this initiative forward because the benefits are plain to see. This has to be done by the EU but we need much more than warm words, we need action otherwise in another 16 years' time absolutely nothing will have changed.

## **AIRPORT CHARGES**

All airlines operate in an extremely competitive environment and the European market is one of the most competitive markets in the world. This contrasts sharply with many European monopoly airport operators who are not effectively regulated and are able to get away with both high prices and, in many cases, inefficient operations. While airlines have ruthlessly cut their costs, and ticket prices have been reduced, airport charges at the main EU airports have

risen by more than two thirds over the last ten years. In 2014, the top four airports globally that made the most money were based in Europe and European airports accounted for six of the top 10. It won't surprise many in this room to learn that the top earner is located just west of Hounslow.

This imbalance needs to be addressed by the Commission across Europe. Let's stop airlines' passengers being taken for a ride by monopoly airport suppliers whose focus on rewarding shareholders is not balanced with providing competitive pricing. In this week's Aviation Strategy, the EU called for a study next year to assess whether or not to revise the current Airport Charges Directive. We believe that not only must it be revised but there should be a commitment to initiate legislation. Then the regulation can be enforced and we can end the disparity between the highly competitive airline market and its monopoly airport suppliers.

## **EU 261 AIR PASSENGER RIGHTS**

The EU's Regulation 261 on air passenger rights came into effect in February 2005 with the legitimate objective to protect passengers against airline overbooking and flight cancellations. Ten years, and 18 European Court of Justice rulings later, this regulation has been transformed into an inoperable piece of legislation with provisions that were never intended by the legislator and are against the initial spirit of the law.

Passenger rights are critical and we are not denying that our customers have a legal obligation for compensation. However the legislation needs to be balanced. We need legislation that is clear and fair as currently it is determined by a patchwork of individual court rulings and both customers and airlines are confused.

The European Commission is revisiting the legislation to try and rectify this imbalance. While there is some disagreement on the key provisions between member states, the major blocker is a dispute between the UK and Spain over Gibraltar. As chief executive of IAG, you won't be surprised that I am not going to get involved in that debate, but this dispute is blocking a number of key aviation decisions so we hope that it can be resolved sooner rather than later.

## **GULF CARRIERS**

However, there is one area where the European Commission considerably overstepped the mark when it made its announcement on Monday. It is very disappointing that they chose to deflect attention away from issues they control to focus on measures that would have the practical effect of restricting competition from Gulf carriers.

This is not an issue for Europe. It is an issue for legacy airlines that cannot stand up to new competition and Europe should not get involved. These airlines would be better off focusing on competitive products and route networks to enhance their own prospects.

IAG is a long standing supporter of aviation liberalisation. Our industry functions best when competition is allowed to flourish, benefitting consumers and businesses alike. We want to see more, not less, liberalisation and we're gravely concerned to see protectionism back on the agenda, promoted by the EU.

Some commentators have said that I am only saying this because IAG's largest shareholder is Qatar Airways. That is nonsense. Anyone looking back at what IAG and British Airways have said over the years will see immediately that we have always been advocates of deregulation and liberalisation of our industry.

## **CLIMATE CHANGE**

Looking further afield than Europe, the airline industry is the only sector that has agreed to reduce its net carbon emissions through the introduction of an emissions cap from 2020 and a 50 per cent cut by 2050.



However, these ambitious targets can only be achieved if governments agree on a global system of carbon pricing. As an industry, we have set ourselves very challenging targets but to help us meet our goals we need government commitment and determination.

The industry also needs government support to develop innovative alternatives to jet fuel. We're investing to develop biofuels but governments should incentivise sustainable jet fuels in the same way that they do for cars. They are prepared to pay for research and development to have more efficient cars, where there are alternatives to carbon based fuel, yet airlines that currently depend on Kerosene get no government support to deliver a sustainable future.

## **AIR PASSENGER DUTY**

You may be surprised that I have got this far through my speech without mentioning the highest aviation tax in the world, Air Passenger Duty. Well, I hate to disappoint my audience!

The Scottish government is currently reviewing whether or not to reduce APD as a precursor to getting rid of it entirely. Why we welcome its realisation that this tax hinders economic growth, tourism and the creation of new jobs, the piecemeal reduction of this tax will only serve to undermine airports in the north of England and create a domino effect across the whole country.

Passengers will rush across the border to avoid paying the punitive tax in Newcastle and Manchester. Amending the tax regime there would then have a knock-on effect at Leeds Bradford, then Birmingham and so on.

This is already happening in Ireland. There is no aviation tax in the Republic so passengers in Northern Ireland head south in their hundreds of thousands to catch flights. According to Dublin airport, the number of Northern Ireland residents travelling through the airport increased by 52 per cent in the first year after it scrapped the tax.

The Treasury must acknowledge that partial APD would not work. I am sure that George Osborne would not wish to see the northern powerhouse undermined as passengers flee northern English airports for Scotland. As you may imagine, I think the answer to this dilemma is crystal clear. Scrap this futile tax which has no economic credibility. By doing

that you would gain an immediate 0.5 per cent boost to UK GDP and create 60,000 new jobs over the longer term.

## **CONCLUSION**

Airlines are used to adapting to ever changing circumstances, be they market conditions or other external factors, in the face of strong competition. However, as a highly regulated industry, we need to ensure that our drive and flexibility is matched by government action so that we can make our industry as viable and effective as possible.

We look to governments to create a level playing field both outside the industry, by removing unfair taxes which undermine aviation, and within by removing financial disparities between airlines and monopoly airport suppliers. We also need action to empower airlines to improve their environmental performance by pushing through a Single European Sky and introducing a global system for carbon testing.

Today, I have focused on government inaction be it in the UK, Europe or globally. It is frustrating that many governments overlook the economic and social value of aviation and seek to create a regulatory environment which restricts the benefits that the industry can bring. We need a change of political mindset so that we can continue to grow in a financially and environmental sustainable way.

Thank you.