

Speech by Keith Williams

British Airways, Chief Executive

A WORLD VIEW OF THE STATE OF THE TOURISM INDUSTRY

Caribbean Tourism Organisation Conference

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INTRODUCTION

Ladies and Gentlemen,

I am delighted to be here at the CTO event on the beautiful island of St Martin. It's fair to say that not many of my speaking occasions have such a stunning backdrop to them!

As you know, Willie Walsh, my predecessor, attended this event in 2010 and committed that we would return this year so I'm pleased to be able to represent British Airways in 2011.

The tourism industry is never one to stay still and much has changed since Willie spoke last year. 2010 was predicted to be a difficult year for travel and tourism, and it was.

The latest ABTA travel report indicates that the number of holidays taken in 2010 dropped from the previous year and

sales in 2011 have been slow to recover. Our own sales figures support that trend.

Although we have seen a rise in premium ticket sales, mostly supported by an increase in corporate spending, it's true to say that leisure sales are still governed by price.

Travel has not been the only sector to suffer, the British Retail Consortium recently reported that despite a modest improvement in sales during the past few months, overall conditions remain very difficult for retailers.

Growth in the UK has been stagnant and only last week The British Chambers of Commerce downgraded its forecast for UK economic growth this year for the third time. It now expects the economy to expand just 1.1 per cent in 2011, compared with its 1.3 per cent estimate in June and 1.9 per cent at the start of the year.

IAG/IBERIA

The global recession continues to cast a shadow over the travel sector with Kiss Flights and tour operator Holidays 4 U being the latest victims in the UK.

To achieve stability and increase growth, we're seeing more of a trend towards business consolidation across the travel industry. Most recently we've seen a merger between Thomas Cook and Co-op and of course the creation of International Airlines Group, which now includes British Airways.

Merging with Iberia makes us a bigger player in global aviation – in fact, the sixth largest group in the world by revenue.

It means that we are better able to withstand the uncertainties and occasional shocks of the world economy, and better able to invest in new services and products.

We will build on both airlines' strength and leadership in their respective markets: Iberia in Latin America and British Airways in North America and Asia Pacific – and jointly strengthen our position in Europe and Africa.

And with spare capacity available at Iberia's hub in Madrid, we have room to expand significantly further – particularly in terms of services to South America, which is likely to be one of the fastest-growing aviation regions in the decades ahead.

Of course there has also been huge investment from Middle-Eastern carriers, and with increased volume and capacity comes keen pricing and greater consumer choice. With marketing spend in the Middle and Far East at an all time high, competition is intense.

Together we must work hard to ensure the Caribbean maintains its position as one of the world's most popular destinations.

TRANSATLANTIC JOINT BUSINESS

Our merger with Iberia was the culmination of a 12-year relationship, and we waited even longer for our transatlantic joint business with American Airlines to receive regulatory approval.

Together, these two strategic milestones give our customers smoother connectivity to the wider world. We can now offer access to a global network of more than 500 destinations.

As well as more destinations, our transatlantic partnership offers customers a wider choice of fares, and the ability to mix and match their itinerary based on schedule or cost.

Our new structures underpin our ability to grow. For example, we recently launched a route from London to Puerto Rico, with easy American Airlines connections to seven other destinations in the region, which is great news for the Caribbean.

Under the new IAG banner, we look forward to reaping the benefits and we expect further consolidation within the leisure industry will help secure the futures of many other businesses.

SALES GROWTH

The good news from British Airways is that despite the economic downturn, there is still a significant demand for premium travel, which allows us to refute claims that there is no market for First class in today's climate.

British Airways has also just seen the best travel sale results in its history, which indicates that if the price is right, people are still prepared to travel.

CUSTOMER EXPERIENCE

To create added value, investment in our customers is crucial and, as we start this new chapter, I am absolutely determined to put our customers at the heart of everything we do.

It shouldn't just be British Airways' focus though. It's something everyone in the tourism industry should be working on. We need to work together to provide our customers with seamless travel experiences.

With finances tight, customers are looking for competitively priced, added-value services and sustainable travel. Even our premium travellers expect to see every pound working.

As an airline, we are investing heavily over the next five years in new aircraft, new cabins, customer service training programmes, new products to make life more comfortable in the air and new technologies to reduce hassle on the ground.

My new managing director of customer experience is Frank Van der Post, whom I have brought in from the Jumeirah hotel group to introduce new thinking about how best we provide customer service for our ever-more discerning clientele.

GATWICK

We're vastly improving the airport experience, particularly at Gatwick where most of our Caribbean flights originate. In fact, I'm joined here today by Colm Lacy, our head of commercial at Gatwick.

£73 million has been invested in extending BA's home in the North Terminal of the airport. It will provide an innovative travelling experience using the most advanced technology and a new approach to customer service.

Built on time and on budget by airport operator Gatwick Airport Limited, the terminal extension allows passengers to do everything for themselves, from checking-in and choosing seats to printing their own bag tags. It also provides a smooth experience for customers connecting from other countries.

And British Airways customer service staff will be on hand to meet and assist customers, helping them from one of the 30 self service kiosks, 11 bag drop desks and six full service ticketing and sales desks.

TECHNOLOGY

That focus on technology to help our people deliver great customer service extends on board where we've introduced iPads for our cabin crew.

It will enable them to offer a more personalised service by quickly identifying where each customer is seated, who they are travelling with, their Executive Club status and any special meal requests.

It gives cabin crew a whole library of information at their fingertips including timetables, safety manuals and customer service updates. It also means any issues can be logged with ground-based colleagues around the network prior to departure so solutions can be delivered while the flight is airborne.

And this is just the start. The possibilities for future development are enormous and customers and crew have already received this initiative very positively.

CATERING

We're also investing substantially in our catering, including the champagne and wines on board. For example Laurent-

Perrier's Grand Siècle is now available in First. We will also be announcing a new champagne for Club World next month.

BA.COM

We are also making changes to ba.com to make it easier for customers to use, offering them more choices in an intelligent and user-friendly way.

We have launched a new functionality that illustrates the products on offer in each cabin. It also tells them what they would get and for what price if they chose to upgrade.

We've also introduced a new way of searching for holidays for customers who may be undecided about when they want to travel or where they want to go. It allows them to search by consideration, such as duration of flight and typical temperature at their potential destination.

SOCIAL MEDIA

As travellers become more technology-savvy, I don't think any of us are under any illusion about the role and the influence the internet will have in making travel decisions.

With competition between rival companies to develop smaller, faster and more intuitive smartphones, notebooks and internet services, we too are in a race to develop sales tools that will match an ever-expanding number of new technologies.

By the end of 2011 over 85 per cent of all mobile handsets globally will provide access to the internet, and 8 trillion SMS text messages will be sent across the world.

Our customers can now build their holidays through their phones with specially-designed applications or 'apps' which provide services ranging from tourist information to checking-in services and itinerary planning.

British Airways launched its first app in 2010, and after it proved tremendously successful, we have since launched mobile boarding passes, which for example I saw being used on my flight out to the Caribbean just yesterday.

Social networks also sometimes break top news stories. Well-known figures are being quoted on the basis of 'tweets' and people increasingly use social media to develop their professional relationships in their own organisations and beyond.

At British Airways we have recently decided to offer a preview of our new advertising campaign online through Facebook.

We are more aware than ever that our reputation can be affected by communication on the internet. Our customers are the new journalists as they speak to each other, share experiences and campaign across the worldwide web.

A World Travel Market survey found that 65 per cent of senior tourism executives believed that the biggest trend over the next five years would be the use of new technologies in booking holidays. So in this new world, it's up to all of us to work together to find new media strategies, which cut through the noise and reach our customers in a meaningful way.

SUSTAINABLE TOURISM

In addition to new technology, one of the most important issues for us to discuss today is sustainable tourism.

Now consumers live in a world where they are being educated about how their actions can affect the world's fragile ecosystems

and the global climate, we have seen a significant shift in the demand for ethical travel and green holidays.

UK charity 'The Travel Foundation' tell us that customers are more concerned than ever that the money they spend in local destinations should be used to support local communities.

To respond to demand and to protect beautiful destinations like the Caribbean, it's up to us to ensure that we put policies in place which address all the impacts of tourism.

For the aviation industry, biofuels represent a great opportunity to reduce our impact on climate change. At British Airways we are already embarking on plans for Europe's first sustainable jet fuel plant in 2015 and we hope initiatives like it will encourage other airlines to follow our lead.

Responsible tourism offers companies many practical advantages including potential for cost-savings, brand value, and of course preservation of important assets, which in the case of the Caribbean is the outstanding natural beauty of the islands.

TAX/ENVIRONMENT

So we are very conscious of our environmental responsibilities, and we are absolutely committed to meeting them. We aim to reduce our net CO₂ emissions by 50 per cent by 2050. We are already making progress towards this - through cleaner aircraft, investment in biofuels and emissions trading.

All these are much more effective ways of addressing aviation's impact on climate change than taxation - yet airlines in the UK still face the highest tax levels in the world.

Last year Willie Walsh pointed out that APD on longhaul routes had tripled in four years and that Caribbean routes suffered disproportionately due to the anomalies of the banding structure. This was shortly before we saw yet another Air Passenger Duty increase on flights from the UK.

Now a family of four travelling to the Caribbean is taxed a hefty £300 before they even leave the country.

With additional frequency, the Caribbean islands we serve have introduced further tax which has to be collected as an additional surcharge.

Tax levels are already excessive, and they are getting worse. We are bracing ourselves in the UK for a further increase in APD to be announced in the autumn budget, if not before. This will further jeopardise routes from the UK, and to the Caribbean in particular.

The Caribbean is a very important destination for British Airways and we have a long and proud history of serving the region. However, we can't deny the reality that demand is not as high as it has been. Taxation is most certainly a factor in this and sadly, a factor in our decision to reduce our frequency to the Caribbean next summer.

We do hope to put some capacity back in from Winter 2012. But even this winter British Airways will remain the biggest European carrier to the Caribbean with 62 flights to 15 destinations every week.

It is no coincidence that our reduction in the number of services to the Caribbean is accompanied by a rise in services to Florida – another desirable holiday destination for UK sun-seekers, and a destination that is taxed at a rate 20 per cent less than the Caribbean.

Rest assured that we, with the help of many of you in this audience today, have protested against the rises in APD, and lobbied for a fairer tax on flying. We expect to hear the outcome of the Government's recent consultation on the reform of APD next month and I sincerely hope that this will lead to a more equitable banding system that does not unfairly penalise the Caribbean.

We will be making strong representations to Government to protect the tourism and aviation industry from yet more increases in APD. I know that you will support all efforts to stop this destructive tax juggernaut in its tracks.

Sadly APD is not the only cost burden that the aviation industry faces. From the beginning of next year, we, along with all airlines operating to and from the European Union will be part of the Emissions Trading System. While we have always supported emissions trading in principle as the most effective economic instrument for reducing aviation's impact on climate change, there is no denying that it will have an impact on our business. Particularly so if the scheme is introduced in the flawed way the EU proposes and it is coupled with further rises in APD.

We will be fighting for the costs associated with the EU ETS to be offset by a decrease in APD. It is only fair given that both are levied for environmental purposes and the sums we pay in APD are already twice the equivalent of our actual carbon costs.

I hope that if I have the pleasure of standing before you again next year, I will have a rosier tale to tell.

CONCLUSION

I want to end on a more positive note as I feel we really are starting a new chapter as an industry and we have so much to look forward to.

We must remind ourselves that this industry does a huge amount of good – it generates hundreds of thousands of jobs and provides the international air links and infrastructure that are critical for businesses and tourism to succeed. More than that, it creates social and cultural opportunities and brings families and friends together.

I am optimistic that, in time, our economic and social contribution will be properly recognised and we will be able to

develop it further with the help of a supportive policy environment.

For British Airways, I am very optimistic. We are writing a new chapter and have huge opportunities ahead of us.

We have restructured our business and taken great strategic steps forward. For the first time in a decade, we are in a position to pursue growth – and aim for the margins we need for sustained investment for the benefit of our customers.

I'm also extremely proud to announce that next week we will launch a new advertising campaign in the UK, which I hope we will all benefit from. It will be accessible to watch on the internet from September 21, and I hope you will enjoy watching it as much as we have enjoyed making it.

Thank you very much for listening. My British Airways colleagues Simon Brooks, head of leisure sales and Colm Lacy, commercial head of Gatwick, are also here today and, with their help, I will answer any questions you may have.

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