

NATIONAL PRESS CLUB LUNCHEON WITH RICHARD BRANSON

SUBJECT: SIR RICHARD BRANSON, PRESIDENT OF VIRGIN ATLANTIC, WILL DISCUSS "THE CRISIS IN AVIATION - 25 YEARS AFTER VIRGIN ATLANTIC BEGAN," AT A NATIONAL PRESS CLUB SPEAKERS BREAKFAST ON MAY 14

MODERATOR: DONNA LEINWAND, PRESIDENT, NATIONAL PRESS CLUB

LOCATION: NATIONAL PRESS CLUB BALLROOM, WASHINGTON, D.C.

TIME: 9:30 A.M. EDT

DATE: THURSDAY, MAY 14, 2009

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DONNA LEINWAND: (Sounds gavel.) Good morning. Welcome to the National Press Club for our speaker breakfast. My name is Donna Leinwand. I'm a reporter with *USA Today* and president of the National Press Club.

We're the world's leading professional organization for journalists, and are committed to a future of journalism by providing informative programming and journalism education, and fostering a free press worldwide. For more information about the National Press Club, please visit our website at www.press.org.

On behalf of our 3,500 members worldwide, I'd like to welcome our speaker and our guests in the audience today. I'd also like to welcome those of you who are watching us on C-Span.

We're looking forward to today's speech, and afterwards, I will ask as many questions from the audience as time permits. Please hold your applause during the speech so that we have time for as many questions as possible.

For our broadcast audience, I'd like to explain that if you do hear applause, it may be from the guests and members of the general public who attend our events, and not necessarily from the working press.

I'd now like to introduce our head table guests and ask them to stand briefly when their names are called. From your right, Mark Wojno, senior associate editor of Kiplinger and president of the Washington Airline Society; Melissa Charbonneau of News Hook Media and vice-chair of the Speakers Committee; Nigel Milton, vice president of government affairs for Virgin Atlantic, and a guest of our speaker; Marilyn Geewax, National Public Radio's senior business editor, overseeing transportation coverage; Anita Mosner, partner at Holland & Knight, and co-chair of the firm's global aviation team, and a guest of our speaker.

Skipping over the podium, Angela Greiling-Keane, Bloomberg News, and chair of the Speakers Committee. Skipping our speaker for just a moment, Shawn Bullard, president of the Duetto Group and a member of the National Press Club's board of governors. He's also the Speakers Committee member who organized this event. Thank you very much, Shawn.

Paul Charles, director of communications for Virgin Atlantic, and a guest of our speaker; Joe Anselmo of *Aviation Week*; Kasper Zeuthen, senior press officer for the European Union's Delegation; and finally, Myron Belkind, former AP bureau chief in London and the secretary of the National Press Club.

As anyone in this room who Sir Richard Branson is, and he will be defined many different ways — a flamboyant British entrepreneur with a seemingly insatiable appetite for starting new businesses, a magnet for controversy, such as his recent stint as a Glasgow train station cleaning worker in a TV ad for his Virgin trains, or a billion dollar philanthropist attempting to save Mother Earth.

No matter — he has a gift for making people pause and take notice. His high profile adventures include developing personal space flight, and in 1986, crossing the Atlantic in his Virgin Atlantic II offshore racing boat in record time. A year later, he set another record, crossing the Atlantic in his Virgin Atlantic flier, not only the first hot air balloon to cross the Atlantic, but also the largest ever at 2.3 million cubic feet.

Clearly this is a man who likes a challenge, whether it's in business or in sport. And while many would be satisfied after being knighted by the Queen of England for services to entrepreneurship, he's not. Sir Richard Branson, founder of a pint-sized record business in 1970, now rules an empire that rivals the gross domestic product of many small countries. Whether it's Virgin Cola, investing in

alternative green technologies, space tourism, or running one of the hippest airlines in the sky, he's done it. And although the European press has skewered him for having lost an eye-watering £1.5 billion pounds in the last year, or £171,000 British pounds an hour, he continues to be optimistic.

Who in this room would promise all of his or her airline profit (if you actually owned an airline) to the breakthrough discovery of an alternative fuel for the airline industry? Only one person. When recently asked why, he responded, "I actually believe it's a good financial investment. And I hope that anybody who gets spare cash will put their money into the sector, because our beautiful world needs to be protected."

Ladies and gentlemen, and members of the National Press Club, I introduce to you, entrepreneur, balloonist, daredevil, philanthropist, environmentalist, and personal space flight advocate, Sir Richard Branson. (Applause.)

SIR RICHARD BRANSON: Well, thank you very much. Anyway, good morning and thank you very much for inviting me to speak at the world famous, highly influential National Press Club. I'm honored to be addressing you here today as a 25 year (well, I wish it was 25 year-old, anyway) veteran of the transatlantic aviation market.

It's 25 years this year since Virgin Atlantic's inaugural flight took off from London's Gatwick Airport for Newark in June, 1984. We started with just one 747, leased from Boeing, and now have 38 wide-bodied aircraft flying to 30 destinations around the world from London's Heathrow and Gatwick Airports. While I'll never forget those first few hours of operating — an engine was hit was a bird strike on the test flight, the bank was trying to close us down, most of the food wasn't loaded onboard the inaugural-- Fortunately, there was plenty of booze. Anyway, just another typical day in our industry of course.

So it's taken us 25 years to grow as a private company without any government subsidies or bailouts, to get to the position where we are today, where we're still red-hot...the airline that is. We've grown by listening to customers, innovating where big carriers can't or won't, and by providing a strong product against our competition. We don't have the giant marketing budgets of our rivals. Yet travelers choose us because we offer real quality at good value, and we provide red-hot competition.

Yet we're celebrating our birthday amid the most testing economic times ever. The airline industry itself has never faced such a crisis. Commercial aircraft were barely in their infancy at the time of the last significant collapse, the Wall Street crash in 1929. Now airlines around the world are reacting swiftly,

hunkering down, cutting capacity, and sadly, jobs, in order to protect their cash and their operations. In all my experience, I've never seen anything like it. And I'm sure you all agree, it's a sobering time and one which unfortunately will last many, many months yet.

When we started Virgin Atlantic, I knew we were in for a hard time. I knew we'd face numerous challenges and dirty tricks from the incumbent carriers. I knew the odds in the regulatory system were stacked against us. But I didn't think that 25 years later, after flying around over 70 million prime ministers, entrepreneurs, ministers, students, secretaries of states, families, businesspeople, elder statesmen and women, entertainers, and countless opinion formers, that some airlines will still be adopting bullying tactics and trying to bend the rules to kill off the competition.

Well, I'm here today to warn you, the consumers and users of transatlantic services, that if the proposed merger-- and ignore all semantics, because a merger is what it will effectively be-- of the two largest airlines in the world, British Airways and American Airlines, is allowed to go ahead, then the result for passengers, for employees, for communities, and for fair and healthy competition will be absolutely disastrous. It will be the end of red-hot competition.

And given the state of turmoil and swift change that the airline industry finds itself in, it is questionable how any competition authority can reach a relevant, robust, and meaningful conclusion regarding the plans of British Airways and American Airlines. It is impossible to predict with any degree of certainty what the future competitive landscape will look like when there is so much change taking place.

In fact, the one certainty we can predict is that if BA and AA, if allowed to proceed unchecked, there will be higher prices and competitors will be squeezed out. It doesn't make sense to actually encourage even less competition by allowing the two largest dominant carriers to increase their stranglehold by setting prices together and agreeing schedules.

Before Virgin Atlantic started, air travel was an elite form of transport. Now, it's more affordable, an everyday part of our lives. Aviation links up businesses and families. Without it, economic growth, cultural exchange, and development assistance would be significantly hampered. I have no doubt that aviation will lead the way in helping economies to recover from the current economic crisis.

But it can only do so if industry remains viable and competitive. I understand that it is tempting for regulators to say, "Well, we've given dispensation to one airline. We should do likewise for others," as they've done

previously. But they must resist that temptation. Each antitrust application must be considered on its own specific merit. And considered on its merits, it's clear that the application for the merger between British Airways and American Airlines must be rejected. A line in the sand needs to be drawn.

I'm not saying that all consolidation within the airline industry is a bad thing. While consumers may stand to benefit, if complementary networks by carriers that are not dominant in a particular marketplace are being pooled, they suffer if networks overlap because of the tendency towards monopolies.

I believe the fact of BA and American Airlines demonstrates that this would be the prime example of bad consolidation. The only winners would be the shareholders of those two airlines, certainly not the employees of British Airways and American Airlines, or their customers.

We've been accused by the heads of these airlines of wheeling out the same arguments. They accused us in 1996 and 2001 as well, when the two last applied to create a merger. Well if the facts are the same, if not worse, then why should we change our stance? Our arguments are as strong today as they were then. Their dominance has grown even further between then and now. And let me spell out why you should still be worried.

Last time, we said Heathrow is so congested that it is virtually closed. The same applies today. Heathrow is unique to this antitrust application because it is full. The hubs for Sky Team and Star are not full. And if we wanted to start a new airline in Paris or Frankfurt today, we could do so. British Airways/American Airlines is the only alliance where the most important gateway hub is virtually closed to competitive entry. Heathrow/U.S. has a far greater share of the EU/U.S. market than any other EU hub.

It's vital that regulators understand that this isn't just another alliance. It's an attempt to stitch up the most important long haul routes from Europe's most important airport. BA and AA together, with their protected partners in one world, would hold half of the total takeoff and landing slots at Heathrow. In comparison, Virgin Atlantic is capped at just over three percent — yes, a striking different which shows that no one can replicate their scale.

Last time we said BA and AA would hold the dominant share of peak hour slots at Heathrow. Nothing's changed. These peak hour slots are essential to the competitiveness of transatlantic services. BA was gifted many of them when it was privatized. No other carrier can get anywhere close to competing. Last time, we said that BA and AA would have an insurmountable lock on key Heathrow/U.S. airport pairs. Nothing's changed. In fact, their market share has increased further since 2001. At the moment, they compete against each other on

six key routes from Heathrow. Giving them immunity would change all this for consumers.

According to the official airline(?) guide up to the end of March, 2009, BA/AA controlled 100% of all Heathrow/Dulles/Ft. Worth capacity, 80% of Heathrow/Boston, 73% of Heathrow/Miami, 64% of Heathrow/Chicago, 64% of Heathrow/New York, and 47% of Heathrow/Los Angeles capacity. Given severe capacity constraints to Heathrow, there would be no chance for any carrier to try to mount a meaningful competitive response to these captive Heathrow/U.S. city pair markets.

Is it right that one group should have a sixty, seventy, eighty, or even hundred percent share of a route so they can milk consumers? So times haven't changed. As Heathrow's owner recently says in a recent submission to the Department of Transportation, "Heathrow is as full and access to it is as limited as it historically has ever been."

Of course the EU/US phase one open skies agreement does not guarantee Heathrow slots, gates, or other essential facilities. In fact, public financial findings indicate Continental Airlines paid \$209 million for just four Heathrow slot pairs, i.e., over \$50 million per slot pair to support a single Heathrow roundtrip flight. Free access to Heathrow? Hardly.

While European carriers provide a handful of slots to U.S. carriers to facilitate a few new Heathrow/U.S. flights last summer, that supply of ...(inaudible) slots is not limitless, as BA/AA contends. In fact, that very small pool of slots is now exhausted.

Also, with JFK recently joining the Heathrow club as a closed airport with virtually no competitive entry, red flags should be flying high on both sides of the Atlantic. BA/AA argue that even if Heathrow is full, competitors can operate from Gatwick. Well, the stampede of carriers wishing to move from Gatwick to Heathrow would not have occurred if financial returns were in any way comparable. Heathrow has a clear premium as an airport. After all, why would its owner want to keep it, yet agree to sell off Gatwick and other London airports?

BA argues that it needs to link up with American because Sky Team and Star are dominant at their hubs. But the fact is that even BA on its own is already bigger between Heathrow and the U.S., the busiest air corridor out of Europe, than Star is from Frankfurt or Sky Team is from Paris. And that's even before it gets together with American. Heathrow accounts for nearly a quarter of all passengers traveling between Europe and the U.S.

Although BA and AA argue that the competitive environment is changing, our own look at recent data suggest that whatever changes are taking place, they're simply reinforcing Heathrow's dominance of routes between the U.S. and the EU. In fact, in 2008, it looks like eight out of the top ten U.S. routes to Europe were Heathrow routes. That makes Heathrow very special indeed to U.S. consumers. And they're going to be feeling shortchanged when suddenly there's a lot less competition and higher prices on the route to get there.

Well, I'm in Washington today to put the finishing touches to Virgin Atlantic's final submission to the Department of Transport. We will prove that the benefits BA/AA allege will result from their merger are illusory. Even Robert Crandall, the former chairman and CEO of American Airlines, who led the first attempt to merge BA and AA has now seen the light. He said it in a *London Daily Telegraph* newspaper article recently. And listen to these words, because we fought this man for years when he was trying to get this merger through last time.

He said, "Any objective observer would have to look very hard to find a way in which alliances have benefited consumers." What a change of stance from the days when he was actually chairman of American Airlines in 1996, when he said, "The BA/AA alliance will benefit travelers on both sides of the Atlantic." Bob Crandall knows in reality that BA/AA is a step too far. His former airline has long agreed that immunized alliances aren't a pure blessing, particularly when the Air France/Delta linkup cut off BA's connecting traffic at Paris.

Yet American Airlines is now trying to argue that alliances are great for consumers. Well, that's the sort of flip-flop which would give the most popular politicians a bad name. What may look like a lifesaver for an airline will be a millstone around the neck of consumers. If BA/AA were to receive clearance, fares would rise because there would be less competition. Why else would BA and AA want to join forces at an airport effectively closed to newcomers?

In addition, for the travel trade and large corporate accounts, BA/AA would be very damaging indeed. Travel agents, with such large parts of their sales being derived from BA/AA would also be completely beholden to them, with well over 75% of their income coming from just one source. They would end up being forced, for their very survival, to recommend BA/AA to passengers. A bigger airline with less competition would force up prices because it wouldn't face so much pricing pressure. Travelers would pay higher fares in return for a poorer product.

The application does not incentivize the creation of new service options. In fact, it strongly penalizes the introduction of new capacity and price competition. These are all good reasons to prevent BA/AA from going ahead. So supporters of this alliance have to resort to other arguments to sway the regulators

to permit what they would normally prevent. The current economic malaise is no justification for regulators to let the application for antitrust immunity through. BA and American had hoped to see the application approved by the end of last year. Yet, this would have represented a dereliction of duties by the regulators to rigorously(?) assess the long-term impact of a BA/AA tie-up on competition, not to provide special protection from the immediate challenges of the economic cycle. What would the BA/AA monster monopoly be like when the economy recovers?

Antitrust laws should not be ignored during economic downturns, for good reason. Because when the economy recovers, competition and consumers will be faced with a permanently changed market. That would be unsustainable. And consumers, the intended beneficiaries of competition laws, would be the biggest losers.

Of course there is an element of self-interest in Virgin Atlantic's opposition to BA/AA. The proposed alliance would impact on our ability to compete fairly on some of our most important routes. But there is a much wider consequence. At Heathrow, competitors cannot challenge BA's dominance. And where there is no meaningful competition, BA and American will be able to increase fares on the most important air corridors in the world. In fact, if granted, immunity would ensure that the two largest transatlantic players will remain in lockstep, and will result in an abuse of market power.

Consequently, the regulators need to show more than ever that they are guarding consumers' interests. Protecting monopolies is not acceptable to consumers who end up paying higher prices. And it shouldn't be acceptable to regulators. Nothing has changed since 2001 when the regulators last looked at these plans and demanded BA give up hundreds of slots at Heathrow. How can they require anything less if nothing has changed?

The European Commission has rightly opened a full investigation into BA/AA's plans, because central observers are rightly asking, how is it that two giant dominant airlines can be allowed to merge when they already have such a tight grip on the industry and consumers? BA and AA merging is the equivalent of allowing Coke and Pepsi to merge. Would the regulators allow that to happen in the soft drinks industry? I don't believe they would. Consumers certainly wouldn't stand for it and I'm pleased that the DOJ here in Washington also takes its role as the guardian of the consumer interest very seriously. Alliance must be viewed by independent competition experts in the context of the impact on the consumer.

The crisis we face in aviation doesn't mean we should relinquish our focus on making our industry more sustainable. Efficiency gains, though considerable,

are not enough. Our industry success and the rapid growth of aviation in the developing world means absolute emissions will continue to grow for many years to come. Well, this just doesn't make sense, considering the dire warnings from climate change scientists, unless we can be part of a global framework which limits and then drives down overall greenhouse gas emissions.

In December this year, governments and environmental leaders from all around the world will gather in Copenhagen to negotiate a successor to the climate change framework. With our colleagues in the Aviation Global Deal group, Virgin Atlantic is pushing hard for aviation to be included in global carbon dioxide reduction targets. We know it can be tricky, especially for an industry like ours, where some of our major competitors are based in developing countries. But it needs to be done.

And we think that a proposal being developed by the AGD group offers a way for governments to balance concerns about environmental effectiveness, economic efficiency, and the differing responsibilities for climate change between industrialized and industrializing countries. It will deliver much needed revenues for carbon abatement, lower carbon technologies, and avoid deforestation.

Over the past few months, we've been sharing this proposal with policymakers, industry, and environmental groups, and look forward to making a positive contribution to negotiations in the run-up to Copenhagen. The global scheme will replace regional carbon trading or carbon taxation regimes for aviation, such as the European Union's emissions trading scheme which aviation will be a part of from January, 2012. We know that EU ETS has received mixed reviews, and that it may well be subject to legal challenges from third country carriers. But I can't help feeling that a carbon cap and trade scheme, ideally a global carbon cap and trade scheme, is preferable to blunt taxation.

We've got firsthand experience in the U.K. where the air passenger duty, paid by each U.K. departing passenger, was initially introduced as an environmental tax, allowing aviation to cover its external costs. Since then, it has morphed into a revenue raising mechanism for government and passengers' contributions have doubled or tripled in the space of a couple of years, with none of the proceeds — *none of the proceeds* — ... (inaudible) for environmental projects. Cap and trade schemes are at least linked to the environmental performance of a carrier and incentivize low carbon behavior.

Aviation is a carbon-intensive industry that currently relies totally on fossil fuel-derived kerosene to get our planes off the ground. Just 18 months ago, people didn't think that there were any alternatives to using carbon-intensive fossil fuel-derived kerosene to get planes off the ground. And it was only with Virgin Atlantic's announcement that we're going to be the first airline, with our

partners Boeing, GE, and Imperium Renewables, to use a biofuel/kerosene blend to fly commercial jet aircraft, which was, at the time, greeted by enormous skepticism from many quarters.

But we did. And in February, 2008, and since then, sustainable biofuels are at the forefront of the whole industry's efforts to put aviation on a lower carbon flight path. Technical certification of biofuel blends as a drop-in replacement for kerosene is, I believe, only a couple of years away. And major efforts are underway through groups such as the Sustainable Aviation Fuel Users Group, to make sure that these new supply chains are developed in a sustainable way right from the very beginning. We're also a major investor in a company called Gevo, a new company which turns biomass such as sugar cane into isobutanol, which also, I believe, could be the answer for aircraft and formula one cars alike.

Well, we've been watching with keen interest the Obama Administration's focus on greening economic recovery. But we need governments all over the world to support the development of the new generation of biofuels as part of their economic regeneration efforts. I've been a big believer in innovation throughout my life. And some of the work that's going on right now on algae as a renewable fuel feed stock, and converting biomass waste into fuels that meet the strict requirements of jet kerosene, is really impressive. Government support for these efforts is essential and will help to make sure that airlines can play their crucial role in maintaining business and cultural links between countries, stimulating economic development, and flying our way out of this recession.

Sustainable aviation is the only way forward over the next 25 years. That means on environmental issues, as well as competitive issues, the industry can only thrive with airlines competing fiercely in a free market, not airlines that are given a leg-up when they already dominant markets on an unbelievable scale.

Well, Virgin Atlantic has made its way through two aviation crises in 1991 and 2001, and fully intends to get through this latest crisis. But allowing through British Airways and American Airlines on a nod wouldn't just be tilting the playing field, it would be armor plating one team to charge its way through the opposition and score touchdown after touchdown.

What is before the regulators today is the future of a competitive international aviation industry. The latest British Airways/American Airlines application isn't about what the industry wants; it's about what the consumer needs. It should not be decided on emotion or past legislative support. It should be decided on true facts. When this recession is over, we need an industry we can be proud of, an industry that promotes competition, creates jobs, and brings real

benefits to consumers. Please join me in saying, no way BA/AA. Thank you for listening and thank you. (Applause.)

MS. LEINWAND: You mentioned that after the recession lifts, that a BA and American merger would be anti-competitive and would be something that the world would regret and consumers would regret. But British Airways and American say they can't survive this particular economy without a merger. What's your response?

SIR BRANSON: Well, they are the two largest carriers flying across the transatlantic. And they certainly should be able to survive. I mean, British Airways was given all their slots at Heathrow by the government on a plate. It cost them nothing. They were given Concorde on a plate. It cost them nothing for the government. They were given it for one pound. They've been given enormous advantages. And they're quite capable of standing and surviving. You know, they're a giant airline. They've got, you know, massive advantages that have been bequeathed to them by governments in the past.

And, you know, I think there is absolutely no danger of British Airways or American Airlines going out of business. So for them to cite that they're not going to be able to survive if they're not allowed to merge, you know, is fairly unbelievable.

If they do merge, as I've just said, the control that they will have-- Let me just try to put it in simple, you know-- try to make it very clear for people to understand. Let's imagine you are a travel agent in Washington, and suddenly 75% of your business this year is from British Airways and American Airlines. They will pop in and they'll say, "Well, look," you know, "...you've done very well." You know, "Last year we gave you a ten percent discount." Now that ten percent discount that British Airways/American Airlines are giving is almost definitely their profit. So if they lost that ten percent discount, they would go out of business.

And so British Airways/American Airlines say to this travel agent, "Okay, well last year, you had 75% of the business. Now we're merged. We expect you next year to get to 80% of the business. And if you don't get to 80% of the business, you won't get your ten percent discount." So in the next few minutes, somebody comes in and wants to buy a ticket across the Atlantic. You know, "What's the best airline flying across the Atlantic?" Well, Virgin Atlantic wins all the awards, the best airline, but is it likely that that travel agent's going to recommend Virgin Atlantic? For their very survival, they have to say, "I would recommend you fly British Airways/American Airlines," because they've got to get up to that 80% of the market share next year.

And so it goes on until American Airlines and British Airways have driven out the remnants of the competition. I mean, it is preposterous that competition authorities can even consider allowing these two airlines to merge. I mean, I mentioned Coke and Pepsi. I mean, you know, who would imagine Coke and Pepsi being allowed to merge? I mean, it is the exact equivalent if you look at their market shares. It is preposterous that it can be allowed.

The frightening thing in America is that it can be done on political reasons. I mean, it doesn't necessarily have to be done on pure analytical competition reasons. This is going to go to the Department of Transportation, not necessarily the Department of Justice, which would look at something like this on strict competition reasons. And politics can play a part. And that worries us. That's why I've, you know, come here today to really appeal to the Department of Transport to look at this properly and realize that, you know, we as an airline-- You know, we're worried. We've spent 25 years building this. We've introduced thousands of innovations which other airlines have copied us on. We introduced feedback videos in all the economy class seats. They never existed before. We pioneered them. We're the first airline in the world to give people feedback video.

You know, we introduced premium economy, introduced, you know, full flat beds in upper class. We introduce stand-up baths for our passengers. You know? It's important for the consumer that smaller airlines like Virgin Atlantic survive and thrive. Thank you.

MS. LEINWAND: How much will your revenue decrease from North Atlantic flights if British Airways get antitrust immunity with American?

SIR BRANSON: I have no idea exactly how much revenue will decrease. But for the reasons I just-- the example I just gave with the travel trade, you can then, you know, move onto corporates. You know, one can have the same arguments with them. They will be able to twist arms. You know, they'll be the biggest Mafioso boss in town. I mean, they've even managed to go into travel agents and corporates over the last few weeks and get them to sign documents saying, you know, "We think this merger's going to be a good idea." You know, what choice do these corporates or travel agents have when these enormous companies come in and ask them to sign this bit of paper?

So obviously it's going to affect our revenue considerably. I have no idea exactly how much.

MS. LEINWAND: What chance is there that Virgin Atlantic could actually fail if there is a BA/American merger?

SIR BRANSON: We have battled through 9/11, you know, just because Virgin Atlantic, I think, is a lot better airline across the Atlantic than any other airline flying. I mean, when we started 25 years ago, there were eleven other U.S. carriers competing with us — Pan Am, TWA, Air Florida, Peoples Express. All eleven of those carriers went bankrupt. Virgin Atlantic survived because we offered the best quality product across the Atlantic.

But to be perfectly honest, I cannot guarantee Virgin Atlantic's survival if BA and AA are allowed to merge. It would be, you know, like competing with our hands tied behind our back, our legs, you know, bound up. It'll be very, very difficult.

MS. LEINWAND: Tell us about your plans to operate the newest wide-bodied jetliner, the Airbus A-380. What markets will the 380 serve? Will this aircraft be a formidable competitor to the wide-bodied jetliners in the British Airways and American Airlines fleets?

SIR BRANSON: Well, we will operate the A-380 on the longer routes, so routes like Tokyo, Hong Kong, Australia, Los Angeles, New York. And it's a great plane. We're actually, at the moment, talking to Airbus to try to persuade them to lengthen it. Because I think the economics of the plane will be astoundingly good if they can have a double-decker. Thank you.

MS. LEINWAND: One of our members of the audience says he avoids Heathrow because of high taxes and fees and congestion, and suggest that, why not move Virgin's hub to another nearby airport?

SIR BRANSON: Well, the only other airport nearby is Gatwick. And we do have some flights out of Gatwick. The problem is that the economics of Gatwick are just not as good as Heathrow. And the majority of people who fly to and from the U.K., the business community in particular, insists on flying out of Heathrow. If you fly on Virgin Atlantic, we have our own drive-thru check-in service and we can get you into our lounge in about four minutes from the time our limousine drops you off at Heathrow. And so if you haven't flown Virgin Atlantic, give us a try. And hopefully we can win you over to Heathrow. Thank you.

MS. LEINWAND: Of all the countries where Virgin does air transport, which country has the most restrictive laws and regulations?

SIR BRANSON: Well, the airline industry is a strange industry, in that there are still restrictions on a global basis. And we have urged for years that, you know, why should the airline industry be any different from any other industry? You know, America has a lot of restrictions. But in fairness, I mean, most

countries around the world have a lot of restrictions when it comes to the airline industry.

MS. LEINWAND: You mentioned some of your innovative ideas like the seatback movies and all that sort of thing. Who thinks these things up? Are they in a room somewhere, you know, with chocolate and beer? And then how do you implement them?

SIR BRANSON: Well all the good ideas are brought up by myself, and all the bad ideas are thought up by people who left the company a long time ago.

MS. LEINWAND: Which airlines do you think will survive and which ones will fail?

SIR BRANSON: Well, it slightly depends on whether there is an equal playing field. And as long as competition authorities create level playing fields, then I think that the better, smaller airlines will survive and grow. I mean, if you take America, you know, Southwest, you know, was once a small, very good airline. It's survived and grown because of its innovation. Jet Blue has survived and grown because of its innovation. Virgin America will survive and grow because of its innovation and because it's the best domestic airline in the States.

And I think that there's a possibility that there will be casualties amongst one or two of the big carriers. And so there should be — you know, old trees die. Old people die. And they leave room for new, young, innovative saplings to come up and be innovative and bring competition and bring lower fares and be innovative. You know, that's positive for any industry.

MS. LEINWAND: Speaking of Virgin America, how much money would you be willing to invest in it before pulling out of the market?

SIR BRANSON: Virgin America is a company which I'm only a small shareholder in, and have no direct involvement. But as far as I'm concerned, it's a great airline. It's doing well. And I think it will go on to doing great things. And so, again, I recommend you fly it. Thank you.

MS. LEINWAND: Do you expect to see a U.S. government takeover of airline carriers as we're seeing in the auto industry?

SIR BRANSON: Well, I think it would be the biggest mistake ever if the U.S. government intervened to rescue airline carriers. You know, if one or two of the big U.S. carriers went to the wall, I personally think that would be a good thing. As I said, it would leave room for the smaller, more efficient carriers to step into their shoes and offer better products and better quality and lower fares. So

this is one industry that I pray that the American government doesn't go and waste taxpayers' money trying to bail out airlines. There's plenty of entrepreneurs who'd be willing to step into the shoes of airlines that run into trouble.

MS. LEINWAND: What do you think of the U.S. decision yesterday to cancel the plan to auction slots at the three New York airports?

SIR BRANSON: Well, I hadn't heard of it. And if it's true, I think it sounds like a dreadful mistake. You know, JFK is full. That's very convenient for those people who are flying-- you know, who've got slots at JFK. The only chance for other carriers to get in there is the slots to be auctioned. And so I'm not quite sure who comes up with these ideas sometimes.

MS. LEINWAND: Aviation safety is in the news this week as the National Transportation Safety Board investigates the crash in Buffalo, New York. Do you think the issues that have come to light, including pilot pay, training, and commutes need action from the airline industry?

SIR BRANSON: You better ask me the last bit of that again. Well look — obviously if there's an incident, airlines and the FAA need to look at every single incident, see what lessons can be learned from them. I think fundamentally, you know, most domestic airlines and most international airlines are extremely well-run. At Virgin, we are proud of the fact that, you know, we've run an airline for 25 years without incident. And I think you ought to be able to run airlines, unless you're extremely bad, have extremely bad luck, without incident. It's the safest form of air travel today.

MS. LEINWAND: What do you think contributes most to your clean record?

SIR BRANSON: Which clean record are we talking about? (Laughter.) Now look — I think the most important thing, if you run an airline-- You know, everyone talks about competition. One talks about customer service. Obviously the most important thing, you run an airline, is safety. And people need to be absolutely sure when they get onboard an airline that that airline has an impeccable safety record. And so we pride ourselves on making sure that we have, you know, the best pilots with, you know, long-- a lot of experience before they fly for Virgin, and, you know, the best engineers. We even go down to having names for each of our planes. I mean, that sounds-- You know, what's the point of having a name for a plane? But, you know, the engineers know that Scarlet Lady, you know, may be had a tubing problem last week or the Maiden Voyager, you know-- I don't know, whatever.

But you humanize the plane. And I think that's even good when it comes down to engineering practices.

MS. LEINWAND: What is your near-term and long-term outlook on oil prices?

SIR BRANSON: Oil prices today should not be at \$60 dollars. And personally I believe that the market has been manipulated. Obviously we know that OPEC, you know, has a cartel that quite openly manipulates the market. And it's incredible that the Western governments don't have a body to stand up against OPEC. It's one of the biggest cartels in the world. And it's there to drive up prices for all of us consumers in the West. And yet there's very little done about it.

But I also think that oil prices have been manipulated actually in the market. And that I would say the governments need to investigate, you know, why are oil prices at \$60 dollars today, when they should logically be at \$25, \$30 dollars maximum? Oil is awash in boats sitting around the world. You know, demand for oil has dropped. What's going on? You know, are governments of oil-producing countries, you know, buying positions on Wall Street to try to create a false market? You know, I mean, it certainly needs investigating. Anyway, that's the short-term.

Longer term, I think oil will go up. And it's likely-- In a normal marketplace, it should sort of steady at sort of, you know, \$70 dollars something like that. And I think the world needs to realize that we are running out of oil, and that, you know, come 2016, 2017, demand for oil will exceed supply. And therefore, those people pushing for alternative fuels need to move as quickly as possible to get those alternative fuels. Governments need to realize that the cleanest fuel, the safest fuel, if you look at statistically, is nuclear energy, and I think try to emulate what's happened in France. We need to try to produce as many nuclear power stations as possible, particularly if we're going to try to combat global warming. It's one of the only real weapons to trying to combat global warming we have.

But, you know, if we don't move quickly, I think we could see oil creating this sort of-- the second giant recession, just as this recession starts coming out again, by oil prices soaring to levels which will tip the world into another recession.

MS. LEINWAND: Does your advocacy of environmental issues and alternative airline fuels and carbon trading make Virgin Atlantic less competitive? And why aren't your competitors following your lead?

SIR BRANSON: Well, I don't necessarily think it makes us less competitive. What we're saying is that all the profits that we make from our dirty businesses will be invested in trying to develop clean fuels. And I mentioned earlier that one of our companies that we're involved in, Gevo, has developed a fuel called isobutanol. Now the exciting thing about isobutanol is it can be made from sugar. The world is awash with sugar. It's bad for you. It creates diabetes. And, you know, therefore, you know, turning that into fuel is a good thing, and a good thing unlike ethanol, which is that it doesn't freeze at 15,000 feet. It worked fine at 35,000 feet. And if you're in a jetliner, it's quite good to have a fuel that doesn't freeze at 15,000 feet.

And it works. You know, so investing the profits from our airlines into trying to develop clean fuels like that shouldn't put us at a disadvantage, because obviously we hope that those fuels themselves will become profitable businesses in themselves. And therefore, ultimately, the Virgin Group will be as strong as it is today.

I think, you know, why are other airlines not doing more in this area, I mean, I've been fortunate. I mean, I've had time meeting people like Al Gore. I just read James Lovelock's new book, which-- I know James Lovelock well, who's a 90 year-old, absolutely brilliant scientist and essential reading for everybody, I think, Tim Flannery's book, *The Weather Makers*, and, you know, read a lot about global warming. You know, I'm not sure whether it's too late, but we have got to move extremely quickly, I think, to save this beautiful world we've got for children and grandchildren, so. We will keep working on it.

MS. LEINWAND: How quickly could some of these alternative fuels come online? And what's the outlook for alternative fuels, things we haven't even thought of for the next decade?

SIR BRANSON: Well, I've sort of answered part of that question. But I think that the alternative-- There's some alternative fuels that could be used right away. I mean, if America wasn't trying to protect its farmers, and, I think, mistakenly trying to protect its farmers who produce corn-based ethanol, effectively making it prohibitively expensive for sugar-based ethanol to be brought in from Brazil, most of your cars in America could be run today, up to 85% of all cars, you know, every individual car could be run on very clean sugar-based ethanol from places like Brazil and the Caribbean.

And the corn-based farmers can mix in their fuel as well. And I don't think they would actually suffer too much from that, because I think the ethanol market needs just to grow. Things like isobutanol, you know, it's maybe two or three years off. And in order to create enough of that, large refineries, effectively are going to have to be built. So it's going to take time to really maximize the amount

of fuel. But hopefully within five to ten years, there should be enough isobutanol to look after, anyway, definitely on the Virgin Atlantic fleet, and hopefully quite a few other fleets as well.

MS. LEINWAND: Moving on to rail travel, given your experience with rail in Europe, how do you view the attempt by President Obama to establish high speed passenger rail in the U.S.? What does he need to do to succeed? And would you invest?

SIR BRANSON: Well, the British government were brave enough to privatize the rail networks in the U.K. about ten years ago. And we've stepped in to take over the West Coast mainline, which is really the biggest line in the U.K. We've doubled the number of passengers traveling on that line from (I mean, very rough figures) something like 15 million per year to 50 million per year, since taking it over. And the way we've done that is by introducing high speed Pendolino trains.

The advantage of having high speed Pendolino trains is, not only do they go quicker for the individual who's on that particular train, but it means that we can get many more trains onto the track. And so, for instance, if you're going from London to Manchester, you can travel by train every 20 minutes. And the trains are capable of even more. And we hope that we can get that down to every 15 minutes.

And, you know, now we've got full Internet use and you never get cut off on your phone. I mean, basically why would anybody consider getting on a plane or getting in a car? And so it's been a tremendous success story, and something which-- you know, one of the things we're most proud of, making a real difference in the U.K. on.

If invited, you know, we'd be delighted to come and use the energy that we expended on the U.K., looking at the American train network, and see if we couldn't do the same here. And I'm sure that there's certain routes that would make a lot of sense. And then I think it's extremely good if Obama is thinking about trains if they are environmentally much more friendly than planes and cars. And it's a really delightful way of traveling.

MS. LEINWAND: Can you tell us the current status of your venture on affordable space travel? And do you think Virgin will fly to the moon in your lifetime?

SIR BRANSON: I hope so. Well, where are we...? Extremely exciting. You know, spaceship one flew, proved that a reusable spaceship could be built and run by a commercial company. So we have been building, Eve, which is the

mother ship, to take spaceship two into space. The mother ship, Eve, is now finished and flying. It's a beautiful-looking craft named after my mother. Of course it's beautiful. And therefore, the craft that is now capable of taking the spaceship up to 60,000 feet is ready to do its job.

The spaceship will be finished for its first tests at the end of this year. And the rockets are firing well and have been properly tested. And so the end of this year, we'll go through extensive tests. I mean, it may last 18 months. And then at the end of the 18 months, myself and my children and my parents, and Burt Rutan, who's the genius designer of all this, will go into space, and so tremendously exciting.

New Mexico, building a space port for us in the desert there, which is going to be incredible space port. And, you know, it's the birth of, I think, a whole new era of space travel, very environmentally friendly. I mean, the cost of us putting somebody into space will be less than flying to London and back on a commercial plane, so massive difference to the environmental cost of, say, a NASA spaceship going into space. And we're also going to be able to put satellites into space at a fraction of the price that satellites currently go into space. So exciting days.

Now whether we'll ever go to the moon, I think we'll just give the moon a miss, and go straight to Mars. Thank you.

MS. LEINWAND: Okay, we are almost out of time. But before asking the last question, we have a couple of important matters to take care of. First of all, let me remind our members of future speakers. Tomorrow, John W. Rowe, chairman and CEO of Exelon Corporation will discuss, "National Energy Policy in a Time of Economic Uncertainty." On May 21st, Ray LaHood, the U.S. Transportation Secretary, will discuss his agency's involvement in President Obama's \$787 billion dollar economic stimulus package aimed at turning around the U.S. economy. And on May 28th, Mary Tyler Moore, actress and international chairman for the Juvenile Diabetes Research Foundation, will discuss research and finding a cure for diabetes.

Second, I would like to present Mr. Branson with the traditional NPC mug.

SIR BRANSON: Thank you very much.

MS. LEINWAND: Okay. And for our last question, so someone is asking, in this time of economic uncertainty, what do you look for in individuals to hire?

SIR BRANSON: ...(inaudible) stay away from entrepreneurs. (Laughter.) No, I think the key to, say, if we're taking on managers at Virgin, what we look for is people who are great motivators of people, people who look for the best in people, people who praise and don't criticize. And if you can find those kinds of people, you have a happy company.

And do we look for entrepreneurs? I don't believe in competition, and so we don't look for entrepreneurs. But thanks very much.

MS. LEINWAND: Thank you very much for coming today. (Applause.) I'd like to thank you all for coming today. I'd also like to thank National Press Club staff members, Melinda Cooke, Pat Nelson, JoAnn Booz and Howard Rothman for organizing today's lunch. Also thanks to the NPC Library for its research.

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Thank you very much and we are adjourned. (Gavel sounds.)

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