

Address by Mark Schwab
CEO Star Alliance,
to the European Aviation Club,
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Ladies and Gentlemen

When somebody here, in this wonderful city, talks about the daily challenges of a complex institution, with 28 Members, both large and small, diverse in culture, ambitious in their own strategies, differing – indeed, sometimes even divided - in their opinions, there is probably little doubt which institution that person is talking about.

Well, today, you will, for a change, hear about some of the daily challenges of a complex institution, with 28 Members, both large and small, diverse in culture, ambitious in their own strategies, differing – indeed, sometimes even divided - in their opinions, which is not the European Union.

Now there's a coincidence!

And I will address a few other interesting coincidences in the next few minutes.

But let's stay with the EU comparison for a moment because it helps me to prove wrong a theme repeated by certain competitors speaking in this distinguished institution or similar industry gatherings in the past months.

What they said was: “The times of Airline Alliances are over.”

Let me show you that such statements, mostly made by speakers running wealthy state-owned airlines in the Gulf Region, are based either on lack of insight or on “wishful thinking” or both.

In fact, Alliances face many of the same challenges as the EU.

- Just like the European Union, alliances must be willing and able to modernize their ways of doing business, break with traditions and concentrate on their strengths.
- Just like the European Union, alliances must find an answer to the competitive challenges of a more and more globalized environment.
- And just like the European Union, alliances must keep the interests of all of their members in mind when solving the many pressing issues they face.

But I am equally confident that

- Just like the European Union, alliances will have an important role to play in the future

“This will never work for us” is high on the TOP 10 list of objections that you can hear in our Alliance meetings at the beginning of very ambitious projects.

A great example is our new Terminal 2 in London Heathrow. I say – not without pride – “our” Terminal, because all 23 Star Alliance members that operate to Heathrow will find their new home in this brand new facility. The facility has been purpose built to address the long list of passenger service requirements that our team of some of the world’s leading airlines have brought to the table.

But making this work required flexibility – on both sides. In today’s world, fulfilling this long list of airline requirements creates a huge challenge given the resource, space and fiscal limitations that confront airport operators.

So, after a series of “This will never work” meetings between us and Heathrow Airport Limited , we all had to come up with innovative and collective solutions. In doing so, we returned to the “Together we can achieve more, than by doing it alone” spirit that inspired the founding fathers of Star Alliance back in 1996.

Realistically our new home in London would be far too small if each of our airlines maintained their traditional airport operating and passenger handling processes. So in order to come to workable

solutions, everybody has had to agree to make things significantly different.

That means taking steps such as:

- reducing the number of ground-handling companies,
- implementing state-of-the-art common check-in facilities,
- and addressing the growing demand of passengers to use the self-service solutions made available on their smartphones and other mobile devices.

These are just a few examples of the hundreds of ideas that creative people both on the airline and the airport-side came up with, to create a state-of the-art facility and service offering despite all of the constraints.

When it opens in Summer 2014 our new Alliance Terminal will bring a series of customer comfort improvements, will be highly cost-efficient for the airlines and will be the most effective solution for the airport from a space and resource perspective – in other words, it will achieve the best result for all concerned. London Heathrow Terminal 2 – or, as it will be known, the Queen’s Terminal, is another Alliance-first in the industry. I have no doubt that we will transfer the many experiences gained to other airports around the globe, and I have also no doubt that our competitors will strive to replicate this concept again at the next available opportunity.

So why am I telling you all of this? Because of true disappointment:

I am quite sure that the European Union also has a number of these “This will never work” topics on its table.

The most recent example I have seen lies in the published results of the outcome of the EU Informal Transport Council in Vilnius last week.

We all welcome the remarks of Mr. Kallas, the European Commissioner for Transport, that “a Single European Sky is needed.” However we must acknowledge that the current system is working against Transport. The next Council, and the one after that will not crack this nut unless EU leaders are willing to forcefully address the issue and abandon the “This will not work for us” attitude.

In our case, the Heathrow project required a unified display of will, a “Wake-up call” issued by the “very top” to all the teams involved, followed by continuous attention on the matter until we got the job done.

I am not here to tell those responsible in Brussels how they should do their job, but in our Alliance we have developed a culture of openly sharing observations and experiences, learning from previous mistakes and continuously seeking improvements. And so all I am doing here is openly sharing my experience.

Mr. Kallas is right. The Single European Sky is one of the most important endeavors that the Union must undertake to support economic growth, passenger safety and environmental sustainability. But the success of the project requires straightforward and sustained guidance from the “very top” if it is to succeed. Otherwise, we will continue to be witnesses of a rather static political debate instead of being beneficiaries of true progress in the matter.

To put it another way:

Article 6 of the REGULATION (EC) No 261/2004 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 11 February 2004 reads:

“When an operating air carrier reasonably expects a flight to be delayed beyond its scheduled time of departure for two hours or more, ... passengers shall be offered ... (care and compensation) by the operating air carrier.”

Why will we never read a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL?

“When responsible European governments expect the introduction of a single modern Air Traffic control system to be delayed beyond its

agreed time of implementation for more than two decades, they shall offer airlines and their passengers care and compensation.”

Well, I promise to come back to EU regulations in a moment, but with regards to the Single European Sky, we cannot stress it often enough, that it would indeed be the one of the largest “pro-environment” projects the EU could invest in. It is a well-known fact that it would not only bring 5 billion Euros in annual cost savings (14m Euro every day) but would also reduce annual CO2 emissions by up to 12 million tonnes.

Which leads me to the second coincidence:

As we meet here today, the nations of the world come together under the banner of the United Nations for the 38th Assembly of the International Civil Aviation Organization (ICAO) in Montreal.

All of us in the industry look to that meeting with a mixture of hope and trepidation. ICAO has a long list of important and unresolved issues on its agenda.

But let me stay on the environmental subject for a minute.

Representing an international family of airlines makes it difficult for me to express a collective opinion on the European approach to reduce carbon emissions through its emissions trading scheme. However, we believe that the EU did the right thing when it “stopped the clock,” because it averted a potential trade war and allowed States to focus their attention on a global solution.

We join those in the industry who support the initiative to come to a single global solution under the umbrella of ICAO. Many of our members were intimately involved in formulating the industry position, including the goal of carbon neutral growth from 2020, that has won significant government support. And we are prepared to contribute significantly to the common industry goal of substantially reducing the impact of the aviation sector on climate change.

We airlines stand firm on our “four pillar” commitment to further improve technology, create a more efficient infrastructure, enhance our operations and to support globally introduced market-based measures when necessary to fill the gap left by the first three pillars. Star Alliance members alone will be investing well above 100 billion USD into brand new and much more environmental friendly aircraft fleets in the next few years. We are participating in several industry leading initiatives to reduce fossil fuel consumption in air transportation and we are more than willing to play our part in improving the effectiveness of our daily operations in cooperation

with airports and air navigation services. So, in three of the four pillars we are aggressively working towards the goal of achieving climate neutral growth by 2020. And we are hopeful that ICAO will make significant progress towards a global solution in Assembly negotiations that are ongoing as we speak.

In my personal opinion, the time has come to use all the collective energy to convince the Assembly of the value of a global approach to market based measures.

Like in an Alliance, this will need to be a balanced approach leading towards a blended solution.

But in essence it must be a solution that is truly global and preserves competition.

Look at the Heathrow Terminal, even the “This will never work for us” people are now convinced proponents of a good new concept.

A third coincidence is also worth looking at:

Not only at ICAO in Montreal, but also in Washington and here in Brussels, „Passenger Rights“ are talk of the town.

When I had a chance to address the International Aviation Club in Washington just a few weeks ago, I promised them to raise this matter in similar fashion over here.

I said that I would not want to give up hope that, one day, Governments would finally stop micromanaging aviation.

Just one example:

The same governments that suggest we should all standardize baggage rules for interline journeys would reproach us for anti-competitive behavior if we talked about aligning baggage charges.

Don't get me wrong: Star Alliance will never suggest doing away with strict anti-trust rules. They have served consumers and our industry well.

But we respectfully request that regulators give us a manageable and affordable framework to comply with consumer protection requirements.

And again, don't get me wrong: while consumer protection rules in the aviation sector are already now more comprehensive than in any other mode of transport, we will not stand in the way of further harmonization and affordable, meaningful and generally applicable

rules. But the key point here is, that we need a more uniform, global approach.

By all means, hold us accountable for true self-inflicted quality and service deficiencies. But do not make us pay for the lack of public investment into modern and efficient infrastructure, the shortcomings of others in the complex service chain or the continued disregard for the urgent need to create a future-oriented aviation policy framework.

And for the benefit of all international travelers and the airlines which serve them, please stop the mushrooming of completely uncoordinated, purely localized approaches to policy making, not just in consumer protection but in many other areas, for instance safety and security.

We are a global alliance: We know the value of globally valid norms.

You might wonder, why I have not started my speech by taking the perfect opportunity to stand in front of well-connected opinion leaders and policy makers, to tell you that Star Alliance with its high quality airline members based in every corner of the world offers you by far the largest network of convenient connections to 1,328 airports in 195 countries. Since all of you are frequent travelers yourselves, I thought

I would not have to advertise the fact that earning and redeeming miles across such a large network is the single most important topic mentioned by customers when asked why they like to travel within our alliance network. And it would have taken too much time to describe in detail the advantages of well-coordinated priority services, such as the over 1,000 lounges which open their doors to the frequent international travelers, our most important customers.

In fact, I just come back from Los Angeles where we opened on Monday the latest example of a lounge that offers superior comfort to our customers while at the same time creating cost synergies for the member carriers. Come and visit us, when you pass through L.A. on one of your next trips. It's well worth it.

I should also note that Star Alliance here in Brussels does have an excellent member airline as our home carrier. Brussels Airlines contributes significantly to our global network, connecting the European Capital with the rest of the world. It provides connecting services for our other 16 member airlines serving the region.

Collectively we offer to our passengers a network of nonstop flights from Brussels to 78 destinations in 39 countries.

Brussels Airlines, as one of the strongest international airlines flying to and from Africa, helps us secure our Alliance leadership position in

the rapid and highly competitive development and growth of African air transport.

Africa is just one of the markets, in which partnerships among airlines are ultimately necessary to drive sustainable progress. And the same can be said for other regions such as India, Russia or Latin America.

So who knows, you might even have a question about these aspects of Airline alliances. That's, why I thought I should touch on it quickly at the end of my remarks.

Ladies and Gentlemen,

Global airline alliances are good for customers, who receive a wealth of additional options and services.

Alliances are good for the airlines, and their employees, as they add value to the bottom line of their organizations beyond their individual capabilities.

And, alliances support the demands of today's globalized economy and provide public value because they contribute to bringing people and nations closer together.

So, why in the world, would alliances not have a role to play in the future?

I am sure, Rigas, that is what you expected me to say anyway, when you invited me to come to Brussels.

And I am equally sure that in such a highly qualified setting, we will have a chance to discuss these and other issues in a little more detail over the next couple of minutes.

So I look forward to your questions and thank you for your attention.