

Address by Mark Schwab
CEO Star Alliance,
to the Washington Aviation Club,
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Thank you, Dave

Ladies and Gentlemen,

I am honored to be here today at the invitation of this prestigious club to share with you my views on the relevance of airline alliances and how they fit into the greater scheme of global economic relationships.

Without a doubt, the civil aviation industry plays an instrumental role in

- how we live together as nations,
- how we learn from each other and
- how we communicate and trade with each other across the globe.

While airline alliances are a relatively new concept, they have repeatedly and consistently proven their worth in supporting and enhancing this role of aviation in the world economy.

Star Alliance, created a little more than 16 years ago as the world's first global airline alliance, has always been at the forefront of this development. We lead the pack – as we have from the beginning – and our strategy is to maintain this position.

I am well aware that a couple of your previous speakers have aired a different opinion on this: so let me take this opportunity to set a few records straight.

I would like to spend the next few minutes

- reporting on what customers expect from alliances,
- looking at the way competitors see us and
- reflecting a little on the role of governments and regulators.

Or, to put it another way, I want to explain why alliances have been good for the industry for the last 16 years – and why they will be good for our industry for many years to come.

I would like to begin by touching on the unfortunate and tragic incident which occurred just a few weeks ago in San Francisco. As an audience close to our business, you will understand that I am not going to make any comments on the event itself.

This complex and difficult situation, however, was a real-life demonstration of one of the many hidden values that are in the very DNA of our alliance.

Without a moment's hesitation, our member airline United shifted into high gear and activated its own crisis and humanitarian relief procedures to help another Star Alliance member carrier. Trained and well prepared volunteers from several member airlines worked around the clock, together with the team dispatched from Seoul, to look after those who had been affected directly or indirectly.

This close and immediate cooperation in San Francisco demonstrated quite prominently that our airlines can rely on each other, especially in times of crisis. The alliance framework allows us all to make best use of globally spread resources and gives access to a wealth of expertise. In moments such as these, everyone can understand why we so often refer to our alliance as “the Star Alliance family”.

This same spirit of cooperation underpins our Alliance in less publicly visible ways. We have created a unique set of standards for quality and consistency among the members, not only for the quick and professional response to unforeseen situations, but also in many areas such as passenger service, data exchange, IT standardization and back-office functionality. In our day-to-day business, these standards are instrumental in ensuring that our passengers continue to rate our alliance service offerings better than those of our competitors.

When I took on this role one and a half years ago, I wanted to get a fresh and unbiased understanding of what our customers really expect from airline alliances. While we regularly engage in customer satisfaction surveys, we had not run a comprehensive study for a couple of years.

In our definition, the “Alliance customer” travels relatively often to several different destinations – and flies regularly with more than one member airline, not just his or her own “home carrier”.

The results of the study were quite interesting and, even running the risk that it might save our competitors some money (!), I would like to share them with you. In summary, we found that:

1. Alliance customers know exactly what alliances can do for them. Possibly even more importantly, they also know very well what alliances cannot solve.
2. Despite the changes in our industry, more competition from outside alliances and from low-cost competitors, the basic requirements of today’s alliance customers have not dramatically changed from the founding days, in 1997.

In short, they want:

- Global reach,
- worldwide recognition and
- seamless service.

Let's look at each of the three for a moment:

“Global reach”:

Overall, the Star Alliance network offers more than 21,900 daily flights. In other words: Every two seconds one of our airplanes is taking off or landing at one of the 1,328 airports we serve in 195 countries.

This represents the most comprehensive network that airlines can offer you. No matter where you want to go, be it Kobe in Japan or Lugano in Switzerland, Hamilton in New Zealand or Bakersfield, California, our Alliance will take you there.

Put more simply: As Jeff Smisek once said, “If we do not fly there, you probably don't want to go there anyway.”

Every single day 43 thousand passengers are connecting between our member airlines. To fly these passengers alone you would need almost 300 medium haul jets. These are powerful numbers, which in themselves explain the strength of global aviation networks and the business benefits they create for the participating airlines.

When my colleague, former Star Alliance CEO and now Austrian Airlines chief, Jaan Albrecht, spoke to this esteemed club almost exactly 10 years ago, Star Alliance comprised only half as many airlines, flew to half as many destinations and operated only half as many flights.

10 years later, we have doubled our size and reach.

And, let's not forget, our competitors grew their businesses as well.

The developments illustrate that there was definitely something in that idea generated by Star Alliance's founding fathers, namely that no airline alone will ever have the economic power to develop a truly global presence.

Alliances were created to contribute to the economic success of its members beyond their individual capabilities.

That concept has **not changed** at all.

Indeed today, two thirds of world aviation is organized within alliances.

What **has** changed is the competitive environment. Alliances need to be conscious of these developments and must be willing and able to adapt their strategies accordingly.

The industry situation is far more fluid than it was 10 years ago.

Consolidation makes members shift from one alliance to another, and new competitors are creating, and serving, changing market demands.

In this context, allow me to comment on members switching alliances.

Without preempting any decision by the regulatory authorities on both sides of the Atlantic, we truly regret that US Airways as a consequence of its highly likely merger will leave our alliance and will, as part of the new, larger entity, be a member of a competing alliance.

US Airways has been a strong and loyal alliance player and has contributed tremendously to the leadership that our alliance has been able to play in this part of the world. My respect goes to the US Airways management team; there is a lot of work ahead of them and assuming that the merger gets approved, we wish them well.

As much as we regret the departure, realistically, at the same time we acknowledge, it is good for competition and it is good for the industry as a whole.

In fact, the same is true for the merger of our Brazilian member TAM and the Chilean airline LAN in South America.

We strongly believe that fair competition among alliances of strong, high quality airlines, running sustainable businesses, is in the best interest of both global and national economies. It is good for jobs, it is good for investors and it is good for our passengers as well.

It may be useful to note at this point that, a year from now, even after these changes in Alliance composition, Star Alliance will maintain its leadership position in the industry with a 23% global market share. That compares with the roughly 19% share that each of the two competing alliances will secure in the future.

And these market shares far exceed any figure that those airlines that publicly pride themselves on being “Global Airlines” will likely be able to achieve on their own.

I will come back to that point a little later.

Point number two on the customer wish list:

Worldwide recognition

Or as I see this, from my own experience: **the power of this little piece of plastic.**

Being a valued customer in one of our alliance’s frequent flyer programs brings you highly convenient advantages when you spend as many days on the road each year as I do.

Advantages, like

- getting priority treatment at airports around the world,
- using dedicated Check-in counters for premium customers,
- being first on the stand-by list,
- spending time at the airport in the frequent flyer lounge,
- being first to board the airplane

And finally:

- seeing my bag arrive first on the belt after the flight.

Making this happen on a global scale, right the way across our networks, may sound easy. But I can assure you it is not.

All these product elements require considerable investment and process co-ordination across our 28 member airlines. Star Alliance has learned a lot over the years to make these solutions work!

From my conversations with consumer advocates and frequent international travelers, I know that these benefits, introduced on a global scale, are seen as the most attractive invention that alliances have contributed to modern air travel.

The third customer priority is also one of the largest fields of engagement for my team:

Seamless service

Managing the connection points between separate systems and processes that airlines have developed over many decades is a fascinating challenge. Increasingly we are investing into state-of-the-art hub technology to make the information flow among our members failsafe and easier to administer.

Passengers recognize these behind the scenes enhancements, because they get their boarding passes for all legs of their journey and receive their miles for every portion of their trip.

You all know how annoying it can be if, once in a while, we fail to immediately deliver the alliance service which we promised you – namely that you will connect smoothly and uninterrupted across our network. In reality, this can only be done through fast and accurate transfer of millions of bits of data between our airline systems.

In another important stream of activities we focus on consistent passenger service on the ground and on the creation and the operation of modern, passenger pleasing airport facilities.

Let me mention two of them:

The new London Heathrow Terminal 2, or to give it its proper name the “Queen’s Terminal”, will become the home of Star Alliance at Heathrow in 2014. Designed as an alliance terminal, it will accommodate all 23 of our member airlines operating to this important hub. You will find many new features in the airport experience, such as common check-in across many carriers, automated baggage acceptance and boarding facilities. It will be a very welcoming terminal. And for us, it will be a tremendous improvement over what we have today in Heathrow.

A little closer to Washington, another project is worth noting,, namely our new Alliance lounge in the Tom Bradley terminal in Los Angeles, due to open in a matter of months. I hope that you take a look at it when you pass through L.A. next time.

I mention these projects here, not just because of the opportunity to do a little advertising to this high caliber audience, but because I want to make sure that you realize that alliances are not just marketing vehicles allowing airlines to fill more of their seats.

Our alliance has over time learned to create cost efficiencies for its members, not only by operating joint services and joint facilities, but also by buying jet fuel or aircraft seats together or even trading spare parts among themselves.

Already today these activities return over 100 million dollars every year for our members collectively. And driven by economic realities, we will - in my opinion- be seeing more and more of these types of value-adding initiatives within the global alliances.

Ladies and Gentlemen,

In preparing for today's meeting I used the opportunity to glance through the club's website in order to get a good understanding of what has been said here in recent months.

And I was happy to see that alliances have frequently played a prominent role in remarks delivered by your previous speakers.

Some of them, being part of alliances themselves, praised them as an integral part of their company's strategies. Others painted a picture as if the days of alliances were over.

I can tell you: the days of alliances are not over.

OK, what else would you **expect me** to say?

But in addition to what I have said earlier about the global strength and role of our alliance, it must also be recognized that over the past 18 months a fair part of the remaining industry has finally woken up to the fact that global aviation development only works in partnerships.

Some of those, who have stood here in front of you, claiming to be able to expand through organic growth, have meanwhile entered into – quote “strategic partnerships in relevant markets” unquote.

Those, who have told you that they plan to significantly grow their networks by taking onboard hundreds of airplanes in just a few years have meanwhile found out that buying cash-seeking airlines around the globe is actually a cheaper way to gain market share.

And those who for many years have claimed to be better off alone, have finally announced their plans to join an alliance in the not too distant future.

Well, to all of these Gentlemen, welcome to the club!

Good partners are hard to find.

Fair and mutually beneficial partnerships are hard to maintain.

Talking about “fairness”:

I need to echo the concerns that A4A, ALPA and TTD recently voiced with regard to a potential customs preclearance facility on the other side of the world.

Creating competitive advantages for individual foreign entities, just because they are able to pay for it, should not be a top priority for any national government. And being an American, I personally cannot understand why we think about the extension of such services.

On the other hand, the new self-service kiosks we see being deployed at U.S. gateways have the potential to significantly reduce the discouragingly long waiting times, which visitors to our country have been experiencing.

And we need to invest here,

because in my frequent contacts with economic leaders around the world I am feeling the impact. Faced with the prospect of losing hours of their precious time standing in line, people tell me that they think twice before planning short trips to meet business partners in our

country and that they are definitely avoiding transiting through our hubs on their way to other destinations.

Back to the Gulf:

I can also pre-empt one of your potential questions regarding these carriers and the likelihood of a future Star Alliance membership.

Our members base their decisions on the inclusion of additional airlines on many factors. Safety and Quality play a prime role in each of these decisions, as do the economic benefits that each new member would be able to bring to the family, for instance by contributing an own strong home market.

And here is the point:

We all know quite well what these airlines would gain from a membership in any of the alliances. But what they would bring to the table, we have yet to understand.

I guess that gives you an insight into my personal answer to this question. But over the decades of working in this constantly moving industry I have learned never to say never.

Yes, it is a constantly moving industry and the pace of change seems ever increasing.

Nonetheless, it is the traditional role of the speaker to make his or her predictions as to what the future holds. So here is my vision for the future of our industry:

Firstly, I hope I was able to convince you that strong and flexible airline alliances will have their role to play for the foreseeable future.

Secondly, airline consolidation will continue, or perhaps I should say, must continue.

Our low-margin, capital-intensive business does not leave us any other option than to continue looking for efficiencies through working together as closely as possible.

While so far this has happened solely on a regional scale, I am convinced that the development will not stop here. One day, airline consolidation will happen across continents.

And let's be honest,

why, for example, shouldn't Chinese carriers be allowed to team up with European ones or vice-versa?

Why should our industry be treated any differently than the car industry or telecoms?

The reasons I hear in favor of different treatment sound less and less convincing, when you put them into a global economic context.

And finally, I will not give up hope that one day Governments will finally stop micromanaging aviation.

Just one example:

The same governments which suggest that 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.

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 short comings of others in the complex service chain or the continued disregard for the urgent need to create a future-oriented aviation policy framework.

Ladies and Gentlemen,

My current office is in Frankfurt. So, please take these remarks as being targeted at the European policy maker in Brussels. Any resemblance to conversations happening in this part of the world is purely coincidental.

And since I will be in Brussels soon, well, you can already guess how I will package my concerns over there.

As an Alliance we normally concentrate on creating value for our over 730 million customers and our 28 member airlines. We normally leave it to others to comment on the greater industry issues.

But, Dave, thanks for the invitation, I enjoy being here.

So, let me summarize:

Alliances have proven to be the incubators for close and successful global cooperation in aviation.

We have gained a tremendous wealth of experience in the different corners of our world when it comes to understanding

- how ideas are created
- how decisions are made
- how businesses are run.

Alliances are in the meantime strong global brands,

- appreciated by consumers,

- helpful to the global economy and as such,
- worth being fostered.

It is for these reasons, that we have chosen the tag line for our brand:

Star Alliance

“The way the Earth connects”

Thank you, Ladies and Gentlemen