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Good afternoon and thank you for asking me to speak to you today. Let me say how honored I am by the presence of Ambassador Bianchi.

I will begin by making some general points about the airline industry.

Then I will talk about Chile and LanChile.

First and most important, why is the development of air services a good thing?

I would compare the need to develop Latin American air services, to the development of the interstate highway system in the US in the 1950's.

This made US travel much easier. Now the benefits of economic growth are spread widely across the country. Areas previously underdeveloped are more prosperous.

US Domestic Tourism has also grown strongly with consumer and regional development benefits.

What should this teach us in Latin America?

The need for economic development in the region is clear.

There are still major problems of poverty which affect economic and political stability.

We must solve them.

The region is rich in natural and human resources.

But the distances are large and surface travel is difficult and can be dangerous at times.

We must build a strong network of air services inside the region and to other parts of the world.

This will help link a more prosperous Latin American economy into the global economy.

The Latin American tourism industry will also grow, lifting GNP and employment.

So we will reduce regional poverty and generate more funds for the necessary investments in infrastructure and education.

So how do we do it?

The Airline Industry has to change from a fragmented industry based on the nationality of the airline towards several transnational airlines.

These new airlines would have

- Global networks
- Compete strongly to gain customers.
- They will also become more cost effective.

This is in the public interest.

The consumer needs for global travel, good service standards and value for money will be met.

We will have competition based on free choice, rather than artificial restrictions on where airlines can fly.

Complex journeys will become easier.

Industry operating standards including safety will improve and become more consistent.

This will not happen in one step and is probably going to be a long process

What are the obstacles to achieving this?

I think there are four.

Regulation: The global airline route structure is driven by a system of bilateral treaties that is based on a mercantilist view of the world. This is seen as obsolete in other industries.

In passing let me say this way of thinking was the cause of the decline of Spain as a world power.

Maybe we should learn from history.

The closure of domestic aviation markets to non-national carriers, the very strange rules associating nationality of ownership and control with where the airline can fly are the consequences. For example It is strange that at times airlines from Latin America have fewer traffic rights to fly between cities in the region than carriers from outside the region.

Also some Governments insist their employees fly on the carriers of their own country.

The other aspects of regulation are technical and safety related issues that ICAO has tried to harmonize globally. Recent examples such as the EU position on aircraft noise threaten to undermine this system.

Complexities of merging different airlines: Ours is a complex industry. Airlines have different ways of managing the key business processes, different cultures, management styles, aircraft, computer systems, reward systems etc.

Labor Issues: We have seen in the US and elsewhere the amount of conflict that is generated by airline mergers due to pilot seniority issues, union rules etc.

Finance: Financing the mergers needed will not be simple. The industry does not have a high return on capital employed. This has to change. If not, who will invest in, or lend money to the industry?

Even with all these difficulties sooner or later the strength of the marketing argument and the economic logic will win.

Let me state my position and the air transport policy of the Chilean Government clearly.

We are both strongly for deregulation. In this spirit Chile became the first country in the region to implement open skies with the U.S. last year.

But also we are clear that there needs to be equal opportunity for all, in open markets.

Our attitude is not typical of governments and airlines from our region. Protectionism is still very strong.

Why do these attitudes persist?

I believe there are several reasons.

First the feeling in Latin America that the US carriers have an unfair advantage.

The US domestic market represents 25% of the global aviation market and it is closed to non US carriers.

The US carriers have developed this as a highly profitable operation.

They are often very strong at their important hubs.

This is combined with the failure to develop the infrastructure needed to cope with market growth.

All this has raised barriers to market entry.

Sometimes US airlines have used domestic profits to finance seriously unprofitable international operations.

This causes big problems for their Latin American competitors who have no such gold mine.

Remember that open skies agreements do not have any anti-dumping conditions.

This explains why a Latin Carrier needs a US partner if the skies are to be opened.

The Latin carrier needs feed traffic at their gateways in the US, if not the US carrier has a huge advantage.

Second there is the power of the big US airline frequent flyer programs.

To sell to high value customers, the Latin Carrier needs a program in the US as strong as those of the US airlines, at competitive costs.

The US carriers have great marketing power and resources. Unless the Latin Carrier can do joint planning and marketing with their US partner, it gives a big advantage to a competitive US airline which has both a US domestic and an international network.

Route and fleet planning are life and death decisions for Latin Carriers. They need to be able to make these decisions jointly with their partners. Otherwise the risks are too great.

All of this explains why anti-trust immunity is vital to an effective alliance with a US partner.

There is another interesting point. The Latin countries nearest to the US are competing with a route system that uses resources that are shared between the short haul international and the US domestic network.

Of course the US network is much larger and more profitable than the domestic networks of Mexico or Central America.

Yet the Latin carrier is shut out of the US domestic market. So the competitive position of the US carrier is much stronger.

We are lucky in Chile, because of the need to dedicate whole aircraft and crews to a US Chile operation.

With the strong resistance to open skies in the region the US needs to be able to demonstrate that open skies are compatible with the development of the airlines in Latin America. If not the opponents of deregulation will gain another argument to reinforce their position.

Another issue used by the opponents of deregulation of route rights is the FAA safety oversight program.

This is a pity. I believe that the whole industry should be subject to safety regulation that is fairly applied and enforced.

A carrier like LanChile should and does spend large amounts of money on safety. We do not want to compete against carriers who do not wish to put safety as the number one priority in airline operations, and are not forced to do so.

However given the way the program operates and given that some excellent carriers come from countries that fall below Category 1 status the application of the program has generated tensions So it is easier for populists to argue that the program is really a way of helping US carriers.

I don't have the solution here but I just want you to be aware it is an emotional issue.

So now let me talk about Chile.

It has lots to offer the business person and the tourist.

Chilean policy is clearly in favor of an open economy. The macroeconomic fundamentals are sound we are just emerging from the recession that hit South America hard. The time is right to make investments in Chile and the country welcomes foreign investment.

Chile offers the tourist lots of options. It offers the unspoiled Antarctic where you can go cruising. The best Skiing in South America is available during the US summer.

For Fly fishermen Chile is world class. Imagine catching a 15 pound brown trout under the shadow of the Andes!

We have Adventure tourism, rafting, climbing and wonderful lake and mountain scenery.

The Atacama Desert has museums about the early settlers from thousands of years ago.

Chilean hotels include the famous Explora hotels that blend naturally into their surroundings. One in Torres Del Paine in the deep South and another new hotel in the Atacama desert Santiago our capital city is safe and has excellent facilities. It is the best place in South America to hold meetings and conventions. City hotels include the Hyatt, The Marriott, The Sheraton, The Crown Plaza and an Intercontinental is about to open.

The world famous Chilean wines are available throughout Chile. A tourist can also enjoy Chilean seafood and fruit which we export across the world because of their quality.

And now LanChile:

- LanChile is one of the principal passenger and cargo airlines in Latin America.
 - We serve more than 26 cities internationally in 16 countries. We transport one of every two passengers to and from Chile
 - and three of every four passengers within Chile.
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- We also offer a full cargo service across Latin America.
 - We have a total fleet of 45 aircraft which includes eight cargo freighters.
 - We are the seventh largest Chilean Company with \$1.3 billion dollars in annual revenues.
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We have a unique mix of the passenger and cargo businesses and give the businesses equal attention. Almost 40 percent of our revenues are cargo related and that percentage is increasing.

Our Passenger network is based at our main hub in Santiago, Chile, and we are in the process of developing a second hub in Lima, Peru.

Our Latin American cargo network is based at our hub in Miami.

We transport cargo in the bellies of our passenger aircraft, in our own freighters, in four 747 freighters which we wet-lease, and by buying belly space from other airlines.

Since we bought LanChile in 1994, the Company has grown its operating revenues at an annual rate of 25 percent.

The Company has consistently made money - even in the regional economic downturn in 1998 and 1999.

No other South American airline has done this.

In the first quarter, we faced a slow economic recovery, high competition, and high fuel prices. Despite a \$23 million-dollar increase in costs related to higher fuel prices, we earned net income of 25.4 million dollars.

Excluding an extraordinary gain in the first quarter of 1999, our profits increased by 35 percent.

How did we do this? ... The key reasons are .

First, and most important safety is our number one priority. We spend a lot of time and money to continually improve our safety standards.

Chile is rated Category 1 by the FAA and LanChile's maintenance base is FAA approved. We have recently formed a joint venture with Lufthansa Technik for both a technical training school and a Flight Training Center in Santiago.

We are also making a major investment in a state of the art information system in our technical area.

Second, We are unique in our ability to mix the passenger and cargo businesses. This has enabled us to manage downturns effectively by maximizing total aircraft revenue.

Third, We have a competitive schedule. We have concentrated on improving the number of flights on each route to provide a highly competitive service.

Fourth, we build flexibility into our route and fleet planning, operations and service. We are good at reacting quickly to changes in the competitive or economic environment.

Fifth, Our service standards are recognized as world-class. We invest more in training than any other Chilean company and it shows.

For the last twelve months, 91 percent of our flights were on time.

Sixth, through an aggressive alliance strategy, we now work with partners throughout the world. Five years ago when we arrived at LanChile, the Company had no alliances. Now, we have regional alliances with other Latin American carriers, a deep strategic alliance with American Airlines that has antitrust immunity and we offer the full range of **oneworld** benefits since the 1st of June.

Seventh, we have access to international capital and debt markets. Following the issue of ADR's in 1997, We are the only Latin American carrier that is traded on the New York Stock Exchange. This demands financial transparency.

We have a triple B rating for our debt. that has provided us with increased access to financing alternatives. We have just completed 1.3 billion-dollar financing for the acquisition of 27 new airbus aircraft with the support of the European Export Credit Agencies.

And lastly, we are highly cost effective, which has been particularly important with recent increases in fuel prices.

We have been described as a flag carrier with a start-up attitude.

Now that you know who we are and how we do business, I will discuss our plans for the future. We are implementing the most significant initiatives in the Company's history.

Two weeks ago, we officially joined the **oneworld** alliance and at the end of last year, we began our code-share agreement with American Airlines.

On Monday, we announced a new code-share alliance with British Airways between Buenos Aires and Santiago. We will now use these alliances to maximize our revenues and reduce costs.

In the fourth quarter, we will begin operating both Airbus A320s, which will replace our short-haul

Boeing 737-200 fleet, and A340s, which will replace most of our long-haul Boeing 767-300 fleet.

In addition, we will continue replacing our cargo DC-8 fleet with Boeing 767 freighters. These programs will give us the most fuel efficient, cost effective fleet among our US and Latin American competitors.

We are also making significant improvements to both our cargo and passenger schedules.

In the fourth quarter, we will start daily, non-stop, services from Santiago to New York and another to Madrid.

We will also continue to grow our presence in the region. In Peru, we now have international operations from Lima to New York, Los Angeles and Miami.

In the Peruvian domestic market, LanPeru flies from Lima to Cuzco and Arequipa the two largest routes.

We are also continuing to actively pursue alternatives for a significant development in the Argentine market where we see an opportunity.

In Miami we are going to double the size of our cargo facilities on the last available space in the airport. We will be the largest cargo operator there.

We recognize that e-business and the Internet boom is transforming the Airline industry, we have a new business unit managing our involvement in e-business. They are working to

- increase revenues through Business to Consumer initiatives,
- to achieve cost savings through Business to Business initiatives
- and to improve internal processes and communications using a Business to Employee intranet.

Finally, we have had great success with our express door-to-door service in Chile and are expanding our model to Argentina, Peru and Brazil.

This will offer a more complete service from the United States to points across Latin America and take advantage of the e-commerce boom throughout Latin America.

The combination of our strong management, clear strategy and sound financial situation will allow us increase the value of LanChile.

We believe that the consolidation which is going to come in the region represents a big opportunity for LanChile, a high quality, cost effective and financially sound Latin American airline with global

partners.

Finally it would be wrong of me to speak in Washington without recognizing the key role of some US Government agencies in our development.

The FAA

We have benefited greatly from the regular FAA Technical audits which we see as an independent measure of the quality of our Maintenance organization.

The US customs

We have signed an agreement with them to combat drug trafficking in a variety of ways. In fact we are doing much more than the agreement requires. We do double cargo inspections on both departure and arrival

This includes big investments in x-ray equipment. We would like to see our approach become mandatory for all airlines flying from the region to the US.

The SEC:

The Company's listing helped us:

- We had to organize our information to provide quarterly financial reports.
- We had to adjust our financial accounting to US GAAP standards.
- We also created an Investor Relations function to guarantee transparency.

All this has improved our accounting and statistics. We benefit from the feedback we receive from Industry analysts and investors.

The bottom line is that the benefits of the SEC requirements have been well worth the costs.

EXIM Bank

EXIM bank has played a very important role in our growth strategy. LanChile has financed three Boeing 767 aircraft and two 767 freighter aircraft with an Exim bank guarantee.

EXIM has helped us by being flexible in permitting the use of new financing structures.

For example, We completed the first ever SOAR ("Stretched Overall Amortization and Repayment") transaction for a Boeing 767 that was delivered in January 1999. This structure provided for an extended repayment profile as compared to the traditional 12 year structure.



During the recession of 1998 and 1999, Exim bank's support remained strong during the economic downturn.

Currently, Lan Chile is in the process of obtaining Exim bank's support for the third B767F scheduled to arrive August 2000.

In the future, Exim will continue to play a crucial role.

"Finally, I must praise the Departments of Transportation and State for the critical roles that they played in negotiating the breakthrough open skies agreement with Chile and in approving LanChile's alliance with American Airlines.

Lan Chile hopes that the US-Chile open skies agreement serves as a model for the region and that Lan Chile's alliance with American will be a model for successful commercial cooperation between the major airlines of the United States and the airlines of Latin America."

Thank you for listening now I am happy to take questions.