

Speech by
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International Aviation Club – Washington, DC
16 May 2000

Ladies and Gentlemen:

Thank you for this opportunity to address the International Aviation Club.

You might imagine that for an American to be running a European company - a Swiss airline - in this time where so much dynamism and restructuring, let's also call it consolidation, is happening. It is a fascinating perch from which to watch the world.

I am fortunate to be in a place at a time where much is happening. And, while some of the airline dynamics have a familiar appearance to the US industry of the 80s, Europe is indeed a different place and some of what is happening is both exhilarating and unpredictable. Some days.....one has to wonder what will happen next. My thoughts go back to the saga of Malpensa.....first its mandatory, then only for non-EU underprivileged such as SR is it mandatory, then there is an agreement between Italy and EU, and then, at the hour of truth.....EU carriers can remain in Linate, the in-town airport.

Followed by the somewhat spicy end to the KLM and AZ alliance cum merger. And where will they go? And how will this change our famously incomprehensible alliance roadmap?

These times where the next move is not always completely certain, where almost everyone, no matter how experienced, is in a place where everything seems new, remind me of a story of two men lost in the desert who, completely by chance, encounter one another.

The first man asks the second, „I'm lost in the desert. Been lost for two days. How long have you been lost?“

The second replies.....“three days!“

Impressed, the first responds.....“good! I'll follow you. You have more experience.“

Today, I would like to say a few words about what I see from this „perch“ I've described. In particular, I would like to make a few observations about the transformation taking place in Europe, what Swissair -the airline- and its parent are pursuing as our strategy, in particular in the alliance world, and finally a few requests and wishes for the future.

In 1995 it was fairly clear to our Board that, with a liberalizing Europe ahead, it would no longer be possible to continue an airline based on an island economy concept for the Swiss market. The future would lie in a restructuring of the Company into an Aviation Group, meaning airlines (more than one), service companies, more revenue outside of Switzerland, and a laser-like focus on return on invested capital and quality for customers.

SAirGroup has now become an aviation group, that is to say that the airline business itself now represents only 40% of the group's total turnover of 7.6 billion USD, the rest being generated by other ancillary activities such as catering, ground handling, technical overhauls, airline-related software to name but a few. Our catering business, airport retail business, aircraft engineering and maintenance business are among the largest in their field.... and are also leaders in quality. So much, but not all of the transformation is complete.

The core of the SAirGroup, around which most still revolves, is the airline business - and Swissair itself.

Europe is indeed quickly changing shape from an airline perspective. Think about what has happened in the last three years.

First of all the hub building process has been quick and massive.....multi year double digit growth in hubs such FRA, CDG, Malpensa, Munich, and of course Zurich, Brussels....etc. All the of Europe's major hubs, and some secondary ones such as Basel, are undergoing a fortification process similar to the US in the 80s and early 90s. FRA, CDG, and AMS are super-hubs. LHR is massive. The smaller hubs have grown quickly in size and connectivity to be effective competitors for their home carriers... and slightly quicker connection vehicles for customers and for alliance partners.

Low cost carriers have sprung in London mostly... But certainly Ryanair, EasyJet, Go, Buzz, Virgin Express have made a mark, by bringing low prices and market stimulation to certain parts of Europe. They have a future to be sure,although Europe's environmental puritanism and infrastructure limitations will probably limit the growth possibilities to a degree and similarly shelter the higher cost flag carriers.

And alliances.....long haul mostly, but also within Europe.....the alliance craze, its fair to say has a European driven tone.

And all this is happening in a rapidly evolving European context, where mergers have not yet happened but consolidation is the name of the game.

As far as the airline business is concerned, our approach is fairly basic: we believe the consumers – our passengers – who will judge whether we are doing a good job. If they don't like what we give them, there is enough choice, despite consolidation out there, for them to show us their discontent. So we have to care about our passengers.

That's why Swissair has made seamless customer care the very center of our brand positioning. Indeed we have made it our motto : Swissair, we care.

Customer Care is more than cliché. It's a big, hard-to-implement idea where you run an airline network for individual customers, where you enlist the skills of great service people and clever technology to flex the network, to make what has to happen for customers happen. In real time. Every day.

Let me quote a few examples.

If you are one of 70000 frequent travelers in Switzerland today you have a card called a FastTrack card with a chip onboard. That chip knows only one thing : who you are. When you walk into the terminal we know you are there and automatically check you in, the Passport control has a screen that pops up your name and itinerary. The immigration office might even greet you by name. Beyond Passport Control, a pleasant young person knows you are approaching and hands your card to you.. The same goes for lounge access, baggage screening.... We have avoided lengthy delays with Positive Baggage offloading processes, and on more than one occasion we have radarred an African Chief waiting patiently in the wrong terminal, assisted him to the correct one and had an ontime departure.

Delays... Unfortunately, they have become a huge issue in Europe. We are trying to get our Governments to improve the situation, but in the meantime Swissair was the first airline to deploy both SMS and Wireless Applications Protocol telephone services to advise of delay changes, gate changes, seat changes....and we are moving ahead to other services such as rebooking or giving rebooking suggestions for travellers on the road.

Everything we know about customers - not just their seat preference, but things that went right or wrong for them, even on the day of their trip, suggestions or „orders“ from service personnel who may have made a mistake, or noticed that the customer is about to have some problem downline in their journey, like the wrong vegetarian meal or a connection that is now too tight, goes into our Customer Care Datawarehouse.

And we are the first airline to create a Passenger Care Center. A group of people working 24 hours, who manage this database and care, network-wide for customer issues, from medical emergencies to complicated international overbooking situations, to providing a new shirt for customers who experienced an inflight coffee spill, to the customer whose seat didn't work.....and by the time he arrived his miles account had been recredited and a letter of apology arrived by fax at his home.

We even link this information upline into the aircraft, where our captains and Maîtres de Cabine are trained to offer Air Concierge services, to fix problems in flight - be it helping out with a connection or sorting out a rental car for pick up on arrival.

And this year we will train thousands of staff on the Art of Caring and how to use these tools. It's a big idea....and we have certainly a long way to go.

Of course, when I speak about seamless customer care, I cannot help thinking about the passenger rights debate that took place in this country last year, and which, like so many other ideas, have not taken long to travel eastwards. As you know, the issue is now high on the European Commission's agenda. Long discussions with the industry have led the US authorities to believe, rightly I think, that self-regulation by the industry is the way to go about these issues. I can only hope the European Union will reach, quickly, a similar conclusion. Last week the Presidents of the Airlines of the AEA agreed to pursue a voluntary program, based on that being pursued by the ATA airlines in the US. We presented this to the EU Commissioner Mrs de Palacio. And we very much hope that further regulation can be avoided

in this area in Europe, as it has been in the US.

As said at the beginning, the bottom line is that either we take care of our passengers or we will have no passengers

Earlier I mentioned the consolidation and, let's call it competitive modernization, that is happening all across Europe....although not yet true mergers.

As you all know we are in an early stage of what at least some of us see as a path that will inevitably lead towards mergers...who knows when....but it would only make sense that it gets there some day.

For us step one has been to build up a strong platform in Europe. And here our focus has been different from others. We concentrate on Europe first and build targeted relationships with long haul partners.

Our Group and its alliance framework, the Qualifyer Group, has been the most aggressive in using alliances to create a focus - what we call our multi hub, European platform and strength in Europe.

For students of the airline business it should also be fairly clear that while Swissair is the core, the core is expanding. Take Crossair, Europe's largest regional carrier. Or Sabena, a growing carrier with a hub in the capital of Europe. Take our airline shareholdings in Italy, in Poland's flag carrier, in Portugal's flag carrier, in South African Airways... and most recently our participation in the bringing together of three airlines in France as a meaningful number two in the French market to Air France.....all clear signs indicating that we believe that the airline business has still a significant future for our Group.

The Qualifyer Group : 11 smaller European airlines but, with one exception, all on the same reservations and departure control system, all with the same FFP systems, all in the same sales infrastructure. And together, with a fleet of nearly 500 aircraft, we have the capability to offer a vast pan European network via multiple hubs.

When one speaks of multi-hub in the USA, the term hardly has the nearly revolutionary overtone. Take American Airlines : it has important operations out of Dallas Fort Worth, Chicago, Miami... and indeed a multi-hub operation, like most US majors do. In Europe, however, alliances so far center around one big carrier in one major hub. If the European internal market is truly a single market, why should its structure not allow a multi-hub structure? In fact today QFG carriers together are the third biggest in terms of cross border European market share.

On the long haul network we have partnerships with JAL, CX, SAA, MAS, Thai.....and just recently American Airlines.

The last two years have not been easy ones, including the departure of Austrian and Delta in particular. It has not been so simple either to bring in LOT Polish Airlines or the giant AA relationship.

Our relationship with Delta Air Lines was a successful one. Together we built a strong alliance, increasing connections and, what's more, we passed many benefits on to the consumers, who remained very loyal to our brands. Things change, however. While the alliance worked beautifully for Swissair, at some point our partners from Atlanta felt the need to add a new European partner to the alliance. Their choice might work for them, but it did not fit into our European strategy. To mention but a couple of reasons, Paris and Brussels are too close, and the resulting network overlaps would not have worked for us.

Both partners understood this early on and agreed to disband the alliance in a friendly and orderly fashion. We will achieve this by early August and I should like to take this opportunity to wish Delta Air Lines all the best for their new endeavours with Air France.

In American Airlines we have found a new US partner, and I am pleased to say that we believe there is enormous potential for our co-operation which we can already see as the bookings on our new codeshare begin to flow quite strongly.

Our respective networks complement each other very well. This will allow us to offer our respective passengers ever a wide choice of connections and many other benefits – in fact, the first one is already very visible after our decision to link up our frequent flyer programmes, and AA's decision to open a Zurich-DFW route, offer up to 90 beyond code shares in the USA and many more in Europe....opening up hundreds of new markets to competition.

To really take advantage of this possibility we applied for and last week were granted anti trust immunity. We are grateful to the United States Department of Transportation for the expeditious manner in which our application has been processed. At this stage, I don't think we have to argue any more the point that alliances are pro-consumer and pro-competitive. Yet this alliance certainly will move fast to prove it again, and I am glad that the US Government has honoured us with its trust.

As I said we don't yet see mergers in Europe.....alliances galore yes...But we are getting pretty close.....

As you may know, Swissair and Sabena have set up what we call the AMP (for Airline Management Partnership) together with our long-standing Belgian partner Sabena . It is a joint venture that, since September manages our respective airlines. As I speak, the AMP is managing for SR and SN

- Finance
- Sales and Marketing
- IT
- Network., pricing, yield management, scheduling, fleet planning, ops control...

Savings....40 MM Euro.....150 MM next year in benefits

We say that through the AMP, we have one network....and two brands. That is indeed the

way we run it and by the end of the year we will be ready, should any of our partners be ready, to invite other members of the Qualifyer Group into the AMP.

We are thus truly ready for the step that was announced just about two weeks ago.

We reached a deal with the Belgian Government whereby we are given the right to acquire up to 85% of Sabena's capital, and the Belgian Government 3% of SAirGroup's capital. Indeed we shall become each other's major shareholders, thus underscoring our commitment to this joint venture.

You may ask yourselves whether all this complex Swissair/SAirGroup maneuvering is necessary. In today's legal and National framework...yes, it is.

Arguably, the European airline industry is fragmented to a point where the average carrier has a sub-optimal size. Certainly, ours is....and I would argue that at this time no European airline is completely satisfied, on its own, by the scale of its operations, particularly within Europe. Thus alliances and the pressure of consolidation.

Globalisation is affecting all industries, indeed shrinking the world, and it will be increasingly difficult for our industry to argue the „special case“, the „we are so different“ line. In the end, I hope we can become closer to a „normal“ industry. Our industry is undergoing a challenging transition,....our transition towards a global, competitive marketplace...and I do hope that we will have a say in managing it and the flexibility to do so well.

True change will only happen when this industry is regulated like any other industry, when cross border mergers become possible, when a new, up-to-date regulatory framework allows us to behave, as I said, like the pharmaceutical industry or the financial services industry. We are far from that.

Apart from the two islands of Europe and the United States, the world is still governed by this amazing web of bilateral treaties. They are indeed the stumbling block that prevents us from developing our full potential.

The US has helped ease this situation with its open sky policy. Switzerland was among the first countries to seize this opportunity. Jeff Shane, who negotiated the agreement, is among us today and I would like to say how much we should appreciate his vision and support for open skies. Indeed our open skies with the USA has given Swissair a great deal of added flexibility. Where else could you take a big MD 11 out of a loss-making route to the Far East and open instead daily service from Zurich-San Francisco in only five weeks? However well Open Skies work, on the other side of the Atlantic we have come to the conclusion that we must move beyond them. Unless we manage to give this industry a new global regulatory environment that frees it from its current straight jacket, someone else will. As said, we cannot argue the „special case“ line forever.

Plus I know few Government officials who are truly convinced that they should regulate the

most minute commercial aspects of our operations. I know even fewer of them who really enjoy doing it, when they could focus their talent on other, very important regulatory issues such as safety.

A few weeks ago you listened to Mr Neumeister, the Secretary-General of the Association of European Airlines, speak about our proposal to build a Trans Atlantic Common Aviation Area.

You might be surprised to hear a non-EU carrier express support for such an initiative. You needn't be. I think this is truly an opportunity for the most liberal aviation countries to move ahead.

This proposal aims at establishing a level playing field for all airlines in what should become a large, transnational aviation market. Being an American, I know this is bound to raise eyebrows here, to say the least. You name the dogma : cabotage, ownership and control, fly America... vestiges of the past whose time have come.

Personally I think in terms of growth on both sides of the Atlantic and beyond. Fewer and clearer rules, and the same rules for all, will make it possible to really tap the growth that our business is bound to experience in the future. This is why I invite you to give serious thought to this policy initiative. I am convinced we will eventually move to a multilateral regulatory framework for aviation. So far, the TCAA is the least unrealistic way to move forward. Let us not forget, either, that if we don't do anything, chances are, and they are high, that someone else will move ahead with policies that might not be tailored made for our industry. Call it TCAA or multilateral agreement, but give it some thought.

This industry needs new, less cumbersome, more imaginative regulations that truly allow it to realise its full potential.

Swissair and its partners are not only ready for the change, they are indeed testing the very limits of our current aviation system with innovative solutions that stride across borders. Down this path, I am convinced, lies a world of opportunity for both carriers and their passengers.

I was asked to come to Swissair at time when the Parent company had launched a major restructuring geared to give it a much clearer orientation to return on invested capital, to its future as an Aviation Group not dependent on the small Swiss home airline market, and most importantly to help the transformation of Swissair.....a tradition rich, tradition bound carrier....to be ready to thrive in the deadly competitive world of open markets in Europe.

I came for the opportunity to help guide a Great Brand at a time where I knew we would write at least a little bit of how the world's airline business would work in the first decade of a New Millenium.

Despite a modicum of craziness....that's exactly what is taking.....and its a privilege, every day, to lead SR.

And I would like to thank all of you in the audience....from govt, from industry for what you do in your role....to make this industry stronger, safer, better for our customers.....bringing us

just a bit closer to that truly great future we all know that this business has.

Thank you.