

NEWS

13th International Airline CEO Conference Summary

By Elizabeth Collins, Squire, Sanders & Dempsey

The 13th International Airline CEO Conference, with the theme "Turnaround Time", was held at the famous Fontainebleau Hilton Resort in Miami Beach, Florida from Sunday, May 8 through Tuesday, May 10, 2005. The Conference began Sunday afternoon with the annual golf tournament, which was held at the Miami Beach Golf Club. Delegates then enjoyed an opening cocktail reception and dinner at the Fontainebleau on Sunday night

Michael Allen, CEO of BACK Aviation Solutions, opened the Conference on Monday morning by providing delegates with statistical confirmation that it is indeed "Turnaround Time" in Latin America. He especially highlighted the movement by the established U.S. carriers into Latin America, a trend that will almost certainly continue.

The General Session

Bobby Booth began the General Session by welcoming the 21 CEOs and approximately 200 delegates in



Michael Bell - Spencer Stuart, Emilio Romano - Mexicana, Juan Emilio Posada - Synergy, Nelson Ramiz - Aeropostal, Enrique Cueto - LAN.

attendance. He advised delegates that this year's Conference would feature an exciting departure from the normal panels of speakers: a talk show format to encourage dialogue both among the panelists themselves and with the audience. The reviews are in and the new format was a huge success.

Marshall S. "Sandy" Sinick, Chair of the CEO Conference, then delivered his opening remarks. Mr. Sinick echoed Michael Allen's view that the necessary ingredients are

present for a turnaround in Latin America. He encouraged the Latin American airlines to embrace new opportunities and expansion and liberalization particularly in view of the many serious problems U.S. carriers are now facing. He also encouraged the airlines to consider regional alliances and to put aside many of the nationalistic tendencies, which only perpetuate the inefficiencies associated with the *status quo*.

Patricia Thorp, Vice Chair of the CEO Conference (another departure from previous years), also delivered her opening remarks. She noted that this year's trend in marketing is consolidation, which can result in some unusual combinations. She advised airlines that have consolidated to develop a strong brand to gain the loyalty of current and potential passengers. This is particularly important when an airline is expanding into different countries and in different capacities.



Enrique Cueto - LAN, Roberto Kriete - TACA, Ernesto Asbun - LAB, Pedro Heilbron - Copa.

(Continued on page 4)

13th INTERNATIONAL AIRLINE CEO CONFERENCE

(Continued from page 1)

“Free trade and open skies aviation agreements have played major roles in Chile’s economic success”.



Abdul Wahab Teffaha - Arab Air Carrier Association.

Key Note Speaker: Jeffrey Shane, "Turnaround Time"

The delegates were extremely fortunate to have as the key note speaker Jeffrey Shane, Under Secretary for Policy of the U.S. Department of Transportation. Mr. Shane spoke about the Department of Transportation's open skies initiative and the benefits of increased liberalization. He noted that restrictive aviation agreements impede a country's ability to respond to the demands of the international economy. He believes that liberalization is essential since the aviation industry carries 40% of the world's goods in terms of value. Mr. Shane stated that the U.S. is interested in treating its Latin American partners with a bolder and more innovative vision, such as a regional multilateral agreement. Such an agreement could eliminate restrictions like those pertaining to ownership and cross-investment, as the Multilateral Agreement on the Liberalization of International Air Transportation ("MALIAT") does.

Speaker: Bernardo Dominguez Philippi, "Future Civil Aviation Development"

The next speaker was Bernardo Dominguez Philippi, Secretary General of the Civil Aeronautics Board in Chile. Mr. Philippi explained that free trade and open skies aviation agreements have played major roles in Chile's economic success. He believes that greater integration and better facilitation of travel are two important issues facing the aviation industry today. Greater integration, such as easy flight connections, higher aircraft utilization, and reduced paperwork, will lead to more efficient operations. Facilitating travel, such as reducing the amount of time that passengers spend at the airport, will allow airlines to operate more successfully. Mr. Philippi stated that Chile provides no special financial incentives to encourage start-up carriers but that many new carriers have found Chile to be an attractive market because of the absence of any restrictions. He believes that new airlines will enter the market as long as there is sufficient infrastructure and demand.

Speaker: Abdul Wahab Teffaha, "Land of Bliss & ... Uncertainty"

For the first time, the Arab aviation world was represented at the CEO Conference by Abdul Wahab Teffaha, Secretary General of the Arab Air Carrier Association, who gave delegates a fascinating insight into

the Arab aviation industry. Mr. Teffaha stated that although the Arab region is full of potential, it is short on political and economic stability. He believes that the Arab carriers have specific challenges, which are not unlike those faced by Latin American airlines today: fuel, labor and distribution costs; making the achievement of higher yields more important than higher load factors; and formulating a vision of their place in the global transportation market. He believes that the Arab people's desire to change economically and politically and the Arab world's evolving relationship with Europe will be major influences on how the Arab aviation industry grows.

Speaker: Jorge Fernandez

The next speaker was Jorge Fernandez, VP International and Alliances for Delta Air Lines. He shared with delegates the turbulence and transformation that airlines are currently facing. He noted that airlines historically have not been run like traditional businesses that achieve a real return on capital. However, the aviation industry is now changing because low cost carriers have entered and achieved significant market shares. The legacy carriers, therefore, have been required to figure out how to survive and thrive in an even more competitive environment. Customers have also caused a change in the industry because of their increasing price sensitivity, which the internet has facilitated.



Hernan Galindo - Swissport, Patricia Thorp - Thorp & Co., Freddie Jacobsen - Tampa Air Cargo, Willy Cabezas - Arrow Air, Armando Valdivieso - LAN Cargo, Sandy Sinick - Squire, Sanders & Dempsey.

Cargo Panel

The Cargo Panel, the first panel of the Conference, was moderated by Hernan Galindo, VP Cargo - Latin America for Swissport Cargo Services. The panelists were Armando Valdivieso, CEO of LAN Cargo; Fred Jacobsen, CEO of Tampa Cargo; and Willy Cabezas, Executive Chairman of Arrow Cargo. Each was given a few minutes to discuss their airline's performance during 2004 and goals for 2005. The panel then moved to a discussion of various issues such as open skies, integrated services, and fuel surcharges.

Mr. Galindo opened the discussion by noting that as countries become more export-dependent, they need to secure more reliable cargo capacity at a better cost. He also noted that there are still restrictions on cargo operations. He asked the panelists for their views on

(Continued on page 6)

13th INTERNATIONAL AIRLINE CEO CONFERENCE

(Continued from page 4)

liberalizing cargo transportation and how they see the development of open skies. Mr. Valdivieso pointed out that Chile has open skies agreements with many countries and 5th freedom rights with almost every other country in the region. He noted, however, that to succeed in Latin America, more than open skies agreements and 5th freedom rights are required. Having affiliates in other countries allows an airline to offer comprehensive service to its customers. Mr. Cabezas agreed that having affiliated companies in countries that have restrictive agreements is the only way to compete successfully.

The panel also discussed whether fuel surcharges have disproportionately affected northbound cargo. Mr. Jacobsen believes this is the case because most of the northbound cargo, such as produce, is low in value. With the existing fuel surcharges, export growers have nearly reached the point where they can no longer absorb any additional surcharges.

CEO Dialogue

One of the highlights of the Conference, the CEO Dialogue, closed the general session on Monday. Michael Bell, a partner with Spencer Stuart, acted as the talk show host for this new format. The panelists were Enrique Asbun, CEO of Lloyd Aereo Boliviano; Enrique Cueto, CEO of LAN; Pedro Heilbron, CEO of COPA; Roberto Kriete, CEO of Grupo TACA; Juan Emilio Posada, CEO of Synergy Aerospace (and President of AITAL); Nelson Ramiz, CEO of Aeropostal; and Emilio Romano, CEO of Mexicana. The panelists engaged in a lively discussion of several topics such as the effect of low cost carriers on the industry, regional airline groupings, global alliances, foreign investment, distribution costs, deregulation, cooperative purchasing agreements, and consolidation. Since it is not possible to cover all of the topics discussed, we have summarized the discussion of the low cost carrier phenomenon below.

The panelists discussed where they believed low cost carriers are likely to emerge in Latin America. Mr. Asbun noted that although the Brazilian low cost carrier GOL intends to begin operations into Bolivia, his country is not an easy place in which to operate, with its many laws and restrictions. Mr. Cueto believes that low cost carriers will likely be more successful in short-haul rather than long-haul markets. He stated, however, that low cost carriers are the airlines of the future and that the more established carriers should use the threat of entry by low cost carriers as a stimulus to make themselves more efficient. Mr. Heilbron believes that the threat of the low cost carrier is real but noted that his airline should be able to compete successfully with any low cost carrier. Among other reasons, there is no real operational cost disparity among the three airports in Panama, which already feel competitive pressure to keep their costs down. And in Bogota or Santiago, carriers do not have a choice of airports and therefore cannot achieve a cost advantage by serving one airport over another. Mr. Kriete stated that large countries have the opportunity to have low cost carriers along with legacy carriers. He noted that a low cost carrier accustomed to relying on low cost

“Mr. Heilbron believes that the threat of the low cost carrier is real but noted that his airline should be able to compete successfully”.



Alex de Gunten - AITAL, David Cush - American Airlines, James Sarvis - Delta Air Lines, Carolyn Coldren - DOT, Ben Baldanza - Spirit Airlines.

internet distribution channels will not be able to compete effectively in countries where internet usage is still restricted to a small proportion of the population. Mr. Posada believes that a certain degree of deregulation is necessary to permit entry of low cost carriers, but that the established carriers are fully capable of serving their customers without sacrificing the level of service demanded by passengers. He believes that customers prefer simple processes. Mr. Ramiz noted that operating as a low cost carrier means more than just reducing costs. It also means simplifying the business, which is particularly difficult given the high distribution costs in Latin America. Mr. Romano stated that customers have lower service expectations from low cost carriers so they are not disappointed when they receive less. He believes, however, that if a low cost carrier, or any other carrier for that matter, delivers less than what is expected, customers will become alienated. Airlines should not forget they are in the business of serving passengers.

Breakfast Speaker: Michael Zellner, "Where is the Money in 2005?"

The second day of the Conference began with breakfast speaker Michael Zellner, publisher of Latin Trade magazine. He discussed the key market trends for both middle class consumers and large mid-sized companies: decreasing costs and increasing selection. These trends are taking hold not only in the aviation industry, but also in banking, consumer electronics, and telecommunications. He advised delegates that customers are available throughout all tiers of the community and recommended broadening their relationship with their community and eventually expanding the community segments they serve.

U.S. Airline Panel: "The Yanks are Coming"

The final panel of the Conference, the U.S. Airline Panel, was moderated by Alex de Gunten, Executive Director of AITAL. The panelists discussed both the rapid movement by U.S. carriers into Latin America and the increasing importance of Latin America to U.S. carriers. There was also discussion of the desire for increased liberalization of aviation agreements and fewer government restrictions. The panelists were Ben Baldanza, President of Spirit Airlines; Carolyn Coldren, Senior Negotiator for the U.S. Department of Transportation; David Cush, VP

(Continued on page 8)

The Regionals

"The expansion of our services beyond Brazil and Argentina (which they began serving successfully in December 2004) is designed to popularize air transportation with our neighbors in South America".



OL officially announces service to Uruguay and Paraguay

Brazil's "Intelligent Airline", the LCC **Gol** has officially announced that it will begin service to Montevideo and Asuncion during the second half of 2005, which has been authorized by **CERNAI**. This is in addition to the already announced plan to serve Bolivia in the third quarter of the year. **Constantino Junior**, founder and CEO of the airline stated that "The expansion of our services beyond Brazil and Argentina (which they began serving successfully in December 2004) is designed to popularize air transportation with our neighbors in South America, which will create more business and opportunities". The airline, which has been profitable every quarter since 2002, currently operates a fleet of 32 NG Boeing 737s (-700s and -800s). The airline has carried 26 million passengers since its launch in January 2001, with 10% - or 2.6 million - being new airline customers. **Stay tuned.**

Sky Airline wants to serve Paraguay, Peru, Argentina and Bolivia

As a result of the Open Skies agreement signed by Chile and Paraguay earlier this month, Chile's LCC **Sky Airlines'** Marketing Manager, **Sergio Briceño Hofe**, announced the airline wants to start Paraguay service as soon as possible. "We are studying the possibility of serving Asuncion from Iquique to connect with Peru, Argentina and Santa Cruz, Bolivia". According to the airline it is analyzing the markets involved and will be applying for the authority in thirty days. **Stay tuned.**

Chile's Sky Airline has applied for authority to serve Lima

Fernando Uauy, CEO of the airline, is planning to visit Peru this month to present the airline's plan. He also announced that the airline is leasing an A330 or A340 to operate charters to Madrid in July. **Sky** has an alliance with **Air Madrid** to facilitate connections within Chile.

BRA to begin scheduled flights in Brazil this month

The Brazilian LCC charter airline, which serves Natal, Fortaleza, Porto Alegre and Salvador domestically and Lisbon, Madrid, Barcelona and Milan from the northeast of Brazil plans to begin scheduled service in June in the same markets. The airline has enjoyed a 90% load factor in its charter services, and intends to operate the same kind of high load factors in its proposed low fare scheduled services which will be directed at the leisure market and passengers who do not normally use air transportation. It is still waiting for slots at Sao Paulo's Congonhas airport, which will be its basic hub. **Stay tuned.**

Ecuador's TAME begins A320 service to Cuenca from Quito

The government-owned airline has begun service to Cuenca from Quito with the new A320 aircraft it acquired late last year. The 162-seat aircraft is the only one that can provide the service without restrictions due to the altitude.

13th INTERNATIONAL AIRLINE CEO CONFERENCE

(Continued from page 6)

Marketing & Sales for American Airlines; Pete Garcia, VP Latin America for Continental Airlines; and James Sarvis, Director of Latin America & the Caribbean for Delta Air Lines. Each airline representative was given a few minutes to discuss their airline's current operations in Latin America and plans for the future. The panel then engaged in a lively discussion of a variety of topics such as alliances, the emergence of low cost carriers, the benefits of open skies agreements, and the use of secondary airports versus traditional hubs. Since it is not possible to cover all of the topics discussed, we have summarized the discussion of future plans below.

Mr. Garcia stated that Continental believes the sky is the limit in Latin America and that opportunity for growth exists everywhere. Latin America comprises 20% of Continental's business. Mr. Baldanza noted that Latin America is a logical growth place for Spirit, especially as it transitions from MD80s to A318s and A321s. He believes that long haul operations in selected markets are possible for low cost carriers. Ms. Coldren told delegates that the United States would like to work towards liberalizing the agreements currently in place with Latin American countries. Although open skies agreements are the goal, the U.S. will accept incremental improvements with countries unwilling to enter into a fully liberalized agreement. Mr. Cush stated that Latin America comprises 35% of American Airlines' network and is therefore very important. American Airlines has developed many partnerships in the region and is focusing on growing its own network, including developing the Miami hub for northbound traffic. Mr. Sarvis stated that Latin America represents 5% of Delta's revenue and 20% of its international operations. Although Delta would like to expand further into the Southern Cone, it intends to expand on a measured basis to avoid any problem of excess capacity.

Speaker: Tim Claydon

The final speaker of the Conference was Tim Claydon, Senior VP of Sales & Marketing for JetBlue. Mr. Claydon highlighted the JetBlue success story: market stimulation, strong brand, strong financial performance, high load factors, and high balance sheet. This success has allowed it uniquely to abandon the traditional distribution system and sell via its own internet website and dedicated reservation number. He also mentioned that JetBlue's enviable success continues even though JetBlue no longer has a real price advantage over low cost carriers. Mr. Claydon noted that although JetBlue is not embarking upon a large scale expansion into Latin America, it does anticipate a growing presence in the Caribbean.

Conclusion

This article provides only a brief summary of the speeches, presentations, and discussions that occurred during the Conference. Please see <http://www.ceoconference.com> for copies of the full text of the speeches and presentations currently available.