



State of the Aviation Industry

17 May 2016

CAPTAIN LEE MOAK

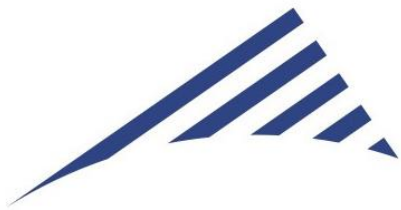
2015- present: President, The Moak Group

2015- present: President, Americans for Fair Skies

2011-2015: President, Air Line Pilots Association International

2005-2010: Chairman, Delta Master Executive Council

1988-2015: Captain, Delta Air Lines



DELTA

Globalization

Government Policy/Aviation Policy
Global Aviation Environment
“Fair Competition”

Consolidation

U.S. Commercial Aviation History
Delta/Northwest Bankruptcy & Merger

Survival

Three Rules for Deals
Adapting
Threats to AF/KLM Group
Threat to Europe
Government Policy Matters

GOVERNMENT POLICY

In aviation, everything matters.

Aviation policy

Regulatory policy

Energy policy

Tax policy

GLOBAL AVIATION ENVIRONMENT

Aviation is viciously competitive.

It is one thing to compete with an **airline**, it is another thing to compete with a **government**.

We can compete with anyone as long as we have "**fair competition.**"

We do not have that today.

FAIR COMPETITION

Our Competition Today:

Governments

Government-owned airlines

- no financial transparency exists
- Pay no income or corporate taxes

Government-owned airports

Airlines

Airlines that pay no income or corporate taxes

Airlines that are based in countries where labor unions are illegal

Airlines that hire ex-patriot labor – labor that receives significant government tax relief

Airlines based in countries where human rights violations are present






Airlines that have received subsidies from US and European banks (Export-Credit Agencies)

Airlines with home markets that will not ever support the size of their fleet

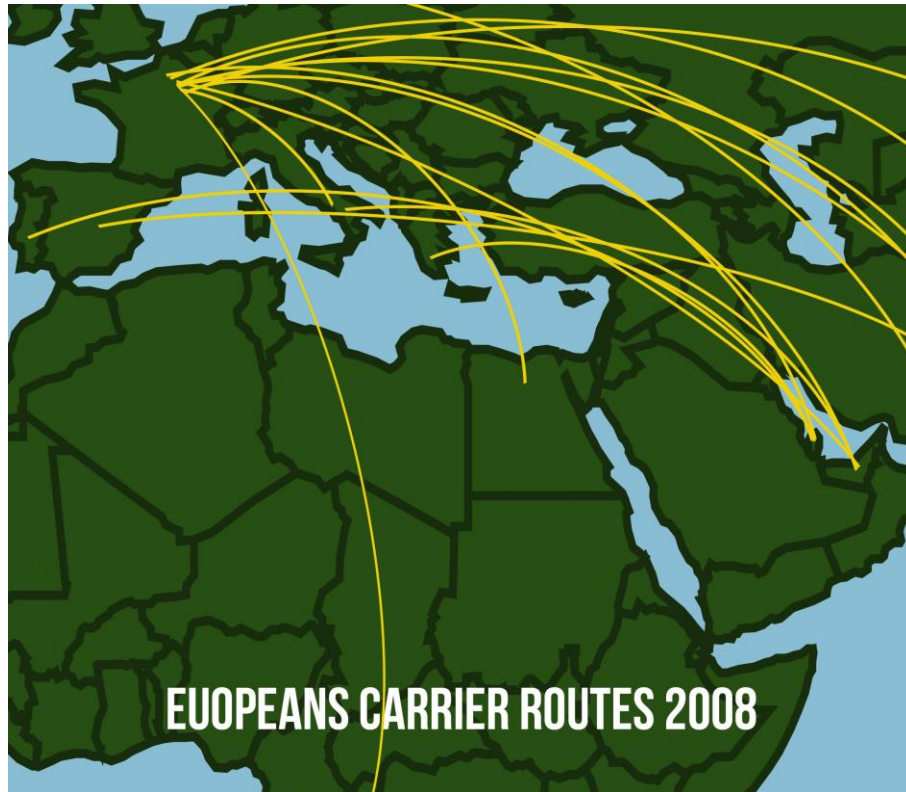
NOTE: The World Trade Organization does not oversee aviation.

FAIR COMPETITION

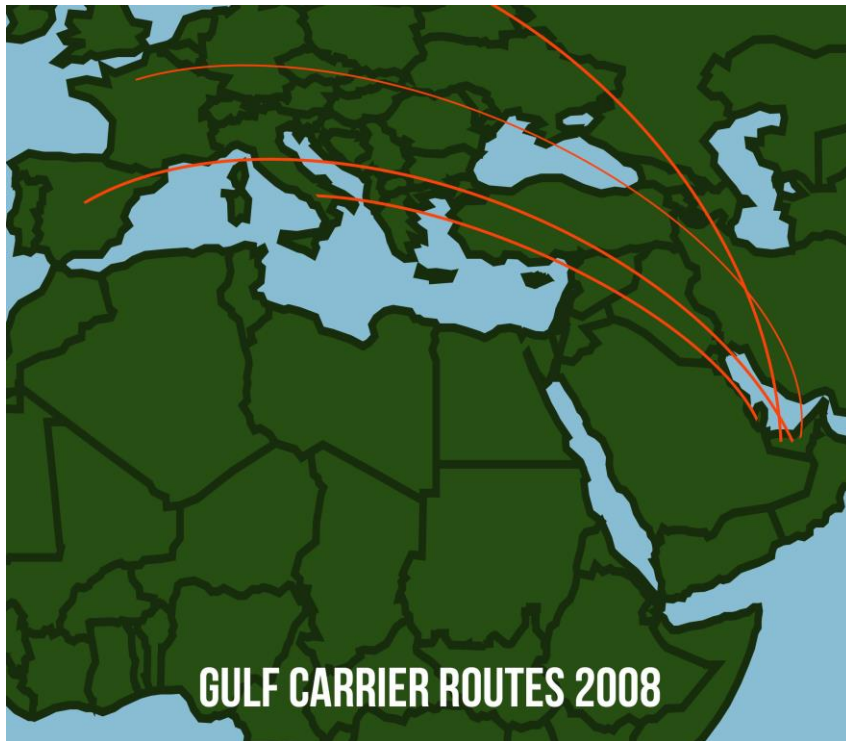
Our Competition Today:

						
		France	Germany	Netherlands	Qatar	UAE
TAXES	Air travel tax	Yes	Yes	Yes	No	No
	Tax on earnings	Yes	Yes	Yes	No	No
	Employee income taxes	Yes	Yes	Yes	No	No
	Value-added tax on national flights	Yes	Yes	Yes	No	No
FEES	Airport chargers	High	High	High	Low	Low
	Air traffic control charges	High	High	High	Low	Low
	Aviation security charges	High	High	High	Low	Low
AIRLINES	Private-sector structure	Yes	Yes	Yes	No	No
	Market behavior consistent with air service agreements	Yes	Yes	Yes	No	No
ENVIRONMENT	Emissions trading	Yes	Yes	Yes	No	No
	Noise abatement	Yes	Yes	Yes	No	No
	Noise-based fees	Yes	Yes	Yes	No	No
	Bans on night flights	Yes	Yes	Yes	No	No
LABOUR	Job protection	Yes	Yes	Yes	No	No
	Unions	Yes	Yes	Yes	No	No
	Right to strike	Yes	Yes	Yes	No	No

EUROPEAN CARRIER DIRECT FLIGHTS TO MIDDLE EAST 2008 VS 2016



MIDDLE EAST CARRIER DIRECT FLIGHTS TO EU 2008 VS 2016



U.S. COMMERCIAL AVIATION HISTORY

Deregulated in 1978

Since Deregulation:

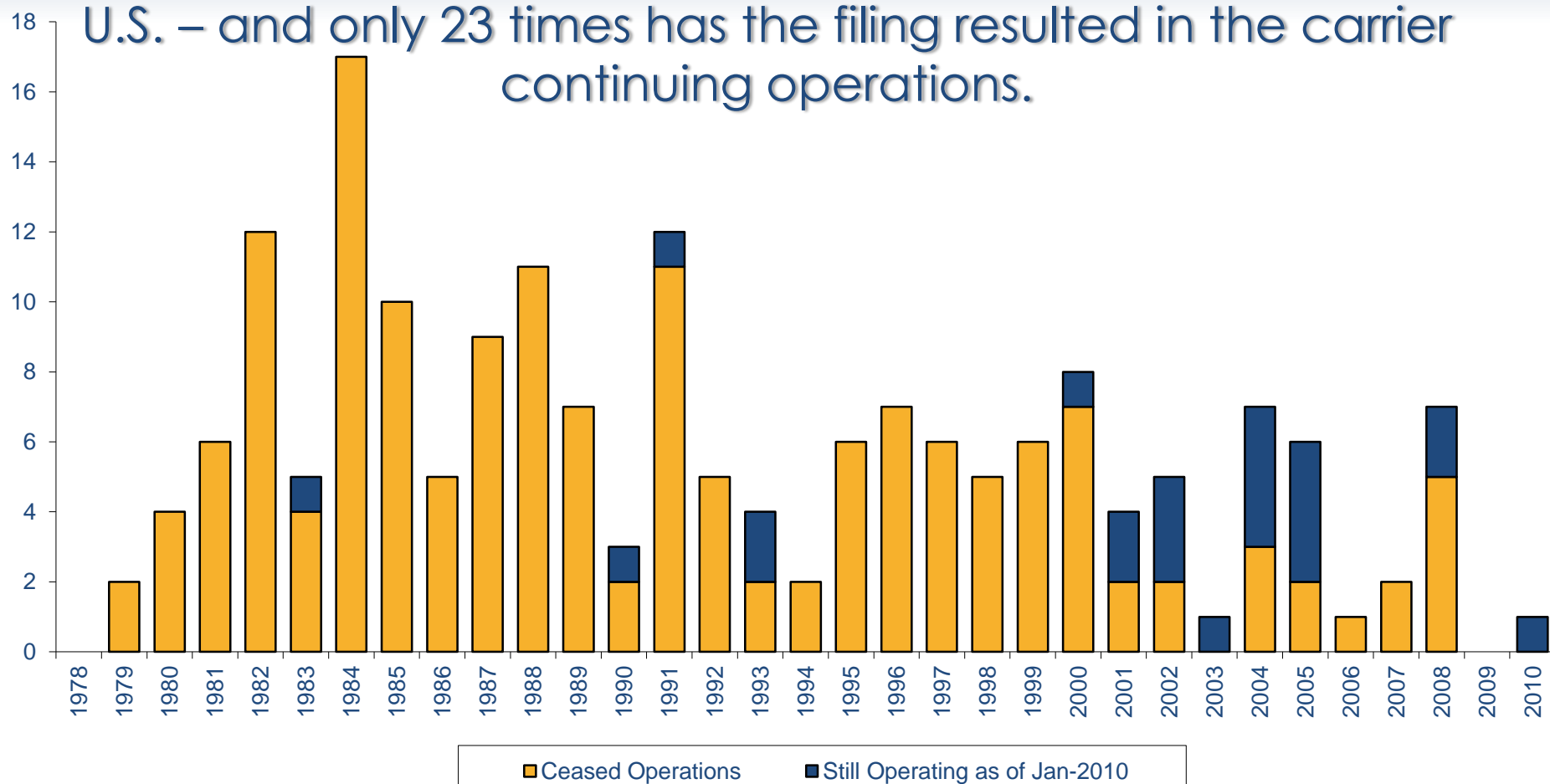
- 186* bankruptcies/liquidations
- Consolidated to four major airlines
- Pan Am, TWA, Eastern, etc. – gone

NO:

- U.S. Aviation Policy
- U.S. Energy Policy
- U.S. Transportation Policy

BANKRUPTCY

Since 1978, there have been 186* airline bankruptcy filings in the U.S. – and only 23 times has the filing resulted in the carrier continuing operations.



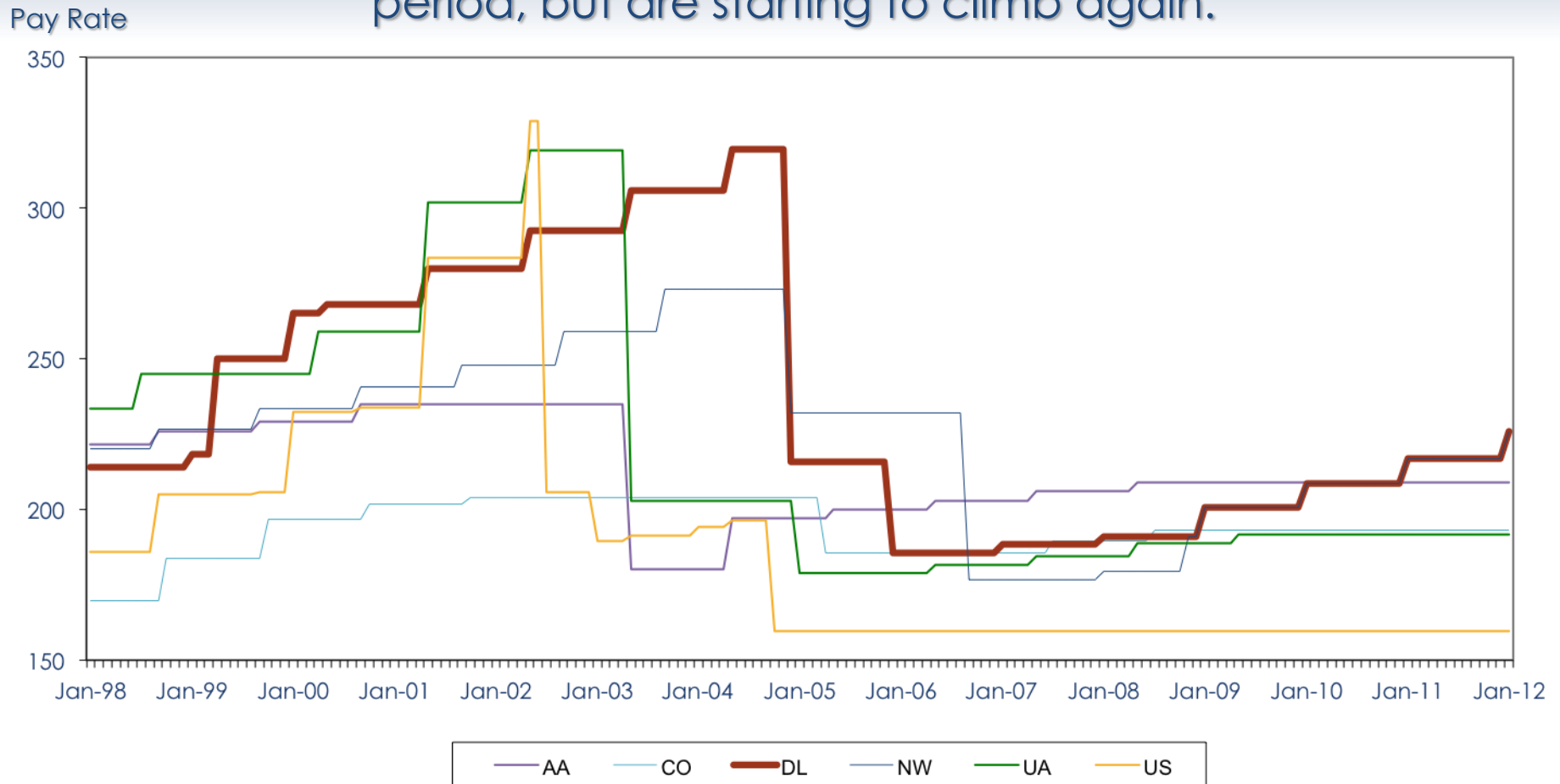
NOTE: Still operating includes carriers that have merged and those currently operating under bankruptcy protection.

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SOURCES: Seabury and ALPA Economic & Financial Analysis

PILOT PAY

Pay rates were cut drastically during the bankruptcy period, but are starting to climb again.



Source: Air Line Pilots Association, International

Notes: Pay rates are top of scale Captain for highest paying piece of equipment on the property.
United rates are book rates from 1/1/1997 through 4/13/2000.

DELTA / NORTHWEST BANKRUPTCY & MERGER

2005: Delta & Northwest file for bankruptcy

2007: Delta & Northwest exit bankruptcy

2008: Delta & Northwest merge

NOTE: There were a number of other airline liquidations between 2005-2007



DELTA



GREAT RECOVERY

What changed?

We recognized survival mode

Labor/management collaboration

Government policies mattered

Washington was more than a destination

THREE RULES FOR DEALS

1. Relationship first

2. Global solution-settle all differences

3. Collective labor agreement

ACKNOWLEDGING OUR DIFFERENCES

We agree on **95%** of the **issues we face** and *that* must define our relationship, not our differences.

This doesn't mean we ignore our differences, we should **confront them**, and through **rigorous introspection and a commitment to common cause**, we will resolve them.

STRATEGIC PLANNING

What do you need to analyze?

Environment

Strategic Threats

Strategic Goals

Strategic Objectives

Resource Allocation

STRATEGY TO ACHIEVE MISSION

What do we need?

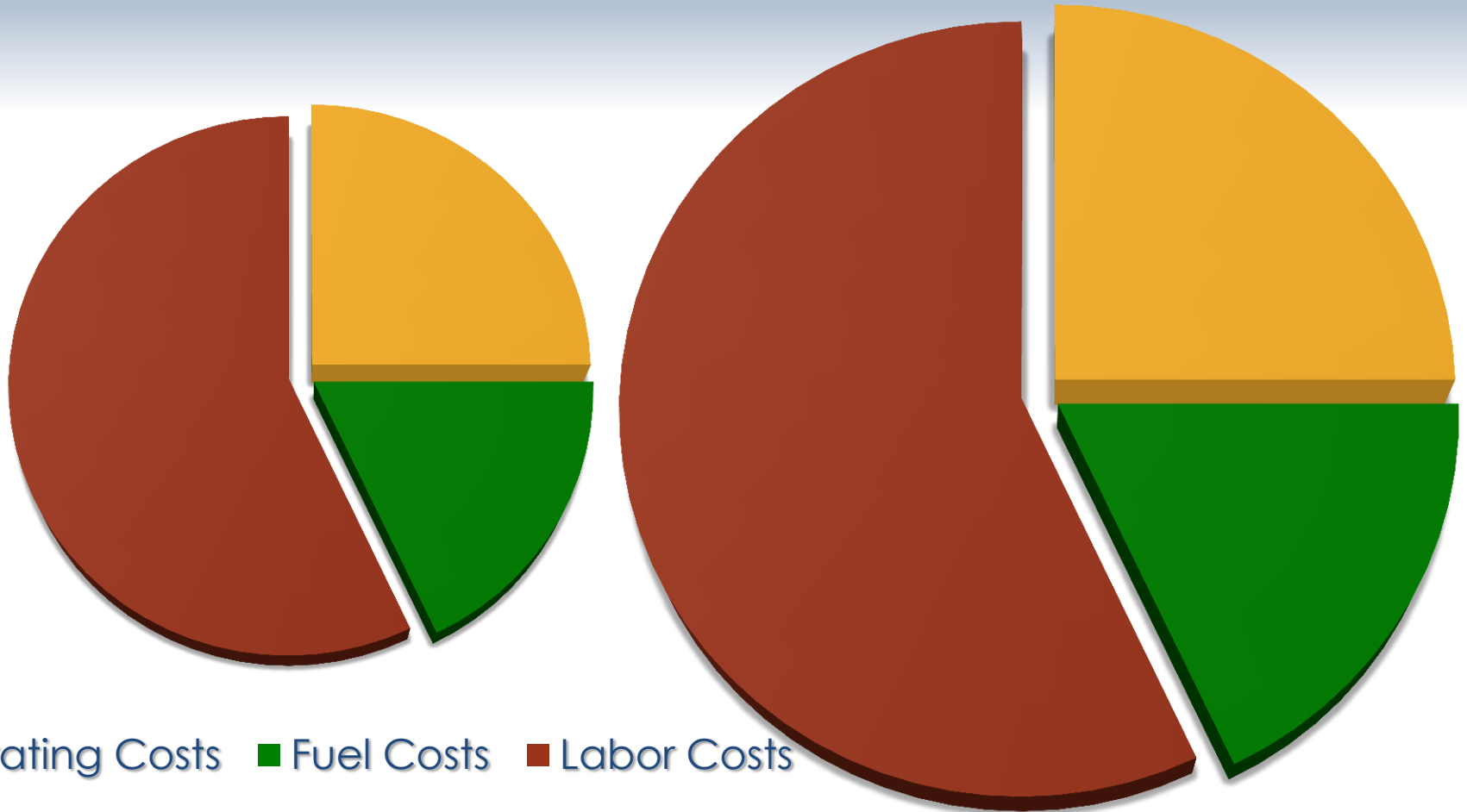
Profitable Company

Leadership-Strategy

Intellectually Unified Labor Group

Political Competence

A BIGGER SLICE OF THE PIE



It's not about getting a bigger slice of the pie, it's about making the **pie itself** bigger.

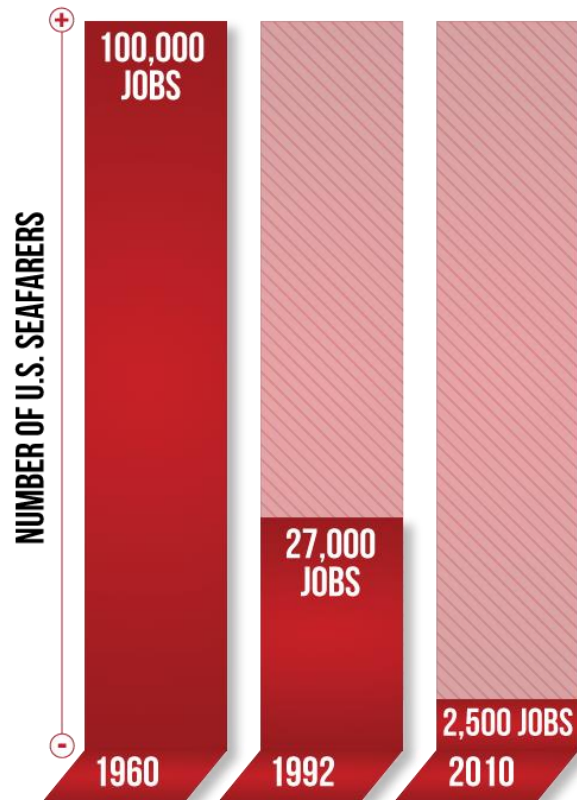
ADAPT

In business “**failure**” is often the result of not adapting, however in aviation today, “**failure**” is the result of not adapting *quick enough*.

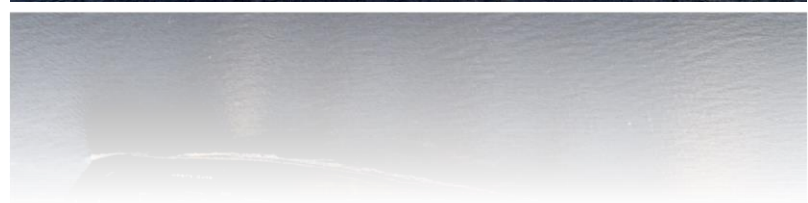
Therefore our strategy must allow us to adapt or we will fail.

THE MARITIME INDUSTRY

DECLINE OF THE U.S. MARITIME INDUSTRY



A FAILURE TO ADAPT



THREATS TO AIR FRANCE/KLM GROUP

Middle East

Low Cost Carriers

British Airways

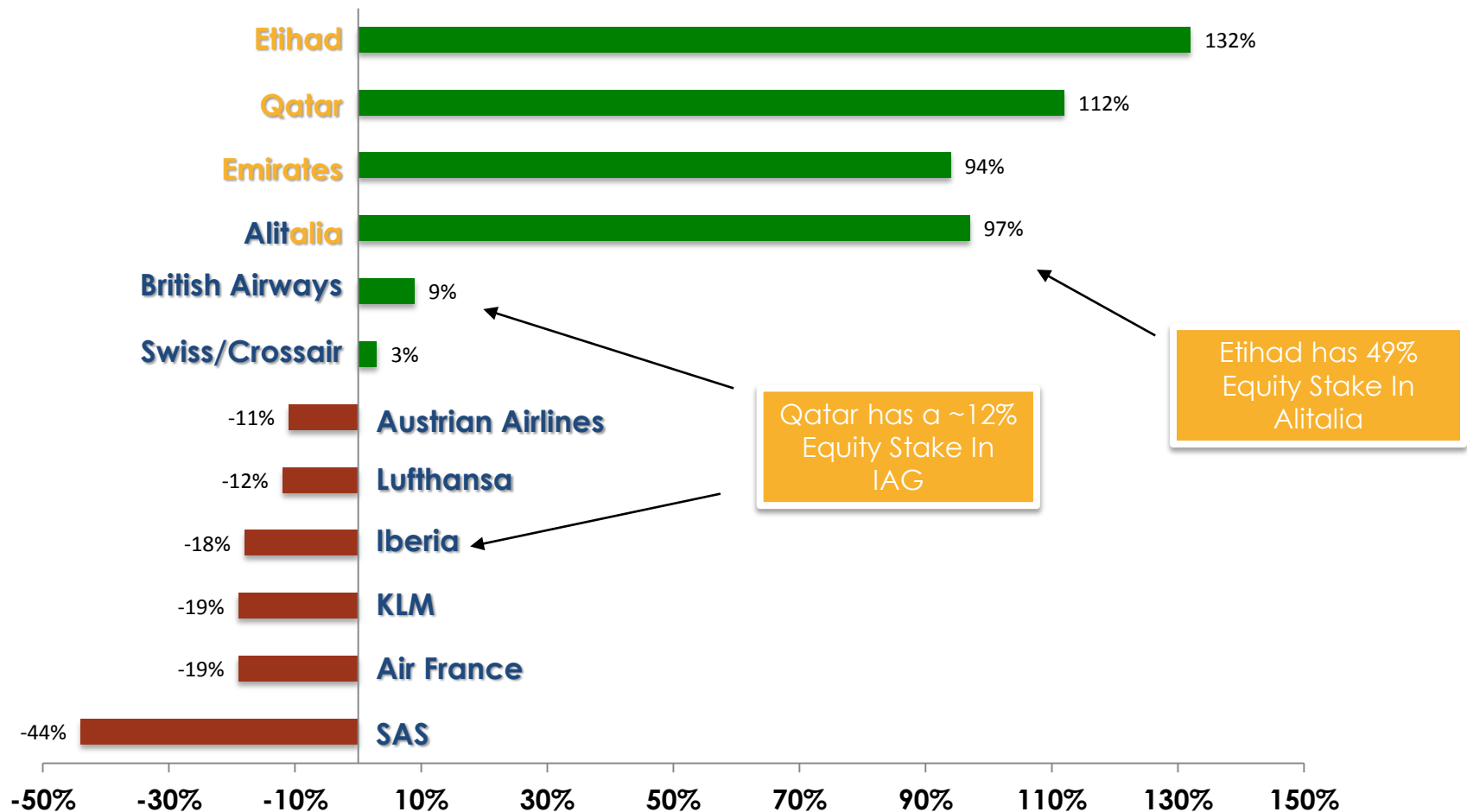


“ BEING FACED WITH THE INCREDIBLY FAST PARALLEL EXPANSION OF **EMIRATES**, **ETIHAD AIRWAYS** AND **QATAR AIRWAYS** (THE GULF CARRIERS) IN EUROPE FOR MORE THAN 10 YEARS, AIR FRANCE-KLM, LIKE OTHER EUROPEAN CARRIERS, HAS REPEATEDLY RAISED DOUBT AS TO THE PURELY COMMERCIAL BASIS UNDERLYING THIS UNPRECEDENTED GROWTH.

THESE EFFORTS HAVE BUMPED INTO THE THICK VEIL OF SECRECY IN WHICH THE OPERATIONS OF THESE CARRIERS ARE SHROUDED AND HENCE LIMITED EUROPEAN CARRIERS FROM PROVIDING THE NATIONAL AND EUROPEAN REGULATORS WITH ALL THE EVIDENCES DEEMED NECESSARY

TO JUSTIFY IMMEDIATE REDRESS MEASURES.”
-AFKLM SUBMISSION TO US DOT JOINT DOCKET ON UAE & QATAR SUBSIDIES

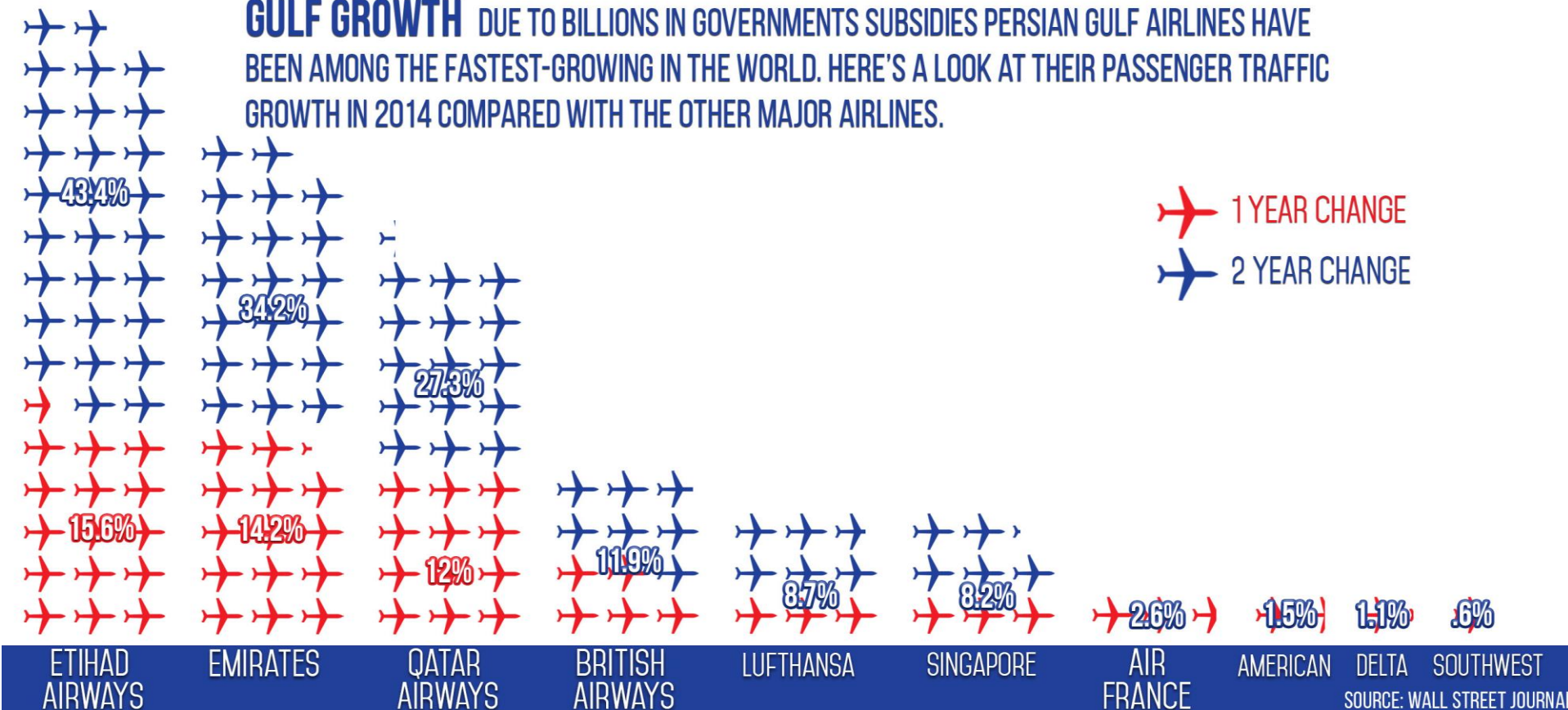
CAPACITY CHANGE IN EU-ME REGION SINCE 2010



ME & EU PASSENGER GROWTH RATES

2014 PASSENGER GROWTH RATES

GULF GROWTH DUE TO BILLIONS IN GOVERNMENTS SUBSIDIES PERSIAN GULF AIRLINES HAVE BEEN AMONG THE FASTEST-GROWING IN THE WORLD. HERE'S A LOOK AT THEIR PASSENGER TRAFFIC GROWTH IN 2014 COMPARED WITH THE OTHER MAJOR AIRLINES.

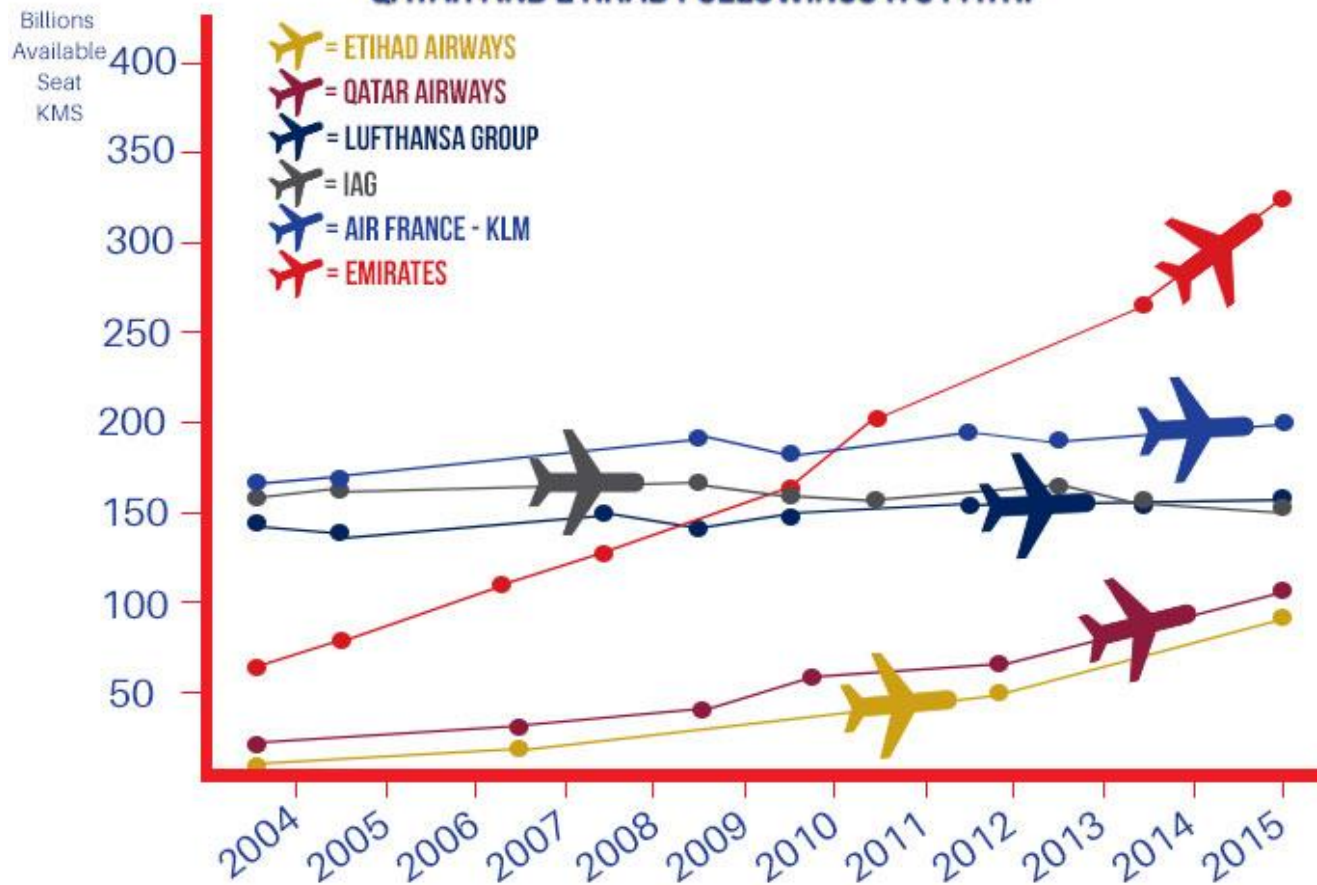


SOURCE: WALL STREET JOURNAL

EXCESSIVE CAPACITY INCREASE

CAPACITIES IN WIDEBODIES WORLDWIDE

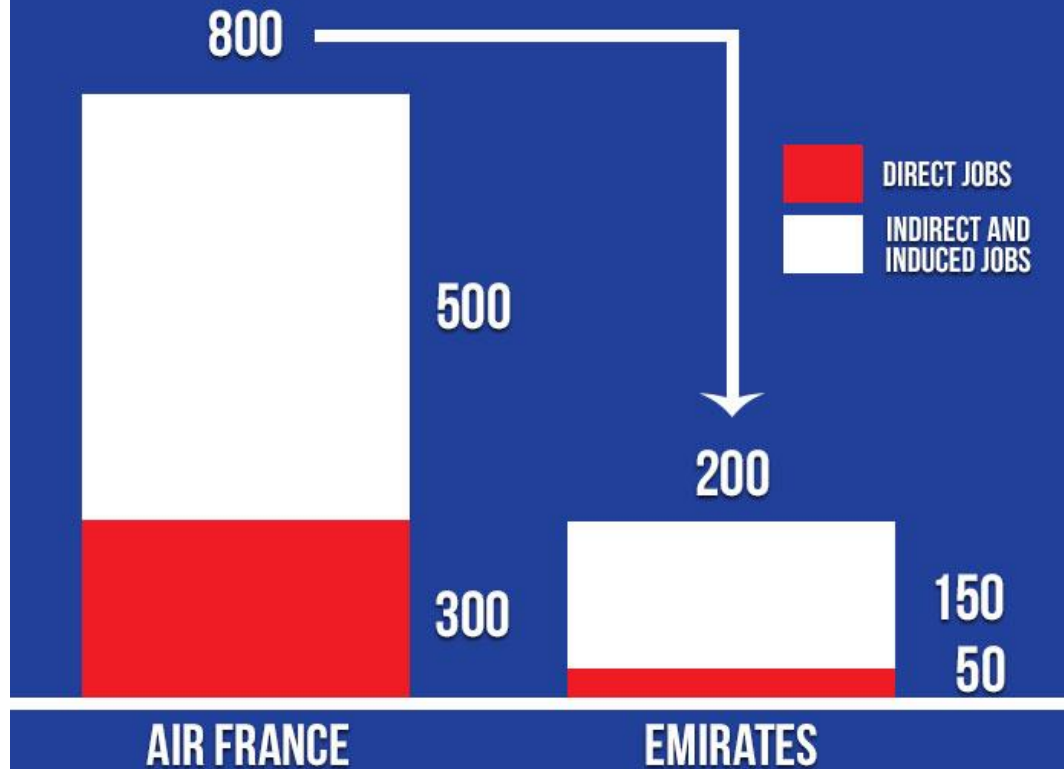
EMIRATES HAS BECOME THE BIGGEST INTERCONTINENTAL AIRLINE WITH QATAR AND ETIHAD FOLLOWING ITS PATH.



Source: Air France-KLM Docket Submission

THE JOBS THREAT

JOBS CREATED IN FRANCE BY OPERATING A LONG-HAUL AIRCRAFT TO/FROM FRANCE



Source: AEA - ATAG "Aviation Benefits Beyond Borders", 2014

GOVERNMENT POLICY MATTERS

In the United States: Action by Obama Administration against U.S. carriers:

- DOJ blocking the American-U.S. Airways merger with flawed reasoning
- DOJ investigation into “price collusion”
- DOT investigation “price gouging” after the Amtrak crash
- Multiple DOT rulemakings focused on “consumer rights”
- Abu Dhabi Pre Clearance opening despite Congressional action to block
- Multiple Obama budget proposals to increase airline taxes
- No action to remedy Export-Import Bank's harm to U.S. airlines
- Required Congressional action to halt EU-Emission Trading Scheme (ETS)

The Administration has always made “consumer” interests paramount, ignoring the larger intellectual argument that U.S. airlines must be profitable to:

- Employ Americans & positively contribute to the U.S. economy
- Continue to serve American consumers
- Improve service and increase tourism through investment in their product

GOVERNMENT POLICY MATTERS

30 Avril 2015:

Qatar buys \$7 billion French Rafale fighter jet deal...increases landing rights- 3x weekly to both Nice and Lyon



4 Juin 2015:

Emirates inks air-rail codeshare with France's SNCF, adds 19 new destinations within France



SUMMARY

To win we must recognize:

Competitive global economic environment

Survival mode

Something is going to happen, you can drive the change or let someone else drive it

“Shoulder harness or seat belt”-your choice

Deals are based on the environment

EUROPEANS FOR FAIR COMPETITION

Aggressive, Diplomatic Engagement

Multi-faceted approach:

Labor-Management Coalition

Media

Government

Opinion Leaders

Industry Leaders



WWW.E4FC.EU

Questions?