

NATIONAL PRESS CLUB LUNCHEON WITH AIRLINE CEOS RICHARD ANDERSON, W. DOUGLAS PARKER, AND JEFF SMISEK

SUBJECT: NATIONAL PRESS CLUB LUNCHEON WITH VINT CERF

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MODERATOR: JOHN HUGHES, PRESIDENT OF THE NATIONAL PRESS CLUB

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**JOHN HUGHES:** (Sounds gavel.) Good afternoon, and welcome, everybody. My name is John Hughes. I'm an editor for Bloomberg First Word, that's Bloomberg's breaking news desk here in Washington, and I am the 108<sup>th</sup> President of the National Press Club. Today we have a very special event at the Club. The CEOs of the three largest airlines in the world, American, United and Delta, are appearing together to answer questions for the next hour.

So, over the next hour, we will probe, we will question, we will cajole, we will even argue. And, once and for all, at the end of this, we will find out, without a doubt who has the best service in coach class. [laughter] And because it's the National Press Club, believe me, it's coach class. [laughter]

Now we're actually going to talk about a large and unusual campaign these three CEOs are conducting. They argue that these three carriers, based in the Middle East, use subsidies to compete unfairly. But first, I want to introduce our head table guests. I would ask each person to stand, briefly, as their names are announced.

From the audience's right, Jim Asker, *Aviation Week* Executive Editor. Michael Yessis, former AOL travel editor and chief and co-founder of the Travel Website Worldhum.com. Mark Hamrick, a former National Press Club President, and Washington Bureau Chief of Bankrate.com. Mark Scheff, Investment news reporter and a Speakers Committee member for the Press Club who helped organize this Luncheon. Thank you, Mark. Jerry Zremski, Buffalo News Washington Correspondent, the Speakers Committee Chairman at the National Press Club, and a former National Press Club President. Angela Greiling-Keane, the Bloomberg News White House Correspondent, the Speakers Committee member who organized this-- helped organize this Luncheon, and also a former National Press Club President. Rasha Ilas[?], a journalist and global fellow at the Project for the Study of the 21<sup>st</sup> Century. And she just returned from the Middle East after covering it for ten years. Marilyn Geewax, an NPR Senior Business News Editor. Michael Lindenberger, *Dallas Morning News* Washington Correspondent for Business. And Pat Host, *Defense Daily* and *Rotor Wing Magazine* staff reporter.

[applause]

So I want to welcome our CSPAN and Public Radio audiences. And you can also follow this event on Twitter. Use the hashtag NPCLUNCH. That's NPCLUNCH. And remember, the public attends our lunches. Applause is not evidence of a lack of journalistic objectivity.

U.S. airlines, relative to the previous decade, at least, are doing well. They've been posting profits on lower jet fuel prices. And they've been rewarding investors. Yet these three CEOs look overseas. And they worry. They say three carriers, Qatar, Etihad and Emirates are undermining fair competition and threatening American jobs. They want the Obama administration to request consultations through international agreements known as "Open Skies." They also want the administration to seek a freeze on new passenger service by the three Gulf carriers during these discussions.

Several labor unions are aligned with this effort by the U.S. carriers. And, of course, there is a strong point of view on the opposite side. The Gulf carriers say the effort by this-- these CEOs is misguided. Emirates President, Tim Clark, earlier this year called the airline claims "bluster and flim-flam." Qatar CEO, Akbar Al Baker, said this week, "There are no grounds for denying Gulf airlines access to U.S. markets." He said the U.S. airlines were, "using 'bullying' tactics."

So Jeff Smisek, you lost the coin toss and get the first question. [laughter] So you've been CEO of United Airlines since 2010. And you led Continental before the merger with United. And you were at Continental going all the way back to 1995. You now lead the second biggest airline in the world. Why are you so worried about three smaller competitors in the Middle East?

**JEFF SMISEK:** Well first, John, thank you for inviting the three of us today to talk about this important issue. This is a significant issue. It's a significant threat to the U.S. airline industry. It's a significant threat to our employees, many of whom [00:05:05]

[audio glitch] Thank you very much for the professional men and women of United and American and Delta for being here today. It's a significant threat to their jobs. It is a significant issue in U.S. trade policy. U.S. trade policy has had a long history of enforcing rights under trade agreements trade treaties [00:05:25] [audio glitch] Open Skies bilateral agreements, predicated on a fair and level competitive playing field, free of distortions such as government subsidies.

The three carriers that we're talking about, Qatar, Etihad and Emirates, are not just airlines, they are arms of the State. They are part of State policy to drive tourism and trade through the Middle East. And these three carriers are not stimulating demand. In fact, today we released an econometric analysis by Compass Lexicon showing that these carriers are not actually adding travel, they're actually just simply siphoning travel[?] away from the U.S. airlines and their foreign partners, in a way that's quite detrimental to U.S. jobs.

And what we're asking our government to do is to invoke the consultation provisions of the Open Skies agreements with these two nations. We are firm believers in Open Skies. Open Skies has been a boon to consumers, a boon to our employees, a boon to the U.S. airlines. But in this case, out of 114 Open Skies treaties, two are being heavily abused. And we have spent a considerable amount of time and money, initially led by Delta Airlines, to uncover the degree of subsidization, irrefutable proof of massive government subsidies. And it is the trade policy of the United States, just as it would be if someone were dumping steel or dumping soybeans or cotton. Here it's dumping airline seeds in the United States, subsidized by foreign governments, as part of the foreign governments' policy to grow traffic to and through the Middle East.

And this is an important issue. It's a very important issue. It's causing current harm. The harm is accelerating. [00:07:25] [audio glitch] We know how this movie ends. It does not end well. We've seen what the Gulf carriers have done to the carriers in Europe. Air France, KLM, Lufthansa. We've seen what they've done to Qantas. We've seen what they're doing to Singapore. We know how this movie ends. It does not end well for American consumers. It was [00:07:42] [audio glitch] It does not end well for the professional men and women of our airlines. And it does not end well for the American economy.

**JOHN HUGHES:** Doug Parker, a little bit about you. You became CEO of American Airlines in 2013. And that followed the merger with U.S. Airways. And you had been CEO at U.S. Airways. And before that, you were CEO of America West. And now you are seeing these Gulf carriers adding new routes. And now you want the U.S. government to take, really, an unusual step of freezing new routes. Doesn't sound like what a competitor would do. Why are you taking this strange step?

**W. DOUGLAS PARKER:** Well we don't think it's strange at all. We think it's exactly what the bilateral agreement calls for. We-- The request is simply to have consultations, have talks. We've added to that the request that, until we can get through those talks, we'd like to see a freeze in the flying. That, by the way, hasn't happened.

And we should note that these simply, since we've announced or since we laid out our case in January, those three carriers have increased their capacity in the United States by 25 percent.

So they're clearly doing everything they can to win the race against the clock, because like the reality is, we've put forward an extremely compelling case which Jeff outlined. Our government can't ignore it. They won't ignore it. And then they will, indeed, have consultations. And we will have action. And those carriers know that. And that's why they're adding so much capacity. That's why they're making comments such as, you know, "It took us two years to find the information, so they should have two years to respond." Those are simply attempts to have as much time to get as much flying in as they possibly can, because they're well aware of the fact that they have violated the trade agreement, and that, indeed, there is going to be some action taken.

So I don't think it's-- I don't think it's-- Well, it's nothing that we have done before. It doesn't mean it's odd. It doesn't mean it's strange. We've never seen anything like this. Who's ever-- who would ever contemplate it to countries, putting \$40 billion dollars of subsidies into three airlines? So behavior like that results in things that don't-- that you don't see very often. And that's what's happening here, is we have uncovered the facts. We're responding accordingly. We're simply asking for consultations to take place. And once they do, we're certain that we'll get to a place that works for everyone.

**JOHN HUGHES:** Okay, Richard Anderson, you became CEO of Delta in 2007. And you previously ran Northwest Airlines. And you go all the way back to 1987 in the industry, when you began with Continental. You have cited a figure of \$42 billion dollars in subsidies that go to Gulf carriers. How do you back up the figure when there aren't public documents that anybody can see, that will show that figure? And then, assuming that these subsidies are happening, down the road you'll have to show that they're actually harming you and the industry. Are you going to be able to show harm?

**RICHARD ANDERSON:** Well first, on the evidence, we started a process at Delta a couple of years ago, because just by definition, an A380 daily, from Milan to JFK, I've you've been in the airline industry any period of time, intuition tells you you don't need to see a fly profitability system report to tell you that that can't work.

And we kept reading that the carriers were saying, actually in filed statements at DOT, that there were no government subsidies to any of these three carriers. But, over the timeframe of the ten years of these bilateral relationships, they've added 20-- they have 24 nonstops, 24 daily nonstops. And it was just counterintuitive, because those countries have populations the size of North Dakota.

So, you know, normally, to have that kind of traffic between two points, it just wouldn't support. So we began a process to try to figure out what was going on. And we found their financial statements. We found them in places like Malta and Singapore. But we spread out around the world. And actually, it's sort of interesting. I mean those countries all required these airlines to file their financial statements. Oddly enough, in the

U.S., we don't require that. But other countries do. And these are certified financial statements that show the subsidies. They're fully disclosed.

So the work we did was not only that, but we also did research across all the financial documents we could find around the world, airport financings, financings by the governments. And we were able to build a really strong case. To put it in a legal framework, we proved subsidy beyond a reasonable doubt. And you can't refute the evidence. The evidence is overwhelming.

The harm is immediate. And the best way to describe the harm is the U.S. carriers essentially, except for two flights a day from United, American and Delta have exited the India market. And that's really pretty stark when you think about it. India is a very big country. It has a huge trade relationship with the U.S., particularly for IT, has huge agricultural trade between the two countries.

But in essence, we don't really have any aviation trade. We've exited the market completely. Because essentially, what these carriers have done, is with subsidized government strategies, come into the marketplace to basically shift the traffic off of us and take us out of the Indian market, and you think about it, U.S. flag carriers ought to be in the Indian market. American and Delta should be in the Indian market. But it's not sustainable when you have that-- when you have \$41 billion dollars worth of subsidy, it's very difficult, if not impossible, for us to be able to compete.

And that-- that harm is immediate. We've got a good analysis from Compass Lexicon that was part of our white paper. A long haul wide body Triple 7 in the U.S., when we count the professional pilots and the professional flight attendants and the dispatchers and technicians and ground operations personnel, drives about 900 really good-- actually, on a gross basis, almost 1,000 jobs per flight.

So, when we put a triple 7 or a 74 or an A350 or a 787 on a daily nonstop across the ocean, it drives almost 1,000 jobs for each one of these carriers. And those jobs aren't here. And the three airlines that you see here today collectively employ 300,000 people. Our collective CAPEX budgets are well over \$12 billion dollars a year of investment into airplanes and the infrastructure. And we create huge positive trade surpluses for our country.

And our aviation policy is being violated. The stated aviation policy in this country is, we will act vigorously. This is the DOT. We will act vigorously through all our appropriate means to defend our rights and protect our airlines, to ensure that competition is fair, and the playing field is level, by eliminating marketplace distortions such as government subsidies. End of case. It's time to get on with understanding through consultations what the appropriate remedies are to create a level playing field.

**JOHN HUGHES:** Okay. I've got a lot of questions, so I'm going to combine some along themes where I can. So what reaction have you had from the Obama administration to your complaints? Why would they want to poke their finger in the eyes

of key allies in the Middle East at a time like this? That's one. And then the other one is, did this issue come up at the Camp David meeting President Obama held yesterday with leaders of Gulf States? And if not, how do you feel about it being left off the agenda?

**JEFF SMISEK:** Let me perhaps answer at least one of those, I don't know, five or six questions, however many there were. [laughter] You know, it is the longstanding practice of the United States government, with respect to trade disputes, to bifurcate the trade dispute from matters of national security or defense. Let me use the Boeing Airbus trade dispute, which is a large recent trade dispute.

By the way, the amount of subsidies here dwarf, by more than a factor of two, the size of the Boeing Airbus dispute. That was a dispute with very clear allies in the European Union, their members of NATO. And yet our government, between mature governments, they sit down. And they can understand there are different swim lanes for a trade dispute and matters of national security or defense. We would expect nothing different from our own government or from the UAE and Qatar in connection with discussions.

In terms of the reaction of the administration, we have visited with the Department of Commerce, the Department of Transportation. We visited with the White House. We visited with USTR. We visited the Department of State. And we have gotten serious interest from serious people about a serious issue. There clearly are-- There's a lot of issues involved. And this is complex. Our government has asked us, in addition to the white paper and the considerable documentation we have provided initially back in January, they asked us additional questions which we responded to. And we filed with them a stack of paper, when printed out is about that high in response to their questions. They have very good information.

We expect them to act on it. The concern that we have, candidly, is that we need to act-- we need them to act on it with urgency, because as Doug mentioned, the Gulf carriers are taking advantage of this time period to add 25 percent more flights than they had as of January 28<sup>th</sup>. And that's a serious issue, because the harm is current. It's present. It's happening. And now it's accelerating.

And we also know, as I mentioned earlier, we know this harm accelerates to the point where it can threaten the very existence of carriers as it has in Europe. So this is a serious issue. But our government, I think, is taking it very seriously.

**JOHN HUGHES:** Should this have been on the agenda yesterday in President Obama's meeting with the Gulf State leaders?

**JEFF SMISEK:** I don't know the content of those discussions. I would have no way of knowing that. My understanding, from the press, is those are matters that are relating to defense. And, as such, I would not expect these to be discussed, because this is not a defense issue.

**RICHARD ANDERSON:** This is very practically, these are the sorts of issues that should be handled in the normal course, separate and apart from those kinds of defense meetings, because in a mature trade relationship, just like we have with Europe, and the example that Jeff gave with Boeing Airbus, you know, there's regular give and take in the State Department. We have 114 Open Skies agreements around the world that are administered all the time. All of which we support.

And, by the way, we also support Open Skies in the instance of these three carriers. We just have to have actions taken to level the playing field. And in the normal course and scope, we interact with governments around the world on slots and gates and with our DOT to work through these issues and with State Department to work through these issues. And we would expect, through those normal channels, that this would be something that would be managed consistent with the Open Skies policy and the signed trade agreements, bilateral agreements with these two countries.

**JOHN HUGHES:** So I mentioned in the introduction that the three of you are together on this. And the labor unions are supporting you. But there are some who are not with you. So the Travel Industry Association, which includes Wyndham, Lowes, Expedia actually has a point of view in opposition to the three of you. The Cargo Airline Association was out this week. That includes FedEx and UPS, not with you. JetBlue, of course, is a co-chair partner of Emirates, not part of this. Does the fact that it's not a broader coalition give some indication that this is an issue that, if it hurts parts of the industry, and those parts of the industry are not happy, but there's other parts of the industry in U.S. that is perfectly happy with the status quo. So is it an issue of where you sit is where you stand on this one?

**W. DOUGLAS PARKER:** Let me try that one. Look, the issue is, we care the most because it affects us the most. And our employees are here because they understand what the effect is going to have on them. The short answer to that is, those other organizations you described either don't understand the situation, or have a view that it doesn't-- that it doesn't concern them. It certainly isn't better for them.

Here is the reality. Today, as Richard described, we were already experiencing some damage, the India example. And that's real damage. But, as Jeff described, what we've seen in Europe, and what will happen here, if our government allows these subsidized flights to continue into our country, what we will see is more of the JFK-Milan type service into the United States, Milan-JFK service into the United States from points not into the Gulf.

That has a material potential impact on this industry. And that's why our employees are so concerned. Because once that happens, we, the three of us, and the reason the three of us are so concerned, flight hub and spoke airlines. And while this sometimes is inside baseball to people, I think everyone pretty much understands now that, if you're flying a hub and spoke, if we're flying international flights from Philadelphia to Europe, those flights aren't full of people flying nonstop from Philadelphia to Europe. There are people flying from all over the United States into

Philadelphia onto Europe. If we can't fly Philadelphia to any of those-- to that Europe flight anymore, we're not going to have as many flights to the United States. It's a hub. And it starts to unwind.

And once those hubs start to unwind, the entire commercial U.S. aviation business is materially different. We need many less employees. And it's not right. That's what's going to happen if we-- if this goes unchecked and unabated. And that's why-- that's why the three of us are so concerned. Those other organizations you mentioned either don't understand that, or don't care about U.S. commercial aviation. I'm sorry Jeff. And none of what we're saying is meant to harm the cargo business, for example, and wouldn't. This is simply about commercial aviation and passenger carriers. So look. We may have some more education to do with them. They clearly don't understand the impacts to the United States, or they wouldn't have those views.

**JEFF SMISEK:** And what I was going to say, Doug, I'm sorry to interrupt you, is that with respect to cargo carriers, the cargo carriers do understand our issues. They, however, have a set of traffic rights that they rely on through the Middle East, which are different than our sets of traffic rights. This is an issue for passenger carriers. It is not an issue for cargo carriers at all.

The cargo carriers, as I understand it, are concerned that our issue could bleed over through some kind of retaliation to their rights under the Open Skies agreements. We're-- So that they have that concern. But they do appreciate the damage and harm that is occurring here. But their concern is retaliation by the Gulf governments.

**JOHN HUGHES:** So Boeing sells airplanes to you and to the Gulf. And, as far as I can tell, they're staying on the sidelines in this. Is that where they should stay, because it's a no-win situation for them? Or do they need to see the concerns that you see and get involved?

**RICHARD ANDERSON:** Well Boeing has been very straightforward in its neutrality on this issue. And that's appropriate for them to stay neutral on this issue. We are obviously, these three carriers here on a combined basis operate more Boeing airplanes than any three airlines that would sit on a stage together. And between what we operate and what we have on order probably approaches over 2,000 airplanes, Boeing airplanes. So, from that standpoint, it's appropriate that they're-- that they stay neutral.

**W. DOUGLAS PARKER:** They are conflicted that they have two sets of large customers on each side. So it's understandable. I don't think, however, if they were-- if someone were to ask Jim or Ray, "Do you have a problem with the U.S. government enforcing U.S. trade policies?" that they would say no. They should be in favor of that. And I believe they are. That's all we're asking for here, enforce the policy.

**RICHARD ANDERSON:** And if you go and look at the filings that were done in the WTO case by Boeing against Airbus on the launch subsidies, you could take the words "Boeing" and substitute American, United and Delta, and it's the issue is exactly



the same. And our position, with respect to subsidies, is identical in every respect to the position that Boeing took in the WTO subsidy case.

The main difference is, ours is twice as big. It's the largest subsidy case that's been, you know, proven by documents, when compared to any WTO case. So from that standpoint, as we say in the law, we have the worst case. And the worst case is our case is identical to the Boeing case in front of the WTO. And you know, if you go research the Boeing quotes and statements made in the docket, they're identical to what we're saying here.

**JOHN HUGHES:** Doug Parker, I have several questions that were just for you. And that must be why you're sitting in the middle seat. [laughter] The special place.

**W. DOUGLAS PARKER:** We'll see. I wrote all of them. [laughter]

**JOHN HUGHES:** So Doug likes the combined question. I'm going to combine a couple questions for you. But one of the questions is along the lines of this. American is part of the One World Alliance. British Airways is a key partner in the One World Alliance. British Airways partner is supportive of the Middle Eastern carriers' position on this. Qatar is a member of the One World Alliance. And apparently, you supported their entry into the Alliance a couple years ago. And maybe I just won't combine another-- I'll leave it at that, because that's enough. [simultaneous conversation] But it certainly makes for a peculiar get-together when One World-- a little awkward when One World gets together all in one room. How do you, you know, figure all this out? It doesn't seem to make sense the way that I just laid it out, for you to be in here.

**W. DOUGLAS PARKER:** Well, let me try and explain, because it makes sense to me. We are part of the One World Alliance because that's important to our customers. We have customers that want to get to parts of the world that American doesn't serve, such as the Middle East. So we have co-chair relationships that allow them to get there. And that's-- that, I think, is the right thing to do for American Airlines customers.

It doesn't mean that we should sit and watch subsidized travel fly to the United States and allow our U.S. government to not enforce the policy with the countries of the UAE and Qatar. Look. To us, this is much less about individual airlines and about public policy. And the policy is the U.S. government working with the governments of the UAE and Qatar and that they should enforce that policy.

And then, as it relates to British Airways, look, they have a different view. They also have a very different network dynamic than most of us do. Great airline, great partner, British Airways, and very well run and managed. And we work extremely well together. But the reality is, their global hub is thought constrained. And they don't face these same issues that the rest of us do, because it's not possible to add subsidized capacity in enormous tranches to their hub that it is to ours.

**JOHN HUGHES:** So it's perfectly fine to keep Qatar in One World. And you can be their Alliance partner on that front, but have this issue with them on this other front?

**W. DOUGLAS PARKER:** Look. It's a public policy issue versus a marketing relationship. Yes, they're completely different.

**JOHN HUGHES:** Okay. Another questioner says, traditionally, this has been a fight led by Delta. And both the old American and U.S. Airways were mostly on the sidelines. Why has the new American taken such a strong part in the campaign at this time?

**W. DOUGLAS PARKER:** Because we saw the data. I, like Richard, you know, have been in this business a long time. And when I saw the amount of flying that was [00:29:00] base carriers, and we would come up, my intuition was to say, well we've seen this stuff before. Airlines come and go. And they do uneconomic things. And you hate to see it, because it costs us all money when it happens. But they go away eventually. And just stay focused on what we're doing, and don't worry about them, because they're going to be gone, because you can't fly that much capacity to the Middle East and expect to be profitable. It'll go away.

Then we saw that, indeed, they weren't playing by the same rules. So they were playing by unfair rules. They were subsidized. And, if you allow that to happen, all of a sudden the rules are completely different. And that we can't allow to happen. So, once we saw the data, we were all in. Up until that time, yeah, we were skeptical because we'd seen no proof. And frankly, we just assumed that, over time, this would go away. But fortunately the work was done. We saw the data. And we couldn't be more supportive.

**JOHN HUGHES:** This questioner says, given that your three airlines have just two head-to-head daily competitive overlaps with the three Gulf carriers, isn't this really about protecting passenger flows and connecting opportunities for your European alliance partners? And, what is the U.S. government national interest in demanding that the government protect your European partners by forcing passengers to connect in Frankfurt, Munich, Paris, Amsterdam and London onto aircraft of Lufthansa, Air France, British Airways, Virgin Atlantic?

**JEFF SMISEK:** Well, let me start. This is not protectionism. This is about enforcing trade policy. This is about what our nation stands for in the United States, which is fair competition free of distortion, particularly subsidized distortion. This distortion is off the scale. This is orders of magnitude subsidization, far beyond anything that I've ever seen in my career. This is a significant issue to us, to our employees, to the U.S. airline industry. Does it affect our foreign partners? Of course it does. But we compete on a global scale.

We fly, just at United alone, we fly over 5,000 flights a day to 370 destinations in six continents. We fly in the city pairs[?] either directly or through Star Alliance, in

competition with the Gulf carriers, every single day. In fact, there are only-- if you take the entire network of all three Gulf carriers, there are only three destinations not served by a member of Star Alliance, our alliance. This is a competitive situation. And we are more than happy to-- and we do, each of us, American, Delta, United, we compete globally. We are ready, willing and able to compete globally against any airline. But you cannot compete against a national treasure. You cannot compete against an arm of a State. You cannot compete with an infinite supply of oil. It can't be done. And that is-- And it has never been the trade policy of the United States of America since we've escaped mercantilism, how many years ago. There's never been the policy to accept subsidized goods into the United States because of the long-term damage to jobs and the economic health of the United States.

**JOHN HUGHES:** Etihad was out with a study, I think today, saying that you've received \$70 billion in subsidies, \$70 billion dollars since 2000. And they put-- they include bankruptcy process and I think the pension in that. And so I wanted to get your response to that. But also, there are some other questions along the similar--

**RICHARD ANDERSON:** We all want to respond. [laughter]

**JEFF SMISEK:** You're going to have to hold us back. [laughter]

**RICHARD ANDERSON:** I actually-- No, I want to take that one. I want to take that one right now. And I'm going to turn it to the audience. And I would like the airline employees in this room who lost their pensions in bankruptcy, or had their pension frozen, please stand up.

Now I'd like-- I'd like them to tell these people about whether Chapter 11 has subsidies in it. [audience response]. It doesn't. It didn't have subsidies. There were no government subsidies. And it was the employees and the creditors in a legal process that went through a reorganization. It's just simply not a subsidy under WTO law or under U.S. law.

**W. DOUGLAS PARKER:** So now I'll add. It's not a subsidy under WTO law because it's not a subsidy. I mean it's just nonsense to suggest, as Richard just noted. I mean there was no government support that allowed-- that provided support to those carriers, and they couldn't meet their obligations. Then the people that had made commitments to those airlines, like creditors and employees, had found that they weren't-- that the airlines couldn't meet their commitments. And they ended up with pensions lost, jobs lost, not being paid back the money they had loaned, all sorts of horrible things.

So that's what bankruptcy is. But look. If this is their defense, fantastic, because we disagree. But let's sit down and talk about it. If their defense is, "Oh, we're subsidized, but so are you because of bankruptcy," we'd like to argue-- we'd like to talk to them about what bankruptcy really means and help them understand what, indeed, bankruptcy is, versus what the subsidies they're having. That would be a great

conversation to have. That's all we want to do. But, if the argument is, it's okay for us to be subsidized because you guys have bankruptcy, come on.

**JEFF SMISEK:** Right. And, in fact, two of the carriers, two of the three carriers, Etihad and Qatar, in their audited financial statements that we were able to uncover in some fairly obscure jurisdictions, have going concern footnotes, that for those of you who were not schooled in the wonders of accounting, what that means is the auditors are basically saying, "This is not a going concern. This entity does not have sufficient cash flow and profitability to survive. And therefore, needs to be liquidated." But the government stepped in and shoveled in more subsidy to keep these carriers afloat.

So you know, it is patently absurd, not only from a WTO perspective or any definition of a subsidy, to argue that bankruptcies of American carriers serve as subsidies, because the people that paid for those were our fine employees, were our creditors, were shareholders. That's a devastating thing to occur, certainly not a subsidy. But two of those three carriers, but for massive government subsidies, in the case of Etihad, \$17 billion dollars a year. In the case of Qatar, almost \$17 billion dollars. Not a year, it's \$17 billion dollars over the past 10 years. And Qatar is \$17 billion dollars as well. But for those subsidies, those carriers would be liquidated. They wouldn't exist today.

**JOHN HUGHES:** But you have received government subsidies over the years, whether it's guaranteed loans or ATC to some degrees subsidizing your business, right?

\_\_\_: No.

**JEFF SMISEK:** No, no, no.

**RICHARD ANDERSON:** Not ATC, no.

**JEFF SMISEK:** We pay for every penny.

**RICHARD ANDERSON:** We pay for every penny.

**JOHN HUGHES:** To the extent that general taxpayer dollars go into that fund?

**RICHARD ANDERSON:** No, there's-- Well, we can go-- We can have a conversation about that, but that's not correct.

**JOHN HUGHES:** But you're not saying you don't get any government subsidies.

**RICHARD ANDERSON:** Yes we are.

**JOHN HUGHES:** You're saying zero?

**RICHARD ANDERSON:** We do not receive subsidy. This industry is the leading taxpayer in the United States. We pay a 21 percent national sales tax, when you add up the 15 to 17 taxes that we pay. Our airport systems are self-funded. We do not receive subsidies from the United States. And that was part of the Airline Deregulation Act of 1978. We do not receive subsidies. And that's just false.

**JOHN HUGHES:** So tax cuts, loan guarantees, you wouldn't call those subsidies?

**RICHARD ANDERSON:** Well, if you looked at what our book tax rate is and what our tax rate is on our financials, we're-- we're a full taxpayer at the highest corporate tax rate. Plus, we pay some of the highest book taxes. That is, the kind of taxes you pay for fuel, passenger facility charges, segment fees, TSA fees, AFIS fees, CBP fees, there's, I believe, actually Sharon Pinkerton is here. She's the expert on it from A4A. I think there's 17 taxes we pay on a ticket.

SHARON PINKERTON: Overall.

**RICHARD ANDERSON:** Overall.

SHARON PINKERTON: Fuel tax.

**RICHARD ANDERSON:** Correct.

**JOHN HUGHES:** Okay. All right. So we're going to do one last question on this issue, and then we're going to move to some general airline issues. So anything you want to say, you got to say it on this question. But do you think the government will do something, at the end of the day? The Washington Post was out with an article earlier this week. They quoted a government official, unnamed, that said they were hesitant. You know, they made it sound like the government wouldn't take action on this front. Do you really expect the government to take action? And if not, are you just going to shut this down and move along? Or is there another way to win on this? Could you see something on export/import or in some other area of benefit that would stem from your arguments on this matter?

**JEFF SMISEK:** Well I'll start and have these gentlemen join in. Yes, I do believe our government will take action. It should take action. It's taken action in other major trade disputes. It has enforced consistently the trade policy of the United States. There are major trade agreements in front of Congress today. It is very important that this administration take action on a significant trade dispute, a clear violation of the underlying trade agreement on these Open Skies treaties between the U.S. and the UAE and Qatar. And we're confident that they will take action. Should they not take action for some reason, there are other avenues that we will need to pursue.

**W. DOUGLAS PARKER:** Look, I'm highly confident they'll take action, because the evidence is so compelling. And it can't be ignored. They have-- We provided

the information. They asked us a series of questions. As Jeff described, we gave them the answers to those questions that make the case even more compelling, as you read through those. It's not as if anyone could look at that information and say, "Well, I don't see enough here to act.

The government will have to act. We are concerned about urgency. You know, from the time we presented the information, again, until now, already 25 percent more capacity. And we are concerned that there isn't enough urgency in the process. And we are trying very hard to highlight the need for urgency. But I can't imagine the government doesn't act because the evidence is so compelling. And that's what our government has to do.

And then lastly what I'd say is, the other reason I know they're going to act, is because we're not going to let them get away with not acting. The people in this room, the people that we represent have worked far too hard to get to a place where this business can stand on its own feet, where people can be geared-- people can know if they show up and work for one of our airlines, they can have a career at those airlines. And they can end their careers there.

And that's been a hard fight by a lot of people who have given a lot. And they're not going to let that go away because the U.S. government simply ignores the fact that some other-- that two other countries are subsidizing flights into this country that's going to take their jobs away. So we're not going to let that happen, because our people aren't going to let it happen.

[applause]

**RICHARD ANDERSON:** I would say we've been at it-- we've been at it-- [applause] We've been at it over two years, and we're not going to stop. So the investigation's just going to continue. And it's just going to keep going. It's not going to stop. We have huge support in Congress. We have 200-- and we just circulated one letter. I think we had 260 members sign it. And we have avenues of relief through Congress. But we're going to continue-- We're going to continue the battle, because it's about the future of an industry that is vital to the-- that is vital to our country. And it's our responsibility as the stewards and the leaders of these organizations to do what's in the best interest of the U.S. aviation industry. And we're not going to give up.

**JOHN HUGHES:** Okay, moving to some other topics. This questioner asks, why haven't any savings from reduced fuel costs been passed on to consumers or customers? And I think they're talking about air fare relief.

**W. DOUGLAS PARKER:** Okay, first I'll do this. And my colleagues with legal degrees can do it better. We've got to be a little careful, the three of us, talking about issues such as pricing, to be clear. So we'll try and answer all these. But the fact that the three of us are together is an oddity. And it only happens because we're so focused on this one issue.

**JEFF SMISEK:** There is no other reason we'd ever do it. [laughter]

**W. DOUGLAS PARKER:** This is hard on all of us. [laughter]

**JEFF SMISEK:** That, by the way, ladies and gentlemen, is proof positive of what-- how serious this issue is. [laughter]

**W. DOUGLAS PARKER:** Thank you. But anyway, having said that, I'll try, and you guys can chime in, or we can just end with that. My-- The view of American Airlines is, in fact, the fuel price-- the drop in fuel prices is being seen by consumers. The revenue per ASM in the United States and throughout the world is down year over year, despite the economy's improving. Much of that is due to capacity additions. But my guess is, had fuel prices remained high, you wouldn't see as much capacity.

So it's-- I think it's incorrect to disconnect the drop in fuel prices with the drop in revenue per ASM and say, "Oh, that's just capacity. Adds to capacity," wouldn't have been added had it not been for the fact that fuel has fallen. So that's what I think.

**JOHN HUGHES:** Does the U.S. face a pilot shortage?

**RICHARD ANDERSON:** I believe it does. And I believe it does because you've got several factors at work. Because of what happened after 9/11, we had a decade in this country where the industry essentially declined in size pretty dramatically. I mean the events of 9/11 were devastating to the industry. And so there was a whole period of time when there was no hiring that really went on. The industry actually shrunk a fair amount because you had 9/11.

Then you had fuel prices go from what we had all lived in a world, and we all started in this industry at \$20 dollars a barrel. And in 2005 we got to \$60. And in 2007, I guess, or 2008, March of 2008, we got to \$150. So, and then you had the financial meltdown. And so during that timeframe, there wasn't any hiring. And so now we have demographics that are catching up with the industry. And there is a huge wave of retirements.

And, at the same time, we're back adding airplanes. All carriers are-- You know, a lot of investment is going into fleets, airports, facilities, and technology in the U.S. now that the industry is healthy. And, as a result, there's a pretty significant demand in the industry. And I think in the case of Delta, we're hiring-- we'll hire 1,000 pilots this year.

**JEFF SMISEK:** It's not an issue for the mainland carriers. Everybody wants to work for a mainland carrier. They're terrific jobs. We treat them very well. We are a very solid, solidly profitable industry at this point. And people recognize they can join and they can have a terrific career. It really affects regional carriers. Part of that is the history of the pay structure of regional carriers, which, you know, is what historically has been.

And that is why you have seen carriers over time, United for one, dial down their dependence on regional carriers and dial up the mainland. It's very good for our employees to do that. Economically, it's better for our customers as well. Because in general, the mainland product is a superior product, although for aircraft like 76, Embraer 175 regional jets are very comfortable, very good airplanes. But certainly, the 50-seat type products, the Embraer 145s are like that. Those are a product that we're retiring. And so, from the perspective of mainland carriers, we have absolutely no problem whatsoever hiring pilots. But the regional carriers do.

**JOHN HUGHES:** There have been conversations going on in this town about privatizing air traffic control. We used to call it privatizing. I guess the new buzzword is commercialize. But in other words, have it run by a nonprofit, perhaps not a profit-making venture. And the air traffic controllers are favorable or looking favorably on this idea, as I understand. Could this ever get done, though? Could it ever get through Congress? Because a lot of members of Congress like the control they have over the system now, including some individual towers, where you'll see Congress members worried about the staffing at a tower in their district. So is this group ever going to want to give up control of the ATC?

**JEFF SMISEK:** I'm happy to take a crack at it and have these gentlemen join in. The issue with the U.S. ATC system is not the men and women at the FAA or leadership. They're actually doing a very good job, certainly from a safety perspective, given the resource constraints and given the governance constraints that they have. The problem is, they have on and off start and stop budgeting. They can't borrow long-term to make the appropriate infrastructure investments. They have a great deal of difficulty managing the transition to a modern air traffic control system, what we call Next Gen, because of the budgeting problems. And the massive micromanagement by members of Congress of the system itself.

And that is a problem, because what our nation needs and deserves is a modern, efficient air traffic control system such as, for example, as in our neighbor to the north, Canada, Nav. Canada, which does a superb job, very safe, very efficient, very modern, among probably the most technologically advanced in the world, and progressing at a rapid clip.

So we are keenly interested, certainly at Airlines for America, which I'm Chairman currently, of supporting a reformation of the nation's Air Traffic Control System. We just have to separate out from the FAA. Right now, the FAA is in a conflict of interest position. It both regulates the Air Traffic Control System from a safety perspective, and it operates it. So it's self-regulating, self-operating.

And it would be much better if it were split off, where FAA were the safety regulator certification agency, and the Air Traffic Control System was operated separately. I would not, myself, be supportive of a for-profit ATC system. It's a natural monopoly. And, as a result, it would require tremendous amount of economic regulation for a for-profit enterprise.



But, a not-for-profit enterprise, such as at Nav. Canada, which has been exceedingly successful, is something that I think this nation should give a great deal of consideration to. This is a very complex issue. And it is not without risk. But we do know that the current system does not work well at all in terms of efficiencies. When I started in the business, we would schedule a flight from here to Newark for an hour. Now we schedule it for an hour and a half, because of ATC delays.

Think of the fuel burn alone of our antiquated World War II era ground-based radar technology. The very cutting-edge technology we use in ATC today, right. Most of you have better guidance on your Hondas than we have for our nation's ATC system. So we need, we need reform. And we need transformation. There are considerable risks involved, without question. There are transition issues. This is complex stuff. But, just because it's difficult, and just because it is complex, and just because many issues have to be thought through, including the funding of it and the implementation of it, other nations, many other nations around the world have done this. This great nation can rise to this challenge. And we should do so.

**JOHN HUGHES:** Anybody else on that? Okay. So the airline industry has made tremendous gains in safety over the decades. And one of the reasons you have become so safe is when something would happen, you would look at what happened and make adjustments. And the industry made tremendous adjustments over the years. So we had this horrible situation with the Air Wings crash in Germany and the pilot deliberately bringing it down. Has that unveiled any safety crack that needs to be addressed? Or was that just such a far-flung, off the radar sort of event, that there's no action that the industry needs to take?

**RICHARD ANDERSON:** Well the U.S. system and the systems that we use for pilot training qualifications are just very different. These airlines require incredible experience and education in order to become a part 121 ATP holder in the U.S., number one. Number two, just to the specifics of that, you know, we've had, post-9/11, the two-person cockpit rule all along. So there's not that situation. And I believe, actually, the Europeans are adopting the U.S., you know, always two people in the cockpit.

So you know, I think our systems are just different. And you know, I don't expect-- and I don't know that the final recommendations have come out of the safety authorities in Europe. But we should wait and see. You know, one of the rules that you always follow in those circumstances, whether it's the NTSB or the Investigative Agency, that you always, you always want the process to run its course for its recommendation.

**W. DOUGLAS PARKER:** All I'll add to your question, we don't let anything just feel like such an anomaly that we don't need to-- Safety is everything. So, indeed, I mean Richard is right. We think our business is different enough, for a number of reasons, that it doesn't have cause for any immediate issues. But, the FAA has formed an arc on this and is going to go study it the way it should, with the right people involved,

the airlines, pilots, you know, people that understand this, to go do it the way we do things, and make sure that we're doing everything we possibly can to ensure that we don't have an incident like that. But that's because we never look at anything and say, "Oh, it's just such an anomaly, we're not going to worry about it." Our industry makes sure we cover all of this.

**JOHN HUGHES:** Okay. Before we get to the final questions, and I'm running short of time, I just wanted to mention the National Press Club is the world's leading professional organization for journalists. And we fight for a free press worldwide. For more information about the Club, go to the website, [press.org](http://press.org). And to learn about our nonprofit, or to donate to the Journalism Institute, visit [press.org/institute](http://press.org/institute).

I also want to remind the audience about some upcoming speakers. One week from today, Garrison Keillor, the author and host of *The Prairie Home Companion* will address the Press Club. And on July 8<sup>th</sup> we have just have Barry Trotz, the Coach of the Washington Capitals, who unfortunately, the season is done for now. But he's still coming to the National Press Club.

And I would like to present each of our three guests with the National Press Club mug. You could point--

**JEFF SMISEK:** Thank you very much.

**W. DOUGLAS PARKER:** Thank you.

**RICHARD ANDERSON:** Thank you.

[applause]

**JOHN HUGHES:** These are the extremely valuable artifacts that people get when they come and speak at the Club. And I'm sure it will be treasured by each of you.

**RICHARD ANDERSON:** Always.

**JOHN HUGHES:** So we--

**JEFF SMISEK:** I'm just really glad we didn't have to follow Garrison Keillor. That's all I can say.

**RICHARD ANDERSON:** But we are all three slightly above average. [laughter]

**JEFF SMISEK:** I think you're good looking, too, bro.

**RICHARD ANDERSON:** Oh, I don't think so. [laughter]

**JOHN HUGHES:** So we have a tradition of ending these luncheons a little bit more on the lighter side. And we have mentioned how unusual it is to have three airline CEOs together in one place, taking questions from the press. We don't know when this will happen again. And I don't know--

**JEFF SMISEK:** Hopefully never. [laughter]

**JOHN HUGHES:** -- happened before. But, while we have this opportunity, I wanted to give each of you-- Would you be interested in saying why your airline is better than the guy sitting next to you? [laughter]

**JEFF SMISEK:** How much time do you have? [laughter]

**JOHN HUGHES:** Is there a particular advantage that you see in yours?

**JEFF SMISEK:** Let me jump on first. [laughter] I actually-- I actually-- I'll say something that I think may surprise you all. I think that post-consolidation, the U.S. airline industry is so much better than it has ever been. And candidly, I think reality is far out ahead of perception. I think each of our carriers, Delta and American and United, offer today a better product than they've offered in their history, better customer service than they've offered in their history, better technology, better facilities, better fleet, better route networks, better customer convenience, better schedule utility than we've ever had.

The reason that we compete together so well and so fervently is because we are now in a position that we are making the kinds of investments in you, our customers, and in our employees, that we have never been able to make, not because we were stupid, but because we were poor. And we are finally making sufficient money, and we have sufficient cash flow, to invest in our businesses, invest in our employees, invest in our fleet and our facilities and our technology, and return cash to our shareholders, our ultimate owners.

So I think each of us runs a good airline. I think each of the airlines offer different things. But we all are offering an ever-increasingly better product for the American consumer. And that's why it's so important. That's why it's so important for us. And as Doug put it, we're not giving up on this Mid East carrier issue, because this subsidized capacity will end up devastating this industry.

And, as I tell our own employees, this isn't necessarily for me. This is for the next generation of leaders at United Airlines. This, what's happening with the Gulf carrier invasion here, using as arms of the State, is so damaging to the future of our own employees, and our airlines, and the United States, and the economy of the United States, that we-- we, despite our very tough competition-- and I hate these guys, I will tell you, and they hate me too-- [laughter]-- we're here together because this is such a serious and important issue. And I just want to thank you for the opportunity for us to be here and for us to address this very important crowd. Thank you.

[applause]

**W. DOUGLAS PARKER:** It's very diplomatic of you. [laughter] And look. And part of the problem is it's hard for us to answer this question, because, as Jeff said, this is really where we compete now. I mean we're competing for premium customers or the product is where this industry is headed. And it's a dramatically different industry. So we are very-- we're all very-- I know we're proud at American of what we're doing. We do have a great product. And we're going to have a better product than either of these airlines if we don't already. [laughter]

Now look. And what I really should say is, just look at the socks, for God's sakes. [laughter] [applause]

**JEFF SMISEK:** If you want a stodgy airline, fly American. [laughter]

**W. DOUGLAS PARKER:** We at American are a professional carrier. [laughter] I do have one thing I do want to say, though, like Jeff. Look. We talk about, you know, the three CEOs and how big a deal it is. It is a big deal. It somehow, though, unfortunately gets turned around in the media to be in sort of a personal CEO versus CEO, airline versus airline thing. And that is not what this is about. This is about public policy between the U.S. government and two countries. Those airlines, those CEOs are doing what I imagine we would do if we had subsidies. They're flying where they can and doing as best they can with what they're given. And they're given a lot.

So that's not what this is about. The three of us aren't fighting those three CEOs. The three of us are petitioning our government, the U.S. government. That's where our case is, is to the U.S. government. Please act. Because these other two countries aren't playing fair. And it's going to have a material impact on U.S. trade over time. It has nothing to do with people or airlines. It has to do with U.S. trade policy. And it's being violated.

**JOHN HUGHES:** Okay, we just have 30 seconds left. Mr. Anderson, do you want to defend your socks? [laughter]

**RICHARD ANDERSON:** No. No. But I think Doug should defend his. [laughter]

**W. DOUGLAS PARKER:** I am so happy to do that. [laughter]

**RICHARD ANDERSON:** -- And match your suit. [laughter] I'll yield. [laughter]

**JOHN HUGHES:** I would like to ask the audience to give a round of applause to our speakers.

[applause]

**JOHN HUGHES:** I would also like to thank the National Press Club staff, including the Journalism Institute and Broadcast Center for organizing today's event. And if you would like a copy of today's program, or to learn more about the Club, go to the website, [press.org](http://press.org). Thank you. We are adjourned.

[gavel]

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