Greetings / Introduction

Good afternoon

- to the Representatives of the European Parliament, the European Council and the European Commission

Ladies and Gentlemen,

Coming to Brussels is always a great opportunity to meet colleagues and the policy makers of our industry. I would like to thank the EAC for having invited me to speak at this Luncheon.

I have been CEO of the Lufthansa Group for a bit more than a year and I have realized that we have to explain much clearer what I would call "the inside" of European aviation.

Thank you for your time and thank you for the opportunity to explain where Lufthansa stands and what challenges we face.
State of EU-Airlines and LH

I am aware that at the last luncheon of the EAC, my colleague Tony Tyler spoke. He commented on aero political issues currently discussed in the EU, namely the Airport Package, EU ETS and Single European Sky. I endorse every word Tony said – and will not repeat them.

Instead, allow me to focus on other topics, namely the competitiveness of European Airlines in a global industry and the challenges of the Lufthansa Group.

How are European airlines doing on a global scale? It is a number Tony Tyler gave you – but he mentioned it discreetly. Unfortunately, I cannot afford to be discreet about this: In terms of earning power profitability, European aviation is second last to Africa.

This is not a pretty sight, but I am not here to complain. My job and the job of all LH employees is to find a way to regain our competitiveness.

What can airlines do? And what can EU lawmakers do to secure the role of European carriers in a fiercely competitive global industry?
At Lufthansa we have done some homework. We have looked at our company in a 10 year perspective and realigned our strategy. And we have drawn a road map for the next ten years.

**Lufthansa – 10-years overview**

The Lufthansa Group is currently the largest EU carrier in terms of fleet, employees, passengers carried, goods moved and turnover.

What has happened in the past ten years?

- From airline (with airline related subsidiaries i.e. LHT) to Aviation Group – (Lufthansa Passenger Airline Group)
- From single hub to multi hub structure (FRA, MUC, ZRH, VIE, BRU)
- Passenger numbers: more than doubled (44 Mio $\rightarrow$ > 100 Mio)
- Size of fleet: doubled (340 $\rightarrow$ > 700)
- Revenue: almost doubled (16 billion 2002 $\rightarrow$ 29 billion in 2011)
- Share price and market capitalization: between March (13), 2002 $\rightarrow$ March 2012 our share price was cut in half

Last week we have presented our results of the business year 2011. Given the circumstances the Lufthansa figures were quite all right: Our operating profit amounted to 820 million euro, although
the Group result was negative due to effects regarding the withdrawal from bmi.

This amounts to an average of app. 8 EUR per passenger.

In view of these numbers, I am always astonished to hear in political discussions that it would be "peanuts" to add another 2 or 3, 7 or even 20 EUROS for each passenger to compensate for EU ETS, for higher ground handling costs, additional passenger protection, air navigation charges and so on.

We – and especially airlines who are facing losses – would have increased prices a long time ago, if it were that easy. But this is simply not possible in our highly competitive industry.

[...]

**What has happened at EU regulatory level during the same time span?**

Europe has created an internal market for aviation; market access was opened and competences to define the regulatory framework went from Member States to the EU.
This remarkable step allowed Lufthansa and other European carriers to fly to any destination and any city pair in Europe, no constraints with respect to capacity, frequencies or tariffs. We gained: regulatory convergence, an unprecedented level of safety and a heavy drop in prices on average 50 to 70 % for our customers.

Unfortunately, this liberalization was not applied to all the other partners of the value chain. In Air Traffic Control and at airports we are still dealing with monopolies. We welcome the proposal from the Commission to carry further the liberalization of one of these areas, namely ground handling services.

**Effects of the regulatory changes**

Where do we stand today in view of the regulatory changes of the past 10 years?
- All EU network carriers, including Lufthansa carriers, are losing money on EU routes. We move a lot of people and goods but do not make money. The operating margins are pitiful.

[…]

Operating profitable in Europe apparently requires a different business model: Moving people at very low prices, without comfort,
from secondary airports, many of which get heavy subsidies (Easyjet: 7.5% ; Ryanair 15.3%)

Have EU network carriers become large Non Profit Organizations?

No, we still make money, but only on intercontinental routes, compensating the losses of our European network.

This of course severely hampers our global competitiveness. We fly wing to wing with Non-European airlines which have much more favorable conditions at their home bases.

**The Lufthansa strategy in challenging times**

Lufthansa believes in the future. Within the next three years we will invest three billion Euros each year in fleet, on-board and ground products. Our order book for 2012-2018 comprises 170 new aircraft at a list price of 17 billion Euro – money that has to be earned.

With this in mind we have drawn up a roadmap to set the course for the next 10 years at Lufthansa. We realigned our strategy.

Our point of departure:
• We are the number one in Europe. Our aim is to keep or even expand this position, connecting Europe with the world.

• We have introduced changes with a Group wide programme to reduce costs by 1.5 billion euro p.a.

• We have started to offload our loss-makers, namely Lufthansa Italia and BMI.

• We have no other option but to sell British Midland. This deal is now on the agenda of the Competition Commissioner; it offers a job perspective for more than 3800 employees at bmi who otherwise would lose their jobs.

• We had to withdraw from Jade Cargo, the freight Joint Venture of Shenzhen Airlines and Lufthansa Cargo. If necessary – we will continue in this respect.

And there is more homework to do:

Because the pressure from the state owned airlines of the Gulf region as well as the pressure from the low-cost carriers – (very often subsidized from local airports) - will continue to increase.

And we can only counter it by providing the highest quality combined with improved competitiveness and cost structures. The Lufthansa Group of the future will not look the same as now.
Two companies in our Group (Swiss and Brussels Airlines) who suffered through bankruptcy - not the "comfort" model available in the US under Chapter 11 but a real liquidation - have demonstrated that changes are possible: These colleagues have an entirely different perspective than those who work for a Legacy carrier.

It is not our goal to cut Lufthansa in half, but we need to grow with the market in order to maintain the employments we have.

So much for our homework. But we cannot do it all alone. We need a regulatory environment which allows us to compete on a global level.

What do we expect from regulators?

1. **Implement the internal market**

The EU internal level playing field is still not in place. There are encouraging signs from DG COMP (Directorate General for Mobility and Transport) that it will check subsidies. This is imperative. Take for example:

- Charleroi: Here the Lufthansa Group is directly affected: One of our subsidiaries is competing directly with another carrier. This
other carrier benefits from the fact that the tax payer and not its passenger are paying for Air Navigation Services, as well as airport fees. (about 40 Euro per passenger in subsidies)

Dozens of complaints are not yet decided in DG COMP on these kinds of subsidies.

- Or, our Italian journey “Lufthansa Italia”: I mentioned it briefly. The legal framework allowed for new opportunities. We wanted to benefit and invested serious money.

  Stationed aircraft in Milan: 9 Airbus A319, 130 employees, carried 1.2 million passengers.

  But the lack of a level playing field (in that case special local market access rules) has precluded economic success.

2. Avoid overregulation

Looking at the last ten years, there is also considerable change with respect to new regulations. The events of 2001 understandably triggered new laws for security. But other areas were to follow, such as Passenger Rights, to name an example.

Of course I am aware that this topic implies a very old discussion about the question to what degree lawmakers have
to take care of customers. But meeting the needs of our customers is the basis of our business. It ensures our future and helps us to differentiate our product from our competitors.

In a liberalized environment, this must be allowed. It is taken for granted in other industries and should be the same for us.

But why, for example, are lawmakers discussing the option to create a fund to protect passengers from insolvency of an airline? Or taking over pension funds of bankrupt airlines …

And again: The airlines are supposed to pay. They would have to finance this fund. I do not know of any other industry where consumers are protected from the possible bankruptcy of a supplier.

I sincerely hope that this kind of "solution" (I put this in quotation marks) will never materialize.

I have the same disbelief when I hear about a request to treat children travelling alone the same as people with reduced mobility. Most airlines - including Lufthansa - are proud to have a system in place which for decades has ensured safe and reliable services for children travelling alone. This is part of our service standard.
There is no need to regulate this unless we want that Donald Douglas’ vision comes true:

“When the weight of the paper equals the weight of the airplane, only then you will be allowed to fly.”

Ladies and Gentlemen, I would like to turn to another important subject regarding our expectations via EU-regulators:

3. EU External Aviation Policy

Lufthansa welcomes the fact that the Commission is reassessing its External Aviation Policy. It is in the best of Europe’s interest to ensure that European hubs and European carriers connect our continent with the world also 10 years from now.

We have to evaluate critically when and how a common European air service agreement triggers added value and when existing bilateral structures are more favourable for EU aviation.

As a whole, these issues go far beyond aviation. It is a question of industrial policy of Europe, namely European airports and European airlines. Both are equally affected and need to join forces.
We can learn from countries which treat aviation as an important engine for innovation, growth and employment.

Aviation is a vital industry for Europe – the facts speak for itself:

- European network carriers provide more than 400,000 jobs directly.
- AEA member Airlines carried 363 million passengers in 2011.
- More than 100 million of them travelled with planes of the Lufthansa Group, among them Brussels Airlines, Swiss, Austrian Airlines or Germanwings.

And to make one thing clear: We do not want subsidies, but we also do not want more and more obstacles (taxes etc.) or even discrimination. We need a level playing field and in this context we also have to consider new approaches on how to deal with countries which promote unprecedented growth for their airports and airlines – irrespective of actual demand and economic strength.

Reconsidering market access for carriers which are tapping the EU market without providing reciprocal opportunities for EU carriers must not be taboo.

Other countries outside Europe have set respective examples. As air transport isn’t part of WTO, this is the right way to go.

EU ETS
Let me address another issue defining our present regulatory environment.

We may all be weary to discuss EU ETS, but nevertheless, it is time to reassess the situation. The perception which EU and Member States have about its scope differs from the rest of the world. With this I mean the most important overseas markets for European carriers.

We now know that third country governments did not react the way the EU expected them to do. Despite this reality Europe seems to be ready to test its trade relations with third countries in order to push through the EU ETS for aviation in its original form.

**From an airlines perspective we think it is urgent that the EU and Member States pursue a global solution.** I can assure you that we would contribute.

At the same time let me remind you that airlines have a huge self interest to reduce the CO₂ output. Our largest cost block is fuel. Here we expect for the Lufthansa Group a seven billion euro – bill for 2012!

We have thus consequently invested in a fuel efficient fleet and in research for Bio-Fuel. We have made extensive test flights. We know that Bio-Fuel is an option to replace part of conventional kerosene without compromising the food chain.
Conclusion

Aviation is an engine for economic value, growth and prosperity. We all know this. Nevertheless, at least in some parts of Europe, at the moment public support of airlines seems almost to be against political correctness.

On the other hand I see how people vote with their feet: Europeans – as much as people from other parts of the world – want to fly. Let us ensure that European airlines will be able to provide the wings Europe needs in order to keep flying.

Or, to quote an early French aviation entrepreneur:

“All the calculations show it cannot work. There is only one thing to do: Make it work!” (Pierre Georges Latécoère)

Thank you!