



"Turning Today's Challenges into Opportunities for Tomorrow"

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Montreal, Canada
March 22, 2003

Bonjour & Guten tag & konnichiwa & nihow & kak teela & a salaam
alaikum & bom dia & saludos & buon giorno &

And finally, good afternoon. Thank you for coming.

There can be little doubt in anyone's mind in this industry that we are experiencing some of the toughest times in our history. We see the discouraging signs all around us – war, bankruptcies, financial losses, declining economies and an unprecedented overcapacity in the industry. And while we have all been through tough times in the past, there is little doubt that these times are among the most difficult we've ever faced. Business as usual simply won't cut it. Today requires sacrifice, flexibility and the ability to work toward success for all, rather than success for just ourselves. We share the same goal as ICAO — a safe and efficient global air transportation system, and a healthy industry.

We at Boeing, and all of you, are pieces of a larger whole – members of a larger system that must constantly work together to return our industry to steady, long-term growth. We know that without the cooperation of and partnership with the members of this system, no one part will be successful. That's been true historically, and it is even truer today.

The Boeing philosophy has been to be there in good times and bad. We continue to shoulder a unique responsibility to follow a path that, while it might not be in our own best interests in the near-term, will bring success to our partners and those working together with us in the long-term. We have learned through many years of good and bad times — up and down cycles — that success for our partners and customers means success for us.

Today, we face the challenge of a world that is as uncertain as it ever has been. But challenges are the springboard of opportunity. Indeed, the title of this conference is “Challenges and Opportunities of Liberalization”. Challenges often go hand in hand with opportunities. Challenges force us to innovate and to improve.

It is important for us to keep in mind that, historically, peace follows conflict. Growth follows contraction. Prosperity follows stagnation.

So, as difficult as it may seem, now is the time to prepare for a return of peace, growth and prosperity. If we don't shape the future of the industry together and take the necessary actions to get us back toward growth, we will not have provided the leadership or risen to the opportunity.

Within 10 days of September 11, Boeing moved decisively to reduce production by more than 50 percent. We wanted to respond to our customers' changing needs as quickly as possible. To not have done so would have been irresponsible, since it would have created untenable financial pressure on our customers and on the value of the existing world fleet.

In similar fashion, we are responding to our customers' current and future needs by investing in the world's next new Boeing airplane — the 7E7 — which will take passengers where they want to go, when they want to go. And do so reliably, economically and in an environmentally friendly way. That is what the market has told us it wants, and that is what we will deliver. And we are doing so at the bottom of the economic cycle. Yes, it sounds risky, but we believe that now is the time to invest in the future — yours and ours.

Boeing wants to be more than just ready for the next upswing – we want to drive innovation and help our customers return to profitability as soon as possible.

We also are investing in new technology that meets the needs of our customers' customers and adds value to the airline flying experience. That is the case of Connexion by Boeing & a mobile information service provider that is revolutionizing the way airplane passengers communicate and are entertained by providing broad bandwidth connectivity to the airplane seat. Because of our Connexion by Boeing, passengers now can fly across the North Atlantic on a Lufthansa 747 and access the Internet, exchange e-mail and receive streaming television and audio content.

A safe and efficient air transportation system relies on more than just new airplanes.

If developments in global air traffic systems do not keep up with the traffic growth, the industry could be adversely affected.

That is why Boeing is leading an effort with governments, regulatory agencies, industry associations like ICAO – and even our competitor – to upgrade the air traffic management system worldwide. The opportunity exists to do something dramatic about improved safety, increased security and efficiency, greater capacity, reduced delays, congestion and environmental impacts. That's a pretty tall order, but think about the possibilities if we can increase the efficiency of how the air-traffic system operates today.

Now I'd like to take some time and talk to you about how passengers want to travel, how airlines have addressed their needs and how, by introducing new airplanes with new performance capabilities combined with good open skies policy initiatives, we actually can change the face of air travel – to better meet the needs of our customers.

Multiple Forces Drive Our Industry

During the past 20 years, three main forces – the regulatory environment, airplane and aerospace capabilities, and airline and industry strategies – have radically changed the airline industry. These forces will continue to drive our industry's evolution.

Since the deregulation of the U.S. market in 1978, we've seen a dramatic shift from regulated to deregulated domestic and international markets.

We also have seen increased liberalization – even “open skies” – in international markets. This freer market access intensifies airline competition.

Airplane capability has also reshaped airline networks. Today, airlines have much greater selection of airplane capacity and range combinations to meet these competitive market demands.

The combination of changing regulation and improved airplane capabilities has shaped airline strategies in recent years. And we forecast in the next 20 years a compounded annual growth rate in passenger traffic of 5 percent and cargo of 6 percent – a couple of percentage points above world GDP.

Passengers Drive Airline Strategies

Passengers drive airline strategies. So, what do passengers want? They want safe, reliable service with the shortest trip times — non-stop flights with more frequency choices and low fares in comfortable surroundings.

Passengers also prefer point-to-point service, not circuitous routings through one or two connecting hubs. This is what we call “fragmentation”. In other words, the market demands more new non-stop flights and frequencies, not increased airplane capacity or size.

Air Travel Growth Has Been Met By Increased Frequencies

Our research tells us that growth in air travel has been met entirely by an increase in new non-stop markets (airport pairs) and by frequency growth – not by an increase in average airplane size.

Few Choices Prior To Liberalization

Deregulation in the U.S. domestic market led to international liberalization. Liberalization has had its biggest effect on the North Atlantic. A good example is the Chicago-Europe market in 1984. There was one U.S. airline flight per day from Chicago to Europe – a TWA 747 flight to London. At that time, 60 percent of all U.S. airline flights on the North Atlantic were 747s.

After the introduction of the 767 with improved technologies and greater efficiencies, airlines were able to offer passengers the choice of non-stop flights to Europe from their U.S. hubs. Air travelers naturally chose to fly these non-stop flights.

It was yet another revolutionary change for the air transportation system.

Liberalization Has Led To Market Fragmentation

This chart shows the abundance of services offered in the August 2001 OAG. There were, in fact, 22 daily non-stop flights offered by American and United alone from their Chicago hubs to 12 European destinations. Today they fly a mix of both 767s and 777s. Several city pair markets were receiving multiple daily flights.

Seventy-three percent of U.S. airline flights on the North Atlantic are 767s and 777s. About 4 percent are 747s. This represents a drastic change since 1984 when 60 percent were 747 with the introduction of these new airplanes. . .allowing flexibility and passengers to fly point to point.

We expect the forces driving North Atlantic market fragmentation will continue during the next 20 years and will provide approximately 200 airport pairs with new non-stop services by 2021.

Indeed, since March of last year, new routes have opened up between Montreal and Cairo, Montreal and Vienna and Montreal and Zurich.

The Boeing 7E7 will accelerate the occurrence of fragmentation.

777 is Fragmenting the North Pacific

On the North Pacific, liberalization and the new highly-capable 777 are just beginning to ignite fragmentation as the 767 did on the North Atlantic in the mid 1980s. A quick look at how the 777-200ER was used in the North Pacific gives ample evidence of how today's long-range twinjets are reshaping air travel and airline competitive strategies by allowing non-stop flights that bypass one or more hubs.

It is this market liberalization combined with the 777 capabilities that continues to create new market opportunities between North America and Asia. The 777 is proving to be the preferred airplane for the long haul for airlines.

The Use of Intermediate-Size Airplanes is Increasing

Narita is often used as an example of a very congested airport. Our competitors are betting that airplane size will only go up. Yet recent developments in the Narita-U.S. market don't support this premise. With the introduction of greater regulatory freedom, airlines have added flights and more point-to-point services to meet passenger demand for more flight choice. In fact, frequencies increased 30 percent during this four-year period.

The Japan-U.S. bilateral agreement signed in 1998 provided Northwest and United as well as Japan Airlines and All Nippon "open-skies" traffic rights. Other airlines including Delta, American and Continental were granted new route opportunities. As Japanese and U.S. airlines introduced new flights, airlines were under pressure to change the mix of airplanes in the market. This is an example of how fragmenting markets impact airline fleets.

This chart shows how, in four years, intermediate twin-aisle aircraft traffic (777s) increased in the Tokyo-U.S. market from 20 percent of flights just prior to the 1998 bilateral, to 40 percent by 2001. Conversely, 747 traffic decreased from 80 percent in 1997 to 60 percent of total flights from Tokyo to the U.S. in 2001.

A Safe & Efficient Global Air Transport System

When I began this address, I said that our philosophy has been to be there in good times and bad. To stay close to our customers in order to anticipate their needs. Our commitment is to continually innovate and develop new technologies that allow us to do things better, cleaner and more efficiently.

It is our choice to work together during these unprecedented times to generate the necessary productivity gains that will return this industry to health and prosperity.

Yes, Boeing is committed to building the most efficient, high-performance and sophisticated planes in the world. And to supporting 80 percent of the world's fleet that are Boeing aircraft, with our worldwide customer support infrastructure and knowledgeable, committed people.

But we also know that success for our partners (and therefore for us), will take more than just building the industry's best airplane and service offerings. We must push forward on many fronts – regulatory, financial, technological and environmental.

We must balance the near term while still looking at the distant horizon. We must lead by making the right-minded decisions in the interest of the entire industry - decisions and leadership that produce a safer, more prosperous world for us all.

Thank you — questions.