

Low Cost Carrier Contribution to Airline Industry Growth

Although many low cost carriers have been wounded by the economic downturn, we are still a growth industry.

Southwest airlines, and the other low-cost carriers across the globe, have only just started to make our mark on world travel. Wherever we, or our brethren, emerge traffic growth accelerates rapidly.

For the most part, the trend has been confined to individual regions. Southwest and JetBlue operate in North America, Gol flies in South America, EasyJet is in Europe and so on. However, we now do exist, in one form or another, in just about every part of the world.

And the time is approaching when those regions will be connected by low-cost carriers providing long-haul services, complemented by airline partnerships that extend the geography of individual carriers beyond their home markets.

Along with those advancements, our sector of the business will also continue to be a source of innovation. Many low cost carriers have started with the intent to directly copy the Southwest model, with varying degrees of success. While we strive to continue deserving the status of role model, it is natural to expect the next generation of carriers to innovate their product, brand and operational models to stimulate even more demand for air travel.

And there will be a next generation of airlines. It may seem unlikely looking up from the bottom of the economic cycle, but few gave Southwest Airlines hope for survival, let alone success, when we first started flying.

For us, enabling market growth is vital to ensuring that success continues. It is increasingly difficult as we have grown into a large carrier in the relatively mature

U.S. market. However, we have significantly evolved our business over the past several years including changes to our network, product. Operation, customer interaction, and in a host of other ways.

Our success used to depend on strictly adhering to one formula. As we have grown and our environment has changed, we now depend on innovation, adaptation, and flexibility. The idea that southwest would develop an international presence was nearly impossible to envision just a few years ago. Yet today, here we are at routes doing just that to leverage our strong domestic network.

And as our approach is broadening, so to are other low cost carriers changing their ways or developing outside the traditional view of what a low cost carrier should look like.

Some view these changes and differences as a sign that the low cost carrier model has run its course. However, extending the geographic reach and expanding diversity of our business model is really a sign of strength. It's a natural step in the decades-long transformation from a closed, one-dimensional airline club to an open, liberalized multi-dimensional industry.

Plus, low cost carriers still carry a minority of air traffic. So we are answering the "return to growth" question in a worldwide marketplace where plenty of untapped, but available, opportunity remains for us.

Of course, we are not immune to either the economic cycle or the other external threats facing the industry. Heavy taxation, burdensome regulation, operational constraints and rising structural costs plague all carriers.

Southwest Airlines, for example, is shrinking its network for the first time in our four-decade history. Unless we see more substance to the economic recovery in the U.S., we expect our capacity to remain flat in 2010.

We have also made significant adjustments to our network over the past couple of years, reacting to the downturn and positioning ourselves to pursue opportunities as the U.S. market improves.

Although we are in the unpleasant side of the economic cycle, the current situation is tracking relatively closely to a typical, albeit deep, recession.

The fundamental drivers of demand, however, remain strong. Globalization and long-term economic growth continues to fuel the need and desire to travel for both business and leisure. Over time, we expect these trends to supersede shorter-term movement in the economic cycle.

Although these are difficult days to be optimistic, success in the airline business depends on being opportunistic so we have little choice but to find, or make, our way forward.

So, while we face daunting and mounting challenges, the fundamentals of the low-cost carrier sector provide a strong platform for continued industry growth. And it is on that forward-looking basis that we face our future.

Thank you.

Lee Lipton