

Center for Strategic and International Studies

TRANSCRIPT

Scholl Chair Event

“The View from 35,000 Feet: Navigating Global Opportunities and Challenges in the Airline Industry”

RECORDING DATE

Wednesday, October 30, 2019

SPEAKERS

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Transcript by superiortranscriptions.com

William Alan Reinsch:

Well, welcome, everybody. Thank you for coming. It's obvious that our guest knows lots of you personally. We could have just had a chat standing in the audience, but we're going to formalize it a little bit.

I'm really glad to be able to do this. One of the things that I think you know the Scholl Chair does, it's the Chair in International Business. And we focus a lot on – particularly on how trade issues are affecting the business community. And we've spent a lot of time, if you've seen any of our recent publications, on the changing nature of the global economy, the U.S. role in the economy. And recently we spent a lot of time on how this is affecting workers and workforce development and worker training.

We've also, though, done a series on advanced technologies. We did an event like this on blockchain. We did one on 3D printing. We did one on advanced vehicles a few weeks ago. And we've got, I hope, some more of those in the works.

This one is a little bit different because we're not talking – unless you've got a surprise for us, we're not talking about hypersonic aircraft that are going to get people from here to London in 45 minutes, but we are going to talk about the state of a major industry, a major industry in the trade world, because of the cargo they move, but a major industry in the economy also because of the people they move, and an industry that, as you well know, is facing a lot of challenges on multiple fronts, not just here but in other locations as well.

And in that regard, we're fortunate to have with us an executive of one of the leading international airlines that flies nearly everywhere, as near as I can tell. I'm speaking as somebody who flies them every chance I get. And they're all over the place. And maybe you can reveal some new places you're going. We'll see.

But in any event, it's my pleasure to introduce to all of you Scott Kirby, who is the president of United Airlines, which makes him responsible for United's operations, marketing, sales, alliances, network planning and revenue management; in short, almost everything that is important.

Before United, he was president of American Airlines, so he's – and before that of America West. So he has a long history in the aviation business, a long history at the highest levels in the aviation business. And I'm looking forward to a conversation with him.

We decided this time that it would be probably more fun for us, and certainly more fun for you, to avoid the speech and just go straight to the conversation. So there's no podium and he doesn't get to give a speech. But I –

Scott Kirby:

You haven't let me start talking yet.

William Alan Reinsch:

Yeah, we're – well, yes. But then I'll interrupt you with the next question.

We're going to chat for a while up here on some topics, and then we're going to reserve some time at the end for you all. So get your questions ready, and we'll have people with microphones roaming around when the time comes.

So let's begin, if I can, with sort of the big picture. You joined United in a senior leadership position, having served elsewhere in several roles, as I said, with different business models, different priorities. So what are your top priorities for where you are now?

Scott Kirby:

So I'm excited to be at United. I've been there three years now. And, you know, if I could just summarize it in a short statement, it would be to make – really we have the goal to make United the best airline in the world, and say that – a lot of people would say something like that. The difference at United is we uniquely have hubs in the seven biggest – seven of the biggest cities in the U.S. I can give you all kinds of statistics on why this is true. But for decades, literally, people have talked about United Airlines and this untapped potential at United.

And so our focus is on tapping that potential. We started with employees, then got into running a great operation, getting the growth plan going. And in the future, we're doing more and more for the customer experience and literally investing hundreds of millions of dollars each year in incremental investment in improving the customer experience. I think that's the next frontier.

The last 20 years in the aviation industry have been about survival, and no financial resources to make the product and make the experience better. We now have the financial resources and we're now able to compete; instead of competing on price, to compete by offering a product and a service that customers choose to fly, want to fly, unlike what you said to me in the breakroom, which is I don't have a choice on where I'm going to fly this next week, but to really give customers a reason to want to choose to fly United. That's the next frontier.

William Alan Reinsch:

Well, actually, that raises – how do you – if you want to be the best airline, how do you measure best? Revenue? Number of passengers? Miles traveled?

Scott Kirby:

So I'll give you – I'll give you – it can mean different things to different people, but I'll give you a few metrics that it means to me. One, we should be the most profitable airline in the world. Two, we should be the most reliable airline in the world, getting our customers there on time with their bags with the minimum amount of hassle. A third is we should be the place that customers choose to fly, so if you're going to be – if you do have a choice for flying a market that five airlines fly and the prices

are all the same that you choose to fly United. There's different metrics we can use for that.

And then the fourth one is the airline that people want to work at – pride of the workforce – and I tell our workforce the way I will measure that is if I walk out to my kids' soccer games and see people wearing their United t-shirts because they want their friends and neighbors to know that they work for United and they're proud of it, you know, that, to me, is the kind of – one of the examples of the kind of metrics. But it's really those four areas.

William Alan Reinsch: Is employee turnover an issue for you?

Scott Kirby: Turnover is absolutely not an issue. I mean, we have – you know, it's less than 2 percent. But it's not about – it's not about employee turnover. It's about people feeling good, because we're a customer service business.

We're in a business of connecting people and uniting the world, and when our customer – when our employees smile, when they take care of the customer, when they care for the customer, it can make all the difference in the world. Because travel is stressful. It's stressful from the time you get to the airport, trying to get through security, knowing what bag – what you can bring through, what you can't bring through, and then there's weather and there's just all this – it can be really, really stressful for people.

And our employees can either amplify the stress, can be neutral on the stress, or they can de-stress the situation by the way they interact with customers. And the most important part of our product is our people. You know, we can do all that we want to invest in great seats and wi-fi seats and meals and wines on the airplane. But, by far, the most important part of our product is the human interaction that our people have.

William Alan Reinsch: Well, let's – OK. Let's focus on how you're doing.

Scott Kirby: Yes.

William Alan Reinsch: Maybe answer on two levels. We're in turbulent times. We're going to get – we're going to talk about the trade war a little bit later. So maybe say a few words about the industry generally and United in particular about how's business?

Scott Kirby: Yeah.

William Alan Reinsch: Is the stress – are you under as much stress as you're worried about your passengers?

Scott Kirby:

So if you look at United, I'd say we're doing really well. Start with financial. It's the easiest thing to measure, the most quantitative. You know, we have – we made a commitment a few years ago to grow our earnings from – I think we were at about a little below \$5 a share in earnings in 2016 to being between 11 (dollars) and \$13 a share in 2020 over three – over that three-year window, and we're going to be right at the midpoint of that range a year early – this year.

So we had really strong financial performance. Our stock has been the number-one stock kind of on any metric that you look at in the airline industry. Our operational metrics are the best they've ever been, literally, in the history of United Airlines – lowest cancellation rate, best on-time departure rates. I could spew all kinds of statistics.

We have – particularly, this year our customer satisfaction and net promoter scores that we measure with our customers are, literally – the jumps are an order of magnitude higher than we've ever seen. Just incredible improvement in there. And I think the employee morale and the interaction with customers – this is more anecdote – is meaningfully better. I hear from our customers all the time, particularly when I talk to our frequent customers. And I get on the airplane I can tell. I flew in this morning from Chicago, and a wonderful set of flight attendants to great pilots up front who – you know, the two pilots up front, both – the first one said, I've been here 22 years; this is the best it's ever been, and the other one agreed.

Talked to the flight attendants, you know, and they essentially espouse the same thing. They were great. They were taking care of the customers. You could feel the different – I was sitting in coach but I walked through the first class cabin and a couple of people, you know, stopped me to tell me how great the flight attendants had been in the first class cabin. I mean, you can just – if you fly United you can feel the difference.

William Alan Reinsch:

So what are your headwinds to – no pun intended.

Scott Kirby:

Yeah.

William Alan Reinsch:

What are – what are you facing that's going to be difficult for you?

Scott Kirby:

So the most – the biggest headwinds we face are exogenous risk and, you know, fuel prices, which you guys think about here, are, obviously, one of our biggest things that we worry about, particularly a fuel price spike that is driven by supply side shocks, so what happened in Saudi Arabia. You know, a fuel price that goes up because demand is strong in the economies around the world tends to be, effectively, hedged because the revenue goes up on the other side. But a fuel price spike that is supply induced or induced, you know, by war or terrorism is risky for us. Any

kind of macroeconomic shocks; we're very sensitive to what happens in the macroeconomy. Obviously, trade has been a recent issue for us.

But we also – you know, we have a 7:45 operations call every morning and at least when my schedule allows, I'm either in the room or on it. And one day last week we were talking about not being able to fly into Hong Kong, not being able to fly into Quito, not being able to fly into Santiago all on the same day – and Barcelona. We had four airports on three different continents that we weren't going to be able to fly into because of what's happening around the world.

We're just – we're very – if anything is happening, as you said earlier, we fly almost everywhere, and that's true. And because of that, anytime something is happening in the world, we're exposed. We got – you know, we had to suspend service to India – we were the only U.S. airline flying to India – because of Pakistani and Iranian airspace, when they both got closed. Our aircraft simply don't have the range to go around both Pakistan and Iran and get there, and we wound up having to suspend service. So we're really exposed to the macroeconomy and geopolitical events.

William Alan Reinsch: I'm tempted to ask you why all the flights to India won't land and take off in the middle of the night, but. I was there – I got four different answers to that.

Scott Kirby: I can tell you, but I might have to

William Alan Reinsch: We'll pass on that.

Scott Kirby: OK. I'm happy to talk about it.

William Alan Reinsch: Let's – well, you mentioned fuel. Let's pursue that for a few minutes, because you've been outspoken on this with respect to sustainability and about cutting the – reducing the company's carbon footprint by 50 percent by 2050. How are you going to do that, and what other things are involved in your Eco-Skies initiative?

Scott Kirby: So I'll start and say this is something that I'm personally passionate about, and I know many of us at United Airlines are as well. I actually have been a subscriber to Scientific American since I was in high school. I have the most – two recent editions in my backpack for reading on the airplane, and it's – you know, it's like that's how I think I got into it. And I told a reporter earlier this week what – I'm in the unique position of not just being somebody that cares about it, but in the position of being somebody that can actually do something about it.

So at United we've – we're the first airline to make a commitment to a 50 percent reduction in our carbon footprint by 2050. That – this includes growth, so that means that our carbon footprint per customer or per

airplane has to go down dramatically more than that. And we're doing a lot. We're doing a lot of the sort of evolutionary changes, buying new airplanes that are more fuel-efficient and trying to find more efficient routing for airplanes so you spend less time in the skies.

But what we're really interested in at United is revolutionary change. The evolutionary change we should absolutely do, and in the short to medium term those kind of things like more fuel-efficient airplanes are going to have the most benefit.

But in the long term, for aviation and for the world in general, the only way you're going to truly solve the carbon issue is to drive towards the zero-net carbon sources of fuel. Which probably means biofuel. And to that end, at United we have already made two startup investments in Fulcrum and World Energy. We announced last week a new fund, a new investment vehicle that we seeded with \$40 million to really invest in technology and startups. And the goal is to make investments knowing that the fuel is much more expensive. Alternative fuels are much more expensive in the near term and even in the medium term than if we just bought oil-based jet fuel. But we have to make investments and we're going to make the investments up front to commercialize those technologies, to drive economies of scale, to build them from theoretical technologies into viable – ultimately they have to be viable commercially. They have to be cost-competitive, ultimately.

But it requires investment, and that's probably in the long term the biggest thing that we're going to be able to do. And one of the goals that I have told our team, it's a personal goal of mine, is on the day I retire we won't be at the zero-net, but to be able to look out at the horizon and say we can see a viable path to getting to zero-net carbon emissions somewhere on the horizon, and we want to invest to support that.

William Alan Reinsch: One of the things here that we look at are sort of the regulatory issues that surround decisions like that, and one of the problems here where you've got not exactly a new technology, but a new fuel and an increasing imperative to do something on sustainability, you have the, I think, great risk of different regulations and different regulatory approaches in different parts of the world. Has this been an issue yet? Do you see it coming? And how do you deal with it?

Scott Kirby: So I'll make two points on it. One, in general the regulatory support for alternative fuels has been pretty strong.

William Alan Reinsch: Everywhere or just in the United States?

Scott Kirby: I would say it's more in the United States. The second point I'd make, though, is I would encourage the regulators to, as much as is possible, to not make it a political decision and to look at what really matters. So, for example, I won't talk about the specific ones to avoid going some

people's oxes, but there's a lot of alternative fuels or biofuels that, frankly, are bad for the environment because of their impact on food production or their impact on water. And we make investments like that, that aren't really helping the environment, it may be politically expedient, but we do a disservice to the long-term answer.

And focusing on everything when you're talking about sustainability, whether it's biofuels or, you know, direct voltage transmission lines, everything about it should be focused on what is net-net good for the environment. If we could just start with that framework. You know, people want to do the right thing and if we could avoid getting into the – you know, what is good for one particular person or what they want to do, we can come up with a much better answer.

William Alan Reinsch: One of the things the Europeans have talked about from time to time – or, the EU; I shouldn't say all Europeans – is taxing emissions or taxing fuel consumption. Is that something you support?

Scott Kirby: So, look, the official United position is no on that. But done correctly and done in a way that taxes were net zero – you know, if you just do it, and you just raise taxes, that's a problem, especially when you start to exempt a lot of industries from it. But, you know, a framework of taxing all carbon emissions and using all carbon emission – you know, taxes on carbon emissions to replace other taxes is one that I think is worth talking about.

William Alan Reinsch: You know, some of us have noticed over the years, particularly with the EU – and I hope there's nobody here from there that – that their proposals in areas like this don't all – don't fall equally on everybody. They tend to fall, from their point of view, more on the foreigners than on the domestics, which has led to some trade cases and trade complaints. On the other hand, it seems to me that there's an argument here for trying harder to produce a common regulatory approach, otherwise you end up with an uneven playing field, where some countries, you know, who may not have sustainability goals at all are doing nothing, and other countries are being very tough. You have to fly between all of them. How do you – you know, how do you manage to do that, with conflicting standards?

Scott Kirby: So we would be supportive of a framework that was more global in nature – as global in nature as it could be. But part of that also is a global framework that is broad. You know, if you just go target one industry – whether it was the airline industry, or the auto industry, or pick your industry – it's going to be hard to be successful. You know, this is a problem that's not one industry, it's not one country, it's global. It's everyone who lives on the planet. And it ought to be solved – or, solutions ought to be trying to be as inclusive as many countries, and as many industries as possible.

William Alan Reinsch: Yes. One of the issues there, of course, is trying to find an institutional framework where you can – where you could do that. Commercial coming out here: One of the things that CSIS has done that you should watch for is we've created the Commission on Affirming American Leadership. It's chaired by Fred Smith, the CEO of FedEx, along with two former U.S. trade representatives, Bill Brock and Charlene Barshefsky. And the commission – and there's a lot of commissioners along with it. I won't give you the whole list. But their mission is to look where do we think the global economy is going to be in 2030, where do we want the United States to position itself at that point, what do we need to do to get where we want to be at that point?

And one of the issues we're going to be looking at is whether or not our multilateral institutions are up to that, and whether they're equipped to take on tasks that are increasingly multilateral. I mean, you're a classic example of an industry that touches everywhere. I mean, you have a lot of domestic flights, but you have a lot of international flights. So every time you land in Europe or in Asia, you're subject to regulatory approaches there. And that – I think that probably poses a fairly significant challenge going forward.

Scott Kirby: It absolutely does. I mean, one of the maybe advantages the airline industry has is there are international aviation institutions that at least on a lot of this can help harmonize. But when we wind up with bastardized rules, whether it is about carbon emissions or passenger bills of rights, you know, takeoff and landing restrictions and rules, it makes it really, really difficult to operate in a world where we have fragmented regulations.

William Alan Reinsch: Well, let's turn for a minute to here. And, well, not just here, but the United States to begin with – begin with, and talk a little bit about infrastructure and infrastructure modernization. You're in the air, but a lot of what happens, it is on the ground, at the beginning and the end of every flight. Funding for the FAA's NextGen modernization program is about a billion dollars annually, the bulk of that for improving facilities and equipment. How do you see that project impacting your industry's future?

Scott Kirby: This is – this is one of – it's really – it's frustrating to me that we can't get NextGen done because we still operate aircraft today like you drove your cars before GPS existed. We have technology on them, but we still fly lines in the sky – highways in the sky, and we fly over points that in the 1920s they used to build bonfires, which turned into TRACONS. And we still fly over those same TRACONS today. We literally have a route map that looks like what it did a hundred years ago, when aviation was first coming into existence.

We could, with – you know, we have the potential – we have the technology today to cut flight times by 15 percent. So, you know, however long it's taking you to fly – most routes in the U.S., by the way –

William Alan Reinsch: That's interesting.

Scott Kirby: – take longer to fly today than they did when airplanes flew 200 miles per hour slower. We have the ability to cut flight times by 15 percent. By doing that we cut carbon emissions by 15 percent. Like, this is, like, free money laying on the ground, and we refuse to pick it up.

William Alan Reinsch: So what's in – so what's in the way?

Scott Kirby: I've been meaning to ask our A4A guys to tell you. It's just political resistance. They just can't get something done. It's just so straightforward to me. I'm going to get myself in trouble talking about this. Like, it seems so straightforward to me. But the political resistance, you just, like, can't get it done. And it's like a win-win-win-win for everybody.

William Alan Reinsch: Are other countries dealing with this problem better and faster than we are? Are we being left behind, or is it all about the same?

Scott Kirby: I think that there are some that have done better. You know, you look at Canada. I think they've done a pretty effective job – a more effective job, certainly, than we have. Europe is still really challenged. And Europe and the U.S. are the two places with the most opportunity because there's the most density of flights. It doesn't matter as much, you know, if, you know, the skies are mostly empty and there's not much conflict for airspace in the skies. But in a world where, you know, the skies are really crowded, which they are here in the United States and they are in Europe, you need to be more efficient.

This is about efficiency, you know, at its core. And you know, we have the technology today to be much more efficient, and we're needlessly wasting time and burning fuel that's not necessary.

William Alan Reinsch: How are you partnering with airports and government agencies to create better infrastructure?

Scott Kirby: So there are some places that we need more infrastructure on the ground. But usually when people talk about infrastructure, they're talking about runways and gates, and it's been a long time since we've built – you know, I think there's been – at major airports, at least – I think one runway in the last 10 or 15 years. Very few.

But frankly, that's not the issue. You know, people, when they talk about – when they talk about infrastructure for the airline industry, they want to build airports. They want to build runways. They want to build more

gates. The issue 99 percent of the time is airspace. And more runways, if you can't get – if you can't manage the airspace above the airport – you know, from here north to Boston is the most crowded airspace in the world. You could put another runway at DCA and you don't change the amount of flights that you can fly in this area because it's the airspace is the constraint. The airspace is the constraint almost everywhere, and that's the number-one infrastructure issue that ought to be fixed.

And it's more fixable. It's easier to fix than building another runway. Building another runway is hard and, you know, a lot of resistance to it. Fixing the airspace ought to be the easier one.

William Alan Reinsch: Which would require a lot of government action.

Scott Kirby: It does require government action and leadership.

William Alan Reinsch: Which takes us back to where we were a few minutes ago.

Scott Kirby: Yeah.

William Alan Reinsch: OK. I get it. Interesting.

What about – let's go – let's stay on the ground for a few more minutes. Then I want to talk about trade for a little while. We can't have a CSIS event without talking about trade.

How are you working with TSA to ensure both security and safety? And how is that relationship going? Are they easy to work with?

Scott Kirby: So we – everyone in aviation believes that safety and security is number one, TSA as well. And particularly on anything that is safety- or security-related, you know, there's no space between us. We work hand in glove together. We have the same goals, the same objectives, and, you know, good partnership there.

I think our relationship in working with TSA is pretty good. I mean, sometimes – in any relationship, you know, you have things that are irritants on either side. That's true everywhere. You know, we're always wanting the TSA to have more staffing so our customers get through faster.

William Alan Reinsch: I was going to ask you –

Scott Kirby: They always have budget issues.

William Alan Reinsch: – if you thought their staffing was adequate.

Scott Kirby: But, you know, that's – that's, I think – if you didn't have that, if you didn't have some tension about those kinds of issues, then something

would be wrong. You should have tension about those kinds of issues. But we work really well with TSA, and I think it's a good partnership with United, a good partnership across the whole industry with TSA.

It's easy, though, because that's the kind of – and this is what makes partnerships work – we have the same goals and objectives. Safety, security is number one, and then – so that's sort of the necessary condition. And then – so that's sort of the necessary condition. And then the sufficient condition is to try to make the experience better for customers getting through. And we may have disagreements on sometimes exactly how to make that better, but we share the same goals, which means we can mostly be aligned.

William Alan Reinsch: Are there any particular places or airports that are notably difficult in a –

Scott Kirby: It kind of – it really is about airport staffing. And so, you know, that will come and go in ways as staffing is changing. The bigger challenges for us are Custom and Border Patrol – you know, CBP – and having those airports, you know, appropriately staffed. And, you know, it's challenging for them, because we – you know, all the airplanes come in at the same time of day. You know, you go talk to somebody at CBP and say why don't have all your European flights – instead of all of them, you know, landing at the same time of day, in the morning, why don't you have them spread out across the day? It's because customers want to leave at, you know, certain times of day. And so it leads to peaks. But I think there's probably more challenges with Customs – with CBP than there is with TSA.

William Alan Reinsch: Staffing as well then.

Scott Kirby: Yeah. And they're mostly about staffing when there are tensions. And – but those – again, those are just sort of normal course of business. You know, they're good partners to work with.

William Alan Reinsch: And you guys – at what levels do you interact with them? Obviously at the airport you've got your people and their people communicating all the time. Do you have conversations with –

Scott Kirby: Yes.

William Alan Reinsch: – senior management and talk about the problems you run into?

Scott Kirby: Yeah.

William Alan Reinsch: OK. And you're satisfied with the response?

Scott Kirby: Absolutely.

William Alan Reinsch: Good.

I've been warning everybody we were going to get to trade, and I wanted to – I want to spend a few minutes on that. I think it's been pretty established that we've got a lot of uncertainty in the global economy, for a lot of reasons, one of which is tariffs and trade wars. There are other reasons – slowing growth in a number of locations, including here. And we've – we are seeing increasingly political turmoil. I mean, you mentioned this earlier, places that you had to cancel flights because of what was going on on the ground in those locations.

How is the uncertainty affecting the airline industry as a whole? And talk about both passengers and freight, if you can.

Scott Kirby:

Yeah. So, at least at a global level, across the whole system, demand, particularly passenger demand, has been surprisingly resilient. You know, if I didn't read the newspaper, if I just – if I just looked at our data and our bookings, which are really strong, and didn't read the newspaper, I'd think the world is pretty pristine right now because demand is pretty strong.

If I looked at our cargo data, I could tell something that was going on. You know, cargo demand for us was down 5 percent in the last quarter. That's despite the fact that we grew the airline. And if I look at our at least U.S.-based competitors, they were down between 15 and 20 percent. And so we've absolutely seen an impact from cargo.

I can also point to specific countries around the world where we can clearly see an impact from what's happening with trade – China being one, Germany impacted by that; but then other countries that are – it's not trade but, you know, Argentina, you know, is probably the – Argentina and Hong Kong are the two weakest places that we fly at the moment. But impacted by geopolitical events. But we absolutely can see – we would know even if we weren't reading the newspaper that there was something going on with trade by looking at our cargo data.

William Alan Reinsch:

Well, you mentioned China. And I see the Airports Council estimated that China will be the largest passenger market by 2040. How are you planning for that? How are American airlines in general planning for that?

Scott Kirby:

Yeah. So the State Department and the DOT negotiated a new treaty. Our ability to fly between countries is governed by these bilateral treaties. So, a few years ago. And we've now finished – we've now – we're tapped out in our growth to Beijing and Shanghai. All the authority to fly to Beijing and Shanghai are filled. We can still fly. We're allowed to fly to secondary destinations. United is the airline that does. We fly to Chengdu. We used to fly to two other destinations. We've really had a hard time making those secondary destinations in China work. Most of

the U.S. demand is going, you know, to the big cities – you know, going to Beijing, Shanghai, Hong Kong.

William Alan Reinsch: Well, actually, that answers one of the other question I was going to ask, which is when are we going to get a Washington to Shanghai flight? I guess the answer is never.

Scott Kirby: I don't know about never, but we would have to – today we would have to cancel something else to fly – or get another – actually there's two frequencies that a different airline has the authority to fly that they're not currently flying that could come available at some point in the future. They were flying them a year ago, but they're not today, but.

William Alan Reinsch: Well, these are – these are – the agreements are not reciprocal. And so there are Chinese airlines that are permitted to hand here as well. I assume they would like to have more access as well. Is there any interest in the administration in renegotiating the treaty to permit more flights?

Scott Kirby: I think we would – I don't think there's much interest from airlines either for renegotiating the treaty at the moment. One, you know – one, there's clearly a demand issue to China right now. But secondly, you know, one of the things we probably learned from this is it's not just about the right to fly, it's about getting the physical ability to fly – doing things like slots. So you might have the right to fly to Beijing or Shanghai, but if you can't get a slot to land and takeoff, effectively you can't use it. So I think the next time around if there's a negotiation it's going to have to be a little more fulsome.

William Alan Reinsch: There are other disputes that I assume create some kind of if not collateral damage, collateral impact. The most obvious one is the Boeing-Airbus battle, now in its 14th year I believe. Although, coming I think to the end. Well, not the end, coming to the litigation end. But, you know, the tariffs are in place for us against the EU. And in six months, they'll get their number and impose tariffs, in all probability, on us. I'm persuaded that their number's going to be a lot smaller than our number, but that's not what the Europeans think. How has all that – how has that fight impacted airlines? Has it made any difference at all, or is this just something you watch over here on the side?

Scott Kirby: Pretty much not at all is the answer. I mean, to – at United, you know, at least for many years, all of our deliveries are coming from Boeing, so it doesn't affect us. But even for U.S. airlines, most of the deliveries that they're taking are narrow bodies, A320 airlines from Airbus, which they – Airbus has a facility in Alabama. and they can build them there, so. We watch it, but it, I don't think, is a particularly big issue for any of the U.S. airlines, at least where it is today.

William Alan Reinsch: Given current trends in the U.S.-China relationship, are you concerned about potential or actually actual decoupling and growing, I don't know,

mutual distrust, if you will, in the – in the business environment? Is that going to affect travel, do you think? You said probably the – you haven't seen that much so far. Looking ahead, are you worried about that?

Scott Kirby:

Well, look, maybe it will. I don't know. But what I do know is that – or at least, what I hope – is that we will – while it's short-term painful, that at the end we'll wind up with some kind of agreement, some kind of partnership that both sides feel good about. And another thing I know is whether it's in business or between governments, a partnership where one or both sides is upset or unhappy and thinks the partnership is unfair or unbalanced, they don't work one way or another. No matter what the words you write on a piece of paper, if both sides don't think it's fair and balance – and both sides. Not just one. And so I hope we could get – we will ultimately get to an answer that both China and the United States view as a win-win. And we'll all be much better off if that happens.

But we're on the sidelines watching. And you know, we're more in the mode of reacting to whatever happens. And one of the great things about an airline is our assets are fungible. And so, you know, as we saw the demand decline in Hong Kong we suspended service to Guam, and we suspended service to Chicago, and moved those airplanes somewhere else. So we have probably more ability to adjust if, you know, it looks like it's going to be a long-term different environment than some industries, because it's harder to pick up a factory and move it. It's easy to pick up an airplane and move it. But we hope that we get to a win-win answer in the long run.

William Alan Reinsch:

We were talking about a related matter back before we began, which is, you know, a number of the examples you cited – Hong Kong being obviously, but Chile, Santiago – are the result of political unrest in the other location. That inevitably creates a lot of pressures on business to get sucked into that – into those conflicts. How do you avoid that? Or do you not avoid it?

Scott Kirby:

Look, we do try to avoid taking a side on a political debate as a general rule. But where we have to, we take a stand. And, you know, there's been no reason for us to be in the current debates that are happening around the world. But you know, we're principled. And if we get to a point where we have to take a stand on something we absolutely will.

William Alan Reinsch:

Well, one of those may be one of the trade topics we haven't talked about yet, which is Brexit, which – I guess they're not leaving tomorrow. But they may be leaving at the end of January, or not. There's going to be an election now on December 12th, which will probably determine the course of events. But this has been going on for a long time, lots of drama. Does this have any impact at all on you guys?

Scott Kirby:

You know, in a perverse way all of the Brexit stuff has been good for airlines because what happens, right – in the short term. What happens is,

you know, all the banks and businesses that are in the U.K. have people flying back and forth mostly flying business class to, like, figure out what to do.

William Alan Reinsch: This is where you tax dollars are going, by the way.

Scott Kirby: To figure out what to do. So we're actually, at least in the short-term, the beneficiary. In the long term, it seems pretty clear that it would be bad for the U.K. economy. And, you know, there would probably be some impact on demand to London. But a lot of that will just move onto the continent. So, you know, if you're not at United Airlines, you know, we might have personal opinions on what's right, wrong, or good, or otherwise. But from a business perspective, you know, I don't think it's going to be a big deal one way or the other to us.

William Alan Reinsch: Would a – if a pull out with a no-deal situation, are you suddenly going to have I think a whole boatload of customs issues and entry issues? Do you see that being a potential problem?

Scott Kirby: The issues are going to be between the U.K. and Europe. Our State Department and Department of Transportation have already worked out, you know, flying between the U.K. and the U.S. So from our customers' perspective – like, if you're trying to fly for London, say for a couple days, and then connect on to the continent, you might have issues in a no-deal scenario. But our customers flying back and forth should be fine.

William Alan Reinsch: Well, good news, I guess. We'll have to stay tuned and see how that – how that develops.

Let me go back to the beginning and ask you maybe to reflect on your – a little bit on your career. You've now led three airlines. What's the difference or are they all the same?

Scott Kirby: That's like red meat baiting me. You don't know the whole story. For those who do know the whole story, they know it's red meat.

William Alan Reinsch: Well, you can spill if you want.

Scott Kirby: I'm going to try not to take it. What I say is I'll focus on United and let you pick the others in contrast if you so choose. You know, United not only has great assets and the potential to be the best airline in the world; one of the fundamental changes that's happened in the last few years at United is a cultural change where you have a team people that's much more aggressive, fast-paced, willing to experiment, willing to innovate, willing to try new things. And if you want me to take the time, I'll give you – I can talk for an hour about the kind of stuff that's happening really across the board at United.

And that's unique. That's unique for big companies. You know, we're a, you know, over \$40 billion company. That's unique, I think, for big companies. It's certainly unique amongst airlines. And that is what is allowing us to be successful.

You know, you look at a year like this year, where we have India airspace closed, and we had the Max issues hit us, and we've had all the global uncertainty around the world. And yet, we have continued everything. We've hit all of our metrics financially and operationally. And we've continued, like, unimpeded like nothing had happened, like there were no – there really weren't any of these headwinds. But there were some big headwinds this year.

And it's that team of people at United who really are doing amazing stuff and moving faster than anyone else that allowed us to overcome headwinds in a way that none of our competitors were able to do this year. That really is, I think, in the long term one of the things that's going to set United apart from all of our competitors.

William Alan Reinsch:

A good non-answer. But you reminded me I should have asked you about the 737 Max issue. How has that impacted you all? I mostly read about other airlines being more severely affected, but –

Scott Kirby:

You've mostly read about others because some of them have – well, it is a bigger effect for, you know, Southwest. We had 14 airplanes that we had to ground at the time of it. American Airlines had 24 and Southwest had 34, so we did have the fewest. We should have had 30 by the end of the year, so the impact is growing.

But what's different is we've consciously not – we've consciously tried to not – and have succeeded in not using that as an excuse for missing our numbers. Because we had earnings targets before the Max was grounded and we've been able to raise our guidance as we went through the year, we've been able to avoid talking about the bad stuff and allowed us to focus on the good things that are happening at United.

And so it has had an impact on us, but we've not wanted to use that as an excuse and wanted to keep moving forward. And we've been able to do that successfully. So we don't talk about it as much.

William Alan Reinsch:

OK. We've reached the point where it's time for audience questions. We have people with microphones. The rules are identify yourself and ask a question. Don't give a speech.

Right here in the second row.

Questioner:

I used to fly into the Gulf region quite a bit on United. Pretty tough to do now. Would you care to comment? I'm not going to mention Emirates.

Scott Kirby: Look, I'm happy to. The issue is the three Gulf carriers between – Sharon, help me – 2008 and 2014 – I think that's the timeframe – got \$50 billion of subsidies from their governments. They lost \$50 billion. We'll compete with anyone on a level playing field. It doesn't even have to be level. We'll compete and win on a modestly tilted playing field. But we cannot compete with \$50 billion of government subsidies. They lose money flying those routes, but as long as the government is backstopping it. And we – you know, we can't go fly routes and lose money. It's crazy, in my view, that our government lets them fly and be so heavily subsidized. And it's not good for our economy. It's not good for our employees. It's not good for our customers.

William Alan Reinsch: Right here. Sarah.

Sarah Ladislaw: Thanks very much. Sarah Ladislaw. I run the Energy and National Security Program here, so I drew the short straw not getting to interview you today. But you got Bill, so that's OK.

William Alan Reinsch: You would have done a better job. Want to come up and take over?

Sarah Ladislaw: But very predictably, I kind of want to go back to the emissions profile. I mean, we do a lot with energy companies – I do a lot less with airline companies – but who make, you know, pledges to do some pretty remarkable things, like reducing emissions by, you know, 50 percent. But one of the problems is, like, we're talking about systemic change in an industry, right, and so not everybody's going to take the action that you did.

So I sort of have two questions. Like, one, what's your advice to regulators or policymakers or people who are trying to think about the airline industry writ large and how they should encourage others to be taking actions that reduce their emissions in similar ways? So it goes back to the regulatory question.

And the second is just a wonky biofuels one, which is, I like to be really positive about biofuels too, but from a technological standpoint we run into cost-reduction problems. So, like, I mean, how seriously are you guys engaging with the, you know, biofuel companies that you're working with? And, like, how do you really leverage the kind of change you're going to need to see to be able to buy that fuel on a cost-competitive basis?

Scott Kirby: So from a regulatory perspective, I would encourage the regulators to think about rational economic – solutions that can be rationally economic. So, you know, what California has done, love them or hate them, you know, with alternative fuels has really helped development, because they've provided credits, which still doesn't get it down to being competitive with other fuels, but it creates – it creates a framework where, if you are an investor in something, you can have a horizon of five to 10

years in the future and say if I can drive the cost per gallon down, if I can drive economies of scale and efficiencies and I can get bigger, if I can work out the kinks on this, I can see a world where this can be profitable.

And so having a rational framework that allows people to make – because at the end of the day, you’ve got to have people making investments and they’ve got to be – ultimately have a path to commercial viability. They don’t have to be commercially viable on day one, but they’ve got to have a path to commercially – to commercial viability.

And so I think those kinds of programs in particular, even programs that have an incentive structure that declines over time, so you’ve got to be doing it, and so you’re not just dependent on the subsidies – you know that I’ve got to make an investment case that the subsidies are going to decline over time – is the way to do it.

On biofuels specifically, I also don’t know the answer. I wish I did. If I did, I’d be doing that. But, you know, it – of everything that I pay attention – and I do pay attention to this, probably not as much as you – I’m not as expert as you – but the only solution that is scalable and that really doesn’t have a bunch of other harmful environmental impacts is biofuels. And so we have to ultimately figure that out.

William Alan Reinsch:

OK. Front row here.

Tony Spadaro:

Tony Spadaro.

I want to follow up on Bill’s question about the 737 Max. Do you anticipate a customer trust issue? And, if so, is United better suited to handle that issue than other airlines?

Scott Kirby:

So I’ll just tell you what we’re going to do, what we know. We do know that we’re going to have to have – you know, one, the airplane is going to be safe. It’s not going to fly again until it’s safe. But there’s – you know, convincing people of that becomes the next question.

And so some of the things we’re going to do, I’m sure we will use our pilots and our pilots’ union, who are – you know, we don’t always agree with them on everything, but on this one we are arm in arm. And that’s true, by the way, not just at United. That’s true at our two competitors. What I’m talking about is United-specific. It’s our competitors as well. We don’t compete on safety, and we’re proud of that. And so this will apply to everyone. We’re going to do that.

At United, we’re going to overcommunicate when customers are buying a ticket on a Max airplane so that you know what you’re getting. We’re going to also make a commitment that, at least until confidence is rebuilt, we’ll never swap a Max airplane onto another route. So if your airplane breaks and there’s a Max airplane sitting next door, we will not swap the

airline on it, which is something we do in regular course today, so that no one is ever surprised. Our goal is going to be never surprise a customer with a Max airplane. And if a customer winds up having a ticket on a Max airplane and they want to change it because they're worried about it, we're going to let them switch for free.

William Alan Reinsch: Here in the first row. Then I've got to come back over here.

Corbin Richardson: Hello. My name is Corbin Richardson. I'm coming here from over at the Hill.

And I was curious if you had any thoughts about the ongoing shortage of pilots. Is that something that is better rectified by the regulations forcing retirement, or is the issue more not enough people entering the pipeline to become pilots?

Scott Kirby: So the reason there's a pilot shortage is twofold. One, the military produces far fewer pilots. I went to the Air Force Academy. And when I graduated from the Air Force Academy, as long as you were physically qualified, you were guaranteed a slot to go to pilot training. It's not the same today. The military doesn't need as many pilots and they don't produce as many pilots. And that was a huge source of pilots.

And the second one is it is hard to get enough hours in the training as a pilot. Unlike other professions, you can't take a loan to get your training completed. If you want to go to law school or medical school, you can take a loan and go to law school and med school, and you pay it back over time. If you want to be a pilot – by the way, the net present value is higher to be a commercial airplane pilot than to be a lawyer or a doctor – but you can't – you need the, you know, \$100,000 to get through the certification process, you know, to get your hours, and you can't do that.

At United, we're trying to address this head-on. We announced a program a week or two ago that we call Aviate, and there's going to be more to come. We haven't announced everything yet, but more to come that is essentially designed to help with that problem and provide a way to have young people who want to be aviators, because – thousands, probably millions of people that would love to be a commercial airline pilot that just can't get the certification and the training done. They can't afford to do it. And so that's really the problem that we have to solve, and I think once we solve that there's no shortage issue.

William Alan Reinsch: OK. Way over here on the – against the wall.

William: Thank you. I'm – my name is William from Georgetown University.

So my question is, in recent years some big carriers already create or considered creating the airline alliance. So would you please share some of your perspective about the future of the three big airline alliance and

do you think we should take some reform to make these more competitive? Thank you.

Scott Kirby:

So I think that the word alliance gets used – for those that are not airline people, I apologize for some of this, but there are different ways of doing it.

The goal is to have seamless connectivity and partnerships for our customers. Because we fly to almost 350 destinations around the world, but there's a thousand that we don't – or more, more than a thousand that we don't fly to. And that most of those we're never going to fly to, places too small. But our customers need to go to those places sometimes, and to be able to fly our customers from Washington, D.C., into Frankfurt and let them connect on to Armenia or into Africa or wherever it is they need to go is great for our customers. The key is to make that seamless.

Today the experience is not seamless. It feels like you bought a ticket on two different airlines and your experience is different on two different airlines. Our focus at United, and within Star Alliance with our partners, is making that experience seamless. And by the end of this year, we'll – simple things like we will have – we will have – United will have the ability at United.com to do seat assignments as if you're on one airline, with more airlines, I think, than any other airline in the world. But to make – or if you go to United.com, you buy a ticket. Even if you're going to Addis Ababa and you're connecting on one of our partners, you – it feels like a United Airlines ticket. That's the focus for us.

William Alan Reinsch:

OK. Right here in the second row.

Dave Rabinowitz:

Thank you. Dave Rabinowitz, retired.

Right now there are only two suppliers of large aircraft, Boeing and Airbus. I'm wondering, what impact does that have on the airline industry? And do you see any prospects for anyone else getting into that field?

William Alan Reinsch:

I want to hear the answer to this too.

Scott Kirby:

I think it's unlikely that someone else is going to be able to successfully get in. Just the – it's massive investment to get in and years long before you get the payback.

You know, today we – you know, there's a robust competition between Airbus and Boeing. Would we like to have more? Probably. But you know, I think we get – we wind up, at least an airline the size of United, getting pretty good pricing. And those two compete aggressively with each other, at least as the market is set up today. They don't behave as a cozy duopoly; they behave as aggressive competitors. And so knock on wood that'll continue.

William Alan Reinsch: OK. Way in the back, standing up.

Craig Schiller: Thank you. Craig Schiller, Rocky Mountain Institute.

I want to revisit the biofuel question not from an emissions standpoint; from a business-model standpoint for one of your greatest costs. So World Energy, Fulcrum, these are much smaller, more distributed fuel producers with different feedstock. And I'm wondering from your standpoint the pros and cons of moving from a more global, centralized fuel system to a more fragmented, decentralized, smaller-business fuel system.

Scott Kirby: Well, if you take – take, for example, Fulcrum. You know, they're small today. They have a facility in Reno, Nevada, outside of Reno. They're building one in Gary, Indiana. But they turn – by the way, they turn solid waste into jet fuel, ultimately. And I won't have these numbers exactly right, but I think that they take a ton of solid waste before it goes into the landfill and they get I think it's six gallons of jet fuel out of that at the end. That's a scalable model, though. I mean, that – you know, they're doing it right now outside of Reno. It's a – it's fascinating, actually to go on a tour of that facility – they let me do it; it's really cool – but, you know, to see what they are doing there.

That's a – if the economics can work, that's a model that – you can have landfills all over. It could scale. But on its own, it's not enough. Even if you've got all the landfills in the United States going through that, it's not nearly – I mean, it makes a dent, but it's not – it's just not enough. Same kind of thing with world energy.

And so maybe there are others like that that can work. They probably start local, but they can go global.

The reason I talked about biofuels is because like if I kind of try to do the math in my head, you add up all those potential sources, and they don't get you where – because it's not just the airline industry, either, by the way. I mean, you know, we're 2 percent of the use of the world's oil, and we've got to cover for the other 98 percent ultimately as well.

And I – my personal opinion is biofuels is the only way that happens.

William Alan Reinsch: OK, we have time for one more, and it's over here on the far right – or left, depending on your point of view.

Shannon Herzfeld: Thank you. I'm Shannon Herzfeld from Archer Daniels Midland.

I'm not going to talk to you about biofuels.

But we're just down the street from you in Chicago, so any time –

Scott Kirby: Yeah, come say hello.

Shannon Herzfeld: Yeah, don't tell me – I know you know where to go.

I actually am going to ask you to turn inward. Many of us are frequent flyers here from Washington. We lived with – not you because you weren't with United, but United through the merger with Continental, and you went through a period of time where you would get on an airplane, and the ground crew, the in-flight crew would let you know, I'm former United, I'm former Continental.

You pulled together two very diverse workforces so that, right now, standing here or sitting there, you talk about the morale of your workforce being one of your major sales elements. How did you do it because all of us – or many of us go through big mergers – how did you get the people side pulled together?

Scott Kirby: Thank you for making this the last question.

She's better than you, Bill.

William Alan Reinsch: She's an old friend – glad you're here.

Scott Kirby: Look, I think it's a tribute to leadership, and it's a particular tribute to our CEO, Oscar Munoz, who showed up at the airline after people had – and you've got to understand also what airline employees have been through. The period from 9/11 for the next 15 years, you know – lost their jobs, got furloughed, got furloughed two times, lost their pensions, had their pay cut, were expected to work more hours – like it was one bad thing after another. And they felt like they had leadership that didn't care.

And Oscar came in, and he wasn't even from the airline industry. And he got – he showed up, and he quickly realized that this is a people business, and we can never be successful unless we build the foundation on people, and I have to fix that first. I have to rebuild trust – we have to rebuild trust, we have to change the culture.

And he's the hardest working CEO in the world that I know. I mean, the guy flies all over, shakes more hands than a politician here in Chicago. I don't think he has to kiss many babies, but he shakes a lot of hands and talks to a lot of people. And the fact that he cares, and when people know that the leader cares, I think it makes all the difference.

It was just a foundation; it wasn't enough on its own, but everything else that we've been able to do is built on top of that foundation. And, you know, it shows you what one great leader can do.

William Alan Reinsch: And with that, please thank our guest.

And thank you all for coming – much appreciated.

(END)