Airline Restructuring and its Effect on Labor

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October 6, 2006
Air Line Pilots Association – Who We Are

• Largest commercial air line pilot union in the world, representing 61,000 pilots of 40 airlines in the U.S. and Canada

• ALPA provides three critical services to its members:
  – Airline Safety and Security
  – Representation
  – Advocacy

• Celebrating 75th anniversary
What Led to Airline Restructuring of Last Five Years?

• Slowing economy after “dot.com” bubble burst
• Terrorist attacks of 9/11
  – Led to unprecedented reduction in demand and revenue
  – Accelerated economic slowdown
• War in Afghanistan and Iraq
• SARS
• Substantial and unpredictable fuel cost increases
• Disparity between low cost carriers and “legacy” airlines
• Overcapacity in many markets
• Management capabilities
• Highly leveraged business
Casualties of 9/11

- **Bankruptcies**
  - Aloha Airlines
  - ATA Airlines
  - Atlas/Polar Air Cargo
  - Delta Airlines (also subsidiary Comair)
  - ERA Aviation
  - Florida Coast Airlines
  - Gemini Air Cargo
  - Great Plains Airlines
  - Hawaiian Airlines
  - Mesaba Airlines
  - Northwest Airlines
  - Sun Country
  - United Airlines
  - US Airways (2)

- **Airline Shutdowns**
  - Emery Worldwide
  - Independence Air
  - Midway Airlines
  - National Airlines
  - Southeast Airlines
  - TransMeridian Airlines
  - Trans World Airlines
  - Vanguard Airlines

- **Out-of-Court Restructuring**
  - American
  - Continental
  - Alaska
  - America West

Source: Air Transport Association, ALPA E&FA
What Did Restructuring Consist of?

• Immediate decision by “legacy” carriers to downsize
  – Parked aircraft and cancelled orders and options
  – Furloughed thousands of employees
• Followed by focus on significant cost reduction efforts
  – Labor costs were number one and principal target
• Inherent weaknesses and inability to obtain additional financing from ATSB or other sources forced some airlines into bankruptcy
• After several rounds of cost cutting, airline managements eventually focused on revenue enhancement
Effect of Restructuring on Labor? Disastrous

- Jobs lost
- Significant wage reductions
- Harsher working conditions
- Reduced benefits
- Lost pensions
- Diminished career opportunities
Restructuring Led to Significant Loss of Pilot Jobs

Source: ALPA Membership Database
Many Carriers, Such as United, Opted to Downsize Fleet as Part of Cost Reduction Plans

Source: BACK Fleets
Many Carriers Parked Aircraft

Source: BACK Fleets and Merrill Lynch 5/15/06
Focus on Labor Cost Reductions

- Labor costs comprised approximately 35-40% of total operating expenses
- Several rounds of negotiations at various carriers led to significant erosion of labor pay, working conditions, job security and benefits
- Pilots have suffered the brunt of these reductions
- Situation has been exacerbated by bankruptcy process as well as lack of Administration/Congressional support for airline labor
  - ATSB
  - Pension legislation
Since 2001, Total Industry Labor Concessions Amount to over $12B per Year

Source: ALPA E&FA August 2006, ECLAT
Productivity has increased in labor more than efficiency of fuel and aircraft utilization

Source: IATA Industry Outlook March 2006
Airlines are transporting record number of passengers with fewer and fewer employees.

Sources: DOT Labor Statistics (10 largest carriers) (Full and Part Time Employees)
Air Transport Association
Pilot Reductions

• Pay
  – Eroded to pay levels of early 1980’s
  – Many pilots W-2 earnings were reduced by 50% between pay and downgrades

• Working Conditions

• Benefits – increase in all insurance costs

• Pension
  – Loss of pension benefits that PBGC guarantee will not even meet – not all airline labor was impacted the same way
  – Terminated pension plans: US Airways, United, Delta
  – Frozen pension plans: Northwest, Continental
An example of a US Airways Pilot

- A330 F/O
- 737 CAPT
- A320 CA
- 767 F/O
- 757 F/O
- A330 F/O


Approx 57.5% drop in Earnings with downgrade

- US Airways Pilot with 14 Years of Service if restructuring didn’t occur
- US Airways Pilot with 14 Years of Service Today
An example of a Mesaba Pilot

Mesaba Captain with 17 Years of Service Today

Mesaba Captain possible after concessionary contract

38% decrease in Earnings
Mesaba may have one of the lowest 50 Seat Jet Rates in the industry

Captain with 7 Years of Service on 1/1/07
Absent Organized Labor, Situation Would be Far Worse for Airline Employees

• ALPA Negotiating Process
  – Analysis
  – Direction
  – Negotiations
  – Membership Ratification

• What ALPA was able to secure:
  – Continued job security protection with particular focus on merger/fragmentation policies and outsourcing
  – Financial returns including pay increases (both guaranteed and variable), equity, profit sharing, notes
  – Where defined benefit plans were terminated or eroded, we negotiated improvements to defined contribution plans
  – Right to continued access to information
  – Board representation remained at United, Northwest, Delta, Hawaiian
Focus is Now on Next Round of Bargaining

• Airline industry performance is improving
  – Revenues are up
  – Fuel costs are decreasing
  – Capacity discipline
  – Strong demand
  – More competitive environment as all airlines are performing on a more level playing field

• Outlook for 2007 is profitable

• Pilots will look to participate in the upside of the industry