



**PILOTS UNITED WITH AMERICA**

**MIT/Boeing Airline Conference**

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# Airline Industry Prior to “9-11”

- Airlines were facing significant economic losses prior to “9-11”
  - Steepest period of revenue decline ever
  - Significant decrease in business traffic
  - Increased unit costs
- Economy was not rebounding as analysts expected and stock downgrades were mounting
- Airlines announced plans for slowing capacity growth in response to the industry environment
- Earnings forecasts already were revised downward to \$2.5 billion loss for 2001

# Airline Labor Relations Issues prior to “9-11”

- Positive results in negotiations throughout industry in latest round
- Relatively few open contracts at major carriers
- PEBs were a major problem
- Board Member openings at NMB
- Controversial baseball arbitration process to amend the RLA introduced in Senate

# ALPA Response To The Tragic Events of “9-11”

- ➔ September 17 - ALPA established a Security Task Force and Collective Bargaining Task Force
- ➔ Support for Airline Transportation Safety and Stabilization Act
- ➔ Task Force formed 4 carrier groupings with weekly conference calls
- ➔ Monitored status of negotiations at all U.S. and Canadian carriers
- ➔ Facilitated an information exchange among negotiating committees
- ➔ Ensured negotiating committees access to necessary ALPA resources
- ➔ Developed templates to guide bargaining
- ➔ Implemented ALPA's three step approach to crisis bargaining
  - Analysis, Direction and Negotiations

# What has happened in Labor Relations?

- Crisis resulted in cooperation and constructive engagement to solve immediate problems
- More sharing of confidential data
- Immediate changes to contracts providing for scheduling and bidding relief in September and October
- Negotiations to address CRAF and MAC flying issues
- Many variations in negotiations to alleviate or mitigate furloughs exacerbated by grounding of aircraft types
- Furloughs raised a number of legal issues
- Most Section 6 negotiations and mediation slowed down or delayed (e.g., AWA, NWA, CAL, CALEx, MSA)
- The UAL PEB process unfolded

# What's Next?

- ➔ Airline industry to lose at least \$7 billion in 2002, recover in 2003
- ➔ Airline traffic expected to slowly recover in late-2002 or early 2003
- ➔ Security issues to continue to be the priority
- ➔ Financial restructuring underway
  - Managements writing off as much as possible in 2001
  - Long-term decision to downsize 15%-20% combined with accelerated fleet rationalization plan at all levels of industry
  - Managements adopting an ultra conservative approach to last for some time
    - Cash preservation
    - Slow growth plans
    - Cost Containment

# Will History Repeat Itself?

- ➔ 1980's PATCO and the Recession
- ➔ 1990's Eastern, the Gulf War and Recession
- ➔ Major capacity reduction both times
- ➔ Long-term economic recovery periods followed
- ➔ 1980's consolidation resulted in 15 bankruptcies, many strikes and mergers
- ➔ 1990's consolidation resulted in many bankruptcies no mergers and fragmentations
- ➔ Difficult rounds of negotiations
- ➔ Will consolidation occur again?

# Conclusion

- Uncertainty prevails – still too many unknowns
- Security and financial issues will dominate the industry in 2002
- The same major governmental issues remain plus a new one — the role of the Airline Loan Stabilization Board
- Negotiations will depend on individual circumstances and will continue to vary based on different corporate cultures and financial needs
- Cargo and regional carriers will be largely unaffected
- Some carriers will seek relief from labor
- Labor relations generally more helpful than hindrance to recovery
- Need to study and improve collective bargaining model consensually