



‘Are We There Yet?’

By Bruce York and Seth Rosen

The last 3 to 4 years of airline collective bargaining may have been the most challenging for employees in any industry at any time, based on the size and scope of financial difficulties that employers have faced in this current environment and the extent of concessions demanded by management.

Ongoing negotiations at Delta and Northwest under Section 1113 of the U.S. Bankruptcy Code are the tail end of post-9/11 comprehensive restructurings sought by network airline managements, restructurings that started at Alaska, Continental, United, US Airways, and American.

Section 1113's compressed negotiating schedule and the availability of court-authorized contract rejection give manage-

ALPA sizes up the future of pilot group negotiations.

ments the tools that they don't have during regular contract negotiations. This means that revisions to pay, benefits, and work rules at Northwest and Delta (whether consensual or imposed) will likely be completed by the end of April.

The effect of mainline financial restructurings also continues to be felt at express carriers, based on the ownership stakes, marketing agreements, and code-share relationships with mainline carriers.

As set out in this article, concessionary demands characterize negotiations at Atlantic Southeast, Comair, and Mesaba, and concessions were requested at Air Wisconsin (where a previous restructuring had already taken place), ExpressJet, and Indepen-

dence Air (before its demise).

Based on the oversupply of 50-seat jets, further contract restructuring is likely to be managements' focus through 2006 in this segment of the U.S. airline industry.

Delta and Northwest negotiations fall at the end of the current network carrier bargaining cycle. As described here, a new cycle of pilot negotiations will begin in 2007 with Alaska Airlines. Rising fares, decreasing capacity, and rising fuel prices appear to have eased off somewhat, and general industry strengthening may provide a more favorable backdrop for this next round of bargaining and give pilot groups opportunities to achieve more positive negotiation outcomes.

That's why ALPA plans to soon move from playing defense to playing some offense.

The current round of bargaining

Following are summaries of the current round of negotiating activity at selected airlines. These reports on negotiations do not include the substantial changes that were negotiated earlier at United, US Airways, and American Airlines.

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► **Delta Air Lines**

Delta filed for bankruptcy in September 2005 and requested an additional \$325 million in pilot concessions (not counting further savings if the pilots' defined-benefit pension plan does not survive), after obtaining \$1 billion from pilots just a year earlier.

Section 1113 hearings took place in the bankruptcy court until Delta management and ALPA agreed to extend the time for the decision on contract rejection and to submit it to a panel of three arbitrators, who will apply the law of New York courts.

The parties have been meeting, but at press time, progress toward a revised contract was agonizingly slow, and Delta management was continuing to seek a contract with concessions far greater than Delta pilots are willing to provide.

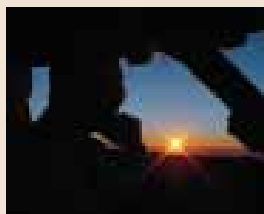
► **Northwest Airlines**

Northwest pilots and flight attendants are negotiating with management under Section 1113 of the U.S. Bankruptcy Code. Because no contract had been reached with either group, hearings to reject the collective bargaining agreement started in mid-January. At press time, hearings were most likely to conclude soon. The judge was required by statute to render his decision by February 16, a date extended to March 1 by mutual agreement of the parties and the court.

Management has demanded that pilots provide concessions worth approximately \$350 million per year in addition to contract modifications provided a year earlier worth \$250 million. Specific management demands include decreases in pay of more than 28 percent from the rates in place after 2005's deal that was worth \$250 million in concessions (and reduced rates approximately 15 percent), deletion of most overrides and premium pay, increases in the monthly maximum hours along with reduced monthly pay guarantees, higher retiree medical payments, and substantial

loosening of scope and other Section 1 restrictions that would permit more small-jet flying by code-share partners and affiliates.

Pilot proposals that address management demands are signifi-



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cant but, as of this writing, still leave a gap of around \$100 million between the parties' positions.

While bargaining took place in January on key issues of scope and small jets and a few other issues, talks have progressed very slowly. More discussions were possible before the time that the decision was expected, but a very large number of issues remained to be resolved. At press time, predicting whether a consensual agreement will be reached or whether the judge will authorize contract rejection is impossible.

► **Aloha Airlines**

Management filed for bankruptcy in December 2004, after losing \$24 million on revenue of \$453 million during the year, and demanded concessions in addition to relief agreed to by pilots earlier, despite management's written agreement not to seek concessions. Short-term financing was arranged with Goldman Sachs Credit Partners in April 2005. Pilots and other employees agreed to interim reductions in pay and benefits and some productivity improvements to help the company.

In mid-year, Yucaipa Companies

and Aloha Airlines Investment Group offered permanent financing as part of a Plan of Reorganization in exchange for majority ownership of the airline.

Their offer contained "labor conditions" that required collective bargaining agreements meeting certain cost targets to be reached with all employee groups. Meeting those cost targets without terminating the defined-benefit pension plans was virtually impossible.

When negotiations failed to produce agreements, management sought court approval to reject the union contracts in October 2005, and hearings on management's Section 1113 motion took place in November 2005. Just before the judge rendered his decision, management and ALPA reached a consensual agreement, which members ratified. It provides for

- continuation of pay reductions until the beginning of 2007;
- retroactive freeze of the defined-benefit plan effective Jan. 1, 2005, and a distress termination of the plan effective Dec. 14, 2005, with possible restoration of the plan based on the passage of favorable pension legislation;
- reductions in per diem pay;
- major changes to medical coverage for actives and retirees; and
- miscellaneous productivity improvements.

► **Atlantic Southeast (Delta Connection)**

Negotiations have continued for the past 3½ years with little progress on issues most important to pilots—job security, work rules, and economic conditions. Mediation under the auspices of the National Mediation Board has been conducted since May 2004, and approximately 110 mediated bargaining sessions had taken place by the end of February 2006.

After Skywest bought Atlantic Southeast, management requested a break to reassess its bargaining positions. Management has now stated that it wants a 5-year cost-neutral

agreement but has proposed reduced rates on CL-700s and a single first officer pay scale for all equipment types. Management is also proposing status quo on per diem pay, retirement, and other economic items for the entire term of a new agreement.

The bankruptcy court has affirmed the 15-year code-share agreements between Delta and Skywest and Atlantic Southeast, negotiated as part of Delta's sale of Atlantic Southeast to Skywest.

► **Comair (Delta Connection)**

Negotiations concluded without a tentative agreement before the end of 2005, with management presenting its so-called last, best, and final offer. The Comair MEC decided to forward that offer, without a recommendation, to pilots for member ratification. The members ratified the agreement by a very slim margin. That offer included the following elements:

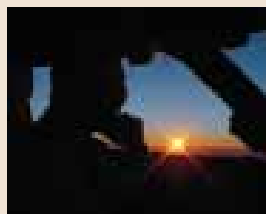
- CL-700 captain pay reductions of approximately 15 percent that result in rates just 1 percent above those for Skywest pilots,
- CL-65 captain pay reductions of approximately 9 percent that result in the average of rates for the other Delta Connection carriers,
- first officer rates for both aircraft at the average for the other Delta Connection carriers,
- reduced per diem pay, elimination of the money-purchase defined-contribution plan, and reductions to company 401(k) contributions, and
- various minor but positive work-rule modifications, including implementation of a long-/short-call reserve system.

► **Mesaba Airlines/MAIR Holdings (Northwest Airlink)**

Management of this Northwest Airlink carrier requested voluntary negotiations to amend the pilot contract in the early fall of 2005 in anticipation of changes to its fleet and marketing agreement with Northwest. Management placed the airline, but not the holding

company, which has substantial assets, in bankruptcy on Oct. 13, 2005.

Mesaba filed an 1113(c) motion on February 3, seeking to impose 19.4 percent total labor cost reductions



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from its pilots, including a 60 percent increase in payments for health insurance coverage. The proposed contract would create the lowest rates in the express carrier industry. Management has indicated that if the bankruptcy court rejects the ALPA contract, management was planning to implement new terms by April 1.

► **Air cargo carrier negotiations**

On a more positive note, negotiations at air cargo carriers are ongoing and will very likely result in contract improvements when completed. These include ALPA-represented pilots at FedEx and ASTAR (DHL).

IPA-represented pilots at UPS have been negotiating for more than 3 years and requested the help of the National Mediation Board. After many mediation sessions, the parties were unable to come to a comprehensive agreement. In

December 2005, UPS pilots requested a proffer of arbitration from the NMB to start the 30-day cooling-off period leading to the right to take self-help. UPS management vigorously objected to the IPA's request, which the NMB quickly turned down. The Board indefinitely recessed negotiations.

World Airways pilots and management were not able to conclude a new agreement either, and both parties requested the NMB to "proffer" the case. The NMB agreed and set the end of the cooling-off period for midnight on January 28. World pilots went on strike at the deadline; and after shutting down only 30 percent of the airline, the pilots and management reached a tentative agreement.

The next round of bargaining

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► **America West and US Airways**

The two airlines entered into a merger agreement in May 2005 while US Airways was still in bankruptcy. In June, the two pilot groups met to discuss and outline thinking for efficient responses to management plans. As a result, ALPA entered into "Transition Agreement" negotiations with management (originally, two managements).

The parties soon reached a Transition Agreement that provides for separation of the two airlines' operations until completion of an integrated pilot seniority list, negotiation of a merged contract, and the award of a single FAA operating certificate covering the merged airline.

ALPA formed a Joint Negotiating Committee (JNC) consisting of members elected by the two MECs. The JNC and management reached agreement to separate negotiations for a single merged contract into three phases—administrative con-

tract sections, operational contract sections, and economic contract sections. Negotiations have progressed successfully in accordance with the time line established.

Bargaining to reach a new contract will continue through June 2006, at which time the parties will assess their positions. America West pilots are permitted to serve a Section 6 notice that they wish to negotiate their contract at that time if no merged agreement has been reached. The JNC has indicated to management a clear intent to achieve economic gains for pilots at both companies.

The two Merger Committees are also engaged in seniority integration efforts in accordance with ALPA Merger Policy.

2006 negotiations— Southwest Airlines

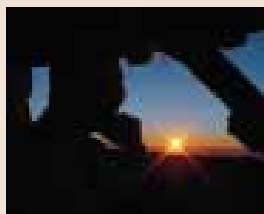
On January 11, Southwest Airlines management requested a 1-year delay of negotiations that were scheduled to begin on April 1, based on concerns as to the company's "declining fuel-hedge positions" and the effect of this decline on financial results in 2006 and 2007. The Southwest Pilots Association quickly declined management's request, but acknowledged "that the negotiations will last from 15 to 18 months" and suggested that negotiations begin on June 5. Therefore, the favorable B-737 rates in the SWAPA contract appear likely to continue in place.

2007 negotiations—Alaska Airlines and Hawaiian

The amendable date of the Alaska Airlines contract is in May 2007—2 years after arbitrator Richard Kasher rendered the interest arbitration decision in which the defined-benefit retirement and other important work rules were retained but pay was reduced by approximately 29 percent. Alaska Airlines has fared well in relation to some other airlines, and pilots are motivated to make substantial gains in book rates. ALPA will soon begin preparation

for those negotiations.

Like Alaska, Hawaiian Airlines continued profitable operations during 2005. Based on company performance and the structural changes to their contract, Hawaiian



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pilots are well-positioned to bargain again in 2007. In 2005 negotiations, they agreed to freeze their defined-benefit retirement plan and replace it with a 17 percent defined-contribution plan.

While management obtained productivity changes, the pilots also secured various improvements. The amendable date of the Hawaiian contract is in December 2007, and ALPA will also begin preparation for those negotiations this year.

2008 negotiations—Continental Airlines and American

The current collective bargaining agreement at Continental will become amendable in the fourth quarter of 2008. Again, the airline has outperformed the rest of the U.S. airline industry financially and is expanding internationally.

Management has also outlined plans for acquiring aircraft.

The recently concluded restructuring negotiations at Continental kept pay, work rules, and benefits at positive levels relative to various peer groups. Although ALPA will start discussing plans for negotiations during early 2006, active preparation will begin later this year and in early 2007.

The pilot contract at American Airlines is also amendable in 2008. Reports indicate that the Allied Pilots Association and management are discussing pilot productivity improvements. Publicity in January suggested that the issue of American management bonuses based on stock price performance created tension between pilots and other employees and management.

2009 negotiations— United Airlines

United has emerged from bankruptcy after 3 years under court protection. The United MEC has begun planning its strategy for the coming years and is committed to improving pay, benefits, and work rules along with quality of life for pilots employed there.

The road ahead

While fuel prices, industry financial results, and other circumstances are far from predictable, more hope clearly exists for the next round of negotiations than has existed over the past 3 or 4 years. Airline industry conditions show signs of improvement. Further industry consolidation may also play into the industry recovery. With hard work, collective unity, and serious, active coordination among pilot groups participating, plus the support of ALPA staff and resources, the Association should see positive results in the next round of negotiations.

All ALPA pilots will benefit from having Alaska and Continental, network carriers with two of our best contracts, on the front end of the next bargaining cycle. 🌀