

United's Unions Want Their Due

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By: Ted Reed

United Air Lines(UAUA Quote) is finding out that bankruptcy cost-reductions don't last forever.

The airline emerged from bankruptcy three years ago and is now opening labor talks with its unions, whose contracts become amendable at the end of the year.

Unions say the time has come to be compensated for sacrifices they made in bankruptcy.

"United employees have been bailing out this airline since a decade before it entered bankruptcy; now they expect to receive some type of return on their investment," says Joe Tiberi, spokesman for the International Association of Machinists, which represents about 16,000 United workers.

For the carrier's 7,800 pilots, "the company came out of bankruptcy three years ago, but we're still living under it," says Jay Heppner, spokesman for the United chapter of the Air Line Pilots Association. And 16,000 flight attendants "still need to put food on the tables and feed our families, just like everyone else in these tough economic times," says Christopher Clarke, spokesman for the United chapter of the Association of Flight Attendants.

Despite eliminating 24,000 employees, 120 aircraft and \$7 billion in annual costs, including \$3 billion in labor costs during 38 months in bankruptcy, United still has not found a path to sustained profitability. After earning \$403 million in 2007, it lost \$5.3 billion in 2008. Analysts surveyed by Thomson Reuters expect a smaller loss this year.

United's situation generally mirrors the industry's. Since 2003, United, Northwest, **Delta**(DAL Quote) and **US Airways**(LCC Quote) have restructured in bankruptcy. Yet their fortunes remain largely dependent on exogenous events, as the first nine years of the 21st century have made clear.

First, terrorist attacks combined with a slowing economy to cripple the industry. Then a dramatic increase in fuel prices crippled the industry. Now the worst global recession in 70 years batters the industry.

Labor experts say the best outcome from the current round of talks would be creation of a new model based on variable compensation dependent on the carrier's financial performance. **American**(AMR Quote) and **Continental**(CAL Quote) are also negotiating labor contracts.

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"Unfortunately, as you look at the industry nearly eight years after the events of 9/11, you see that it has not gained the financial strength that everybody would have hoped for after all the restructuring," says Jerry Glass, president of consulting firm F&H Solutions Group in

Washington. "What has happened in terms of the ability to withstand external events is very limited.

"Ever since deregulation, we have been in a cycle," Glass says. "The industry has a few good years, labor takes as much as it can possibly get, and then, in a tailspin, management has to get it back to survive."

Glass and Bill Swelbar, a research engineer in MIT's International Center for Air Transportation, say contracts must provide competitive pay rates when times are good and minimize increases when times are bad.

For United, Swelbar says, "There will have to be modest raises, and some ability for employees to embrace a level of profit-sharing that is meaningful. But there is no way the industry can return what was given up during bankruptcy. "

Recent contracts for flight attendants at **Alaska Air**(ALK Quote) and for ramp workers and agents at **Hawaiian**(HA Quote) may provide models, Swelbar says.

Not only do both groups get raises, but also, flight attendants will join management in a performance-based incentive plan, while the clerical workers, who are IAM members, will have incentive-based compensation and performance and profit bonuses.

United is "looking forward to collaborative discussions with all of our unions," says spokeswoman Megan McCarthy.

So far, United workers are focused on making up for lost ground. Tiberi says the IAM last negotiated a contract between 1999 and 2002. In bankruptcy, United terminated defined benefit pension plans for all employees. Today, only the IAM has a defined benefit plan, administered by the union. However, IAM members saw wage cuts of 13.5% in 2003 and 5.5% in 2005.

Pilots took minimum pay cuts of 40%, Heppner says. The average for a 10-year A320 captain is \$127,431 annually today, down from \$187,722 in 200. A 10-year A320 first officer makes \$69,958 today, down from \$101,432 in 2000. Many pilots lost far more, moving to smaller aircraft and to the first officer's seat.

Meanwhile, since negotiating two five-year contracts in 1995, flight attendants have seen work-rule changes, reductions in medical and pension benefits and 30% pay cuts, Clarke says. "United has consistently managed to find a way to pay executives their bonuses and salaries," he says. "They can find a way to pay us too."
