



## Airlines, unions tangle over contracts

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As the rumblings of airline labor unrest and possible strikes grow louder, the average traveler wonders: Where did all this come from?

The answer is simple: It's that time.

Through the middle of the past decade, most major U.S. airlines forced their employees to accept new contracts that cut their wages, required more productivity and took away benefits, airline industry analysts say.

Now many of those contracts have come up for renegotiation, seemingly all at once. And even as airlines are trying to hold down expenses or cut deeper, employees want to get back some of what they surrendered under duress.

"What's kind of prompted this is the restructuring that occurred after 9/11," said William Swelbar, an industry analyst and consultant who sits on the board of Hawaiian Airlines Inc.'s parent.

"Everyone's agreement was pretty much done at the same time," he said. "What is interesting is that as all the agreements were being done at the same time, companies agreed to have all the amendable dates converge. Not only intra-company, but the entire industry has all these agreements converging."

It's not that airline employees outside the United States are any happier, having endured their own concessions in recent years. British Airways PLC flight attendants conducted two strikes in March; Lufthansa's pilots conducted a strike in February.

This week, the National Mediation Board will take up the requests of two American Airlines Inc. unions that want to be released from mediation, starting a 30-day clock to a possible strike. Another union has been negotiating a new contract with American for more than three years.

All three unions - the Allied Pilots Association, the Association of Professional Flight Attendants and Transport Workers - agreed to concessionary contracts seven years ago. All the contracts became amendable May 1, 2008.

At United Airlines Inc., all the union contracts became amendable Jan. 1. Negotiations began a year ago, with no agreements yet. Continental Airlines Inc.'s contracts with its pilots and mechanics became amendable at the end of 2008, and with its flight attendants at the end of 2009.

"For the most part, the legacy carriers, the big guys, they all had their financial troubles at the same time," said management consultant Jerry Glass of F&H Consultants Group. "So they all did their financial restructurings about the same time, within a 12- to 24-month period."

### Deep cuts

The process was different from carrier to carrier. American and Continental, which did not go through bankruptcy after the Sept. 11 terrorist attacks, nonetheless extracted deep cuts in labor and other costs. American's came in 2003 and Continental's in 2005 and 2006.

Others, like United parent UAL Corp., Delta Air Lines Inc., US Airways Group Inc. and Northwest Airlines Corp., filed for federal bankruptcy protection this past decade and obtained lower employee costs through the Chapter 11 proceedings. US Airways was acquired by America West Holdings Corp., and Delta merged with Northwest.

Not only did the labor contracts go into effect in a relatively short period of time, Glass said, they all had similar durations - giving enough time "to get themselves restructured and give themselves some time to get back to profitability."

In fact, a brief period of industry profitability in 2006 and 2007 was followed by two dreadful years in which soaring fuel costs drained airline finances, followed by a global recession and plummeting demand and revenue.

It's into that situation that airlines and their unions are attempting to hammer out new deals, with airlines saying they can't afford to raise their costs and employee groups seeking to get back what they lost, or at least some of it.

### Two schools of thought

At the forefront is American, the first to sign concessionary deals with employees and whose contracts generally came up for negotiations first.

Ray Abernathy, a consultant and public relations man, worked with American's flight attendants before their 1993 strike. He considers that five-day walkout the last successful strike by a major U.S. airline union.

Abernathy said there are two schools of thought about what has caused the industry's prolonged problems, despite the deep concessions made by employees over the past seven years.

"One is that problems with the airlines are not of their doing, that this all started with deregulation and it was exacerbated by 9/11 and now by the financial crisis in the country, and that airlines have just been victims in all this," he said.

"The other school of thought was best expressed by Gordon Bethune shortly after he retired at Continental [as chairman and CEO]," Abernathy said. "He said our problem is that we're a stupid industry run by stupid people.

"I'm wise enough to accept that the truth may be somewhere in the middle there between 'It's not our fault' and 'We're stupid people in a stupid industry.' "

Variable compensation

Glass said the industry must move to a system where more of the compensation is variable - rewarding employees during good years, not paying so much when an airline is struggling.

"I still haven't seen a recognition that this industry - and it's a cliché - that this industry has changed, it's restructured and it's not going back to the way things were," he said. "Until you accept the fact that it can't be the way it is, you're going to ask for all of it back. But common sense at this point says it just doesn't work."

Abernathy said the longer-term solution to the industry's troubles probably is some re-regulation, since 32 years of deregulation have brought continuing financial problems for the airlines and declining salaries for employees.

Meanwhile, he encourages unions to keep pushing to get their share.

"We've always assumed that if the airline was still in business, it had plenty of money. It was just good at hiding it," he said.

Looking ahead, Swelbar, a research engineer at the Massachusetts Institute of Technology's International Center for Air Transportation, said that "I see strife, and I do believe we will see a strike."

"I don't know who it's going to be. I believe it'll be either United or American. But I do believe we will see a strike," he said. "The question is whether management is ready to accept a strike."