Testimony of

Robert Roach, Jr., General Vice President of Transportation

International Association of Machinists

and Aerospace Workers

Before the

Aviation Subcommittee of the Senate Commerce, Science

and Transportation Committee

"Financial Stability of Airlines"

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Thank you, Mr. Chairman, and members of this Committee for the opportunity to speak to you today. My name is Robert Roach, Jr., General Vice President of Transportation for the International Association of Machinists and Aerospace Workers (IAM). I am appearing at the request of International President R. Thomas Buffenbarger. The Machinists Union represents more than 100,000 U.S. airline workers in almost every classification, including Ramp Service workers, Mechanics, Public Contact employees and Flight Attendants.

Mr. Chairman, the financial condition of the airline industry is clearly miserable, and without dramatic changes, the future continues to look bleak. From 2001 to 2004, legacy carriers have lost more than $28 billion, and they are expected to lose an additional $5 billion in 2005.

Of the 146 airline Chapter 11 filings since 1979, in only 16 cases are the airlines still in business.

September 11, 2001 is often cited as the start of the current crisis for airlines. However, the seeds for this calamity were planted years earlier by the airlines themselves.

When airlines were healthy, legacy carriers spent surplus cash by purchasing unnecessary aircraft, irresponsibly expanding operations and pursuing foolish mega-mergers. One noted exception is Southwest Airlines, which expanded prudently into profitable markets while increasing its cash reserves for the inevitable, recurring industry slump.

At the same time, these airlines refused to properly fund their employee pension plans, and now more than a hundred thousand participants and beneficiaries at US Airways and United Airlines have lost more than $5 billion of their promised pension benefits.

To ask employees to bail out failed corporations is disgraceful. To force retirees to subsidize corporate incompetence is unforgivable.

The Machinists Union has met with the ATA and individual airline CEO’s to discuss how to correct the industry’s problems. I believe such partnerships should be continued and expanded.

Earlier this year, I asked Transportation Secretary Norman Mineta to convene an airline summit so airline executives, labor leaders and government officials could jointly develop solutions to the industry's problems.

The IAM has been proactive in our efforts to transform the industry, but we cannot do it alone.

For a snapshot of the financial condition of the airline industry, one only has to look at the unprecedented sacrifices employees have been forced to make just to keep this industry alive.

United Airlines

Almost immediately after signing contracts with the IAM in 2002, United Airlines came to its unions seeking concessions. The IAM engaged in these discussions over a period of several months in an effort to keep the company out of bankruptcy.

In support of the company's attempt to obtain a loan guarantee from the Air Transportation Stabilization Board (ATSB) in November 2002, Ramp Service and Public Contact employees agreed to cuts that would save the company $160 million a year.

This was happening as employees saw the value of the company stock held in their ESOP and employees' 401(k) accounts dwindling. Many employees lost tens of thousands in retirement savings as a result.

United failed in its attempts to reorganize outside of bankruptcy and immediately after its Chapter 11 filing the company asked the bankruptcy judge to impose “emergency” pay cuts of 14% on IAM members. The judge authorized this request.

Laboring under these court-imposed pay cuts, IAM members went to the bargaining table and in the spring of 2003 agreed to permanent cuts in pay and benefits that would save United $460 million a year ($2.644 billion from 2003 to 2009). These concessions also included drastic reductions in retiree healthcare benefits for anyone retiring after July 1, 2003. As a result, many employees retired from the company in an effort to preserve these benefits.

United then took steps to cut retiree benefits for existing retirees and filed a motion in court to ask a judge to impose cuts if agreements could not be reached with the retirees' representatives. This heartless move saved United $50 million a year.

In the spring of 2004, the ATSB denied United's bid for a loan guarantee a second time and, once again, United turned to its employees for more cuts. United also ceased funding its pension plans, the first in a series of steps which ultimately led to their termination by the Pension Benefit Guaranty Corporation.

In January 2005, United once again sought “emergency” pay cuts from the bankruptcy court - this time it was 11%. The IAM and UAL reached a tentative agreement on June 17, 2005 that, if ratified by the membership, will provide United with an additional $176 million a year from 2003 to 2009. Savings attributable to the termination of IAM member’s pensions will save United another $217 million a year.

Successive rounds of cuts have delivered United annual savings of more than $853 million a year off the backs of IAM members. By the end of this bankruptcy case, IAM members will have sacrificed more than $4.6 billion for United Airlines, which is about three times more than the value of all loan guarantees given out by the ATSB.

US Airways

In US Airways’ first bankruptcy in 2002, IAM members agreed to two rounds of contract concessions totaling $276 million per year, or $1.8 billion over 6 1/2 years.

Pay was cut by an average of 7.5%. Employees also experienced drastic increases in their contributions for healthcare coverage, which had the effect of reducing take-home pay even further. Employees' share of healthcare premiums roughly doubled for single coverage and almost tripled for family coverage, translating into an additional reduction in take home pay of 1% to 3%, depending on the employee's classification.

Immediately after filing for bankruptcy for the second time in as many years, US Airways management petitioned the court to impose “emergency” pay cuts of 23% for all union-represented employees as well as reduced contributions to pension plans. Management and salaried employees' pay was reduced by only 5% to 10%.

On October 15, 2004 the bankruptcy court allowed an emergency 21% cut in pay.

US Airways then approached the IAM to negotiate permanent reductions to pay and benefits and filed a petition with the bankruptcy court to reject the IAM's collective bargaining agreements. Ultimately, the parties were not able to reach agreement and the court granted the company's request to abrogate the IAM's collective bargaining agreements on January 10, 2005. IAM members then voted to accept the company's “last and final offer” that involved pay and benefits reductions even more drastic than what were ratified in the first bankruptcy.

Under these latest terms, IAM members will give up $346 million a year in pay, benefits, and work rules. Mechanic and Related employees will see their pay reduced by an average of 15%. Almost all Utility jobs are able to be outsourced and roughly a third of Mechanic and Stock Clerk jobs can be farmed out.

In addition, the defined benefit pension plans were terminated, with the sole exception being the IAM's multi-employer defined benefit National Pension Plan for our Fleet Service members, who experienced pay cuts of 12.8% to 20%. In addition to these drastic reductions in pay, holidays, vacation accruals, sick leave, and retiree medical benefits have also been significantly reduced.

US Airways employees have accepted up to 1/3 reductions in their standard of living in a very short period of time. The typical middle class household budget does not have a cushion anywhere close to 1/3 of take-home pay to be able to adjust to these kinds of reductions. Workers and their families are being forced into dramatic and drastic changes that affect the most basic, personal decisions, such as where to live, where and how to educate children, and making very hard choices regarding medical care.

Many employees have concluded that a job with US Airways is one they cannot afford to keep, and as a result, the company is facing manpower shortages in many locations. This difficulty in finding employees willing to accept the meager wage scales imposed through bankruptcy is what caused US Airways' Christmas meltdown in Philadelphia last year. That event clearly demonstrates the effect of low wages on the reliability of the industry.

Hawaiian Airlines

When Hawaiian Airlines approached its unions seeking concessions in an attempt to stay out of bankruptcy, the IAM stepped up to the plate.

However, the company failed in its attempt to reorganize outside of bankruptcy and filed for Chapter 11 reorganization in the spring of 2003. As part of the reorganization, a Trustee was appointed due to serious concerns on the part of creditors about actions taken by the prior CEO.

The Trustee sought cost reductions of more than $1.5 million from IAM members. The IAM and the company ultimately reached an agreement in the fall of 2004. Because of the sacrifices made by IAM members, the company successfully restructured and recently exited bankruptcy.

Aloha Airlines

In order to obtain $40 million in ATSB funds, employees at Aloha Airlines agreed to a 10% across the board pay cut in late 2002, designed to save the company $37 million annually. IAM members were willing to make these sacrifices to keep Aloha out of bankruptcy.

Despite these cuts, management was unable to turn the airline around. The company filed for Chapter 11 protection in December 30, 2004 and returned to employees seeking an additional 10% pay cut, on top of the cuts agreed to just two years before, as well as reductions in health benefits, changes to work rules, and a freeze in benefit accruals under the company's defined benefit pension plan.

To force their demand, management went to court to seek abrogation of the IAM contract. IAM members ratified a second round of concessions this past winter. Despite reducing pay by more than 20%, the airline continues to struggle to reorganize.

Air Wisconsin

Air Wisconsin was once owned by United Airlines but for many years has operated as an independent express carrier for United. When United filed for bankruptcy, it sought to restructure contracts with its express feeders and as a result, in 2003, Air Wisconsin came to its employees seeking concessions. IAM Fleet and Customer Service members agreed to significant cuts in pay and benefits in order to preserve their jobs at the airline.

Continental Airlines

As part of a company-wide restructuring, Continental Airlines is seeking to reduce IAM-represented Flight Attendant costs by $72 million annually. Discussions with a federal mediator are being scheduled.

Alaska Airlines

Alaska Airlines management has demanded concessions and even locked out nearly 500 IAM Ramp Service members in Seattle, WA. By outsourcing our members' work to the lowest bidder, Alaska Airlines now ranks dead last in the DOT's on-time performance ratings. This is another example of how an airline's short-sightedness is negatively impacting the reliability of our nation's air transportation system.

Northwest Airlines

Northwest is also seeking significant cost savings from employees and termination of pension plans in a bid to avoid bankruptcy.

Mr. Chairman, members of the Committee, the financial condition of the airline industry is an absolute disaster. Passengers have returned since 9-11, but the continued reliance on failed business plans jeopardizes our air transportation system.

Southwest Airlines pays their employees more than any other major carrier yet remains profitable, so the industry's problems are clearly not the result of high labor costs. Nevertheless, employees have given more than their fair share, yet airlines are still struggling. Fuel prices are high, and employees are repeatedly asked to subsidize artificially low ticket prices.

The industry needs new ideas. Airlines can't continue refusing to charge at least what it costs to provide their service and then claim financial emergencies.

I urge this Committee to explore ways to correct the suicidal pricing plaguing the industry. Whether it be a mandatory fuel surcharge or other government intervention, some re-regulation of the industry is clearly necessary. Left alone, airlines will price themselves out of existence.

I thank the Committee for inviting us to participate in these proceedings and listening to our concerns.

I look forward to your questions.