Testimony of
General Vice President
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Before the
House Committee on Transportation and Infrastructure's Subcommittee on Aviation

“Impact of Consolidation on the Aviation Industry,
with a Focus on the Proposed Merger between
Delta Air Lines and Northwest Airlines”

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Thank you, Chairman Costello, and members of this Subcommittee for the opportunity to speak to you on behalf of airline workers throughout North America. My name is Robert Roach, Jr., General Vice President of the International Association of Machinists and Aerospace Workers (IAM), the largest airline union in North America. I am appearing on behalf of International President R. Thomas Buffenbarger. The IAM represents more than 160,000 active and retired airline workers in almost every job classification, including flight attendants, ramp service workers, mechanics, customer service, reservation agents and office employees.

It is my firm belief, and the belief of many others, that airline executives are using a crisis of their own making to justify the establishment of what can only be called a monopoly.

Regulation

Airline CEOs regularly complain about overcapacity. The need to address overcapacity has been a favorite battle cry for airline management for decades and won't be resolved by mergers. Braniff, Eastern, Pan Am, TWA, Peoples Express, Aloha Airlines and others have all disappeared from the scene. Reducing capacity will not overcome management's failure to run a profitable business.

The Machinists Union is not advocating that we maintain the status quo in the airline industry. When there are problems, we must seek solutions. Immediately after 9/11, airlines demanded more than $6.3 billion in government aid. Carriers then sought and won pension relief legislation, but still abandoned their pension obligations.

Airlines also used the bankruptcy law to force employees and shareholders to make sacrifices to save the carriers. IAM members alone at Northwest Airlines, US Airways, United Airlines, Comair, Hawaiian Airlines and Aloha Airlines gave up nearly $9 billion in bankruptcy to help their airlines.

Some airlines are constantly asking the government for relief, begging the courts to abrogate contracts and forcing the government to absorb its pension obligations. History has shown that poorly managed airlines cannot operate without government assistance. Those airlines repeatedly appeal to the government for bailouts.

However, it should be noted that since 9/11 airlines such as Southwest, Continental and American have been able to, in most cases, be profitable and, at the very least, have been successful in navigating through these turbulent times. It is those airlines who are resisting the quick-fix urge to merge philosophy.

In 1993 the Clinton administration recognized the problems facing the air transportation industry. President Clinton empanelled a National Commission to Ensure a Strong Competitive Airline Industry, and one of my predecessors, IAM General Vice President John Peterpaul, served on the Commission. The Commissioners were charged with investigating and devising recommendations that would resolve the crisis in the airline industry and return it to financial health and stability.

The Committee essentially recommended no substantial regulatory changes and believed that market forces would stabilize the industry. The IAM's representative on the Commission was the only dissenter, arguing that deregulation destabilized the industry and government intervention was necessary.

The Machinists Union's assertion that deregulation had failed to deliver on its promises were ignored in 1993 in favor of supporting airline industry executives who advocated staying the course. Congress now has a second chance to make effective changes to this industry. If that opportunity is squandered again, bankruptcies will increase, more proud airlines will disappear, employees will continue suffering and passenger will be even further alienated. We can close our eyes and ignore millions of consumers, employees and investors, or we can have an efficient air transportation industry. More than 150 carriers have gone bankrupt since deregulation.[1]

As a direct result of increased fuel prices, airlines clearly need immediate relief and we strongly urge that the Congress join with the industry and request that President Bush release oil from the strategic oil reserves. We are recommending that there be a complete moratorium on airline mergers until long-term solutions are found. Instead of resolving problem, merging airlines in this environment would only create more chaos.

Since 9/11, the Machinists Union has been in the forefront in trying to establish a format in which industry leaders, labor leaders and government would come together to resolve the industry's problems. We urge the Congress to raise its voice in establishing an airline transportation summit so that we can, once and for all, come together and discuss ways to improve this industry.

Airlines today compete by cutting standards, eliminating services and reducing ticket prices to the bone, which makes a profitable industry impossible. The GAO estimates that median ticket prices have dropped nearly 40% since 1980, although the costs of aircraft, airport leases and fuel have increased dramatically.[2] No business can survive if they sell their product for less that what it costs to deliver their goods.

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[1] The New York Times, *Did Ending Regulation Help Fliers?* By Micheline Maynard, April 17, 2008

[2] Government Accountability Office, "Airline Deregulation" GAO-06-630

The long-term cost of under pricing tickets is too extreme. Pan Am, TWA, Eastern, and Aloha Airlines all survived for more than half a century, but could not endure the insanity of deregulation. This industry is crying out for sane regulation that includes limiting capacity, setting fares or both.

Effective Management

Even with limited re-regulation, more competent management is needed to save the industry, not consolidation.

If airline executives spent as much time running their airline as they do looking for bailouts or mergers, this industry and our country's transportation system would be much better off.

Mergers prevent airlines from running effective operations. United Airlines emerged from bankruptcy with a plan to pay its executives undeserved multi-million dollar bonuses, but no intention on operating the airline. Instead of finding ways to conserve cash and operate United Airlines in times of record-high fuel prices, the airline paid out an unnecessary $250 million dividend to shareholders in December 2007, against the objections from employees who warned against such reckless actions. This demonstrates that United's only plan is to plunder the airline and market it for acquisition, to the detriment of passengers and employees.

This industry is in disarray and the executives in charge are only making things worse. Airlines can't police their own maintenance programs, small communities are under-served, passengers are treated like cattle and employees are continually being steamrolled.

There is too much at stake to let executives and their legacy of failure try and solve the industry's problems. It is time for airline passengers, employees and the government to finally say “NO” to airline executives.

Some form of limited re-regulation is necessary if this country has any chance for a safe, reliable, profitable and competitive air transportation industry. And I’m not the only one calling for re-regulation.

Although I do not agree with everything former American Airlines CEO Robert Crandell says about the airline industry, I share his opinion that, “market –base approaches alone have not and will not produce the aviation system our country needs” and that “some form of government intervention is required.”[3]

Northwest-Delta

Re-regulation is the only long-term solution. Today, however, we must deal with immediate issues. One factor the airlines will not admit publicly is that they expect this

[3] The New York Times OP-ED, April 21, 2008

merger to eliminate the union representation rights of Northwest Airlines workers. They want to use this merger as weapon to eliminate the jobs and rights of thousands of workers.

The Machinists Union will not allow this to happen.

An issue that neither Northwest nor Delta have addressed is how they will deal with current pensions. IAM members at Northwest Airlines still have a secure defined benefit pension plan, the IAM National Pension Plan. Our members are the only employees at either carrier still earning a traditional pension benefit, but that will be lost if our members lose IAM representation in a merger. Delta has not guaranteed that our members will not lose the security of a defined benefit pension plan in the merger.

Additionally, both Delta and Northwest have frozen or terminated their pension plans. If a merger takes place, and the combined carrier ultimately fails, the pensions will be forced onto the Pension Benefit Guaranty Corporation (PBGC).

This will burden the PBGC with more than $7 billion in combined liabilities. The PBGC has already expressed concerns about such a scenario.

Delta and Northwest have made commitments to employees, but these commitments are unenforceable and subject to change. If the combined airline wants to make a true commitment, then they should stop interfering with Delta employees' right to organize, and make their commitments part of collective bargaining agreements that protect employees at the combined carrier.

Northwest and Delta say that no frontline workers will be lose their jobs. Don't believe them. If Northwest HQ is downsized, 930 IAM-represented clerical workers, who are not the highly paid executives the airlines claim will be the mergers only causalities, are at risk.

Northwest has a history of broken promises. The State of Minnesota bailed out Northwest to the tune of $761 million in 1992. In return, Northwest Airlines promised to continue employing at least 1,000 workers in Duluth, MN and committed to building an engine maintenance facility in Duluth with a minimum of 500 new jobs. Instead, they never opened the engine shop and closed their operation in Duluth entirely in 2005. Additionally, Northwest committed to keeping employment levels in the state to a minimum of 18,000 employees. They are already down to about 12,000. Northwest Airlines has left a trail of broken promises throughout Minnesota that will multiply and expand throughout the country if this merger is approved.

Delta also is not averse to making promises it doesn't keep. Over the last 10 years the airline offered employees early retirement packages based principally on very attractive free or minimal cost health care programs.

According to the Delta Air Lines Retirement Committee, retirees' health care deductibles and co-pays were increased dramatically after accepting the packages and retiring.

If the airlines truly cared about their employees they would have engaged all their unions when they first contemplated a merger. Instead, they rebuffed our efforts to cooperate and have ensured labor turmoil for years to come, even if a merger is not completed.

Faced with inadequate or indifferent responses from airline management, the IAM has contacted Governors, Senators and Representatives as part of our efforts to protect the thousands of employees and dozens of communities that will be negatively impacted by these proposed mergers.

Seniority

Delta has said that it will integrate seniority fairly, and that they are required to do so under the law. But what does “fairly” mean? There are no less than five recognized methods for “fair and equitable” integration of airline seniority lists.

1. The surviving group principle, where the acquiring company’s employees receive seniority preference over the acquired employees;
2. The follow-the-work-principle, were seniority is allocated by a ratio of what assets each individual airline contributed to the combined company;
3. The absolute rank principle, where employees retain their respective rank on the newly mergers seniority list;

4. The ratio-rank principle, where a ratio of the employees of each group to be merged are assigned places on the combined seniority list according to a ratio of total employees.
5. The length of service principle, where all employees are combined by their current seniority date, regardless of which airline they came from.[4]

Fairness is in the eye of the beholder, and what Richard Anderson deems fair is not important. We need to focus on what employees consider to be fair.

Northwest and Delta employees sacrificed wages, pensions and, in too many cases, their jobs to help their airlines survive bankruptcy.

Mergers are another avenue for airlines to cut even more jobs.

I realize this hearing was prompted by the Northwest Airlines - Delta Air Lines merger announcement. However, we must recognize this announcement will lead to additional merger attempts.

Continental Airlines, United Airlines, American Airlines and US Airways have all discussed various pairings and alliances in response to the Delta-Northwest action. This

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[4] *How Arbitration Works, Sixth Edition* Elkouri, Elkouri, Reuban; BNA Books, p.868-870

will lead to other mergers, likely cutting the number of major national carriers in half, from six to three.

Financial Health

Both Northwest and Delta have seen their stock prices sink since exiting bankruptcy, and more so since the merger was announced. Passengers, employees and investors, three groups with different concerns, all think this merger is a bad idea.

If the two airline CEOs testifying today can't independently provide their customers and shareholders with value for their dollar, what will happen under a merged company that is saddled with debt and even harder to manage?

If allowed to proceed, Northwest and Delta will form the world's largest airline, creating the world's biggest corporate headache. The combined carrier would have $15 billion in long-term debt, plus $11.3 billion in current liabilities and $14.23 billion in non-current liabilities, including pension liabilities. This non-current liabilities figure includes $7.51 billion in pension and retiree benefit liabilities. The total liabilities of the combined company would be $40.55 billion. It is not in this country’s best interest to approve the creation of an enormously debt-ridden company.

Consumer Impact

The wholesale reshaping of the industry will destroy competition and harm consumers on routes throughout the United States.

It would be difficult to find anyone outside of a small group of airline executives who expects to benefit from additional airline consolidation.

Passengers, employees and shareholders have suffered enough by senseless management decisions. In the last month, four airlines have declared bankruptcy.

We have seen how airlines fail to comply with FAA-mandated safety compliance directives. Do we really need more instability in this chaotic industry?

Both Northwest and Delta operate a hub and spoke system. Combining the two will create redundancies, which, if the airlines keep their promise not to close hubs, will create regional dominance.

The new Delta will control the South East and Upper Midwest with two hubs in each region.

Atlanta and Memphis, less than 400 miles apart, will both be Delta hubs.

Delta will also have two major hubs in Detroit and Cincinnati, less than 300 miles apart. If these two airlines merge, the frequency of flights between cities they both serve will be diminished.

It is both insulting and a testament to these airlines' arrogance that they think anyone believes they can combine these two companies without eliminating service and purging employees.

Passengers originating or traveling to Memphis, Detroit, Cincinnati, Minneapolis and the smaller communities served by airports in these cities will lose service frequencies and pay higher fares.

Experience has shown us that commitments made by airlines in are absolutely worthless.

When American Airlines purchased TWA out of bankruptcy in 2001, promises were made to TWA employees. American's then CEO Donald Carty testified before the Senate Commerce Committee saying, "We look forward to adding TWA's 20,000 employees to the American Airlines family," and that American was willing to make "commitments to the 20,000 TWA employees and their families that no one else would make."[5]

In spite of these assurances, the overwhelming majority of former TWA employees are no longer employed by American Airlines.

[5] Testimony of Don Carty, http://judiciary.senate.gov/oldsite/te020701dc.htm

Thousands of mechanics, ramp workers, customer service agents, flight attendants and pilots who were promised careers with American are no longer working in the industry.

We also cannot count on Delta's promise not to further reduce capacity beyond already announced service cuts. American Airlines promised the City of St. Louis that it would maintain TWA's hub operation at Lambert Field after the TWA merger.

That once bustling hub had over 474,000 flights in 2000, TWA's last full year of operation. In 2007 that number was reduced to a little more than 254,000. Passengers flown have been reduced nearly in half, from 30.5 million to 15.4 million in the same period.[6]

With the loss of passengers came the loss of tax revenue to the city of St. Louis and income for the businesses that support the airport and service the airlines.

Just over a year, ago Delta Air Lines was making the rounds in Washington trying to block a merger proposal with US Airways.

Delta said then that "the competitive impact of the US Airways proposal deal is that if the merger were to go forward, it would trigger broad industry consolidation."[7] Delta was right then, and wrong now.

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[6] http://www.lambert-stlouis.com/

[7] Delta Air Lines press release, http://news.delta.com/print_doc.cfm?article_id=10533

Both Northwest and Delta entered bankruptcy on the same day in 2005 to make their companies leaner and more competitive.

Since they are here today saying that they must merge to become profitable, their bankruptcy restructurings must have failed.

So why should we believe them when they say this merger will be a positive step for employees, consumers and shareholders? Too much is at stake to take these airlines at their word.

Who Benefits?

One final point, Mr. Chairman.

Since employees, passengers and shareholders will lose in this merger, who benefits?

Doug Steenland stands to gain as much as $19 million due to the ending of his employment at Northwest.

Richard Anderson has said he would wave the $15 million in merger related compensation he could receive due to change in control, but he could still realize tremendous benefits through a new employment contract as the CEO of a much larger company.

If employees lose their right to collectively bargain, if IAM members lose the new pensions they negotiated in bankruptcy, if employees are going to be sacrificed to grow executives' personal bank accounts, then this merger will fail.

A Delta-Northwest merger will eliminate jobs, reduce choices for passengers, further deteriorate customer service, trigger additional senseless mergers, make millionaires even richer, and most importantly, do nothing to address the problems of a failing industry.

While the status quo is unacceptable, we believe that consolidation will not produce a stable, profitable industry. Instead, consolidation and the ensuing reduction in service, coupled with insanely low barriers to entry, will simply produce a variant of competition that is less reliable, less safe and more unstable.

This merger and the ones that will follow should not be allowed to proceed. I wish to reiterate that the International Association of Machinists is prepared to work with CEOs, industry experts, passenger consumer advocates and government to find ways to improve the transportation industry in America.

Thank you for the opportunity to appear before this committee.

I welcome any questions.