



Testimony of
International President
R. Thomas Buffenbarger

International Association of Machinists
and Aerospace Workers

Before the
Task Force on Competition Policy and Antitrust Laws of the
House Committee on the Judiciary

“Competition in the Airline Industry”

April 24, 2008

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Thank you, Chairman Conyers, and members of this Committee for the opportunity to speak to you on behalf of airline workers throughout North America. My name is Tom Buffenbarger, International President of the International Association of Machinists and Aerospace Workers (IAM), the largest airline union in North America. We represent more than 110,000 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.

Airline CEOs regularly complain about overcapacity, but they are the ones responsible for creating the problem, not passengers, not fuel prices and certainly not employees.

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 and others have all disappeared from the scene. Reducing capacity will not overcome management's failure to run a profitable business.

If there were only two airlines left in the country, I am convinced their CEOs would be complaining about overcapacity and looking to merge.

Airlines also cite high fuel prices as a reason to merge, but the cost of a gallon of fuel for two individual airlines will be the same as for one large airline.

Consolidation is not the solution for this troubled industry – more competent management is.

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.

Still, this troubled industry lost \$30 billion from 2001 to 2006. More than 150 carriers have gone bankrupt since deregulation.¹

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

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 underserved, 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.

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

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.”²

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 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.

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 can't discuss that proposal without recognizing that this

² The New York Times OP-ED, April 21, 2008

announcement will lead to additional merger attempts.

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

Continental Airlines, unlike Northwest or Delta, would rather stay independent but is being forced to explore merger possibilities because the Northwest-Delta combination would put it at a competitive disadvantage.

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

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

Shareholders suffer greatly in industry consolidation. At the time American Airlines purchased TWA, American's stock was trading at \$36.05. Last week it was \$9.34. US Airways stock before the America West merger was worth \$19.30, but now trades at around \$8.00 per share.

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 mergers 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."³

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

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.⁴

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.

³ Testimony of Don Carty, <http://judiciary.senate.gov/oldsite/te020701dc.htm>

⁴ <http://www.lambert-stlouis.com/>

Delta has a history of breaking promises. 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.

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.

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."⁵ Delta was right then, and wrong now.

⁵ 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.

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 waive 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.

This merger and the ones that will follow should not be allowed to proceed.

Thank you for the opportunity to appear before the committee. I welcome any questions.