

Testimony of  
Robert Roach, Jr.  
General Vice President



Before the  
House Committee on Transportation and Infrastructure's  
Subcommittee on Aviation

**"The Proposed United-Continental Merger:  
Possible Effects for Consumers and Industry"**

June 16, 2010

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**The International Association of Machinists  
and Aerospace Workers**

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Thank you, Chairman Oberstar, Subcommittee Chairman Costello, Ranking Member Mica and members of this Committee for the opportunity to speak to you today. 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. The Machinists Union represents United Airlines and/or Continental Airlines workers in the flight attendant; ramp; customer service; reservation agent; fleet technical instructor; maintenance instructor; security guard; and food service employee classifications, plus customer service agents at United's frequent-flier subsidiary, Mileage Plus, Inc. The IAM also represents flight attendants at Continental's wholly-owned subsidiary Continental Micronesia and flight attendants at Continental and United regional partner ExpressJet Airlines. In total, the IAM represents more than 26,000 workers who will be affected by this proposed merger. Our bargaining relationship with each airline spans many decades.

**Perpetual Crisis**

The airline industry has been in continuous turmoil since the passage of deregulation in 1978. Merger proponents complain about overcapacity as a major reason for industry

consolidation, but mergers will not address overcapacity. Braniff, Eastern, Pan Am, TWA, Northwest Airlines, People Express, Aloha Airlines and others have all disappeared from the industry landscape, but the problem of overcapacity remains.

We cannot look at the United-Continental transaction in isolation. As the Delta-Northwest merger moves toward its completion, the United-Continental merger takes center stage. Waiting in the wings is a possible third merger, perhaps between US Airways and American Airlines, each a product of recent consolidation with America West and TWA, respectively. We agree with Chairman Oberstar when he wrote the Department of Justice stating, “This merger will move the country far down the path of an airline system dominated by three mega-carriers...If United and Continental merge, another domino in a chain of mergers will fall, and there will be strong pressure for further consolidation<sup>1</sup>.” Does anyone really believe that having only a few major airlines in operation, each with immense market control and offering consumers fewer choices, will benefit the country? If one of these mega-carriers should fail, how would that impact the country?

The Machinists Union has serious concerns not only about the viability of a combined United/Continental carrier, but also for the long-term sustainability of each carrier independently. In fact, our concern is for the entire industry, and we do not believe mergers alone provide the answers. Congress has spent a considerable amount of time

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<sup>1</sup> Chairman James Oberstar's letter to the Department of Justice, May 5, 2010

debating the issue of entities that are too big to be allowed to fail. Our concern is we are creating airlines that are too big to succeed.

I am not advocating that we maintain the status quo in the airline industry. When there are problems, we must seek solutions. But perhaps we should take a step back and not rush to judgment or consolidation. It is time we seek a new vision for the future of air transportation in the United States.

It was clear to the Machinists Union in 1993 that deregulation had failed. The Clinton administration recognized the problems facing the air transportation industry and empanelled the National Commission to Ensure a Strong Competitive Airline Industry. 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 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.

This country needs the major airlines, or so-called legacy carriers. While low-cost carriers fill an important niche, the air transportation system would collapse without

traditional hub-and-spoke carriers. If you want to fly to Europe, Asia, South America or the Middle East you will be flying one of the legacy carriers, or another nation's airline. As John Peterpaul said, "Hubs serve as collection and distribution centers for air traffic, making it possible to serve many more communities than would be feasible with simple linear, point-to point service."<sup>2</sup> It is a mistake to think that as legacy airlines merge and hubs are eliminated that start-ups or low-cost carriers are capable of filling the void.

The Machinists Union's assertion that deregulation had failed to deliver on its promises was ignored in 1993 in favor of supporting airline industry executives who advocated staying the course. Congress now has another chance to make effective changes to this industry.

United and US Airways' pension terminations alone have cost the Pension Benefit Guaranty Board (PBGC) \$10 billion and beneficiaries \$5 billion<sup>3</sup>. Inflation-adjusted salaries for airline employees have grown less than 5% since 1979<sup>3</sup>. There have been 162 airline bankruptcy filings since 1978<sup>4</sup>, with bankruptcies accelerating in the last decade, including the liquidations of Aloha Airlines, ATA and Midway Airlines. Since 1978, 150 low-cost carriers began operations, with less than a dozen still providing service today.<sup>4</sup> More than 100 communities have lost all commercial air service in the

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<sup>2</sup> *Dissenting Opinion*, by Commissioner John Peterpaul to the Report of the National Commission to Ensure a Strong Competitive Airline Industry, August 19, 1993

<sup>3</sup> *Airline Deregulation*, United States Government Accountability Office Report GAO-06-630, June 2006

<sup>4</sup> *Flying Blind*, Dēmos, 2009

last 10 years.<sup>4</sup> The industry has lost more than \$60 billion in the last decade, and 163,000 industry jobs have disappeared since 2001.<sup>5</sup>

The so-called low-cost airlines are not immune to the industry's problems and are also looking for additional consolidation to help them survive. For example, US Airways, which became a low-cost carrier after two bankruptcies and a merger with America West Airlines, is now aggressively seeking a merger partner. "Further down the road there's a high probability that US Airways will wind up merging with either United, Delta or American," said US Airways President Scott Kirby.<sup>6</sup>

Even Alfred Kahn, the major architect of deregulation, has said, "I must concede that the industry has demonstrated a more severe and chronic susceptibility to destructive competition than I, along with the other enthusiastic proponents of deregulation, was prepared to concede or predict."<sup>7</sup>

This industry is crying out for limited re-regulation.

Deregulation in this industry – and others – has had disastrous effects. Left completely to their own devices, corporations put their profits first without regard to the impact it has on the nation.

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<sup>5</sup> Testimony by ATA President and CEO Jim May Before House Appropriations Subcommittee on Transportation, Housing, Urban Development and Related Agencies on Aviation Stakeholder Priorities for Maintaining a Safe and Viable Aviation System, March 18, 2010

<sup>6</sup> *US Airways: Merger Probability Is High*, by Ted Reed, TheStreet.com, June 1, 2010  
<http://www.thestreet.com/story/10771279/1/us-airways-merger-probability-is-high.html>

<sup>7</sup> *Change, Challenge, and Competition: A Review of the Airline Commission Report*, by Alfred E. Kahn, 1993

The 2007 financial and housing meltdown was a result of unregulated corporate greed in the banking and mortgage industries. Instead of only traditional banks offering mortgages, non-banks were allowed to enter the mortgage market. Predatory lenders aggressively targeted unqualified borrowers. Investment banks sold mortgage packages to Wall Street – all largely unregulated. When the mortgages defaulted – because many should never have been made in the first place – Wall Street collapsed, and took the rest of the economy with it.

One only has to look at the news this evening to see the toxic results of energy industry deregulation suffocating our Gulf shores. Local fishing and tourism industries are being destroyed, not to mention the cataclysmic environmental impact. Oversight and enforcement of BP's operations were woefully inadequate, in spite of a decade of documented safety violations at BP locations across the United States. <sup>8</sup>

Some industries are too critical to the United States to be allowed to regulate themselves. The airline industry needs to be stabilized because it drives \$1.4 trillion in economic activity and contributes \$692 billion per year to the Gross Domestic Product (GDP).<sup>9</sup> It is too vital to the nation's commerce to be ignored, taken for granted or left to its own destructive ways.

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<sup>8</sup>*Reports at BP Over Years Find History of Problems*, By Abrahm Lustgarten and Ryan Knutson. Washington Post, June 8, 2010

<sup>9</sup>*The World Airline Report*, Air Transport World, June 1, 2009  
<http://atwonline.com/eco-aviation/article/world-airline-report-0309>

Today, Congress is considering increased oversight of both the financial and oil industries to provide more regulation. Such action is necessary and long overdue, but it took catastrophes to prompt action. There have been three decades worth of evidence that airline deregulation has failed. At what point do we take another look at this beleaguered airline industry? We need to be forward-thinking before we are asked to bailout the airline industry – again.

It is clear that airline deregulation has failed to deliver on its promises of a stable and profitable industry, and staying the course will continue the industry's downward spiral. Airline bankruptcies will continue, more proud airlines will disappear, employees will continue to suffer and passengers will receive less service. Albert Einstein said, "Insanity is doing the same thing over and over again and expecting a different result." We can close our eyes and believe that repeating the same mistake for thirty years will eventually bring different results, or we can effect real change and have an efficient and competitive air transportation industry.

I do not propose a complete return to the days of the Civil Aeronautics Board and complete re-regulation, but some additional form of government involvement is necessary.

Although I do not agree with everything former American Airlines CEO Robert Crandall says about the airline industry, I share his opinion that, "market-based approaches



alone have not and will not produce the aviation system our country needs” and that “some form of government intervention is required.”<sup>10</sup>

The IAM believes fares need to be regulated. We must have fare minimums, because if an airline is allowed to charge less for a ticket than it costs to provide the service, we will have more airline bankruptcies and further consolidation until we have only a single airline left in the United States.

Airline business plans today focus on lowering standards, eliminating services and reducing ticket prices to the bone to put competitors out of business, making 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.<sup>11</sup> Employees have been subsidizing the low ticket prices. No business can survive if they sell their product for less than what it costs to deliver their goods.

The long-term cost of under pricing tickets is too extreme. Pan Am, TWA, Eastern, Northwest and Aloha Airlines all survived for more than half a century, but could not endure the insanity of cutting prices to eliminate the competition.

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<sup>10</sup> *Charge More, Merge Less, Fly Better*, by Robert Crandall, The New York Times OP-ED, April 21, 2008

<sup>11</sup> *Airline Deregulation*, United States Government Accountability Office Report GAO-06-630, June 2006

## Merger Scrutiny

Although we have met with United and Continental both separately and jointly, information has been slow in coming. The Machinists Union and our 26,000 members at the two airlines do not have enough details about the merger's impact on employees to determine if this merger would be in their best interests. The carriers admit that many of our most important issues, such as pensions, workforce integration, union representation, prevailing wages and working conditions will largely remain unresolved until after the Department of Justice rules on the merger. To the carriers' credit, they have agreed to a communication system through which we can obtain the information to address employee concerns, but that does not answer our questions today.

United Airlines has \$8.5 billion in long-term debt<sup>12</sup>, and Continental has \$5.3 billion in long-term debt<sup>13</sup> – and they are considered healthy by industry standards. The merged entity would start out \$13.8 billion in debt. What is their business plan to deal with the debt structure?

Merging airlines is much more difficult than just painting planes and combining websites. American Airlines' 2001 acquisition of TWA's assets resulted in tremendous job loss, employee integration problems and the closing of a hub in St. Louis, Missouri. The America West-US Airways merger cost the city of Pittsburgh, Pennsylvania its hub, and employee integration problems for some classifications persist five years after the

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<sup>12</sup>Continental Airlines 10-K filing with the Securities and Exchange Commission, filed 2/17/10.

<sup>13</sup> United Airlines 10-K filing with the Securities and Exchange Commission, filed 2/26/2010.

merger. The 2008 Delta-Northwest merger is still far from being completed and managements' promises to preserve all front-line jobs in the merger were quickly broken.

With tens of thousands of employees from two different corporate cultures involved, jobs are inevitably lost in mergers and integrating employees groups is never as smooth as management claims. As with any service industry, employees upset with management provide an inferior product. How employees are treated in this merger will ultimately determine its fate. Southwest Airlines founder Herb Kelleher has said, "Happy and pleased employees take care of the customers. And happy customers take care of shareholders by coming back."<sup>14</sup> An airline merger that does not take employees into consideration has the potential to take two viable carriers and create a combined airline destined to fail.

## **Airline Alliances**

Several years ago, the IAM raised concerns with respect to airline alliances. In our opinion, these alliances served as a potential mechanism for allowing airlines a path around antitrust laws. Unfortunately, our concerns have been substantiated. In some cases, they have served as the foundation for airlines to consolidate their operations. Time and time again, consolidations are announced only after both airlines have operated in the same airline alliance structure.

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<sup>14</sup> *From the Corner Office - Herb Kelleher*, by Mary Vinnedge, Retrieved from success.com on May 26, 2010, <http://www.successmagazine.com/From-the-Corner-Office-Herb-Kelleher/PARAMS/article/390/channel/19>

Continental and United Airlines represent the latest consolidation of airlines in the same alliance. Continental's membership in the Star Alliance essentially started a merger on the installment plan. Given the prevalence of alliances here at home, what will alliances ultimately mean for the traveling public, particularly if they lead to further consolidation and route frequencies are cut, if not altogether abandoned?

The implications for worldwide air travel are even more profound, particularly for U.S. consumers. Given the rapid acceleration of outsourcing of most job classifications, will alliances result in the outsourcing of most domestic work on carriers to workers at airlines in other countries? We have already seen thousands of U.S. aviation jobs shifted to countries like China, Singapore, and the Philippines as U.S. air carriers outsource call centers and maintenance work. Given the lack of proper oversight by the FAA, as well as inadequate quality control mechanisms, this development should raise alarms for any policymaker that sees domestic job security and consumer interests a priority.

### **Consumer Impact**

The combined United/Continental airline would have nine U.S. hubs, more than any other airline. The combined airline will have hubs at Dulles Airport in Virginia and Newark, New Jersey – 215 miles apart. Its hubs in Cleveland and Chicago would be just 307 miles from each other. Will the merged carrier have any choice but to eliminate

hubs in order to avoid competing with itself? Closing hubs initiates a cascade of job loss that begins with airline employees and continues throughout the community to firms that provide services to the airline.

Airline mergers result in service frequency being reduced and competition being eliminated – both are bad for consumers. We have to ask ourselves if the merging of these carriers and wholesale reshaping of the industry will destroy competition and harm consumers on routes throughout the United States.

As details about the combined carriers' business plan emerge, it must be closely scrutinized to determine if a merger will result in a successful entity or not. We ask Congress to help us determine if this transaction will be good for employees and consumers.

## **Pensions**

The Machinists Union is concerned that employees could lose defined benefit pension plans as a result of the merger. Continental ramp service, stock clerks and public contact employees all participate in a Continental company-sponsored single-employer defined benefit pension plan, while their IAM-represented counterparts at United participate in the multi-employer IAM National Pension Plan (NPP). Continental's IAM-represented flight attendants also participate in one of Continental's defined benefit pension plans and have negotiated the IAM NPP as a contingency plan. United flight

attendants do not currently have a defined benefit pension plan, and the Pension Benefit Guaranty Corporation (PBGC) has prohibited United from sponsoring a single-employer pension plan.

The IAM believes that all employees deserve defined benefit pension plans. The carriers acknowledged that harmonizing pensions would be a complex issue, and although they have given it much thought, they did not know how it would be resolved.

In spite of United abandoning its pension obligations in bankruptcy, the IAM fought hard and ensured our members would have a replacement defined benefit plan. Just as we did in United's bankruptcy, the IAM will not allow our members' retirement security to become a casualty of this merger.

### **Collective Bargaining**

The Machinists Union is currently in contract negotiations for all eight classifications where we have members at the two carriers - seven at United plus Continental flight attendants. United negotiations have been ongoing for more than a year, and bargaining with Continental began late in 2009.

Regulatory and shareholder approval are far from certain at this point, and the Machinists Union is committed to negotiating new agreements to cover our members at

each airline. It is premature for anyone to talk about combining the carriers' employees, and each airline must recognize their responsibility to continue bargaining in good faith.

## **Seniority**

Seniority integration is always a major concern in mergers. Although airlines often promise fair and equitable integration of seniority, fair and equitable is a very subjective term and should not be left up to the carriers to decide. Some past mergers have resulted in employees losing decades of seniority – I am one of them. My seniority date was changed from 1975 to 2001 after American Airlines purchased TWA's assets in bankruptcy.

Continental Airlines is the product of many past mergers in the wake of deregulation, and in some cases seniority was integrated unilaterally by the then Frank Lorenzo-led carrier. The Machinists will ensure seniority is protected in this merger, but again, this is an issue to be addressed after representation issues are resolved. At the IAM's insistence, both airlines have agreed not to engage in workgroup integration discussions until representation issues are resolved.

## **History of Sacrifice**

United Airlines employees have suffered greatly through the carrier's bankruptcy, the longest and most expensive airline bankruptcy in history.

Immediately after its Chapter 11 filing, United Airlines asked a bankruptcy judge to impose 14% “emergency” pay cuts on IAM members. More long-term cuts in pay and benefits cost IAM members \$460 million a year (or \$2.644 billion over the life of the agreement). United then took steps to cut health benefits for existing retirees and filed a motion in court to ask a judge to impose further cuts if agreements could not be reached with the retirees' representatives

In the summer of 2004 United ceased funding its pension plans, the first in a series of steps which ultimately led to the termination of its company-sponsored pension plans.

In January 2005, United once again sought and received “emergency” pay cuts from the bankruptcy court - this time it was 11%. Six months later IAM members gave up another \$176 million a year to save United. Savings attributable to the termination of IAM member’s pensions saved United an additional \$217 million a year.

In total, IAM members were forced to sacrifice more than \$4.6 billion for United Airlines. United employees have been subsidizing the airline since 2003, and each day without a new contract that sacrifice continues.

Continental Airlines’ employees also sacrificed more the \$500 million a year to keep their airline out of bankruptcy during their last round of collective bargaining.



So, employees have the right to question the motives behind this merger and fear they would be forced to subsidize it.

## **Conclusion**

The business plan for the proposed airline must receive close scrutiny. The IAM is concerned that the new entity may be too big to succeed without some form of industry re-regulation, and failure of such a large entity could be disastrous to employees, the industry and the general economy.

As this merger proposal moves forward, the Machinists Union asks regulators to take the merger's impact on employees into consideration. A combined carrier must offer employees more stability and opportunity than are available at the two independent airlines. The merger cannot be at the expense of workers who have already sacrificed to keep their airlines aloft. United and Continental employees did not accept job cuts and wages and benefit changes when their employers restructured just to lose out again in a merger.

The Machinists Union believes that airline mergers should have conditions, including requirements that protect employees, consumers and taxpayers – all of whom have been hurt by this unregulated industry. Employees must have their jobs, wages, benefits and pensions protected. If the architects of a merger can guarantee themselves bonuses and lucrative severance packages, then they can do the same for front-line

employees. All cities that the airlines currently serve, not just profitable ones, must continue to be served. Pension obligations should be upheld in mergers, and consolidation should not be a vehicle for airlines to dump their pensions on the PBGC.

United and Continental would not be seeking to merge today if employees had not stepped up to save them in the past. United and Continental need to demonstrate how the proposed merger would benefit employees, consumers, and the cities and states the airlines currently serve.

Thank you again for the opportunity to speak with you today. The Machinists Union recognizes it is in the nation's interest to have a safe, reliable, competitive and profitable air transportation industry. We are committed to working with Congress, the Departments of Justice and Transportation, and the air carriers to achieve that goal.

I look forward to your questions.