

**STATEMENT OF  
CAPTAIN DUANE E. WOERTH, PRESIDENT  
AIR LINE PILOTS ASSOCIATION, INTERNATIONAL  
BEFORE THE  
U.S. SENATE COMMITTEE ON COMMERCE, SCIENCE & TRANSPORTATION  
ON THE STATE OF THE AIRLINE INDUSTRY**

JANUARY 9, 2003

My name is Duane Woerth, and I am the President of the Air Line Pilots Association, International. ALPA represents 66,000 airline pilots who fly for 42 U.S. and Canadian airlines. I also appear as a vice president for the Transportation Trades Department, AFL-CIO, whose 35 member unions represent several million transportation workers including the vast majority of the nation's airline employees.

We sincerely thank you Chairman McCain for inviting ALPA to present our views on the state of the airline industry and our recommendations for solving some of the industry's problems while protecting the interests and jobs of America's aviation workers.

**The State of the Airline Industry**

The New Year opens with the airline industry experiencing problems of catastrophic proportions. Revenue losses are considerable: industry analysts estimate that losses for 2002 will total \$7.4 billion compared to a 2001 loss of \$6.2 billion. The industry experienced a net loss of \$1.6 billion, and stock values plummeted -- dropping 54% for the major airlines just for the third quarter.

The Airline Index as of January 3, 2003 is shown below as *Figure 1*.

## Airline Industry Has Been Hit Hard in the Markets



### **Stock values dropped 54% during the 3rd quarter**

Market index opened July 1<sup>st</sup> at \$70.02 and closed September 30<sup>th</sup> at \$32.10

### **Stock values show some recovery during 4<sup>th</sup> quarter – up 16.5%**

Market index opened October 1<sup>st</sup> at \$33.29 and closed December 31<sup>st</sup> at \$38.79

Source: yahoo!finance.com

**Figure 1**

Two major airlines are in bankruptcy.

In addition, general industry forecasts are difficult to determine due to a number of events. The combination of an unstable economy, the continued threat of terrorism, and possible war all factor into the possibility for recovery or the potential for further erosion of industry income. Analysts have been revising their forecasts downward throughout the year. It is projected that the industry will experience a \$3-4 billion net loss for 2003. (Figure 2)

# Long-Term Industry Outlook

## Analyst Forecasts

Year	JP Morgan	UBS Warburg	Merrill Lynch
2002	\$(6.9)B	\$(7.4)B	\$(7.1)B
2003	\$(4.0)B	\$(3.6)B	\$(4.0)B

→ 2004:

- Profits increasingly improbable with break-even likely best case scenario – JP Morgan
- Modest net profit – Merrill Lynch

→ 2005:

- First decent return for airlines – UBS Warburg

Source: JP Morgan, 10-21-2002; UBS Warburg, 12-20-2002; Merrill Lynch Quarterly Review Nov. 2002

### **Figure 2**

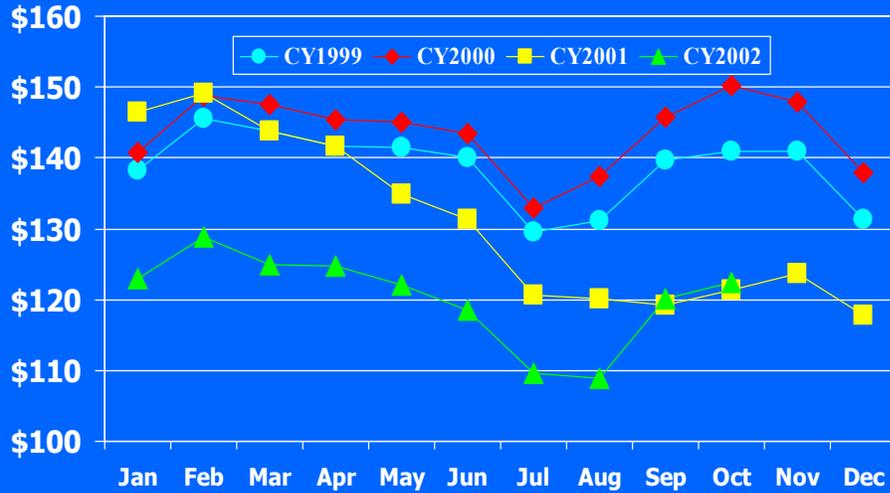
Other factors are contributing to this bleak forecast. We are seeing a second round of global furloughs for airline employees. For bankrupt carriers US Airways and United this will mean more employee cuts. Revenue levels continue to deteriorate with estimates for 2002 at 25% below 2000 levels. (Figure 3).



**Figure 3**

The current environment continues to challenge the industry. Customer behavior changes have been seen by the weak passenger mix, as the business passenger has sought lower fares. The airlines' inability to raise fares in a time when the airlines have little pricing power is having a very negative effect on profitability. Below find *Figures 4 and 5*, which show the decline in Domestic and International, fares.

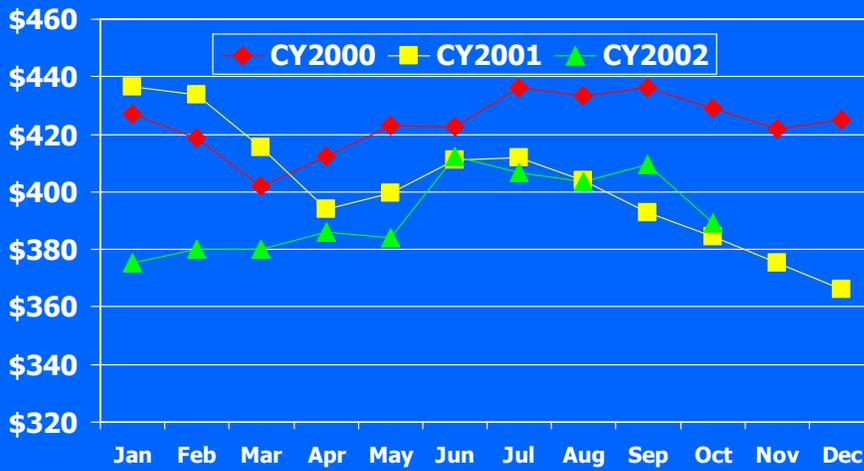
## *Decline in Domestic Fares*



Source: ATA; Majors ex. Southwest

**Figure 4**

## *International Fares*



Source: ATA; Majors ex. Southwest

**Figure 5**

Fuel prices remain volatile and the debate looms regarding the potential impact the industry will face if the U.S. goes to war in Iraq (*Figure 6*).

*Fuel Prices and Potential Impact of War*

→ **Volatility of Fuel Prices**

- *Saudi Arabia & Russia, the two largest crude oil exporters, agreed to cooperate in an effort to lower prices and prevent any supply shortages.*
  - **Agreement would boost production if the price is more than the target price for more than 20 consecutive trading days.**
- *40,000 U.S. soldiers positioned in the Persian Gulf*

→ **Potential Revenue Impact of War**

- *Remains a topic of debate*
  - **Fuel prices declined upon U.S. activity in Iraq in the early 90's, however revenue also significantly declined.**
  - **Magnitude of repeating history in an already weak revenue situation at the airlines could be devastating to the industry.**

Source: Lehman Brothers, Bloomberg, news articles

### ***Figure 6***

Travelers continue to be deterred from air travel due to the “hassle factor” and are using alternate forms of travel. Single day business trips are now being conducted by conference calls.

Indeed, the state of the industry was characterized as being in an “economic meltdown” in a recent speech by Carol Hallett, Air Transport Association President and CEO.

For airline workers, the consequences have been devastating. More than 150,000 airline and aerospace employees are now laid-off and thousands more brace for lay-off as air carriers struggle to emerge from or avoid bankruptcy and aircraft purchases continue to sag. And I remind the Committee that those workers were among the first to experience

the dire economic consequences of 9/11 as thousands have exhausted their unemployment benefits and health care coverage.

To date, nearly 7,000 ALPA pilots are out of work, with more furloughs predicted. Within the next two months, we could see this number grow to nearly 8,000 very qualified and experienced pilots out of work. In an effort to help their airlines reduce costs, pilots have made major concessions, agreeing to significant pay cuts and other benefit reductions. What is the result of these concessions? Well Mr. Chairman, US Airways pilots took a \$465 million cut effective last year with an additional \$101.3 million, excluding pension savings, for a total of \$566.3 million average per year. These average annual pilot cost savings are effective through December 31, 2008. United Airlines pilots, just yesterday, ratified a 29% wage cut package.

These concessions are just those made by the pilots. They do not include the concessions made by all the other employee groups.

In addition, we are seeing degradation and, in some cases, total elimination of long-held airline employee retirement and insurance benefits. These benefits were bargained in good faith, in lieu of direct compensation, with the expressed purpose of protecting pilots and their families before and after their employment years ceased. In a cruel twist of fate, pilots have made meaningful concessions to protect these benefits and then seen a confluence of negative events, beyond labor's control, conspire to further jeopardize their retirement security. These ongoing events include an extremely negative stock market performance and a historically low interest rate environment that mandates additional retirement funding charges, at a point in time when air carriers can least afford to pay.

The consequences of this meltdown are so grave that in that same speech, Ms. Hallett stated that, to save the industry it may, and I quote, “necessitate nationalization of the industry.”

### **ALPA Recommendations**

I think we all agree that nationalization is *not* a solution to this crisis. I’m not sure that some form of re-regulation might not be required, however, that is a discussion for another day.

There are other solutions that can be implemented right now that can turn this industry around. However, everyone must do their part and take immediate action to implement these solutions.

ALPA pilots are committed to ensuring the survivability of the industry. They are doing their part and will continue to work with management, federal agencies and other industry organizations to return the industry to viability. They are working with management to reduce costs and help establish financial stability through reductions in pay and benefits and increased productivity.

Airlines are working to find ways to reduce costs, and Congress has enacted legislation and established an oversight Board to help the airline industry. While we applaud these efforts, though, they are not enough and to this day, despite bipartisan support for action following 9/11, Congress and the President have failed to provide relief to the staggering number of jobless aviation industry employees who, through no fault of their own, are out of work and have no reasonable expectation of becoming re-employed in the foreseeable future.

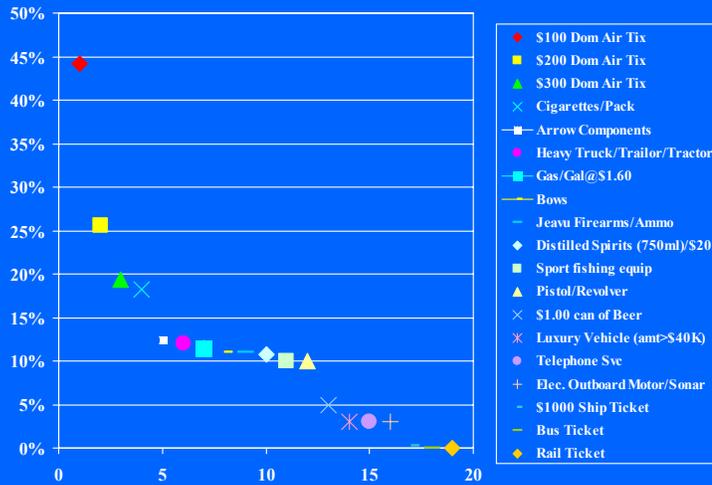
We must make a concerted effort together to turn the industry around.

First, the Air Transportation Stabilization Board needs a course correction. Congress charged the ATSB with providing airlines with loan guarantees to help ailing airlines weather the effects of 9/11. But to date, it has failed to carry out this charge. It has turned its back on several airlines – two of which are in bankruptcy, and one that is out of business because they didn't get help. The Board must be held accountable. Either change the law so that the Board must carry out its mandate, or replace it with a more responsive and responsible entity.

Next, we must provide major tax relief for the airline industry. Taxes are choking the industry to death. Airlines face a myriad of charges on passengers, fuel, cargo, and security. They are able to keep far less of a percentage of their revenue generated from passenger ticket price and cargo fees than carriers from many other countries.

Currently, airline travel is the highest taxed good or service available (*Figure 7*). Airline passengers who buy a single-connection roundtrip ticket for \$200 can expect 25.6 percent of their ticket charge to go to the federal government in taxes and fees (*Figure 8*). In 1972 and 1992 the taxes represented 7% and 15%, respectively, of the total ticket fare. A comparable trip for \$100 gets taxed a massive 44.2 percent! (*Figure 9*) (PFC in *Figure 8* and *9* is the passenger facility charge.) The airline industry's tax burden must be reduced.

## Taxes on Flying are Higher than "Sin Taxes"

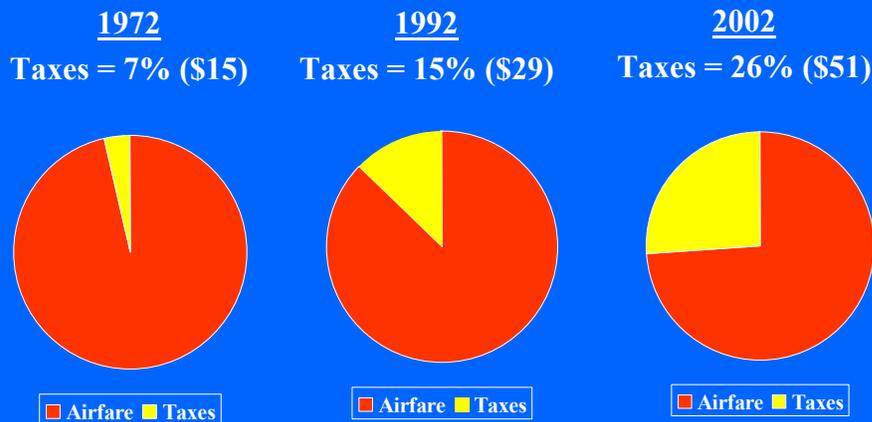


Note: Fed also taxes sale of tires>40 lbs., coal, wine, vaccines, foreign-issued insurance, and selected other items

Source: ATA, IRS, Bureau of Alcohol, Tobacco & Firearms

Figure 7

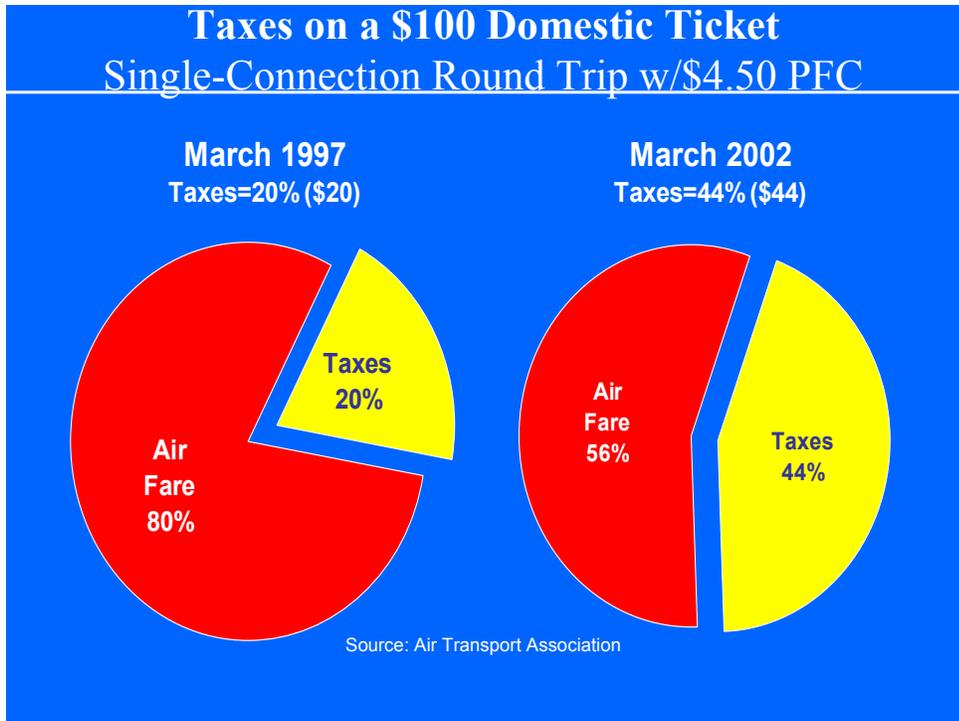
## Taxes/Fees Represent a Larger Share of the Fare



Based on a \$200 single-connection roundtrip with \$4.50 PFC

Source: ATA

Figure 8



***Figure 9***

Third, Congress must take action to ensure employee pensions are protected. If the Pension Benefit Guaranty Corporation is unwilling to use its broad mandate to take action necessary to preserve pensions such as those at US Airways, Congress must act.

ALPA and US Airways seek to amortize the payments necessary to fund the pension plans over a thirty year period consistent with their business plan as a basis to secure the ATSB loan guarantee and emerge from bankruptcy.

Fourth, Congress must provide extended jobless assistance to the laid-off workers in this industry who unfortunately were the first to face the devastating economic effects of 9/11 and to this day struggle to provide for their families as this industry's downward spiral shows no signs of reversal.

Finally, we must shift the burden of security costs to the Federal government. The airlines, and their customers are now bearing additional security-related costs exceeding \$4 billion annually.

The bill to approve creation of the Department of Homeland Security does not include appropriations to pay for all the security programs that Congress and the Administration have created – programs that ALPA members strongly support. The Federal government must assume responsibility for these costs, as they do for national defense, while at the same time ensuring that all security measures are in place and enforced.

As I said earlier, our pilots are ready and willing to work together with management and the government to solve the problems of the airline industry. This is not a time to impart blame. Labor-bashing, as we have seen within certain elements of the airline industry, won't turn this industry around.

Remember, it was our pilots and the other airline workers who returned to flying during the dark days immediately after September 11th. It is our pilots that have worked with this committee, as well as the Transportation Security Administration and other organizations to make flying safer and more secure. It was our pilots who continue to develop and offer additional security measures to enhance air safety. It was our pilots and their cabin crew partners who flew nearly 600 million passengers safely, without a single fatality this past year.

And, let's not forget that many of our pilots are getting ready to go off to war again in support of the government's actions against another threat to our national security. This problem is not our fault and it's not any employee groups' fault. The sooner everybody –

pilots, management, other employee groups and Congress -- starts working together as part of the solution, I guarantee the sooner that solution will come.

ALPA thanks you again for the opportunity to appear before you today to make our views known to the Committee. I would be pleased to respond to any questions you may have.