

Delta, pilots back at brink

Facing Wednesday deadline to avoid arbitration, both sides are vulnerable — win or lose

By RUSSELL GRANTHAM
The Atlanta Journal-Constitution
Published on: 02/28/06

Here we go again.

For the third time in 16 months, Delta Air Lines and its pilots union are headed for a game of chicken that could bring the airline hundreds of millions of dollars in annual savings — or a potentially fatal strike.

If the two sides don't agree to a long-term deal on deep pay cuts and other concessions by 5 p.m. Wednesday, the issue goes to an outside panel of arbitrators, which will decide whether to void the pilots' contract and allow Delta to impose its own terms.

Delta and the Air Line Pilots Association say they expect talks to continue after Wednesday. Some analysts predict the union will eventually settle rather than risk having Delta's terms imposed or shutting down the airline in a strike. "Unions always talk tough but usually cave," said CreditSights analyst Roger King in a recent report.

Still, the latest deadline raises the prospect of another drawn-out drama this spring, following a bankruptcy court clash that produced a temporary deal in December and a cliff-hanger in 2004. It ended with a \$1 billion-a-year concessions deal that enabled Delta to put off bankruptcy for a year.

The latest chapter surrounds a long-term deal that would supersede the temporary December pact. That deal cut pilot wages 14 percent but set a March 1 deadline for the broader agreement, and set up the arbitration process if the deadline is missed.

Under that process, a three-member panel has until April 15 to hear the two sides' cases and decide whether to reject the union contract. If the panel voids the contract, Delta could impose more than \$300 million in concessions, including up to a 19 percent pay cut that it says is critical to its Chapter 11 survival effort.

The panel is scheduled to begin two weeks of hearings in Washington on March 13 if no deal is reached by then.

Meanwhile, ALPA has been raising the temperature of its rhetoric leading up to Wednesday's deadline, setting up a strike center and threatening a strike if the panel allows Delta to ditch the contract.

The company says a strike would be illegal without going through a waiting period under the Railway Labor Act — as well as fatal to Delta's bid to reorganize in court. It would likely seek a court injunction to stop a walkout.

Both sides are under "significant pressure" to reach a deal before things go that far, but also to avoid being seen as giving in to the other side's demands, said Les Hough, director of research at Georgia State University's Usery Center for the Workplace.

"With the pressure that the two sides feel under, it's very, very difficult for either side to blink, or to be perceived as blinking," said Hough.

Delta management needs to stop the carrier's hemorrhaging soon and reduce uncertainty for customers and financial backers, he said. Union leaders need to show members they're putting up a tough fight, Hough added, but he thinks they start from a weak position because the panel is likely to reject the contract.

"They may try to play it right up to the end, but unpleasant as it is, come up with some sort of settlement," he said.

Dragged-out drama

King faults both the union and management for dragging concession talks over three years; pilot pay cuts were first proposed by then-Delta CEO Leo Mullin in February 2003.

Delta had entered the financial crisis that started in mid-2001 with pilot wages at the top of the industry, thanks to a new contract signed just three months before 9/11. It was negotiated near the end of a long profit streak and put average pilot pay well over \$200,000.

Talks were almost immediately sidetracked by controversy over executive bonuses and pension perks for Mullin and other top executives. Then the carrier overhauled top management in early 2004, bringing Gerald Grinstein off the board as CEO. He finally got a deal at the end of that year that slashed wage rates 32.5 percent. But red ink continued amid soaring fuel costs in 2005, and Grinstein sought another deep cut when Delta filed for bankruptcy protection in September.

Despite waves of cost cuts, Delta remains in deeper trouble than most carriers because of weak revenue and higher wage costs than competitors, CreditSights

analyst King said in a recent report. "The game is over," he added, if Delta's managers blink and agree to reduced pilot pay concessions.

Delta's unit revenue — the amount it makes off each seat — is below other big hub-and-spoke carriers' because of its heavier concentration in the eastern United States, where JetBlue Airways and AirTran Airways hold down pricing power, said King. Even with the pay cuts so far among pilots and other workers, the airline's labor costs are roughly 20 percent to 30 percent higher than at other big network carriers, he calculates. "If it cannot get costs well below the network peer group and on some sort of level with the low-cost carriers, [Delta] will melt away like Eastern," King said, referring to the big airline that shut down in the early 1990s.

The dispute will probably end with a voided contract but no strike, predicts Brad Bartholomew, a labor management consultant in Texas. He is also a pilot for a non-ALPA airline.

Delta pilots are angry that they could face deeper job and pay cuts and the likely termination of their pension plan after making previous concessions, he acknowledged.

"They are drawing a line in the sand that they don't have faith in management," Bartholomew said. "Whether they will strike over it, I don't know, but this clearly does have the elements to melt down."

Working together?

It isn't the way things appeared to be headed two months ago, when the two sides got the temporary 14 percent deal. That defused a courtroom battle over Delta's move to void the contract after initial negotiations failed.

The interim deal "reflects the resolve of Delta people to work together to help save the company," Delta financial chief Ed Bastian said at the time. Union Chairman Lee Moak told pilots in a letter a few days later that the agreement set up a process "designed to aid" getting a longer-term deal. It included a panel of arbitrators available "to help at any time," he wrote.

But seven weeks passed before company and union negotiators began meeting in earnest. They also resumed negotiations not from the middle ground of the December deal, but from positions near their original proposals. Delta says its \$325 million concession proposal — since trimmed to \$315 million a year — is the minimum it needs to regain profitability next year.

ALPA says its analysis shows Delta's revenue is improving and that the carrier needs less than the union's \$115 million offer to maintain reasonable cash

reserves. The union also contends Delta's demand is worth far more than the \$315 figure the company cites when pension issues are considered.

"We are a long ways apart at this point in time," Bastian said in an interview last week. He said both sides knew there was "a distinct possibility" no deal would be reached by March 1, and he hopes negotiations continue while Delta and the union make their cases to the panel.

"The arbitrators have until April 15 to rule, so to us March 1 is a date that signals the start of the next step of the process, but it's not a deadline per se," said Bastian. "We're committed to making progress."

Moak also indicated in a recent interview that it seemed pointless to ask the panel to help mediate an agreement prior to the deadline. "They're not negotiating," he said of Delta. "We probably don't need a professional mediator to tell us that."

WAGE SCALES

Typical annual pay for various airlines, based on monthly averages compiled by pilot careers firm Air Inc. United and US Airways have been through Chapter 11; Delta and Northwest are currently in proceedings.

	Co-pilot 5th year (smallest jet)	Capt 10th year	Capt max (biggest jet)	
American		\$82,668	\$134,868	\$173,940
United	\$86,772	\$122,568	\$171,756	
ontinental	\$89,676	\$139,368	\$182,676	
Southwest	\$111,240	\$181,248	\$185,268	
Delta	\$81,420	\$118,788	\$166,980	
Northwest	\$78,504	\$110,952	\$165,972	
AirTran	\$70,032	\$128,100	\$146,964	
US Airways	\$73,356	\$119,988	\$157,008	

Note: Delta and Northwest rates include temporary cuts to be superseded by long-term deals

COST VS. REVENUE

Delta's labor costs remain high compared to unit revenue, according to figures compiled by CreditSights. These numbers are for the fourth quarter and included only a couple weeks of the temporary 14 percent pilot wage cut negotiated in December.

	Delta	United	Continental	American	AirTran	JetBlue		
Salaries (cents per seat-mile)			3.52	2.68	2.83	2.76	2.12	1.82
Passenger revenue (cents per seat mile)	8.42	9.28	9.20	9.57	9.42	7.02		

Source: CreditSights