

US Airways files for bankruptcy

Signals new assault on airline workers

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US Airways, the US's sixth largest air carrier, filed for bankruptcy protection Sunday in a move which sets the stage for a further assault on the living standards and jobs of workers throughout the airline industry. The collapse is the latest in a wave of recent corporate bankruptcies, including Enron, Global Crossing, WorldCom and Kmart, underscoring the financial instability of the US economy.

The East Coast-based airline, with 35,000 employees, began defaulting on its nearly \$8 billion in debt obligations last month after posting losses for the eighth consecutive quarter. In its filing the company listed assets of \$7.81 billion and liabilities of \$7.83 billion. News of the bankruptcy filing led to a further sell-off of the company's shares, which had previously fallen to \$2.40 a share, from a 52-week high of \$18.32.

The bankruptcy follows the collapse of Midway, Sun Country and Vanguard airlines earlier this year and occurs amid widespread speculation that United Airlines, the nation's number two carrier, may soon follow US Airways into bankruptcy.

Industry analysts predict that Arlington, Virginia-based US Airways will have shrunk considerably if it emerges from bankruptcy as planned in the first quarter of 2003. In the aftermath of the September 11 terror attacks the airline laid off 11,000 workers and reduced its operations by 20 percent. In May, the company's new CEO David Siegel warned of possible bankruptcy and immediately began pushing for \$1.2 billion in concessions from employees and creditors.

The airline industry as a whole was suffering through a severe downturn even prior to the September 11 attacks. At the time Wall Street analysts complained bitterly about the high costs of labor contracts, which were negotiated after years in which workers' living standards stagnated as industry profits and corporate

executive payoffs boomed. September 11 provided the airlines with the opportunity to destroy 100,000 jobs and implement other cost-cutting measures planned well in advance of the terror attacks.

While thousands of airline workers were stripped of their livelihoods with little or no compensation, the Bush administration engineered a \$15 billion bailout for the airline executives and big investors. This included \$5 billion in outright grants to the airlines and another \$10 billion in loan guarantees, which were contingent upon the airlines extracting billions in wage and benefit concessions from their workforces.

Last month the federal government's Airline Stabilization Board—manned by designees of Federal Reserve Board Chairman Alan Greenspan and Treasury Secretary Paul O'Neill, and headed by investment banker Joseph P. Adams, Jr.—tentatively agreed to \$900 million in loan guarantees for US Airways. In return, the board demanded the company slash \$1.3 billion annually—including \$950 billion in union labor costs.

Last week US Airways obtained \$570 million in annual pay cuts from pilots, flight attendants and salaried employees. Thus far the company's 13,000 machinists and reservation, gate and ticket agents, members of the International Association of Machinists, have resisted concessions. The IAM leadership, however, announced Sunday it would present the company's demands to its members for a vote later this month.

The bankruptcy court has the power to nullify existing labor contracts and impose further concessions. Airline management claimed it would not attempt to overturn concessions packages already agreed upon with the pilot and flight attendant unions and instead would consult with the unions first if it were to seek additional pay or job cuts. The pilots union has already

granted the company the right to reduce its fleet size to 245 planes from 311 under bankruptcy court protection.

The Airline Stabilization Board has also reserved the right to review any restructuring plans that come out of bankruptcy proceedings before granting loan guarantees.

US Airways' decision was hailed by the *Wall Street Journal*, which suggested the Bush administration allow United Airlines to go bankrupt as well in order to extract concessions from recalcitrant employees. "What's wrong with bankruptcy?" the paper asked in an editorial Monday. The paper said, far from producing a disaster for investors and customers, the only change seen at other airlines which had filed Chapter 11 in the past, such as Continental, "was that new owners were able to reorganize, force unions to play ball and put those planes back into more efficient use."

In a news article the same day the *Journal* noted: "In an industry that plays follow-the-leader in setting fares and compensation costs, the US Airways bankruptcy-court filing will win applause from competitors for the message that it sends: that operating costs must decline, by court order if necessary." While the airline gained one "victory"—a \$465 million pay cut from its pilots—the paper said, the bankruptcy filing "will significantly sharpen the airline's edge in its months-long efforts to win concessions from workers, creditors, vendors, aircraft lessors and others."

United Airlines is seeking \$1.8 billion in loan guarantees from the Bush administration. Although the airline has promised to secure substantial concessions from its workers, the Airline Stabilization Board has until now rejected the company's application, saying that such promises are insufficient. Some of US Airways' competitors, as well as significant sections of the Republican Party, are actively lobbying against granting the airline federal loan guarantees on the grounds that this will only allow the company to postpone a necessary confrontation with its workers. Instead the opponents of a bailout argue that United will only be able to attain enough wage and benefit concessions if it has the backing of the bankruptcy court.

"We're facing some negative sentiment in Washington," said United Chief Financial Officer Jake Brace. "We talk to lots of people in Washington.

[Their] message is: More is needed."

Last week a Credit Suisse First Boston analyst downgraded UAL to "hold" from "buy" in order to pressure United management to press its unions to make sufficient wage concessions to win over the loan board. The analyst predicted there was a 75-80 percent likelihood the company would file for Chapter 11 protection.

Two weeks ago the federal government turned down a bailout request from the small carrier Vanguard Airlines, virtually guaranteeing that its 950 employees will lose their jobs. In response the *Journal* wrote, "This is how markets are supposed to work, and we hope the same rules will apply now that bigger, more politically connected airlines have come begging."

Big investors have hailed Continental Airlines for emerging from bankruptcy to become one of the most profitable airlines. The company first declared bankruptcy in the 1980s and used the courts to abrogate its labor contracts, fire all its union employees and rehire a nonunion staff at half the wages and benefits. In the early 1990s the company declared bankruptcy again in order to extract further concessions from its workforce.

US Airways CEO David Siegel was an executive at Continental Airlines when it filed for bankruptcy a decade ago. He worked closely with the consortium of banks, led by Credit Suisse Boston, which invested in the bankrupt company and, after major concessions were wrenched from Continental's workers, made back 11 times their investment. The same group of bankers has now invested hundreds of millions in US Airways in hopes of realizing huge profits once again.



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