Second-largest US airline threatens bankruptcy, demands concessions

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19 August 2002

Only three days after US Airways, the country's sixth largest air carrier, filed for Chapter 11 bankruptcy, United Airlines (UAL), the second largest in the US, announced August 14 that it too will file for bankruptcy protection unless it wins huge concessions from its workers.

United's announcement came the day after American Airlines, the world's largest carrier, announced it was laying off 7,000 employees and retiring some of its jets, reducing capacity by about 7 percent. American says this cutback will save the airline $1.1 billion a year. This decision is similar to the moves of other airlines such as Northwest, which is expected to trim its capacity by 13 percent this winter. American's parent company AMR lost $495 million last quarter and $1.76 billion last year. Wall Street analysts strongly approved of American's decision to trim its operations and cuts jobs.

UAL Corp. says it will give its workforce 30 days to come up with contractual give-backs before it decides whether or not to seek protection in federal bankruptcy courts. The Chicago-based company has not spelled out what magnitude of concessions they are looking for from its workers, but claims it is saddled with some of the highest labor costs in the business.

Unions representing United's workers say the company's problem is due to mismanagement, not labor costs. Nevertheless, the International Association of Machinists (IAM)—United's biggest union, representing 35,000 workers—has already given sizeable concessions to help bail out the company. Earlier this year, the IAM allowed the airline to postpone a payment of $500 million owed to workers. The pilots' union had already agreed to a 10 percent pay cut if the other unions also agreed. The union for United's flight attendants, however, has complained that their wages and benefits are already lower than those of other workers throughout the industry.

Announcements from the airlines over the past week have begun to reveal the extent of the industry's financial nosedive. United lost $850 million in the first half of this year and $2.1 billion last year, and its share values have dropped 92 percent since September 11. The company has $2.7 billion in cash reserves that are currently being reduced by about a $1 million a day. It is furthermore obligated to pay $875 million in debts this fall.

United had applied for a $1.8 billion federal loan guarantee from the Air Transportation Stabilization Board (ATSB) in order to obtain a $2 billion private loan. This agency was set up after September 11 in order to administer $10 billion in loans to the airline corporations. The Bush administration has made it clear, however, that such loans are contingent on the airlines carrying out large cuts in jobs and benefits. A United official has stated the airline will not receive any financial assistance from the ATSB unless the company obtains "concessions from all stakeholders."

Interestingly, the most sizeable percentage of stakeholders being asked to sacrifice are the employees themselves, who through public shareholding "own" 55 percent of the company. This so-called worker ownership of the company since 1994 has not only never improved labor-management relations, but has been used as a tool to extract even more give-backs from the workforce in the name of sacrificing for the common interest. Furthermore, the bankruptcy court can destroy employees' equity in stocks as well as end union representation on the managerial board of the company.

Like other carriers, following September 11 United dramatically reduced its flight schedules and laid off

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thousands of employees. However, Wall Street analysts believe that United's contractual agreement with the machinists union is far too generous to the workers. Executives from the other airlines also want United to dramatically reduce the wages and benefits of its employees, to be used as an example to cut their labor costs.

The stabilization board has stated that it is willing to provide US Airways with $900 million in loan guarantees, based on the fact that the company was able to obtain significant concessions from two of its unions. But in order to receive all of the funds, the company must still obtain concessions from its other unions. Indeed, a fundamental purpose of going to bankruptcy court is to provide the legal basis for a company to rip up union contracts. United is clearly following the example of US Airways, using the threat of Chapter 11 bankruptcy in order to obtain huge concessions from its workforce.

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