US bankruptcy judge terminates contract of US Airways workers

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A US bankruptcy judge has voided the contracts covering more than 8,500 mechanics, baggage handlers and other fleet service workers at US Airways, paving the way for the airline to impose pay and benefit cuts ranging from 6 to 35 percent and destroy thousands of jobs.

In a ruling issued January 6, US Bankruptcy Judge Stephen Mitchell also terminated the pensions for more than 53,000 current and retired US Airways workers. This is the first time a bankruptcy judge has terminated contracts of airline workers since 1983, when contracts were ripped up at Continental Airlines.

The company used the bankruptcy court to wrench massive concessions from the workers who have resisted the giveaway contracts already signed by other unions at US Airways. Despite enormous anger at the decision by workers and retirees, the International Association of Machinists and Aerospace Workers (IAM) backed off of a threat to strike and instead promised to present the company's final offer to its members for a vote by January 21. The union also pledged it would prevent any more work actions such as the one during the Christmas holiday in Philadelphia, which caused the cancellation of hundreds of flights and the piling up of tens of thousands of bags.

US Airways said that they would wait until the outcome of the vote, scheduled for January 21, before terminating the contract. Workers will however continue working under a 21 percent pay cut that Mitchell imposed last October.

US Airways is seeking the elimination of 2,000 mechanics, stock clerks, cleaners and other ground personnel, according to a copy of the documents detailing the proposal obtained by the *Pittsburgh Post-Gazette*. Of 848 airplane cleaners, 798 would lose their jobs, while the remaining 50 cleaners would have their pay cut by 15 percent. The number of mechanics would be cut from almost 3,000 to 1,800 and suffer an 8 percent pay cut. Stock clerks would be cut from 400 to 268 and their pay cut 15 percent.

US Airways management says the job and pay cuts would save the airline $268 million a year, which doesn't count savings from cutting pensions and retirees' health care that the company is planning. The company had been seeking more than $350 million in concessions including the ability to wipe out more than 4,000 jobs through contracting out the maintenance and cleaning done on its aircraft.

According to the airline's January 6 press release, the offer will allow the company to contract out the maintenance of its wide-body planes and "other work to be specified," including some Boeing 737 inspection activity. In addition, the company will cut wages by more than 10 percent.

Judge Mitchell, in issuing the order, repeated the company's threat to shut down operations if it did not receive massive concessions. "Which is worse, that half of the mechanics lose their jobs or all of the mechanics lose their jobs?," he smugly lectured the workers.

The IAM is the last of the six major unions at US Airways to reach a new concessions contract. US Airways, the nation's seventh-largest carrier, filed for bankruptcy last September, the second time in two years. It is seeking more than $950 million in concessions from workers, on top of the nearly $2 billion that were given in 2002.

On Wednesday, negotiators for the Association of Flight Attendants announced they had reached a deal with the airline, which cut pay by 9 percent immediately with only 1 and 2 percent pay raises starting in 2007, or the second year of the six-year deal.

This is the third time in just over two years that workers at US Airways have taken concessions. Flight attendants have already given up more than a third of their pay. For example, a flight attendant with 22 years of service who was making $47,000 five years ago is only making $32,000 today.

In addition to terminating the contract, Judge Mitchell also terminated three pension plans covering 53,000 current and retired workers saving the airline roughly $1 billion over the next three years. According to the Pension Benefit Guarantee Corporation or PBGC, the three plans being terminated cover 12,643 flight attendants, 11,336 IAM members and 20,676 mostly nonunion employees.

The PBGC, the corporation set up by the government to insure pension plans much the same way the Federal Deposit Insurance Corporation insures bank accounts, pays about 80 percent of the pension up to a certain amount. However, the PBGC does not pay any of the supplemental payments often added to pensions as a means of enticing workers to take early retirement. In addition, the PBGC does not insure medical or other benefits for retirees.

The PBGC is itself facing insolvency. Following the large number of bankruptcies in the steel and other industries over the past several years, the PBGC has gone from a more than $8 billion surplus in 2001, to a $23.5 billion deficit. US Airways pensions will give it another $2.5 billion in unfunded liabilities.

Judge Mitchell has appointed a group to represent retired workers. They are currently negotiating cuts in health care and other benefits for the retirees with US Airways. The flight attendants' retirement plan is underfunded by $861.1 million, the IAM plan by $949.8 million, and the nonunion employees' plan by $758.7 million.

In addition, United Airlines, which has been in Chapter 11 bankruptcy for two years, is also seeking to terminate its pension plans. The pension plan for pilots alone is underfunded by $2.9 billion, and that amount is expected to grow by another $140 million in the next few months.

Last week, in a separate court action, the bankruptcy judge overseeing United Airlines' bankruptcy voided a concessions contract negotiated between that company and the Air Line Pilots Association for more than $180 million in concessions saying the contract would have frozen the company's hand in dealing with its other unions. In addition, the judge ordered a pay cut of 11.5 percent for its baggage handlers and other workers.

United is seeking an additional $725 million in concessions from its workers on top of the $2.5 billion in pay cuts and concessions granted in 2002 and 2003. The IAM has already agreed to concessions and over the next 90 days will negotiate with United over the future of its pension plan.

The airline industry continues to suffer massive loses despite the Bush administration's claims of economic recovery. Record high fuel costs and competition from a growing number of low-cost carriers continue to devour revenues. In total, the airline industry is on pace to lose more than $5.5 billion in 2004. Of the top 10 airlines, only low-cost Southwest Airlines will show a profit for 2004.

This year expects to see continued loses in the airline industry. Despite the recent drop in crude oil, fuel costs will continue to rise as most airlines were forced to sell their long-term fuel contracts to raise cash and will now have to pay current prices for most of their fuel needs.

Industry analysts expect the airlines to wipe out another 25,000 jobs in 2005 and to continue to press for major concessions from their unions.

Last week, in a move to raise cash, Delta Airlines announced a cost restructuring that slashes some ticket prices in half and removes many restrictions on low-fare tickets such as a Saturday stayover. American, Northwest and Continental, along with United and US Airways, have had to slash prices to match Delta's. This will dig deep into revenues.

Delta, the nation's number-three carrier has been threatening bankruptcy since October. Since 2001, the airline has lost more than $6 billion. In October, negotiators for Delta's pilots union agreed to a five-year 32.5 percent pay cut and wage freeze for its members.

Continental, the fifth-largest airline, told its investors last week that it must obtain $500 million in wage and benefit concessions by February 28 or face a liquidity crisis that would result in layoffs and downsizing.

This latest brutal attack on airline workers can be placed within the context of the salaries and golden parachutes allotted former executives. US Airways Chief Executive David Siegel joined US Airways in March 2002 at a salary of $750,000. When the company filed for bankruptcy in August of 2003, he agreed to cut his salary by 20 percent, to $600,000. But by then he had already also received his signing bonus of $750,000. In April, David Siegel, whose $9 million dollar annual salary and stock compensation package earned him the well-deserved contempt of US Airways employees, resigned. He collected a $4.5 million severance payment.

The severance deals for other US Airways' top managers were similar and passed out despite outrage over the February 2003 disclosure of the $35 million paid to three top former executives in 2002—within months of US Airways' first bankruptcy filing and after the unions had given up $1.02 billion in wages and benefits.

Stephen Wolf, former chairman, received $15 million in March 2002. Rakesh Gangwal got $15 million after quitting as CEO in November 2001. And Lawrence Nagin, who retired as executive vice president in March 2002, received $5 million.

The bankruptcy court approved the multimillion-dollar compensation package for the company's new CEO, Bruce Lakefield. It includes a $425,000 annual salary, 760,000 shares of stock and a severance agreement that provides him the equivalent of three years' base salary and bonuses if the company is sold and he loses his job.