American Airlines files for bankruptcy protection

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AMR Corporation, parent company of American Airlines (AA), filed for bankruptcy protection on Tuesday morning. Fort Worth, Texas-based American, with about 78,000 employees, is the last major legacy air carrier to seek protection under Chapter 11 bankruptcy.

As with the other airlines that have filed for bankruptcy over the past decade, the immediate motive is to utilize the courts to rip up existing labor contracts and impose deep attacks on workers' jobs and conditions. Passenger service can also be expected to deteriorate as routes are cut and the remaining workforce is forced to do more for less pay.

"Our board decided that it was necessary to take this step now to restore the company's profitability, operating flexibility and financial strength," stated Thomas W. Horton, who was named the company's chairman and chief executive on Tuesday, replacing Gerald Arpey, who is retiring.

Horton made clear that American aims to target workers' wages and benefits in the process. "Achieving the competitive cost structure we need remains a key imperative in this process," he said in a statement, "and as one part of that, we plan to initiate further negotiations with all of our unions to reduce our labor costs to competitive levels."

Talks between the airline and its unions stalled earlier this month after the pilots' union failed to send a company proposal to its membership for a vote. Under federal bankruptcy rules, courts can allow companies to renege on contracts and pension obligations, and this will undoubtedly now take place.

American Airlines has steadily lost pace with the other major airlines, which have already imposed drastic concessions on their workforces through bankruptcy. Parent company AMR reported losing $471 million on about $22 billion in revenues in 2010, following a nearly $1.5 billion loss in 2009 and a $2.1 billion loss in 2008.

As speculation grew of an impending bankruptcy at American, the price of AMR shares plunged from $7.92 at the beginning of the year to $1.61 on November 23 as investors fled. AMR reported $24.7 billion in assets and $29.6 billion in debt as of September 30. The company is also sitting on about $4.1 billion in cash and short-term investments that the courts could order be tapped to pay vendors and suppliers.

In an effort to trim future fuel costs, American earlier this year announced a $38 billion order for 460 new single-aisle planes from Airbus and Boeing to replace some of its aging fleet of 600, which average 15 years old. The airline hopes to save 15 to 35 percent on its fuel bills with the purchase of the aircraft.

Andrew Thomas, author of *Soft Landing: Airline Industry Strategy, Service, and Safety*, told *USA Today*, "When the lawyers, judges, politicians and lobbyists get done with it, AA will likely be a very different airline, especially regarding markets served—or not served." The airline is expected to cut back on service due to low-cost competitors in Los Angeles and in Chicago, where United Airlines is based. With the cutbacks in service will come job losses.

Thomas predicts that quality of service will decline as older, higher-paid workers are replaced with lower-paid workers "whose levels of service and quality are often inferior" due to abysmal working conditions. Workers' pensions, among the more generous in the industry following bankruptcies at the other major carriers, will inevitably be targeted.

Over the estimated 18 months it will take to complete the airline's reorganization under bankruptcy, the jobs, benefits and pensions of American's workforce will be on the chopping block. The unions representing the airline's workers—which already accepted unprecedented concessions in 2003—can be counted on to offer up even more.

Capt. Dave Bates, president of the Allied Pilots Association, which represents 8,000 pilots at American, commented that he anticipated "significant changes" to the union's contract as a result of the bankruptcy filing.

The American Professional Flight Attendants (APFA) union represents about 17,000 flight attendants at American. APFA President Laura Glading told *USA Today* that workers had already "sacrificed greatly" to reduce labor costs, but that the union was anxious to participate in the bankruptcy process. "We absolutely want to be at the table and help steer the discussion," she said. "We see a path forward and we're going to be part of that path forward."

The bankruptcy filing at American Airlines follows filings in recent years at the other "legacy" carriers, the major airlines in existence since industry deregulation in 1978. In the wake of the 9/11 terror attacks, airlines saw a decline in air travel and a rise in fuel and security costs, increasing competition among the carriers, which have continued to raise ticket prices while cutting services. United, Delta and US Airways filed for Chapter 11 over the last decade. Delta also merged with Northwest, while United paired up with Continental.

In each case, reorganization through bankruptcy has been achieved on the backs of the workers, while the airlines have protected and boosted their profits and executives have negotiated golden parachutes.

In January 2005, a federal bankruptcy judge voided the contracts covering more than 8,500 mechanics, baggage handlers and other fleet workers at US Airways, paving the way for thousands of job cuts and the imposition of pay and benefits cuts ranging from 6 to 35 percent. The judge also terminated the pensions of more than 53,000 US Airways workers and retirees.

In May of that same year, a federal bankruptcy judge ruled that United Airlines could default on pension obligations to its 122,000 workers and retirees, handing over control of its pension funds to the Pension Benefit Guaranty Corporation, a federal agency already swamped by corporate pension defaults. Some of the highest paid United workers, such as pilots, saw their pensions slashed by as much as 50 percent.

Following the bankruptcy filings at Northwest and Delta in 2005, retiring Delta CEO Leo Mullin was given 22 years of instant seniority (despite working for Delta for only five and a half years) and received a $16 million retirement package. Former Delta CEO Ronald Allen's exit package included a $4.5 million cash severance payment and a $765,000-a-year pension. When CEO Richard Anderson left Northwest in 2004 he was awarded a lump-sum pension payment of $3,028,700.

While corporations continue to work the bankruptcy system to their advantage, individual Americans and their families overwhelmed by debts as a result of unemployment, foreclosure, credit card debt and soaring medical bills are not so fortunate. In April 2005, President George W. Bush signed legislation effecting a massive restructuring of federal bankruptcy laws.

The bill made it much more difficult for middle-income debtors to file for bankruptcy under Chapter 7, which provides for liquidation of most debts, and has forced more people to file under Chapter 13, which requires significant repayments to debtors. The legislation resulted in annual increased payouts of as much as $1 billion to banks, credit card issuers and other creditors.