



## *Association of Professional Flight Attendants*

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*Proudly Representing the **Flight Attendants** of American Airlines*

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Office of the President

26 February 2013

### **Testimony to US House Committee on the Judiciary Subcommittee on Regulatory Reform, Commercial, and Antitrust Law**

### **“Competition and Bankruptcy in the Airline Industry: The Proposed Merger of American Airlines and US Airways”**

#### **Introduction**

Chairman Bachus, Ranking Member Cohen, and Members of the Subcommittee,

Thank you for allowing me the opportunity to submit the following statement. I appreciate your interest in the merger of my employer, American Airlines, and its competitor, US Airways. I hope my testimony can help address some of the areas of concern that may remain following the merger announcement on February 14. As the president of the Association of Professional Flight Attendants, serving in my second four-year term, and as an active member of the Unsecured Creditors’ Committee in American Airlines’ bankruptcy proceedings, I believe I can offer unique and valuable insight into the nature of this merger and why it is so vitally important that it be allowed to proceed without interference.

I understand the charge of this subcommittee and the purpose of this hearing. Ensuring the competitiveness of this country’s various industries is a critical role our government plays. I am confident that, following this subcommittee’s thorough assessment, the legality of this merger will be made clear. Since its inception, the plan has had the full support of the APFA not only because it protects workers’ wages, benefits, work rules, and job security, but because it is the only plan that allows American to compete and succeed. The more than 16,000 flight attendants of APFA support the merger, and we are joined by our colleagues at the Allied Pilots Association, Transport Workers Union, and major workgroups at US Airways as well.

#### **AMR Chapter 11 Bankruptcy**

In the months and years leading up to American’s bankruptcy filing, APFA had been in protracted contract negotiations with company management. American was losing billions of dollars annually. The business plan management presented in bankruptcy called for a lower cost structure in order to generate profits. Having voluntarily given back 30 percent of wages and benefits at the height of the industry’s recession in 2003, APFA membership could not sustain another concessionary agreement. The APA and TWU faced similar situations. These were the onerous conditions under which American’s parent company, AMR Corp., finally filed for Chapter 11 Bankruptcy protection on November 29, 2011.

A critical part of American’s restructuring plan was lowering its labor costs through Section 1113 of the Bankruptcy Code. Pursuant to that statute, the debtor has the right to petition the court for permission to

reject existing labor agreements and impose new contracts. Facing a strong likelihood of that permission being granted, APFA began negotiating against the company's "term sheet" which called for over 2,000 flight attendant furloughs, a 20 percent cut to wages and benefits across the board, the termination of our pension plan, and significant changes to our contract's work rules. American's creditors – including APFA, APA, TWU, the Pension Benefit Guaranty Corporation, Boeing, Hewlett-Packard, and three major bondholders – were told that with the proposed concessions from organized labor and some other debt restructuring, American would be able to emerge from bankruptcy with a leaner operations budget and be able to succeed as a standalone company.

### **US Airways' Plan**

It was during Section 1113 negotiations that I was approached by members of the US Airways senior management team with an alternative plan to American's standalone vision. Their plan called for a merger of the two operations. As Doug Parker, Scott Kirby, and other US Airways executives explained at the time, the combined company creates a much more robust route network with minimal overlap. The synergies created by the merger, as well as the improved ability to compete with other recently-merged legacy carriers, would allow the new American Airlines to compensate its employees at a rate consistent with our professional colleagues at United and Delta and avoid all job losses in our workgroup.

The choice was clear. Notwithstanding lower operating costs, American's standalone plan left it at a competitive disadvantage. It would have neither the network nor product to attract the business travelers and frequent flyers it had lost to competitors over the previous decade. The merger plan, on the other hand, would do exactly that. The new American Airlines will offer business and leisure travelers a strong third option for traveling the United States and the globe. The new route structure allows our company to feed our major international hubs from more small and mid-sized markets, giving consumers more options and access to more destinations.

### **Pension Benefit Guaranty Corporation**

Throughout our company's bankruptcy and while we pursued the US Airways plan in particular, the employees at American Airlines had a strong ally in the federal government. The Pension Benefit Guaranty Corporation, under the strong and visionary leadership of Director Josh Gotbaum, fought to protect American's workers and America's taxpayers. As a member of the unsecured creditors' committee, the PBGC worked alongside American's labor unions to ensure that the company's costly pension liabilities would not become the government's burden. Furthermore, the PBGC staff understood that the merger would provide long-term stability to employees' jobs, compensation, and benefits and were instrumental in bringing that plan to fruition. The APFA is extremely grateful for their commitment and perseverance.

The APFA wants American Airlines to thrive. That is why we ask that you, the Members of the Subcommittee, join us in supporting this merger plan.

Respectfully submitted,

Laura R. Glading  
President, APFA