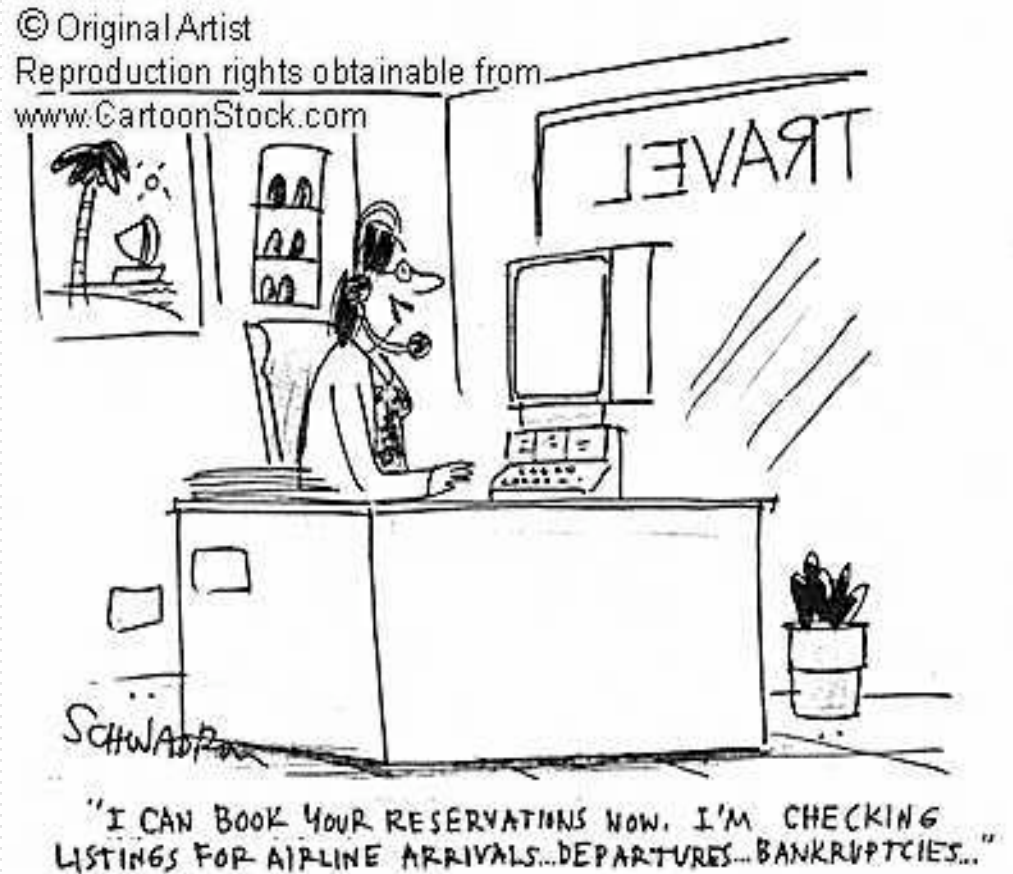


Northwest Airline Strike

- Mike Berg
- Tyler Patterson
- Hui Xiong



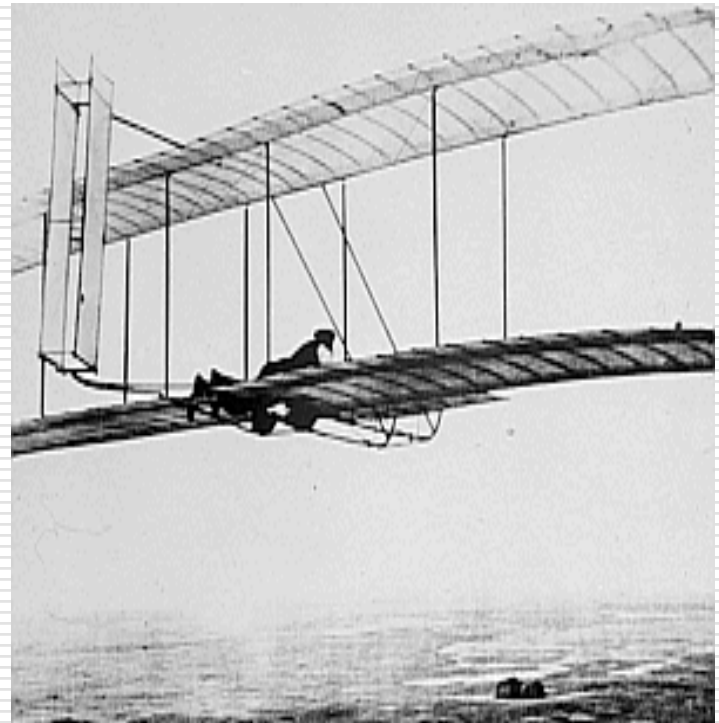
Outline

- History & Regulation of the Airline Industry
- Bankruptcy
- Northwest Mechanics on Strike



Airline Industry History

- ❑ Wright Brothers – 1903
- ❑ Kelly Airmail Acts – 1925, 1928, 1930
- ❑ Charles Lindberg – 1927
- ❑ Civil Aeronautics Authority – 1938, 1940
- ❑ Federal Aviation Act – 1958
- ❑ Airline Deregulation Act - 1978



Technological Developments

- ❑ DC-3 (1938)
- ❑ Boeing 707 (1958)



Regulation

□ Advantages

- Industry in need of protection
- Viewed as public utility
- Customer service

□ Disadvantages

- Inefficient industry
- Higher prices
- Passengers lack choice



Deregulation Arrives

- Remaining regulations
 - Safety standards
 - Air traffic control
 - Freedom for airlines
 - Set fares
 - Mergers
 - Remove entry and exit restrictions
 - Allows carriers to expand
 - Allows carriers to restructure & rationalize their route structure
 - Hub and Spoke Design
-

Hub and Spoke

□ Advantages

- Economies of scale
- Lower network implementation costs
- Consolidated management

□ Disadvantages

- Large fixed cost
 - Longer time spent in transit for passengers
-

Deregulation Outcomes....

- ❑ Competition from Europe
- ❑ Northwest joins SkyTeam – April '05
 - More flights
 - More destinations
 - More countries
 - Single check-in
 - More lounges/clubs
 - Quality standards



Why is Northwest Airlines in bankruptcy?

- ❑ Labor costs
- ❑ Pension plan mismanagement - defined benefit vs. defined contribution
- ❑ September 11, 2001
- ❑ Iraq War
- ❑ Competition
- ❑ Other ideas?



Introduction of Bankruptcy

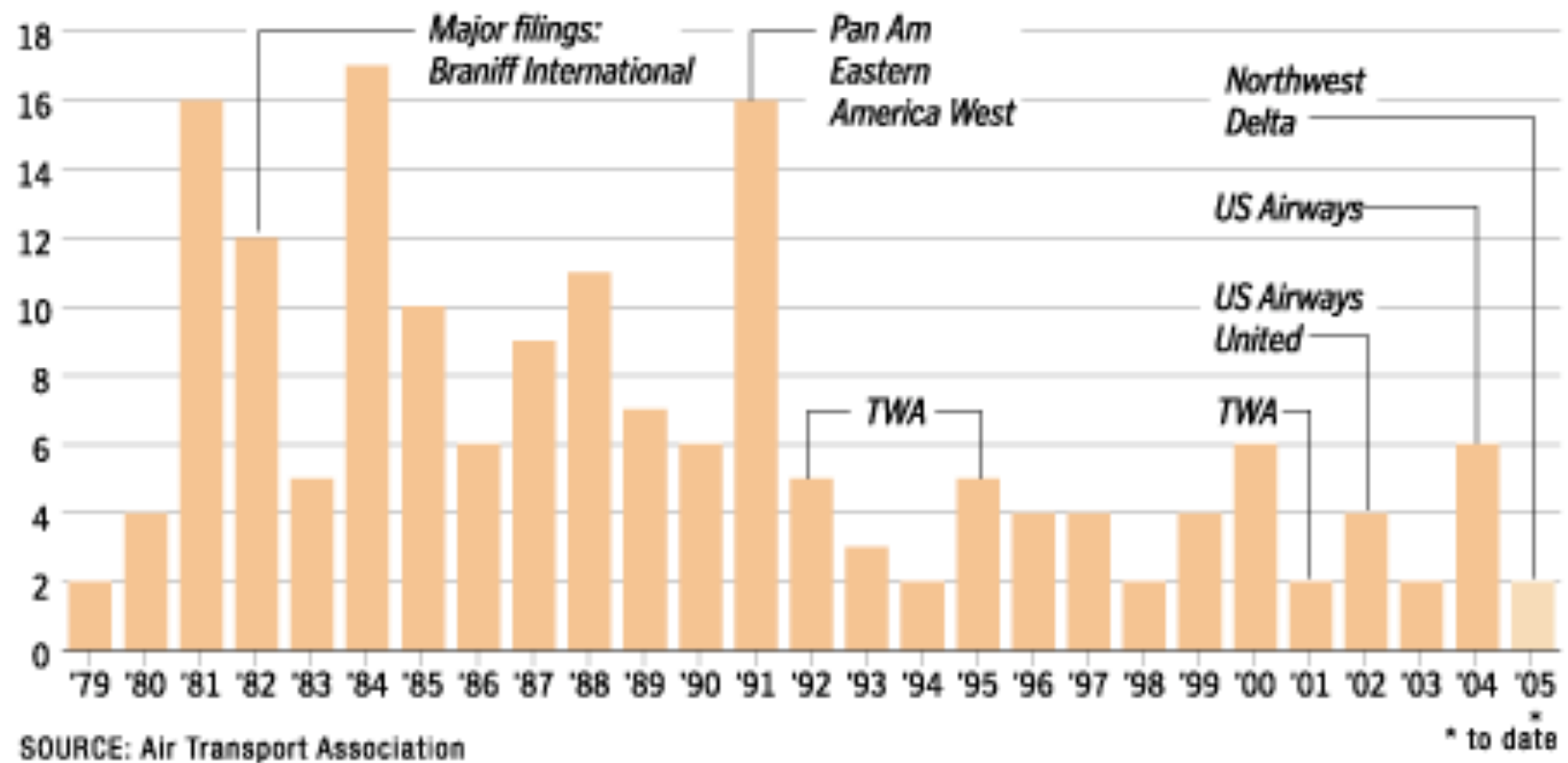
- Bankruptcy is a legally declared inability or impairment of ability of an individual or organization to pay their creditors.
 - Primary Purposes
 - To give an honest debtor a "fresh start" in life by relieving the debtor of most debts
 - To repay creditors in an orderly manner to the extent that the debtor has property available for payment
 - Types of bankruptcy
 - Chapter 7 Liquidation
 - Chapter 9 Municipality
 - Chapter 11 Business Reorganization
 - Chapter 12 Family Farmer
 - Chapter 13 Individual Reorganization
 - Chapter 15 Ancillary and Other Cross-Border Cases
-

Chapter 11

- ❑ Typically used for business bankruptcies and restructuring, not commonly used by individual consumers since it is far more complex and expensive to pursue.
 - ❑ Allows businesses to reorganize themselves, giving them an opportunity to restructure and get out from debt under certain burdensome leases and contracts.
 - ❑ Allows businesses to continue to operate under the supervision of the Bankruptcy Court and its appointees.
 - ❑ Since airline deregulation in 1978, more than 160 U.S. airlines filed for Chapter 11.
-

Flying Frequently . . . to Bankruptcy

Approximate number of airline bankruptcies per year



Since airline deregulation in 1978, more than 100 carriers have filed for bankruptcy protection.

Several, including US Airways, have reorganized more than once.

THE WASHINGTON POST

Northwest Airlines Filed For Bankruptcy Protection on September 14, 2005

- ❑ Huge payments to its pension funds over the coming years
 - ❑ continuing price spikes in jet fuel
 - ❑ An inability to win wage concessions from its unions
 - ❑ Fierce airline competition
 - ❑ The **Bankruptcy Abuse Prevention and Consumer Protection Act of 2005** was passed and signed into law by President George W. Bush on April 20, becoming Public Law 109-8. Most provisions already took effect on October 17, 2005.
-

Airline Industry Bankruptcies

- According to the GAO (Government Accountability Office), the defined benefit pension plans of the remaining legacy airlines with active plans are underfunded by about \$13.7 billion. Under current law, these airlines face an estimated minimum of \$10.4 billion in pension contributions over the next four years.
 - In 2000, the average 1,000 mile domestic fare was \$146. In 2004, it's \$121.
-

Impacts of Airlines Bankruptcies on Their Creditors and Employees

- After filing for Chapter 11, airlines can
 - Cancel commercial contracts
 - Cancel employees' union contracts
 - Renege on promises to pay pensions
 - Employees might
 - Have to accept a pay cut
 - Be laid off
 - Creditors will
 - Only get back a small proportion of their credits
 - Get bankrupted
-

Northwest Airlines Has No Choices, Except Hiding Out in Bankruptcy Court?

- ❑ Northwest had more than \$1 billion in cash when it filed the paperwork
 - ❑ PBGC (Pension Benefit Guaranty Corporation) estimates that Northwest is nearly \$6 billion short of meeting its eventual pension obligations
 - ❑ Some titles of recent news (source: Minnesota Public Radio)
 - Northwest Airlines pension relief stalled in Congressional impasse (October 19, 2005)
 - Northwest Airlines asks that labor contracts be rejected (October, 12, 2005)
 - Another 2,600 flight attendant jobs could go (September 30, 2005)
 - Northwest to lay off up to 1,400 flight attendants (September 21, 2005)
 - Northwest retirees worried about their pensions (September 15, 2005)
-

The Strike

How we got here...

and the effects: Safety & Efficiency

Why did this happen?

Money

- Northwest sought to reduce labor costs by \$176M

Money

- Union offers \$176M in cost reductions

Money

- NWA says AMFA offer is only worth \$100M
-



AIRCRAFT MECHANICS FRATERNAL ASSOCIATION

Administration Office: 67 Water Street, Suite 208A • Laconia, NH 03246

Tel.: 603 527-9212 • Fax: 603 527-9151

AMFA at NWA Strike Update – Day 2

Today is Sunday August 21, 2005 at 7:30 PM CDT. This is day 2 of the Mechanics, Cleaners, and Custodians strike at Northwest Airlines. The number of cancelled flights since the strike began is 99.

THE NUMBER OF OUR MEMBERS WHO HAVE CROSSED THE PICKET LINE IS ZERO

Northwest is reporting that flight operations are normal. We all know this is NWA deception intended to break our spirit and mislead the public. We are working with the press to get the truth out. The MEL count is above 700. It's a matter of time before NWA has to publicly admit that the contingency plan has big holes in it.

Picket lines are up around the country and we are receiving reports of solid support from passengers and other union members from around the site. We are receiving support from other unions and



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AMFA at NWA Strike Update – Day 58 & 59

Today is Monday, October 17, 2005 at 5:00 PM CDT. This is day 59 of the Mechanics, Cleaners, and Custodians strike at Northwest Airlines.

Approximately 50 of our members have been confirmed as scabs and are helping NWA to destroy the lives of their long time loyal employees

Our negotiating committee is waiting to receive the final full text of the current proposal for the members to review prior to voting. The voter eligibility list is being put together in preparation for the vote. If you have recently changed your mailing address please contact AMFA national at 603-527-9212 to make sure we have the most current address.

Nothing has changed related to our strike as a result of the voting process. Our strike will continue and all members are to report to their strike related duties while the membership votes. Details of how the

Safety

- NWA: "Safety is our first priority."
 - But how safe is it really?
 - Outsourced labor
 - Lapses in safety
 - Dead bird goes unnoticed
 - The all-night brake job
 - Increased FAA Scrutiny
-

Efficiency

- ❑ NWA says its on-time numbers have not been affected
 - ❑ AMFA says on-time numbers have been affected
 - ❑ Who is right?
 - The numbers aren't talking...yet
 - Anecdotal evidence: "It isn't that bad"
-

What it means

- “People aren’t afraid to fly on Northwest. They trust the FAA, and even more, the pilots” – John Reinan, Star Tribune Staff Writer
-

Questions

- ❑ What is the role of government in the airline industry?
 - ❑ What are the role of unions?
 - ❑ Is it important for the US to have its own airlines?
 - What responsibility, if any, do the airlines have to underserved areas?
 - What is the financial responsibility, if any, of the government to the airlines?
-

The Big Question

- What are you going to do about this?
 - As an Engineer?
 - As a Planner?
 - As an Engineering Professor?
-