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American Airlines Seeks 13,000 Job Cuts

By JAD MOUAWAD

American Airlines laid out for the first time on Wednesday what it will expect its employees to give up in its restructuring process — and the proposal was far worse than they feared.

The airline, which filed for bankruptcy in November, said it wanted to get rid of 13,000 workers, or 16 percent of its work force. It plans to terminate its pension plans. It wants to cut back health benefits for current employees and retirees. Over all, it said, it seeks to cut employee costs by 20 percent.

The **proposals** are just the opening move in what are expected to be long and contentious negotiations. A bankruptcy judge must approve any new contract if the unions reject American's proposals. But judging from previous airline bankruptcies, American might get much of what it is seeking.

Union representatives said they were stunned after meeting throughout the day with airline executives at the carrier's headquarters in Fort Worth.

American estimated that its proposal would reduce overall costs by \$2 billion a year, \$1.25 billion of which would come from employees. In justifying the move, the company's new chairman, Tom Horton, said in a letter to the employees that the carrier had lost its competitive edge over the years. "The world has changed around us and this is our moment to adapt or lose the opportunity forever," he said. "Our industry is now defined by the changes our competitors made in restructuring to secure their futures,

and the landscape is littered with those airlines that failed to change.”

But union representatives made clear, after hearing the airline’s proposal, that it was asking for too much and they intended to fight the company’s proposal.

“They have taken every provision of our contract and simply ripped them out,” Laura Glading, the president of the Association of Professional Flight Attendants, said in an interview. “It’s outrageous. This isn’t something we will agree to and we will fight it.”

Labor costs at American are the highest among the major domestic airlines created before industry deregulation in 1978, accounting for about 30 percent of American’s overall costs. That compares with 21 percent for Delta Air Lines and United Continental Holdings, said Vicki Bryan, an analyst at Gimme Credit. American contended that it faced a cost disadvantage of roughly \$800 million a year.

William S. Swelbar, a research engineer at the International Center for Air Transportation at the Massachusetts Institute of Technology, said that while the company’s proposal was harsh, it was consistent with what other airlines had done in previous bankruptcies.

“This is going to be a tough sell, but they are negotiating with a hammer,” he said.

American says it believes it can cut its work force without hampering its operations, arguing that the current work rules stifle its ability to operate some flights, modernize the fleet or make alliances. Jeff Brundage, American’s senior vice president of human resources, said the carrier sought to introduce more flexible work rules, which might force pilots and flight attendants to fly more every month for the same pay. It also intends to shut down its Alliance Airport maintenance operation in Fort Worth and outsource a portion of its aircraft maintenance work, as other airlines have done.

The company, which has about 80,000 employees, said it wanted to cut 4,600 mechanics’ jobs (many in the Fort Worth maintenance operation), 4,200 ground service positions, 2,300 flight attendants and 400 pilots. Another 1,400 jobs would be cut in management and support services. The airline wants to cut more positions for gate agents, service representatives and airline planners, though no specific

numbers were given.

Mr. Horton said the company's restructuring plan also included efforts to increase revenue by \$1 billion a year through partnerships and more efficient use of its planes. The company is also planning significant investments in new planes and cabins, which Mr. Horton said would attract more premium travelers. "There is a lot of gold to be mined here," Mr. Horton said in a conference call with reporters.

Union officials, though, quickly challenged the airline's figures, saying that the company was playing down the true extent of the concessions it was seeking from its workers. These vastly exceeded what the airline had sought in the past from its employees. Ms. Glading estimated that the proposals would result in an 18 percent pay cut for flight attendants, [coupled with longer working hours](#). She calculated that the employees would give back \$2.8 billion annually — \$1.55 billion more than American's own estimates.

James C. Little, president of the [Transport Workers Union](#), which represents 26,000 ground workers at American, said that the morning meeting with airline executives was tense. "It was somber," he said. "No one knew what to expect."

High costs are not the only problem American faces. The airline, once the top domestic and international carrier in the nation, missed out on the megamergers that reshaped the industry in recent years. It is now competing against much bigger rivals in United, which merged with Continental Airlines, and Delta, which bought Northwest. It has also been losing ground at some of its hubs, particularly New York and Chicago. As a result, the company's revenue has also lagged.

In December alone, its losses amounted to \$904 million, the company reported Tuesday. To keep passengers from deserting, American has been forced to cut fares and offer more discounts than its rivals, analysts said.

American was the last major domestic airline to seek bankruptcy court protection to reduce its costs. Over the last decade, the other top airlines have used bankruptcy proceedings to renegotiate labor

contracts, freeze or terminate pensions and slash debt they could no longer afford.

The company has long stood out for its refusal to follow that path. Instead, in 2003, it got its employees to agree to annual cuts in wages and benefits amounting to \$1.8 billion. But the strategy failed. Other airlines emerged from bankruptcy with leaner operations. Mergers created larger rivals. Profits eventually returned to the industry while at American, losses have totaled \$12 billion since 2001.

In recent years, American has unsuccessfully sought new contracts with its pilots, flight attendants and mechanics. The latest proposal was rejected by American's pilots two weeks before the company filed for bankruptcy in November.

Hunter Key, an aviation analyst at Wolfe Trahan & Company, said that one of American's biggest problems was the lack of a viable network to attract business travelers. "Their reach across the Atlantic is less deep, and their Asian market lags far behind Delta and United," he said.

"This is blood on the street for employees," said Ms. Bryan of Gimme Credit. "It is very painful. But the main part of their problem is the top-line growth, and I don't see how they fix that. They are still playing football with a leather helmet against Delta and United."

This article has been revised to reflect the following correction:

Correction: February 1, 2012

An earlier version of this article incorrectly said that American Airlines was seeking a 20 percent cut in salaries and benefits. It is seeking a 20 percent cut in total employee costs. It also rendered one word incorrectly in a quotation from Vicki Bryan, an analyst at Gimme Credit. She said, "They are still playing football with a leather helmet against Delta and United," not "a little helmet."



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