

## Speech by Duane E. Woerth

### At the International Aviation Club

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Thank you for inviting me. The International Aviation Club provides an important opportunity for industry participants and government policy makers to exchange points of view.

Speakers at luncheons like this, need at the outset to make fundamental choices. Before you even attempt to focus your remarks, you need to decide first if you want to:

- A. Simply repeat numerous well known public positions of your institution and, therefore, take minimum personal business or political risks, or
- B. Pick the issue du jour or your favorite political ax and grind away on that, or
- C. Which is actually only a variation of choice B – use the opportunity to vent your frustration over your issue du jour and suggest aggressive governmental action that may or may not be plausible but it at least allows the speaker to vent publicly in front of an august body which is much more satisfying than simply beating up your own staff in your office or board room.

For example, at these luncheons over my eleven years in Washington, I have watched CEOs of British Airways long list of U.S. partners first plead for the U.S. to cave in to British demands; and then, after being jilted, vent their understandable frustrations. Some have even called for the renunciation of the U.K. bilateral to punish their promiscuous former partners.

Actually, these CEOs have nothing to be ashamed of. In fact, their frustrations have been shared by very distinguished company. While I was reading David McCullough's biography of John Adams, I stumbled across a very revealing section of the book that may hold historical significance for all of us gathered here today.

As you remember, John Adams was the principal negotiator of the Treaty of Paris that concluded the American Revolutionary War. Following that, he became the first real American Ambassador to Great Britain while Thomas Jefferson served as Ambassador to France.

Adams, in one of his many letters to Jefferson, vented his frustrations over negotiating with the British. He was convinced, after meeting with British Prime Minister William Pitt, that in direct violation of the Treaty of Paris, the British would never willingly give up their "forts." He went on to say that when he talked of "commercial reciprocity," the British thought him naïve.

Like Jefferson, Adams believed in free trade, but when faced with British intransigence, he began losing hope of ever reaching a trade agreement with the British and cautioned Jefferson, "we must not, my friend, be bubbles of our own liberal sentiments."

At any rate – back to the present.

So which choice did I make for today's luncheon? Did I choose to play it safe? Grind away on my favorite ax or simply vent a little? The answer is either all of the above or none of the above, and only you will be the fair judge of that.

But I do think it's important as the president of the largest pilot union in the world, also as a member of

the AFL-CIO Executive Council and Vice President of the AFL's Transportation Trades Department, to try to put ALPA's views in a context to which, hopefully, most of you can relate.

That context is shareholder value. For at the end of the day, as a union president I, along with my fellow officers and staff, shall fairly be judged on how we raised, protected or lowered our shareholders value.

If one over-simplified but largely valid measure of executive success is the number of shares outstanding multiplied by the stock price, then an equally over-simplified but valid measure of a union president could be the number of jobs multiplied by contract value.

One of my goals today is to take any mystery out of ALPA's analysis of aviation policy proposals, whether domestic or international. Aviation policy to us is not an academic exercise, it is not a morality play – it's business – big business – gigantic business – the principal driver of the world's largest business which is, of course, travel and tourism.

We make a business judgement, do a risk/reward analysis of a proposal and run it through our litmus test of the probability of raising or lowering our shareholders value, i.e. the number of jobs multiplied by contract value. Over time, this type of business analysis has caused ALPA to change its position on crucial aviation policy matters.

For example, ALPA was a fervent and vocal critic of the United States Open Skies Initiative at the beginning of the 1990s. We criticized the Open Skies agreement with the Netherlands for abandoning the "balance of benefits" principle that was the basis for most bilaterals since the Chicago Convention. Furthermore, we predicted that the policy of encirclement would fail. We were wrong. With the notable exception of the United Kingdom, it has succeeded.

We continued to analyze the industry as it evolved into an alliance-based strategy and by the mid-1990s ALPA openly supported the principles outlined by Secretary Pena in his Open Skies policy.

Understanding how and why this change of position took place and the conditions still attached to ALPA's endorsement of Open Skies may prove useful to those trying to predict ALPA's reaction to future policy proposals.

So, why did ALPA change its mind on Open Skies? Because our analysis of business opportunities (i.e. quality job growth) through alliance strategies for ALPA's major network carriers indicated that the risk/reward criteria could be successfully managed through collective bargaining with these carriers.

We believed that the NWA/KLM job growth model could be repeated and executed at other carriers like United and Delta.

Bottom line -- because the Open Skies policy of the mid-90s excluded cabotage as well as Seventh Freedoms as principles of the policy, job risk could be managed through the Railway Labor Act to reap financial rewards for pilots – pilot shareholder value would likely rise.

Who convinced whom? Did then ALPA president Babbitt and I, who was then First Vice President in charge of developing and implementing an ALPA global pilot strategy, cram this idea down our members' throats? No way, Jose!

Airline managements convinced their local ALPA leadership, after much number crunching, economic model testing and, most important, negotiating for job security to minimize downscale job risk for pilots – in other words – not until a significant majority of ALPA members had "buy in" to their specific airlines' business plan which included international alliances with anti-trust immunity which could only be obtained through open skies agreements – did ALPA change its position. This part cannot be overstated.

If this were a college class, Professor Woerth would announce that this is a "foot stomper" clue – this question will appear on your final exam – what is the key to ALPA's aviation policy? Achieve a majority of ALPA members' "buy-in" to their airline business plans that, we believe, will increase pilot shareholders value. In our case, shareholder value is jobs times contract value.

At Secretary Slater's Chicago Conference in December of 1999 when the Trans Atlantic Common Aviation Areas was the issue du jour, against a backdrop of multi-lateralism, I said then and I'll say it again, ALPA does not object to multi-lateralism.

However, if elements or principles that are not a part of the Open Skies policy of the mid-1990s are added to a multi-lateral or bilateral deal, we would be opposed.

First of all and very frankly, cabotage, foreign ownership and Seventh Freedoms produce all risk and no reward scenarios for us. And most importantly, unlike the present Open Skies model, where virtually every airline management worked with our local ALPA leadership to support their specific airline business plans, to my knowledge, not one of those local leaders has ever been approached to support an airline business plan that included these elements that would require a change in ALPA policy.

Our carriers have never presented us with a business plan that included their plan to use Seventh Freedoms or Rights of Establishment. In fact, they have even abandoned their once abundant use of Fifth Freedoms within Europe in favor of code-sharing with their European partners. All of this was negotiated and agreed to by ALPA in individual collective bargaining agreements, which reflect our acquiescence if not outright endorsement of their business plans.

Our contract scope clauses are our outsourcing control mechanisms to guarantee our share of the international flying booty. Our contracts under the Railway Labor Act are our only legal remedy to resolve disputes that inevitably occur in any business relationship.

In Chicago, I hope I made it abundantly clear, that ALPA would never be foolish enough to ignore our fiduciary responsibility to our members and enter into agreements or support governmental policy that put into question our ability to enforce our contracts. We must have the same international dispute resolution mechanisms that corporations use in commercial law.

To date, not a single proposal to advance U.S. policy beyond Open Skies has ever provided or even contemplated real legally binding international law for labor. Commercial enterprises are covered – but labor is left naked to accept all the risk with no meaningful protection. Our sobering experience with the emptiness of the labor protective provisions of the Deregulation Act has led us to conclude that such provisions are worse than useless since they provide a false sense of security. The bottom line is that labor cannot be reasonably asked to take business risks with no international dispute resolution available if commercial enterprises would never take the same international business risk for their shareholders similarly situated.

Let me give you some specific example of what I am talking about. A few years ago when FEDEX was

opening its pilot domicile in Subic Bay, we were informed that FEDEX believed that even if FEDEX pilots were doing the work, the Railway Labor Act did not apply to pilots domiciled in the Philippines.

We thought it did – big public dispute – we even got Congress involved in an effort to clarify our position. Those efforts failed. In the Congressional hearings on the subject, FEDEX representatives testified that wherever the pilot was at the time – that labor law would apply. If he were in the Philippines it would be Philippine law; if they operate Korean bases or Chinese bases – it would be Korean or Chinese law.

This is not helpful. Today the leaders of the pilot union of Korean Airlines are imprisoned for exercising rights guaranteed by all signatory nations to the ILO.

At the end of the day, FEDEX pilots and FEDEX management reached a negotiated accommodation wherein pilots based in Subic Bay are treated on paper as if they were Memphis based. But contracts and managements change – the FEDEX pilots don't want to worry about this again.

At Atlas Airlines, Atlas performed contract work for British Airways for many years. Now that Atlas pilots voted for union representation, Atlas also claims this work is now outside the Act and, in fact, has formed a new company in England with non-union British pilots and laid off Atlas pilots. We are pursuing litigation, we are negotiating, but the underlying political problem is still up in the air. And until ALPA has far more legal comfort than we currently possess on how we can successfully deal with these legal challenges to our ability to enforce contracts internationally, we will hunker down until the situation improves.

Since much of the focus and emphasis on international alliances began with strategic partnerships between U.S. and European airlines, and since most of us in this room all have our money in the pool betting on what year Brussels really will have European bargaining authority, I thought I should share ALPA's view on issues peculiar to the U.S. and the European Union.

Two weeks ago, The Wall Street Journal did their analysis of the global fallout of the General Electric/Honeywell merger problems. If this deal dies, it could mark the first time that European regulators have killed a merger between two American companies that U.S. regulators have approved.

Right now, you are probably asking yourself –GE/Honeywell – what on earth does this have to do with aviation policy? Well, in this union president's mind it provides a clear case study on how U.S. airline workers could get caught between a rock and a hard place due to the totally different focus and priorities of U.S. regulators as opposed to European regulators.

I agree with the Wall Street Journal contributing reporters, both U.S. and Europeans, who concluded that U.S. regulators focus more on whether a proposed merger lowers or raises prices for consumers; whereas E.U. regulators look more closely at whether the deal undercuts European competitors. U.S. regulators protect consumers, E.U. regulators protect European businesses.

So the next time you are debating changes to foreign ownership laws or definitions of effective control on the Mifnet, you can add this factoid to your data base – this ALPA president, who is responsible for his shareholders value, finds this situation to be dangerous for his constituents.

I do not know what the next evolution in international alliance or airline merger strategy will be, however, unless and until U.S. and E.U. regulators find a way to more evenly balance their priorities – the way forward in all international consolidations may be headed for an unresolvable impasse.

Currently it appears that the U.S. and the E.U. will either turn down their own and each others deals for opposite reasons or agree to something where U.S. consumers may experience short-term benefits at the expense of U.S. labor and even U.S. corporate shareholders – a circumstance ALPA will resist.

While I realize that aviation agreements remain separate from other broad trade agreements that affect GE/Honeywell, I am keeping a close eye on trends in other industries as a guide to likely outcomes as ALPA implements its Global Pilot Strategy.

In that effort to understand other industries and learn from their experiences, especially in regard to international trade issues, I've concluded my personal philosophy is most closely aligned with Laura D'Andrea Tyson who served as the Economic Policy Advisor to President Clinton during his first term.

She was a Professor of Economics at Berkley and published a number of works that I find compelling. Her first was "American Industry in International Competition," which she published in 1983. However my favorite is "Who's Bashing Whom: Trade Conflict in High-Technology Industries," published in 1992.

The book is a series of case studies of the telecommunication industry, the semi-conductor industry, the electronics industry and the commercial aircraft industry. Over the course of two decades the United States lost massive amounts of market share and jobs in all of these industries, and she examined to what extent U.S. trade policy played a role in these unsatisfactory outcomes.

Her bottom line conclusion was that in high-tech industries and in industries that are viewed as strategic with special national interests by many trading partners, pure free trade is a myth. If American trading partners use industrial policy and naked mercantilism and use a multitude of devices to frustrate U.S. competitors, the United States needs to face that reality and not kid itself about the negative consequences of ignoring it or wishing it away.

She refers to herself as a cautious activist, who believes in more open markets and the benefits of expanded trade, but is unwilling to be anybody's patsy. I think that sums up my personal position rather succinctly.

I can almost hear John Adams advising Jefferson that the United States needs to be careful and not be "bubbles of our own liberal sentiments."

In any event, as you may have noticed, ALPA has its own business plan that involves mergers and acquisitions to strengthen our economic and political leverage. In 1996, we expanded into Canada, and we have formed a wholly-owned subsidiary called the International Pilot Services Corporation to extend our influence through consulting agreements with other foreign pilot groups. You will find our fingerprints in KLM, Lufthansa, Aer Lingus, Air France, British Airways, Cathay Pacific, Korean Airlines, and even South African Airways.

Our foreign pilot partners are as interested as we are in ensuring that aviation does not follow the maritime trade into flags of convenience nightmares. They also want access to ALPA's professional staff and economic analysis department to better represent their own constituents – our IPSC is a key element in our global pilot strategy.

We have pilot alliances that function inside of all the major airline alliances. While I am sure many view us as obstructionist, I can assure you that each of the pilot alliances is constructively engaged with the airline alliances and wants them to succeed.

As CEO of ALPA I'll freely admit that my goal is to maximize pilot shareholder value within all those alliances. No apologies, no excuses. That's just the simple truth.