AICA

American Independent Cockpit Alliance, Inc.

- W o r k i n g f o r t h e p i l o t s o f A m e r i c a n A i r l i n e s -

April 7, 2003

Fellow Pilots:

It was a lot more than expected. A lot more. With it, a sense of betrayal, a sense of being led on. Most pilots anticipated a 10-15% pay cut plus furloughs to get to the 30% the company was seeking from us. Most even thought that any number of work rule adjustments were needed, that they could and should be undertaken at this time to make the company even more competitive in the long run. This tentative agreement (TA), however, goes far beyond. It is far closer to the worst of both pay cuts and furloughs than a thoughtful compromise between the extremes of a 30% pay cut at one end and a 30% pilot furlough at the other.

What's the choice, though? Reject it and bankruptcy is assured. If there were any reason to immediately consider rejecting this TA it would be its six-year duration. A six-year contract? Why? A 23% pay cut is taking hourly rates back to less than what they were *twelve years ago*. Do we now anticipate that it is simply not going to get any better whatsoever over six years, or *ever* for that matter?

There are two things we are apparently meant to forget. First, over the last twelve years, the company had seven *consecutive* years of outstanding profitability. Profitability that generated seven consecutive years of profit sharing. 2001 even started out well. So much so, that the company sought a fast track proposal in a July 24, 2001 letter from Kudwa and Brundage that wanted to put AA pilots at the top of the industry "with base pay increases of 15% to 22% immediately" and this despite the risk, as they stated, associated with a " decline in the U. S. economy and in our business, as witnessed by the $148 million in losses we've reported so far this year."

We will eventually have to get to the root of where our business is headed, let's not ignore that; but the second thing we are meant to forget is what amounts to the economic equivalent of the "perfect storm." We know the airline industry is a cyclical business; it was headed south in 2001. But are we also to now forget the fact that we are now headed into the fourth year of the worst economy/stock market since the Depression, that the tech bubble "burst", followed by corporate malfeasance such as Enron, Global Crossing, etc? To that, 2001 added September 11th, with a quagmire of new security procedures, and now the Iraq War.

67 Water Street, Suite 208 • Laconia, New Hampshire 03246 • (800) 808-2552 • FAX: (603) 524-1331
w w w . a i c a p i l o t . o r g

When has this industry ever experienced so many compounding adverse conditions before? Where was the vision that anticipated a glut of excess capacity for American, or this industry? Where were the immediate corrective measures taken to reduce this glut? It should not be lost upon anyone that American Airlines (sans TWALLC) has more total pilots and captain positions today then when 2001 began.

The law of supply and demand says that if you add more service than what the economy in which you operate can bear, you either have to eliminate that excess service, or if you intend to maintain that capacity, you must reduce the wages paid to sustain it. In other words, more pilots, less pay. At the other end, you can overpay wages for too little service provided. The answer there is again supply. If you don't do it, the supply of pilots will be placed into service by your competitor, to satisfy the customer demand, and will be done so at less of a wage base. There is a sustainable wage level and the individual pilot makes his or her own decision as to whether or not that wage is the price that they are willing to bear for their service.

In any mature industry, before it's a cost problem, it's a revenue problem. If the revenue generated or anticipated to be generated, is not enough to sustain the level of costs, particularly wages, that previous years supported, then you adjust or go out of business. It's that simple. So it would be helpful to have before us AA's profitability/ revenue picture.

Operating			**Revenue**			**Load Factors**
Profit	**Annual**	**Q1**	**Q2**	**Q3**	**Q4**	**Actual/Break Even**
'96 1.8 bil	17.7 bil	4.3 bil	4.5 bil	4.6 bil	4.3 bil	68.5/60.2
'97 1.9 bil	18.6 bil	4.4 bil	4.7 bil	4.8 bil	4.6 bil	69.5/61
'98 2.3 bil	17.5 bil	4.2 bil	4.5 bil	4.6 bil	4.2 bil	70.2/59.9
'99 656 mil	17.7 bil	4.0 bil	4.5 bil	4.7 bil	4.5 bil	69.5/63.8
'00 779 mil	19.7 bil	4.6 bil	5.0 bil	5.3 bil	4.8 bil	72.4/65.9
'01 (1.8 bil)	19.0 bil	4.8 bil	5.6 bil	4.8 bil	3.8 bil	69.4/***78.1***
'02 (3+bil)	17.3 bil	4.1 bil	4.5 bil	4.5 bil	4.2 bil	

To what degree "irrational exuberance" in the economy precipitated the good years is debatable, depending on the depth of the details presented. It's obvious that '01 and '02 did not generate the revenue that should have come from an increase in capacity resulting from the purchase of TWA. Maintain the capacity, lower the wages. Lower the capacity; sustain the wages - with the caveat of what the future holds. Will the "perfect storm" prevail? Will the industry recover to a sustainable level or must it, should it, adopt a more competitive wage/price structure with the low cost, Southwest, business model? That is a question to ask of both management and those in APA who have seen the "books."

The picture now is that you have been presented a TA that is the result of negotiations with a gun to your head. It didn't have to be that way. The dire nature of our industry and company has been known for better than a year. Wall Street knew. 2002 began with AMR stock at around $25-$27 only to plummet early and plateau around $5-$7. APA sent out a contract comparison in April of 2002 that would have led you to believe that the "perfect storm" was in another ocean. American took no radical steps to reduce capacity. APA continued to produce highway billboard messages attacking management; Carty bumped full fare passengers in order to non-rev to Mexico with his family. Where was the leadership from either? It's a common misconception of both management and labor that the customer sees things as they do, from the particular viewpoint of management or labor, and that as a result they can "force" the other party, and ultimately the customer, to their position. There will undoubtedly be some short term successes with the application of such force but in the long run the customer *remembers* and exercises their own force, they leave you for some other airline. And that appears to be the sad condition now before you - the same old, dinosaur, approach to labor/management relations and providing service to our airline customer base.

The bottomline is that management was irresponsible in its duty to its shareholders and its employees; and APA was irresponsible in its duty to its members. It didn't have to get to the bankruptcy mode. It didn't have to be "gun to your head" negotiations. It didn't have to be months of negotiations where the parties at the table knew where things were headed but now you have to digest it all in two weeks and come to a decision that impacts the rest of your career.

There are four reasons that this TA is in front of you in the form that it is. They are "and/or" conditions. 1) More concessions than the 30%/$660 million are needed because you're going to have to trust your certified bargaining representative (CBR), APA, that they are and they haven't told you why as yet; 2) This TA was agreed to because it was intended to fail; 3) It is the price of "agency shop," and remember this is not a "cost-free" item; 4) The fine stemming from the 1999 RenoAir merger is forgiven, but not really because, instead of 15 years, you're paying it all up front with wage cuts right now with this TA.

No matter how you cut it or what "and/or" condition applies, the 23% pay cut and 2500 pilots reduction satisfy the $660 million the company seeks before the rest of this TA's concessionary package is considered. Assuming the current pilot payroll is $1.8 billion, 23% of that is 414 million. Assuming a nominal $100,000 per 2500 pilots reduced, is an additional $250 million, bringing the total in those two alone to $664 million. The price of an agency shop?Perhaps, a ***six year*** contract. How ethical is that? Perhaps it is now you who doesn't like what APA has brought you and you have had enough of their methods. But your dilemna now is "take the agency shop" or "take bankruptcy."

Here it may be best to consider that it's not AICA that is the target of the "agency shop" issue but you who have tolerated APA for so long. Suppose this "perfect storm" turns around, profitability returns, but you are now stuck with a six year contract. What are you going to do? You can no longer vote with your feet and other agendas may be taking you in directions you don't want to go. "Money talks" and it's your money they now have and there's nothing you can do about it.

It didn't have to be this way, it's been a long time coming. Arrogant unions, arrogant managements. Neither really willing to listen. We've had years of failed labor/management relations. Do you really want to continue down the same, old tired path?

What you have to deal with right now, however, is "accept or reject" - severe and very likely excessive pay cuts or bankruptcy. I'd recommend two things to you. First, at the road shows, get a line item by line item dollar savings figure for each concession and the reasons why and also get as accurate a picture of the present and future condition of AA as you can from those who have seen the books. Do not walk away unsatisfied with any incomplete answer you get. Second, if you have to trust anything, trust your own instincts, your own intuition. It's what got you here, it's what will take you to the end of your pilot career.

Folks, if you feel you've had the whole, candid picture all these years from your CBR, the APA, then continue down the same path. If on the other hand you've felt manipulated, that the other side of the issue has not been explored, then maybe it's time to consider that what has been presented to you as a valid labor/ management relationship is not correct, that not only has it not worked but that it doesn't work, period. If you feel that "deals" have been made that benefit the "bigs" - big labor, big business, big government, and left you defenseless to object, to improve your lot, then maybe it's time to ask if those who have consistently failed you are worth your continued support. And it is here, in this last, that it is well worth considering how many airlines have failed or entered bankruptcy state under the assistance of a "big," ALPA. It may well be worth asking how effective having a lobbying group for your union has staved off bankruptcy at the price of severe wage cuts; the cry for help there, falling on deaf ears. It is well worth asking whether the price of "labor antics" was worth sacrificing your professional image. It is well worth asking if a lot of "labor noise" was better than quiet, professional resolve, little noticed by the public but well considered by management. It is worth asking, it is worth considering.

Our condition as American pilots is like a patient with cancer that just suffered a life threatening ER condition brought on by that cancer. You can't change the team of doctors working on you while you are so close to terminal arrest but had you known ahead of time and had it been, as in real life, diagnosed as a truly critical condition, you would have gotten a second opinion. You are making a life or death decision in a matter of minutes when the condition was known to the team looking out for your welfare for months. They have been behind "closed doors" considering your condition with the luxury of time. Had you been "in the room," you might have changed the direction of events months before. It's the same with negotiations. Months go into them and you get weeks to digest and make a decision. AICA advocates "open negotiations" where any member in good standing can sit "in the room" and observe but not participate, much as has worked for an associate of ours in unionism - AMFA. "Deals" to your detriment can not be made with you "sitting in the room."

Even after surviving this crisis, the condition of our professional careers will be critical. Can you afford not to get a "second opinion"? To get it, you may well have to consider an authorization card that leads to AICA becoming the bargaining agent, the CBR. Trust your instinct, trust your intuition, trust but verify, don't walk away unsatisfied with an incomplete answer. If you do, a "deal" has been made and it did not benefit you but, rather, the "big."

Yours in service,

Pete Brady

Pete Brady
President