



# Responses to Captain Hill's Questions

A few weeks ago, Captain Hill suggested that I answer a handful of questions about negotiations. My responses are below.

## **When is management planning to present a pay proposal as required?**

We could put a pay proposal on the table tomorrow if we wanted to play by the old school bargaining rules. But given the APA's current pay position, we'd have no real choice but to counter the APA's 54 percent proposed pay raise with an equally outlandish proposed pay cut. Then we'd spend months and months sliding pieces of paper back and forth in an effort to find a tolerable solution that meets somewhere in the middle. We don't believe it makes any sense to approach it that way and we're not going to fall back into that way of doing things.

What we've done instead is first try to get a sense of what improvements we could make in the contract that would help the airline become more efficient – and in turn allow us to fund a more realistic compensation increase for the airline's pilots. We've come at this issue a bunch of different ways and to date, the APA has resisted engaging in meaningful discussion on this issue. As long as that is their position, it makes productive discussions in the area of compensation a very slow process.

And so when we couldn't move the dial in this area, we've taken the approach of trying to reach agreement on other issues so that we can narrow our focus and better understand how the different pieces of the contract will affect the overall picture. If you look at what's happening in the other workgroups, negotiators have had success with this approach and have been able to begin discussing wages. But for us, reaching TAs on even the smallest issues has been a slow process.

I understand the interest in a pay proposal. I know that it's one of the most important issues we need to address. And AA will put one forward as soon as it believes that a serious and productive dialogue can be had. And make no mistake: we think that eventually the parties can and will reach a mutually-acceptable deal. It's just going to take time.

## **Do you believe that permitting commuter affiliates to operate 76-seat ERJ-170s in two-class configuration would be beneficial to our pilots? If so, exactly how would enabling commuter affiliates to fly ever-larger aircraft enhance our job security and career prospects?**

We've said repeatedly that our first priority is to have AA pilots fly as many routes as possible. I'd love to see AA pilots fly these planes if it could be done in a way that makes economic sense. And we're open to discussing how to put our pilots in those positions.

So what we need to do – together – is come up with an agreement that makes good business sense. But we need to keep in mind that the market forces and business conditions are driving these decisions. We can't simply take the AA contract and apply it to commuter operations. We need the feed from commuters, but we also have to get it in a way that makes economic sense. Right now, the APA is not willing to discuss realistic ways to make that happen.

I assure you that I think about pilot job security and career prospects every day. But again, I think it's instructive to look at the flip side of this question. If we accepted all of the APA's contract proposals, would that be good for anyone's job security and career prospects? Might be good for several months, but beyond that, I think we'd be in serious trouble. And before you say I'm just throwing a fear grenade, run the numbers for yourself. Look at what it would do to our costs. Compare us to the rest of the industry. Think about the ripple effects. Then consider what the terms "job security" and "career prospects" really mean.

## **Do you believe that allowing unrestricted domestic and international code sharing would be good for our pilots?**

Without a doubt, I would like to see every flight around the world be flown by an AA pilot operating an AA aircraft. But is that realistic? Unfortunately – in the world we live in – it's not. The reality is that code sharing agreements and global alliances are fundamentally necessary to our business. And to be absolutely clear, we've never used the term "unrestricted" when discussing code sharing. We've talked very specifically about certain situations and markets where it made financial and good business sense to do so.

There are two main factors that influence code sharing decisions – economic and regulatory. On the domestic front, we have code sharing agreements in markets that, for financial reasons, we cannot serve on our own. So for example, if a customer wants to fly from DFW – FAI, we can take that passenger to Seattle or Anchorage, and then have Alaska take them to FAI. Without that relationship, we wouldn't be able to serve that customer, wouldn't generate any revenue in that market and would cede that passenger to our competitors. And internationally, there are markets that we cannot serve for either economic or regulatory reasons. So it makes good business sense for us to work with our **oneworld** partners to extend our reach and – again – have opportunities to capture revenue.

The APA argues that we should effectively end all code sharing and alliances – except for special situations approved by the union – and all flights should be flown by AA pilots. Reverting back to an “AA pilots do all AA flying” scope clause is not possible if we want to stay in business. Here's one example, if you're responsible for booking travel for a Fortune 500 company, which sounds like a better option? Sign a contract with an alliance that can package up just about every major city around the world, offering one-stop shopping at competitive rates? Or deal with perhaps as many as 8 to 10 different carriers, different restrictions and rates that may or may not be competitive in order to fly your employees around the U.S. and around the world?

You also have to remember that code sharing is a two-way street. Other carriers are funneling customers to us as well and we benefit from that. It's not just about AA offloading passengers to OAs and us getting nothing in return. And one other point worth raising here is that it can be expensive and risky to start service to a new market. In some markets it takes years of cultivation and investment before turning a profit – if ever. Code sharing is a lower risk and lower cost strategy.

Finally, code sharing helps us balance supply with demand. We code share with AE in many markets where there are different demand levels at different times of the day. When demand is high, it makes economic sense to put a large AA aircraft on that route. But other times of the day (and on routes where there's never that level of demand), when demand might only be 40 passengers, it doesn't make business sense to throw 140 seats at that level of demand. But with Eagle codesharing, we can serve that demand with a 50-seat Eagle RJ. If we didn't have the code share option, simple economics would force us to ignore this pocket of demand (much of which feeds to mainline AA flights). But our competition would not – they would gladly put a small jet in that market and then carry those passengers onto their mainline flights.

That's what code sharing is about. Pure and simple. If we can fly a route and make money, we'll do everything we can to make it happen – we have a contractual obligation to do so – and are open to ideas APA might have to help us achieve that. Every quarter the airline provides route profitability analysis to the union for several markets in which we code share, showing what it would cost to fly those routes on AA metal. If we can determine that AA can do the flying profitably, then we'll put AA pilots on AA aircraft in those markets. But if we can't, we have to find partners that can so we're still relevant in the global marketplace. If we sit around and let others gobble up market share and new corporate accounts, we're going to get left behind and all of our jobs and careers will be at risk.

**Given the nearly 2,000 American Airlines pilots still on furlough and the 17 years now required to move from the right seat to the left seat, wouldn't increasing the monthly maximum exacerbate those problems?**

Over the very short-term, it's certainly possible that there may be some implementation issues. I won't deny that. The airline's negotiators understand that pilots naturally would be concerned about how some work rule changes might be introduced and how they would affect careers. That's why we've offered to discuss a number of options that would minimize the downside of raising the monthly maximum, including phasing in productivity enhancements, offering furlough protection and initiating discussions about ratios and formulas tied to attrition. Again, this has yet to yield any tangible results.

But looking at it from a broader perspective, it is in the interest of every pilot to be as productive as he or she can be because that will have a huge impact on the health and longevity of their careers. We must face reality and address where we are when it comes to our monthly stick hours and catch up to the rest of the industry. As I said in a previous column, I know that a lot of you are already flying 80-85 hours on a regular basis. But our average stick time compared to our peers is near the bottom. We have to fix this. If we can't come together with the APA and find ways to do so, I'm afraid we'll have problems far worse than stagnation.

When it comes to career progression, there is no contractual language that can guarantee it. We have to understand that it's largely a factor of outside influences that drive seat and equipment movement. In a thriving, healthy economy, we grow and pilots naturally have more opportunities to move up the ladder. And last year, we saw a lot of retirements

which also helped a lot of pilots move up. But when growth is non-existent or we have to cut capacity in order to stem the losses, career progression unfortunately stalls.

What the airline is focusing on now is how best to improve our operations and become cost competitive so that when this down cycle ends (and it will end at some point – hopefully, soon) we are in a position to grow, and add planes and routes: being able to do that profitably is what creates upward movement. But in the current environment, growth is just not realistic. What we're trying to do is hold on to what we've got – survive without taking too much damage – and be ready to vigorously compete when the U.S. and global economy improves.

And for those pilots on furlough, I'd love to see each and every pilot that wanted to come back to American recalled as soon as possible. I worked alongside many of these men and women during my days in STL and I know the hardships many of them have endured. The good news is that over the past two years, we've been able to offer recalls to over 1600 pilots and more than 900 have returned to flying. I know that if we can structure a contract that strengthens our airline, we can recall even more of these pilots.

**Why isn't management willing to meet with APA more frequently and without the mediator being present?**

I want to be very clear about this and put this to rest once and for all. Remember, the APA asked for the mediator because they didn't believe they could make progress in direct negotiations. AA disagreed and said that once you go into mediation, the negotiating schedule is determined entirely by the mediator. We have no more control over the negotiating schedule than the APA. This is what they asked for.

Furthermore, what evidence has the APA given us that meeting without the mediator would be productive? They won't even consider modifying their most unreasonable proposals – for example, demanding zero probation when we already have the most lenient probation period in the industry. Instead, we spend days arguing about taking it off the table. When we squabble over that kind of no-brainer proposal even with the mediator, why would you think we can get anything done without one?

It is worth pointing out that in certain areas where we thought we could make some progress, we've been able to establish subcommittees and meet without the mediator. But movement in these areas has been slow and I have to tell you that there are items that AA has passed across the table that as a pilot – and as a chief pilot – I would have embraced. They would have made my life better. They would have made your life better. But unfortunately, we couldn't reach a deal because the APA took a hard line position and insisted on more.

If there was any indication that more progress would be made without the mediator in place, we'd seriously consider it. With other workgroups, we've been able to narrow the issues much better and have moved into a smaller number of key issues in an effort to wrap things up.

So where does that leave us? I can say from the airline's standpoint, we're nowhere near ready to throw in the towel. There are good proposals out there. Are they perfect? No. But are they reasonable and balanced and offer pilots and AA something? For the most part, you bet. But somehow, the APA negotiating team has to be on the same page and willing to have open conversations.

Strength and Honor,



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