

**Remarks of Capt. John Prater
President, Air Line Pilots Association, Int'l**

Before the
International Aviation Club of Washington, D.C.
September 1, 2010

Remarks as prepared for delivery

Good afternoon. It is a pleasure to be here.

International aviation services are once again the main source of new growth and revenue opportunities for U.S. airlines. Many of those opportunities have been created by ongoing efforts of the U.S. government to open up new markets with its trading partners.

I would like to address two subjects related to those efforts today. First, I will follow up on Martin's remarks about the U.S.-EU Air Transport Agreement. Then I will discuss some of the concerns that ALPA has about how antitrust-immunized revenue-sharing arrangements might affect U.S. airline employees. Because the U.S. government is seeking an open skies agreement with China and is suggesting to that country that its airlines might benefit by participating in immunized alliances with U.S. airlines, I will use such a hypothetical alliance to highlight our concerns.

We greatly appreciate the work that the U.S. and the EU negotiators put into exploring, and attempting to be responsive to, labor's concerns before and during the "second stage" negotiations. In particular, the EU side is to be commended for holding two labor forums to examine labor questions posed by the negotiations and then appointing the former chief-of-staff of the Aviation Directorate, Claude Chêne, to look into possible responses to those questions.

As Mr. Chêne concluded, the steps that would have to be taken to truly address the labor issues presented by an elimination of the ownership and control rules would be politically impractical. As it turned out, the stage two amendments proposed neither a change in the ownership and control rules nor a change in the labor laws that would be necessary to accommodate such a change.

For the first time ever, the two sides did agree to include in the amendments a provision specifically devoted to labor matters. That provision states that the two sides "recognize the importance of the social dimension of the benefits that arise when open markets are accompanied by high labor standards." It also states that "the opportunities created by the Agreement are not intended to undermine labour-related rights and principles contained in the Parties' respective laws."

How this provision will be applied in practice remains to be seen, and Martin has indicated that there are developments that may soon test its meaning. We do view it as a promising and meaningful development. We also see it as a provision that should serve as the model for similar provisions that should be included in other air service agreements where appropriate.

The other new provision in the air services agreement I would like to mention is the amended Article 21 – “Further Expansion of Opportunities.” In this provision, the two sides set up a process for addressing the possibility of removing market-access barriers. This provision replaced the suspension or claw-back provision in the stage one agreement and establishes a welcome stability to aviation relationship between the two sides. It also allows for careful consideration of the implications of further removal of market-access barriers and the kinds of changes to labor and other laws that would be necessary before airline workers could support any such statutory or regulatory changes.

With respect to international airline alliances, ALPA has generally supported them, including several that have received antitrust immunity. What we have looked at is whether the airline business arrangement has been likely to improve the U.S. airline’s financial position and create jobs for U.S. airline workers. But the recent wave of requests for ATI for joint venture revenue/profit-sharing arrangements raises a serious question for us.

In these so-called “metal-neutral” arrangements, the revenues generated by the international routes that are subject to the JVs are so fully shared that the airlines have little economic incentive to book passengers on their own aircraft. This makes them different in a key respect from the types of code-share alliance arrangements that were prevalent until recently.

In these metal-neutral joint ventures, an airline might decide to participate in the revenue-sharing arrangement not by doing any of the flying but by providing other services, such as marketing. This is just what United Airlines is doing in its revenue-sharing arrangement with Aer Lingus: United receives about half of the revenues generated by the arrangement, but does none of the flying.

While this arrangement is fairly limited and I have addressed my deep concerns with CEOs Tilton and Smizek, the two carriers publicly stated their intent to expand it. In fact, Aer Lingus chief executive Christof Mueller just last week again expressed his desire to do that. Meanwhile, hundreds of United employees remain laid off. This is not a situation that will remain unresolved.

DOT has been an active proponent of metal-neutral arrangements. In fact, the Department seems to be pressing carriers to integrate their JV operations as much as possible.

And, as I mentioned at the outset, the U.S. government has also been seeking an open skies agreement with China and suggesting to that country that its carriers might benefit from entering into immunized alliances with U.S. carriers.

So, what would it mean for U.S. airline employees if their airlines were to enter into immunized revenue-, profit-, or cost-sharing arrangements with a Chinese airline? China's big three – Air China, China Eastern, and China Southern – are state-owned, state-managed. China has placed orders for hundreds of aircraft, which it will make available to these airlines over the next few years. China has also provided billions of dollars of subsidies to these carriers in recent years. Their costs, including their labor costs, are opaque. Their employees have no right to collectively bargain or even to select representatives to represent them in labor-management matters. In the case of pilots, at least, there is little ability to leave and seek a piloting job elsewhere.

In these circumstances, it is hard to see how a revenue/profit/cost-sharing alliance between a U.S. and Chinese airline – which China would surely expect to flow from an open skies agreement – would be beneficial to U.S. airline workers.

The U.S. unemployment rate is remaining stubbornly high, and the already tenuous economic recovery seems to be sputtering. It is therefore essential to ensure that prime middle-class jobs are not unnecessarily lost in misguided sacrifice to a trade theory that does not fit the circumstances presented here.

For these reasons, ALPA would expect that because of the potential for job losses presented by JVs between U.S. and Chinese carriers, the U.S. would conduct a study on the potential impact of an open skies agreement with China. We would also expect that the U.S. government would be looking at ways to ensure that U.S. airlines (and thus their workers) perform a portion of any alliance flying that bears a close relationship to the proportion of the revenue the U.S. airline derives from the alliance.

Again, the international realm once again is offering U.S. airlines their best opportunities for route and revenue growth. It is important to make sure that the regulatory framework and negotiating goals encourage U.S. carriers to take advantage of these opportunities in a way that benefits not only their shareholders and customers, but their employees as well.

Thank you.