STATEMENT OF

CAPTAIN JAY PIERCE

CHAIRMAN

CONTINENTAL MASTER EXECUTIVE COUNCIL

AIR LINE PILOTS ASSOCIATION, INTERNATIONAL

BEFORE THE

COMMITTEE ON THE JUDICIARY

UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, DC

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Competition in the Airline Industry

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Good morning Chairman Conyers, Ranking Member Smith and Members of the Committee. I am Captain Jay Pierce, Chairman of the Continental Airlines Master Executive Council of the Air Line Pilots Association, International. My council represents almost 5000 pilots in the service of Continental Airlines. I would like to start today by thanking you for providing me the opportunity to speak regarding the proposed Continental – United merger and the possible effects on commerce and the industry. I am particularly thankful that this Committee has taken the time to consider the effect this proposed merger will have on labor. The majority of my comments will focus in that area. I have been a professional airline pilot for over 25 years and have served in the US Army prior to that. As a result, I tend to think of things in terms of threats and opportunities. As a labor leader, that risk/reward mentality has proven beneficial as well.

First, I believe the merger of these two companies provides opportunity for success. The larger question is the degree of success that will be achieved, given the trade-offs and risks inherent in the merger and the impact to shareholders, employees, passengers, and communities. To some, the uplift in value created simply by participating in the merger and acquisition game will allow for claims of success. However, if creating a story for Wall Street simply through participation is the goal, that bar is pretty low and easy to achieve. I hope none of us accepts a philosophy of mediocrity or of partial failures equating to success. We must aim higher; we must do better.

The difference between marginal success and real success can be tied directly to labor and more specifically pilot labor. This can be seen clearly in the dichotomy of the result obtained in two recent airline mergers. US Airways and America West were participants in the merger game. Delta and Northwest made the decision to try and win the game and did so by including their pilots in the process and properly rewarding them for the risks they incurred. The template for success is available for all to see – working alongside their pilots benefitted all players within Delta/Northwest merger. Going third in this round of airline consolidation provides us the unique opportunity to examine what has worked and what has failed. While no two transactions are identical, our goal should be to improve the model - to exceed past successes and to mitigate the areas that proved to be problematic. To accept marginal success or in other words, partial failure, should be unacceptable to our executives and will be unacceptable to our pilots.

The merger of Continental and United has the potential to provide many opportunities. If done correctly, this merger can help resurrect an industry that is clearly failing. Over the last decade, network carriers have reported over 70 billion dollars in net losses. Since deregulation there have been over 180 airline bankruptcies. Historical greats such as Pan American, TWA and Eastern have become extinct. The industry is broken and badly in need of an overhaul. The fact is that as legacy carriers struggle to maintain market share, and seat capacity continues to exceed levels necessary for a reasonable rate of return on shareholder or stakeholder investment. In this environment, there has been little or no capacity discipline, which in turn results in yields that in any other industry would be considered abysmal. Yet in our business, modeling that produces yields of 2 to 3 percent is lauded as success. As a result, when looking at airline financial reports I am often drawn to the conclusion that the left side of the Balance Sheet has nothing right and the right side has nothing left. Continuing down the well traveled path of economic irrationality does not bode well for the traveling public, shareholders, or for the long term interests of airline employees. It is incumbent on us to find rational solutions. A properly executed merger can be a much better solution for the industry than consolidation by failure.

The merger of Continental and United is expected to produce approximately 1.2 billion dollars in annual cost and revenue synergies. I believe these estimates are obtainable for the new United. I am not worried about IF the synergies will be achieved; I am worried about how they will be used. As irrational as it is to continue to foster a failing industry with continued over capacity, it is equally irrational to use the benefits derived from a merger to simply enrich those who put the deal together or to continue to throw good money after bad with ill conceived business plans that reward only those at the top of the food chain. In the long run, success will be determined by the strength of the new entity, the value added to its shareholders and even more importantly, by the pride of the airline’s labor force. This pride can only be regained by first ensuring that reparations are made to labor for their years of sacrifice. Having for years watched revenue flow in every direction except toward labor, and having experienced cost reductions that threatened our families’ futures, we have become skeptical. Trickledown economics has left us empty handed. For this reason, our support, and therefore the ultimate success of the merger, is contingent on immediate and contractual assurances of wage rates, retirement, work rules, and job protections that are commensurate with our education, experience, and responsibilities. We deserve it, our passengers deserve it and our families deserve it. Let me be very clear – in order for this merger to be a true success, a commitment must be made to our pilots that they will share in the rewards. We have most assuredly had our share of risks.

I have talked about opportunities for our industry and opportunities for employees. I would be remiss if I did not also speak to the advantages for the traveling public. We all know that the level of customer satisfaction with airline travel has been in sharp decline, marked by reductions in the level of service provided, encounters with discontented airline employees, and the addition of new fees for just about everything as airlines struggle for profitability. Airlines have become flying kiosks. I believe that this merger, if done correctly, will provide gains toward much needed financial stability for network carriers in the industry. Financial stability is crucial to allowing network airlines to once again compete on service, giving customers greater choice in selecting airline travel based on a range of service attributes instead of merely the lowest price. More specifically, the revenue synergies anticipated by this merger are the product of a larger network and optimization of route and aircraft flows and usage. They are not solely a function of increased ticket prices. The market will determine ticket prices irrespective of the merger. And if executives correctly use the immediate and recurring financial benefits from the merger, they can begin to restore the goodwill of their employees. In a service industry, it is employees that ultimately deliver the level and quality of service provided, and no airline will succeed over the long term by neglecting their most valuable resource. For consumers to benefit, these two fundamental requirements—financial stability leading to increased service and consideration for employees—are necessary to reverse the downhill slide in airline travel. In this merger passenger benefits will be increased choice of service, as well as increases in the services provided and the quality of those services.

Consolidation also provides an opportunity to reexamine subcontracting and outsourcing of flying by network carriers. Simply put, I believe that when a passenger books a trip with Continental or United from Houston to Newark and then to Buffalo, they have an expectation that the entity they purchased the ticket from is ultimately responsible for their travel experience. I believe this is a reasonable expectation. Network carriers should be operational airlines, not merely ticket agents. Our passengers have a right to receive one level of service and one level of safety from the beginning of their journey to their final destination. I believe to achieve that single platform experience; flights must be under the operational control of the network carrier and, therefore, be crewed by pilots working under a contract with that carrier. Passengers do not want air travel that is provided by the lowest bidder. They want and deserve safe and reliable transportation provided by the network carrier of their choice.

In closing, I would like to remind you that the Continental pilot group did not search out or solicit this merger. We were quite content to continue as an independent carrier. We are, however, cognizant of the fact that if done correctly, this is an opportunity to create a great airline—one enriched by Continental's culture with a route structure capable of transporting customers to almost anywhere in the world they want to travel and a pilot group unmatched in professionalism and experience.

Thank you for your attention today. I look forward to your questions.