

**DELTA COUNCIL 54**  
**May 31, 2012**  
**Vice Chairman's TA Evaluation**



You have already heard from both Pat and Ron as to their perspective on the meeting and the tentative agreement. Since my vacation days began when the meeting was extended, I had to reshuffle some plans and was unable to meet the deadline for the previous publication. Those of you who know me realize I was not going to rush out an inferior product just to meet an arbitrary deadline.

**Vice Chairman's Perspective—Art Aaron:** “Arthur, please show your work” is what my elementary math teacher would say to me as she reviewed my answer to a long division problem. Where was the thought and effort recorded in solving the problem instead of just the answer I had written down? “Is it wrong?” I would ask. “No, but I want to see how you got the answer,” she would reply. We have reached the culmination of the negotiating process that requires each of us to approve or reject this TA based on our individual life experiences and circumstances.

My previous four and one-half years on the MEC have exposed me to many challenges the MEC has faced and the manner in which this MEC has faced difficult issues. The merger discussion, JCBA, SLI talks, and combining the former Delta and NWA MECs in Orlando on January 17, 2009, were all examples of difficult challenges the MEC has had to face and deal with. To say that this TA is a product of the MEC's direction, deliberation, and risk versus reward analysis would be less than accurate. This TA is the **MEC ADMINISTRATION's and Expanded Negotiating Team's** product.

As a result of the *Split* vote in Council 54 (first time in my tenure), with Pat Harney voting FOR the TA and my vote AGAINST, it has become clear through the calls and e-mails there is a need to **SHOW MY WORK**. What did I see or process differently than Pat and the other voting MEC members did? What were the questions and answers (or lack thereof) that supported my decision? I do not know the reason for the other four NO votes, and I only will speak for my analysis. You should also know that these are my independent thoughts and conclusions, reached without any discussion or collaboration with the other dissenting members of the MEC.

This contract is an important choice. It is not just a 14-5 split vote of the MEC, but the 5 NO votes represent approximately 4,000 Delta pilots and their families. I did not take this process lightly, nor would I violate the trust you have placed in me to do the right thing and represent you to the best of my ability.

It needs to be emphasized that the Company never gives us anything. We negotiate for contract improvements based on our current leverage. This TA is the product of negotiation and, in my opinion, a failed attempt. To say that the MEC was the decider on important issues like trading profit sharing for pay, having to get sick verification, or the percent raises in the contract did not

happen. Those choices were made by the MEC administration and Negotiating Committee without consulting the MEC.

**Scope** is a very important issue and, with regard to the 76-seat RJ, an emotional one. When the Company approached ALPA to open talks early, it was to help them mitigate the financial drain of 50-seat RJs that **management** bought in the era of cheap oil. Now, ALPA needed to allow scope relief for more 76-seat two-class-service regional jets. The question to ask is, did the union make a correct trade? We needed real JV and code-share protection, but did the Delta pilots get real protections? My questions were twofold. Why did ALPA buy into a declining asset class, the 50-seat Canadair? Over the last 10 years, we have seen an oil bubble, a housing bubble, and internet stock bubble. Now we have the 50-seat regional aircraft bubble. As previously noted, the regional operators were going to consolidate and remove capacity. Pinnacle has filed bankruptcy and is going to shrink. Consolidation will occur at the regional level, and restructuring is in progress. I did not find scope to be a clear improvement despite a cap and block-hour limits that take effect years from now.

The second question had to do with the valuation of the 50-seat maintenance problem. Did the Delta pilots get real compensation for the change in scope to permit more 76-seat RJs? I guess the B-717 is considered payment in full, even though we are bringing a lower-paying aircraft on the property while higher-paying older aircraft are subject to phasing out. Statements by management now claim a zero-cost pilot contract. Again, the MEC should have had an independent evaluation of this transaction to confirm the corporate savings that Delta claimed.

**Reserve** is another area where, although the pay was increased, it came at the expense of more pilot productivity. Pilots wanted reserve to pay more, and it does. However, the company sought in return to flatten out the staffing of the peak summer season. Delta got what it needed; pilots lost a day off in July and August. Now combine that with the ALV increase in the summer, and reserve can fly ALV plus 15 hours, which means up to 99 hours in June, July, and August. As you can see, we are paying dearly for our greater reserve guarantee with very significant increased productivity and less required staffing. In addition, a question asked of the negotiators was, “Won’t there be a loss of green-slip flying?” Their answer was, “Possibly yes,” but they did “not think it would be a lot.” Well, doesn’t this increased productivity and reserve flexibility have the unintended consequence of reducing green-slip opportunities? As an alternative, did we get another form of compensation for the potential loss of green-slip flying like time and one-half over 80? Again, the answer is NO. And where did it say on the survey that the pilots asked to **fly more**? I did not recall that, and the MEC never debated this concession.

**Compensation** is an area that many found lacking—4 percent, 8.5 percent, 3 percent, 3 percent for a 42-month contract. This is a 19.7 percent gain over 42 months. Your MEC was told by the MEC chairman and Negotiating chairman that there was no more money . . . **for pilots**. Yet Delta was able to absorb a **three-billion-dollar** increase in fuel costs in 2011 and still pay down debt **and** show a profit of **over** one billion dollars. But Delta cannot afford the additional \$300 million (my number) in additional pilot labor costs? We have been told the company had no more money for pilots. Yet we see money for investing in other airlines (DIP financing of Pinnacle @ \$70 million and \$100 million for GOL). We see money for a high-risk refinery to the tune of \$250 million in total money, yet labor clearly has to buy our raises through productivity, more hours flown, and a 33 percent reduction in profit sharing as directed by the expanded negotiating team and **not** the MEC.

Let’s see, the company came to us? Really, why did we have to make this trade? While it is true that the guaranteed wage rates allow DC contributions to be added every month, is this a real contractual gain and sufficient gain? It is a real concept that is used to build our own personal

retirement fund in our 401(k). So if you believe in that concept, you should be upset that we have to wait until 2014 for an additional 1 percent DC to go into our 401(k)s. Now that pensions are not going to fund retirements, the true risk-adjusted time value of money compounding is needed today, not in 2014.

Shouldn't we capture efficiencies and put them in our pocket now? The rate on the 737-900ER should be the same rate as for the 757. It's going to replace that aircraft, and management has stated that the plane will pay for itself day one. So link it to the plane it's going to replace. How long has it taken the MD88 to pay the same as the MD90? Do we want to wait a decade or more to fix this? In 10 years, all the 757s might be parked, and then the opportunity would be lost.

As the Rolling Stones sang, *"You can't always get what you want, but sometimes you might get what you need."* WHERE? I cannot find it for our pilots based on the survey. I guess the Company got what it needed while the pilots did not get what they wanted.

Now our hourly rates are below Southwest, Federal Express, and UPS and will probably stay there during our 42-month agreement. Do you really want to have a contract that will lose money to inflation in the out years of 2014 and 2015? Delta's CEO is on the Federal Reserve in Atlanta, and he has a far better understanding of the money supply and monetary policy than our expanded negotiating team does. He even stated (in a line check meeting) that he expected inflation to "hit like a ton of bricks." So if we assume he knows more than we do, why would we even agree to a small 3 percent raise during a time of inflation? Had the Negotiating Committee not accepted the TA and come back to the MEC and asked us, we would have made this decision. Instead, this and many other choices were made for the MEC and not by the MEC.

The time value of money was hotly debated as the safe thing to do, but is it the right thing? Pilots, like attorneys, are risk adverse, so seldom will you see a pilot with a second job as a venture capitalist. The companies know how we think, and this contract shows areas modified for a positive vote.

As predicted, an early retirement program was going to be tied to this contract. Is Delta buying the vote with **notional** Delta dollars? Up to \$120,000 for you and your spouse to pay for qualified medical expenses . . . look up the definition of notional. For a pilot group who has lost/frozen pensions, do you really want to put more compensation at risk? This MRA (Medical Retirement Account) is what you will be doing. If Delta were to file another Chapter 11, those funds would likely disappear. This money will have to last you and your spouse potentially 15-30-plus years, and it does not accrue any interest. Did the MEC do any real risk analysis of this program? If so, how can they justify a vote for this program that could span decades? This is a very large risk, in my opinion, so I guess each MEC member must have his/her entire 401(k) in cash? Logically they should, because they are risk adverse and that is the safe thing to do, although you will have no chance to outpace inflation.

I keep hearing the debate at the table that if the Delta pilots turn this TA down, we have to wait until 2015 to get a deal. Really? The head of ALPA Representation, Bruce York, said that companies always need something. The question you need to ask yourself is, was the regional jet issue the real target? Or, as I believe and have written, is it consolidation? Our CEO has made several statements on it, too. There are risk questions we must ask. Is it better to have an open contract during this time of uncertainty? We do not know the true corporate plans—should not the safe strategy be to keep our contract open to give us the flexibility to maneuver for **the right deal at the right time**? Gary Chase not only was an airline analyst, he also has connections with bankers and he now works for Delta. In a previous update I asked Mr. Chase the question, "Why Delta? Why

now?" If Delta is going to participate in consolidation, it's potentially going to need to borrow a great amount of money, more than a fistful of dollars.

How will additional debt stress the balance sheet? The interest Delta will pay will reduce our share of profit sharing, but will the additional debt be the excuse for the contract in 2016? Also during this time line, Delta will need to start re-fleeting the airline. More capital expenses needed at the end of our contract. Will Delta pilots hear that the debt level is too high and the company cannot afford raises? So in 2016, do we take less than inflation just to get something, anything? After the last 10-plus years, are pilots ever going to say that enough is enough? When do we start restoration based on profitability now? It appears that Delta pilots are in a profit window to have a contract, and management came to us. Is this contract what you really thought it would be?

So in processing the risk-versus-reward time value of money, the MEC surely had an expert or team of economic experts. ALPA was the team that provided the information, including a lawyer's opinion as to how good this agreement is for the Delta pilots. So, since we have attorneys telling us how great the deal is for us, there is a balanced need to point out a few things. These lawyers will never fly a plane under this contract. When I invest (assuming all my money is not buried in the back yard in coffee cans), I ask my broker how he is compensated from the products that I will purchase from him/her. In the case of ALPA being the sole investment advisor and our contract the financial investment, do I understand that my dues pay for these services? In these financially challenging times for ALPA, can we rely on unbiased financial advice, or is the temptation for immediate additional dues dollars just too great?

Again, does the MEC really know what is possible to negotiate for? We did not have a clear understanding of the risk involved in voting this TA down. What is possible? Are we risking, say, 2 percent in the short term for the opportunity of more—say, 20 percent—or is this a take-it-or-leave-it proposition? During the bankruptcy, merger, and JCBA talks, both the Delta and NWA MECs hired outside counsel to verify the synergy numbers from both the Company and ALPA. Not this time. If the MEC had an unbiased outside expert, what would he/she tell us?

Many members felt that the MEC would get another chance to open the contract if consolidation occurs. Again the question was, what leverage in this PWA allows that to occur? What would management need from us? The answer I got was not clear. In fact, it is my belief that there is nothing that would cause a need for another DALPA constructive contribution to the company for relief. In the area of JVs, the Company still comes to ALPA to ask for approval of a JV by a letter of agreement. So do you/we really think this MEC is going to deny the company's request for a JAL JV if we cannot transfer the Narita operation to Haneda? The majority on the Delta MEC would likely sell the rope to be used at our own hanging for the short-term gain while granting an LOA that would allow a significant reduction in transpacific flying, forever helping the company. How much stagnation would occur if half of our transpacific operation to support a Japan hub was lost? Those pilots have to displace somewhere. A clear benefit to Delta from a JAL JV would also be less debt to fund wide-body re-fleeting. So will there be any pilots flying for Delta in the future, or will those of us who remain be working for Delta the SkyTeam ticket broker?

The MEC administration said that we need to be **fast** to execute on this opportunity and to take advantage of the regional jet optimization. I cautioned the MEC that **Speed Kills**. We want to be flexible and able to adapt to the unknown, and an open contract gives us such flexibility and quite possibly the best leverage. We now have an open contract. We know management is going to have alternates. We should have alternates, too, but if the pilot group ratifies this TA, we will not.

You will need to evaluate the contract for what is. Did it meet the needs of you and your family? If it does, then vote yes. Did the MEC get even close to what you asked for? If it did not, then vote no. Delta is set to make record profits this year, and that was before oil went down. While a path for gains might not be clear at this time if you reject this TA, a path is going to emerge. There is so much going on in this industry and for our airline; do you feel that it is in your best interest to have an open or closed contract at this time?

My comfort level with this process has been akin to sitting in the jumpseat and watching an unstable approach. You point out some things, but you're not in control. The MEC should be in the left seat. As an observer you realize that the approach down the glide slope is out of tolerances and flown too fast. My vote of no was the statement to go around. You, the pilots who are now in the back of the plane, are going to choose. The MEC's and my parts are done. The time has come for you to use your judgment and your own reasoning skills to decide the fate of all Delta pilots. I took emotion out of the equation and the issues with the process and made, what I believe, is a purely economic choice.

For anyone to spin my vote as political, anger over the path, or my inability to stand up to angry constituents is disingenuous. Real contractual gains are not a North/South issue. Our common ground is repairing our contract, and now is the time. I look at myself as your representative, your voice at the table, whereas the South construct appears to be that of union leaders who are going to transmit the plan. I heard your voice loud and clear—the message was conveyed to me through the pilot contract survey.

I am not here to lead you down a path, but only to present the options for you to choose a path, and while the path may not be clear, the opportunity is. My concern is that over the last 10 very bad years we have endured in this industry, we have reset our collective DNA to be too risk-adverse to opportunity. We are no longer in bankruptcy, we have restructured. Delta approached us. When Capt. Tim Canoll addressed the MEC last week, he said, "In your mind you are doing the right thing." So I state for the final time before you vote: **In my mind the vote of NO is the right vote to cast.** Though I was in the minority on the MEC, the important question will be on July 1: Will I still be in the minority or with the majority of the line pilots?

Fraternally,

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