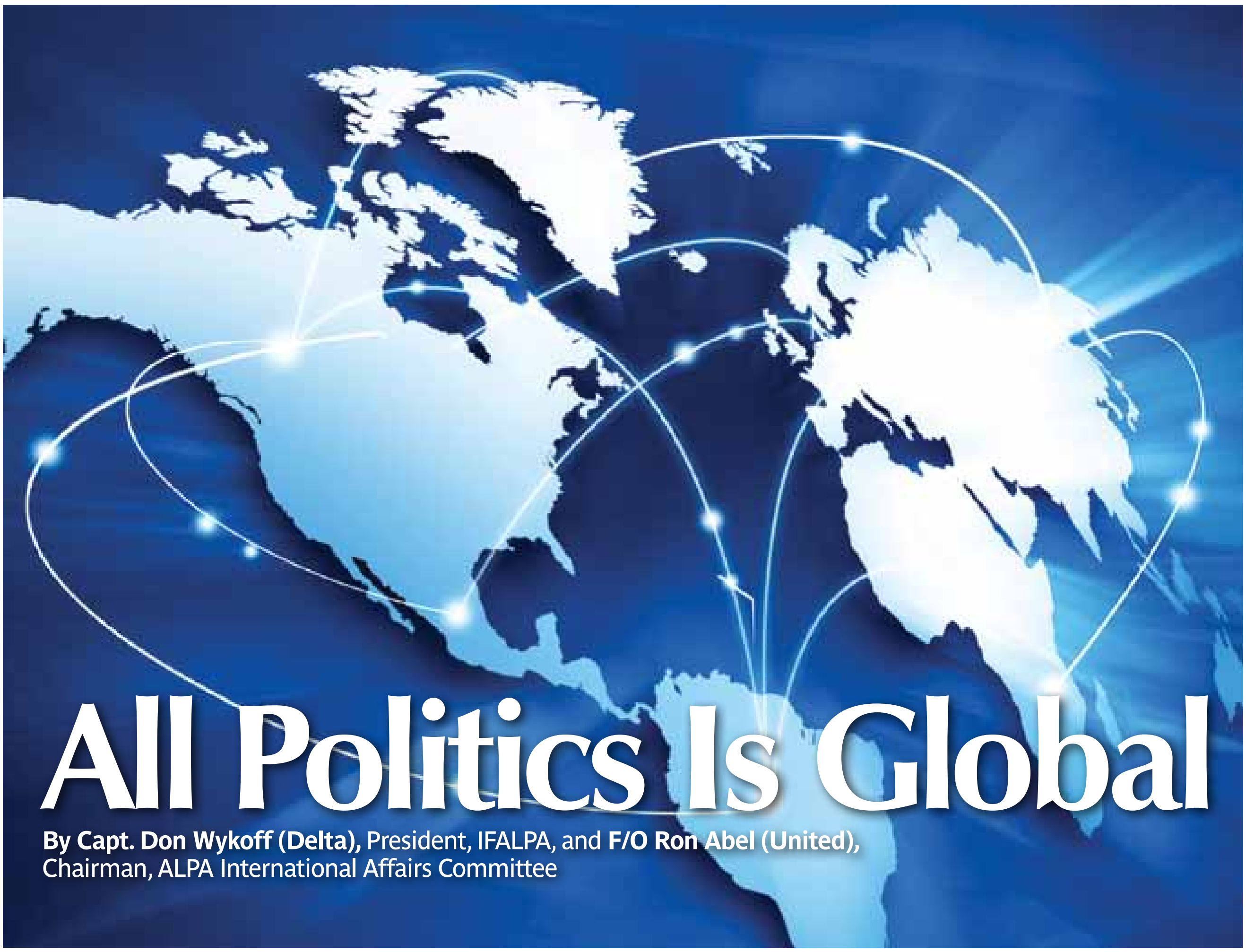

All Politics Is Global

By Capt. Don Wykoff (Delta), President, IFALPA, and **F/O Ron Abel (United),** Chairman, ALPA International Affairs Committee

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A career U.S. congressman famously said, "All politics is local." But this outspoken lifelong politician also knew that much in politics is global. That has become ever more true as our world continues to shrink. It is acutely true in the airline industry.

At the annual conference of the International Federation of Air Line Pilots' Associations (IFALPA) that will be held May 3–7 this year in Paris, France, we will grapple with a number of global issues that affect airline pilots everywhere, whether we fly internationally or not. While IFALPA itself is not political, we must deal with highly charged political issues that set our national governments at odds and that also threaten our careers.

On the next few pages we offer a quick look at some of the top international issues that U.S. and Canadian pilots face. Some of them threaten our fellow pilots on other continents as well.

ALPA's plan: constructive engagement

What can we—all of us—do to neutralize these threats?

ALPA's Government Affairs Department is pursuing several initiatives, congruent with the union's strategic plan, in a multipronged approach that depends heavily on staying involved in the regulatory process on many levels—on Capitol Hill and Parliament Hill and in several international bodies. ALPA is committed to a coordinated, strategic approach to constructive engagement with all parties.

We are particularly determined to continue to engage with the rest of the international pilot community—with our partners in international alliances and code-sharing agreements, and with our competitors as well. After all, what affects our partners and competitors will also affect us.

For example, rapidly rising taxes and fuel costs are putting increased pressure on other costs that managers see as controllable—labor costs. Thus we may be at a turning point, or entering an increasingly combative battleground, as airline managements' readiness to use collaborative problem-solving evaporates.

Significant legal and cultural barriers to transborder cooperation stand in the way of maximizing our partnerships within the international pilot community. However, we must overcome them. We must foster a willingness and ability to work together when our interests coincide; a cooperative relationship does not just happen. The importance of our being engaged, domestically and globally, so that we can have a voice in our future cannot be overstated.

EX-IM BANK: NOT PILOTS' FRIEND

Would you pay a group of complete strangers in a monarchy halfway around the world to eat your lunch?

No?

If you're a U.S. ALPA member, you're already doing so: Your taxes are being used, in part, to subsidize below-market financing so that foreign airlines—including several government-supported flag carriers—can buy Boeings. Big Boeings, and lots of them.

A U.S. airline industry group has estimated that the current policies of the U.S. Export-Import (Ex-Im) Bank permit these foreign airlines to save $5 million per year per B-777. Buy a bunch, and you're starting to look at some serious coin. These discounted financing rates are not available to U.S. airlines.

Whether you fly for a U.S. international airline or provide feed to one (or more), the unfair advantage provided to major foreign airlines (including Emirates, Singapore, Thai, and India's Jet Airways) by the Ex-Im Bank has alarming implications for your pay, benefits, and working conditions.

During the past five years, the Ex-Im Bank has provided financing for dozens of widebody aircraft, and many of these Bank-subsidized aircraft are being used to fly routes that are, have been, and could be served by U.S. airlines. But these U.S. airlines have found it necessary to withdraw from or not begin flying routes that might otherwise have been economically viable. Moreover, ALPA has seen signs that Ex-Im Bank financing of widebodies is likely to grow rapidly and increasingly threaten U.S. airlines' ability to compete on international routes, costing ALPA members and other airline industry employees their jobs.

In a letter sent to U.S. senators on March 12, ALPA's president, Capt. Lee Moak, noted, "Aircraft financing already represents more than 40 percent of all financing" granted by Ex-Im Bank. "Ex-Im Bank financing for widebody aircraft is expected to grow rapidly in the near future, and the threat posed to the U.S. airline industry and its workers by the Bank's using U.S. taxpayers' money to support our nation's competitors is very real."

Moak asked legislators to direct the Obama administration to negotiate with the four European countries whose export credit agencies support Airbus aircraft sales with the goal of eliminating export credit agency financing of widebody aircraft. This would eliminate credit agency financing of both Airbus and Boeing widebodies and allow all airline purchasers to compete for financing on a level playing field.

Moak also called on Congress to ensure that the Ex-Im Bank fulfills its congressionally mandated duty to

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EXPLOSIVE GROWTH OF PE

Spreading far and wide from their home airports on the Persian Gulf, three Middle Eastern airlines are pursuing with relentless determination their strategic plans to become dominant players in the global airline industry. Like the simoom—the hot, dry desert wind—Emirates, Etihad, and Qatar pose a serious threat to those not prepared for their onslaught.

Consider their strategic advantages: These airlines (Etihad and Qatar are state-supported flag carriers) are based in nations where unions are outlawed and cheap labor is available. They do not shoulder the oppressive burden of taxes that stifle the growth of U.S. and Canadian airlines; in fact, they operate in a tax-free environment. They boast large, new, fuel-efficient, long-haul fleets, often subsidized by taxpayers at below-market rates (see "Ex-Im Bank: Not Pilots' Friend," above).

Their hub airports are not yet constrained by air traffic congestion or close enough to conflict with each other. Their national governments are pouring billions of dollars—and a lot of concrete—into expanding their airports and related infrastructure. Those airports are uniquely positioned to become the new dominant international crossroads.

Who are they?

Emirates is a subsidiary of the Emirates Group, which is wholly owned by the government of Dubai via the Investment Corporation of Dubai.

The airline was conceived in March 1985 after Gulf Air began to reduce service to Dubai. Emirates started flying in October 1985 and became profitable within its first nine months. By the early 1990s, it was among the world's fastest growing airlines.

Emirates was able to grow rapidly partly because of the distinct advantages of its hub airport, Dubai International, which has no ban on night flights and little air traffic congestion. An article in the July 7, 2011 issue of *The Economist* noted, "Dubai is, in essence, a tax-free zone with access to cheap labor from the Indian subcontinent. Emirates reported a 52 percent rise in profits [in May 2011]; the year before they increased fivefold. Because its routes are exclusively long-haul, Emirates has planes flying 18 hours a day, making them remarkably productive."

Emirates flies a mixed fleet of Airbus and Boeing widebodies and is one of only nine airlines to fly only widebodies. In 2009, Emirates became the world's largest operator of Triple Sevens, which are the most common airplane in their fleet. In November 2011, at the Dubai analyze any potential financing to ensure that granting such financing would be a net positive for U.S. industry and employees.

A week later, the U.S. Senate, by procedural vote, blocked adding reauthorization of the Ex-Im Bank to other legislation under consideration by the Senate.

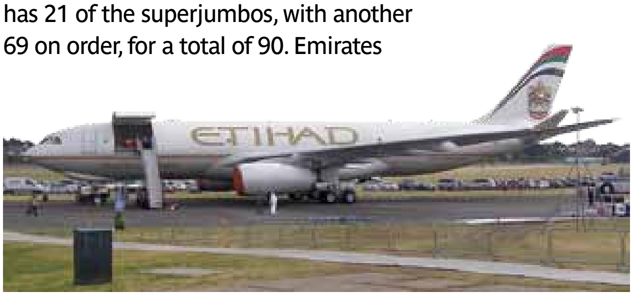
In response, Moak pointed out, "ALPA does not oppose the Ex-Im Bank's reauthorization, and we hope that, with additional time before the final reauthorization is considered, all parties interested in the Bank's reauthorization, including ALPA, can work together to amend the reauthorization to protect U.S. airline workers' jobs without putting the Bank's ultimate reauthorization in jeopardy."

Moak reiterated that ALPA's goals remain (1) to negotiate away all European and U.S. export credit agency financing of widebody aircraft, and (2) that Ex-Im Bank conduct the congressionally mandated economic effects analysis for all its potential financing; if the proposed financing would have a net negative effect on U.S. jobs, it should not be approved.

RSIAN GULF AIRLINES

Airshow, Emirates signed a record-breaking $24 billion order for 50 Boeing 777-300ERs, the biggest single order in Boeing's history, with options for 20 more.

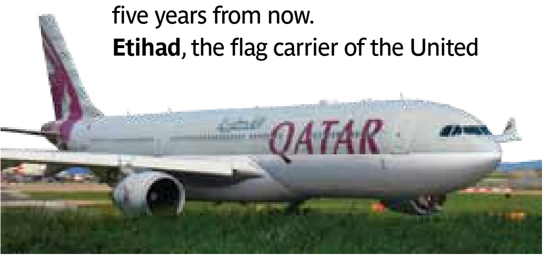
Emirates also is the world's largest operator of the world's largest airliner, the Airbus A380. The airline currently has 21 of the superjumbos, with another 69 on order, for a total of 90. Emirates has expressed a desire to ultimately expand its A380 fleet to 120 airframes after more airport space becomes available.



PHOTOS: WIKIPEDIA COMMONS

Based on orders for new aircraft, by 2015, Emirates will have a larger fleet than the entire oneworld alliance. By available seat miles (ASMs), Emirates—which already has the world's largest widebody fleet—is projected to become the third largest airline in the world just five years from now.

Etihad, the flag carrier of the United Arab Emirates, was created in July 2003 by royal decree and began operations in November 2003. Based in Abu Dhabi, the company has become, in less than a decade, the fastest-growing airline in history. Etihad now flies 66 airplanes but has another 102 on order plus 85 options. With a company slogan, "From Abu Dhabi to the World," Etihad already operates more than 1,200 flights per week to 82 destinations in more than 50 countries.



Qatar, the flag carrier of Qatar, was established in November 1993 and started flying in January 1994 with a single wet-leased B-767-200ER. Today, the airline operates a mixed fleet of Airbus narrowbody and widebody aircraft plus 30 B-777s. The current fleet of 107 airplanes will swell with the 185 new airplanes on order plus 33 options. So will the Qatar route map, which currently includes 115 international destinations. And the airline recently announced that it plans to double its service to the United States.

Airport expansion

The governments of Qatar and the United Arab Emirates are investing billions of dollars in airport expansion.

Abu Dhabi International is undergoing a major expansion, which will include building a second runway 13,452 feet long.

In Qatar, **Doha International** has only one runway, but it's 15,000 feet long. Moreover, Qatar is building a replacement airport, New Doha International, expected to open early next year. New Doha will have two parallel runways—one 16,100 feet long, the second, at 17,700 feet, the longest runway in western Asia.

Dubai International, which has two Category III runways, 14,580 feet and 13,124 feet long, is complemented by Al Maktoum International (also known as Dubai World Central International), a 54-square-mile airport that began cargo operations in 2010 and expects to add passenger operations in 2012. When completely built out, Al Maktoum will have five parallel runways, each 14,764 feet long. By next year, it is expected to be the largest air freight hub in the world, measured by the millions of tons of freight handled at the airport.

A glance at a world map shows that these Persian Gulf airports are uniquely situated to become first-tier international hubs connecting the Americas and Europe with Africa, the Mideast, and Asia. The EU emissions trading scheme? Fly right past it! (See "EU ETS: A Tax by Any Name," page 20.)

Two millennia ago, all roads led to Rome—at least, from the perspective of the Romans. In the 21st century, will we soon say, "all jet routes lead to Dubai?"

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EMERGING AIRLINE BUSINESS MODELS

In response to market liberalization in Europe, low-cost airlines in that zone evolved primarily as transnational airlines (TNAs). Ryanair and easyJet are prime examples.

However, the TNA is no longer exclusively a European model. We are watching an accelerating trend to establish low-cost subsidiaries across national borders using a uniquely Asia-Pacific/Middle East joint-venture formula. Fourteen full-service airlines in these zones have their own low-cost subsidiary or subsidiaries of some kind.

We are also watching the rise of transnational airline holding companies (TNAHCs). Sometimes these entities are being formed to facilitate transborder acquisitions or mergers, as in the case of Air France/KLM or the Lufthansa Group (Lufthansa, Austrian, bmi, Brussels Airlines, and Swiss). In other cases, they are merely created to separate relevant labor groups and form a barrier to effective collective bargaining representation.

Even in the former case (Air France/KLM and the Lufthansa Group), strong and effective scope protections are needed to prevent whipsawing pilot groups against each other in a race to the lowest common denominator in wages, benefits, and working conditions.

Recent developments at Qantas highlight management's effort to outsource pilot jobs by creating offshore subsidiaries in low-wage countries that are hostile to labor. These subsidiaries (Jet Star, Jet Star Asia, Jet Connect, and Q) are being used to undermine the ability of Qantas pilots to protect their own jobs.

Three things are particularly important to note concerning Qantas:

First, the outsourcing of pilot jobs is transborder. This is deeply pernicious because the national focus of most labor laws makes mounting an extraterritorial industrial response very difficult.

Second, forming subsidiaries to circumvent collective bargaining agreements is not unique to a few rogue airline managements. Airlines around the world are employing this tactic.

Third, the need for strong and enforceable scope agreements that protect pilots from whipsawing is more important today than ever before. Transborder airline holding companies only multiply the potentially potent downside of globalization of the airline industry.

Competing with, or being part of, a TNA will present new and formidable challenges for airline pilots everywhere. We need to be proactive in our strategy and include the implications of this trend in our calculus.

Changes in judicial and regulatory environments that span national borders have not kept pace with the global nature of our industry. A framework for dealing with supranational labor issues still has to be constructed. Unless a workable legal framework exists, and appropriate, enforceable contract provisions are put in place, we face significant risks to our pay, benefits, and working conditions.

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EU ETS: A TAX BY ANY NAME

The European Union (EU) has already started trying to cap the annual carbon emissions for each airline and to allocate an emissions allowance to each. Airlines would be required to surrender one allowance for every ton of carbon dioxide (CO_2) emitted on a flight to or from the EU. If an airline were to exceed its allowances, the EU emissions trading scheme (ETS) would impose a heavy financial penalty by forcing the airline to buy more. The ETS would apply to U.S. and Canadian airlines beginning in April 2013.

This tax masquerading as an environmental benefit would be, in ALPA's view, illegal, ill-advised, inappropriate, counterproductive, and an onerous burden on airlines. The billions of dollars expected to flow into EU coffers would cost many thousands of North American airline jobs—while the EU refuses to even promise to use its proposed windfall to fund environmental improvements.

If European and North American airlines are forced to pass on the EU ETS tax to passengers and shippers via increased fares and cargo rates, the Persian Gulf airlines would gain further competitive advantage by bypassing EU airspace.

On March 28, Capt. Sean Cassidy, ALPA's first vice president, participated in a congressional roundtable discussion, urging the Obama administration and Congress to block U.S. participation in the EU ETS. Also attending were representatives from the House Aviation Subcommittee, the Department of Transportation, the FAA, the Department of State, and the U.S. airline industry.

"Our airlines are under tremendous market pressure to reduce fuel consumption and emissions so they may continue to compete in the world market," Cassidy told the congressional roundtable. "Being greener leads to a better bottom line, so they do not need any artificial incentives to urge them to make the best possible use of every gallon of jet fuel."

ALPA opposes the EU ETS as it further taxes the airline industry (which is already taxed more heavily than tobacco and alcohol), reduces the ability of U.S. airlines to invest in emission-reduction technology, and violates U.S. sovereignty. In addition to Cassidy's roundtable participation, Moak met with White House officials, asking them to file an Article 84 complaint against the EU to challenge the legality of the scheme [see "Guest Commentary," page 7, regarding legislation passed in the U.S. House of Representatives].

ALPA's multi-front fight against this outrageous attempt to balance EU nations' budgets by extorting money from airlines is far from over, and many other entities, including foreign governments, trade associations, Airbus, and the International Air Transport Association have warned the EU of the dire consequences of pursuing the planned ETS.

So far, however, the EU hasn't blinked.