

**American Airlines
Remarks of Don Carty
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[3,100 words]

Good afternoon. I appreciate the chance to be here, and to discuss the state of our industry with a group that shares my interest in the future of commercial aviation.

We are an industry in crisis, ladies and gentlemen. It's a crisis with many causes, many symptoms – and unfortunately, I don't have any easy answers to pitch today – I wish I did. The good news is that there are a lot of good, smart people working the various problems. The bad news is that our tendency in the aviation community to undermine, to attack, to question motives, to withhold the benefit of the doubt, to assume the worst of each other, threatens to doom the efforts of these good people. And as a consequence, our collective future as an industry will be far less bright than it can – or should – be.

These Aero Club events are somewhat of a microcosm of our industry. While we all may be in the room together, we usually sit at our separate tables, gathered with our own colleagues and brutally dissect the remarks of the speaker afterwards. That is unless, of course, you happen to work for the speaker, in which case you vainly attempt to lead a standing ovation.

So we at American decided to try something different today. Instead of filling our tables with employees and consultants – which would have taken up another room in any case – we invited to sit at our tables today an eclectic group of people from government, labor, airports, airline passenger and business advocates, and even our fellow airlines.

We invited this eclectic group to be here with us because the message of my talk is that while we may think we are all operating as independent gladiators in the glamorous world of aviation, in reality, we are all sitting in the same boat. And at the moment, our boat is looking mighty flimsy.

It's been more than two decades since deregulation transformed the airline industry into one of the most cut-throat, bare-knuckled businesses in the world. And I think it's fair to say that our experiences at American during that time have been emblematic of the industry as a whole. We've had soaring triumphs and crippling defeats – dazzling innovations and brilliant mistakes. The Good, the Bad, and the Ugly, we've seen it all. And unfortunately, in recent days, we – as in industry – have seen more Bad and Ugly than Good.

As leaders, our job is to move the dial back towards the Good – and it may surprise you to hear that I believe a good first step in that direction would be the immediate return of the old Civil Aviation Board. (pause) Only this time, without the Board. What we need is civil aviation, with the emphasis on the word civil.

I am not here to ask, "why can't we just be friends". We don't have to be friends, or even like each other. But we can be civil, and we must recognize that our interests, as well as our destinies, are bound together. What's more, the compulsion that every industry player – American included -- seems to feel to game the system for short-term gains will ultimately be the undoing of our entire industry if we don't put a stop to it.

In our ever-more-interconnected economic system, the foundation of success – for any person, business, or even governmental agency – is a network of constructive, mutually-rewarding relationships. Unfortunately, throughout the aviation world, we seem to have replaced the civility that characterizes successful relationships with a game of "gottcha."

Let's look at a few examples, starting with how airlines and airports relate to each other. Over the years, we have made way too much of our differences, and not nearly enough of our common interest in keeping aviation the nation's premier mode of transportation. Sometimes our political debate simply gets stuck on auto-pilot. We may occasionally differ on some issues, but our goals are largely the same. We are certainly not each other's enemies – if there is an enemy, it is cars, trains, busses, or anything else that siphons business away from us.

How do we get off auto-pilot in the prickly political relations between airlines and airports? First, those of us in the airline business should stop demonizing PFCs and other forms of airport financing. We desperately need new runways, terminals and other facilities. We in the air carrier sector should be open to any cost-effective funding mechanisms – particularly those that enhance collaborative decision-making on airport capital spending. At the same time, those in the airport business ought, in my view, to tone down anti-airline rhetoric, and abandon efforts to become airline regulators themselves. I'm distressed when I hear friends the airport world endorsing the notion that airlines over schedule, and advocating "solutions" such as peak hour pricing. In fact, two things I have never heard a customer complain about – maybe the only two things – are that we the airlines offer too many flights between various cities at a particular time, and that our fares at peak hours just aren't high enough.

Here's an analogy to think about next time you're waiting in line to get into a football game. If you hate waiting in that line, you might think about what could be done to reduce your wait, and then think about what should be done. Here's the problem: for approximately 357 days of the year, you could drive right up to the stadium entrance without any wait at all. But the only time you actually want to be there is when 70,000 other people do as well. So on those game days, how do you avoid the wait?

Option 1. You can simply leave your house for the game earlier, knowing that you'll make it just fine if you build in a little extra time to account for the congestion. This is precisely what we in the airline industry do today by increasing our block times during the peak hours to take into account the increased time necessary to cope with the peak-hour congestion. Option 2. The team or stadium owner could be encouraged to build more parking lots to accommodate the anticipated volume, thus enabling everyone to park more quickly and easily. This is what we in the airport and airline communities are collectively trying to accomplish by building new runways and airport infrastructure.

Option 3. The team could be required to sell fewer seats to each game. With fewer seats available, the lines to the parking lots will be shorter. In our world, we do this with slot and capacity controls. Option 4. The team could be required to charge so much money for tickets to the game that it keeps all those pesky middle class people away. That means not only will the lines be shorter, the quality of cars on average will vastly improve. This, in our business, is called peak-hour pricing.

As you might guess, I'm not very enamored with options 3 and 4. It seems to me that the notion that we should either artificially reduce the supply – or artificially raise the cost -- of a product our customers are desperate to buy is neither the correct response of a free market, nor of a country that prides itself on its ability to solve problems.

Our collective focus needs to be on giving our customers and constituents what they want. But from an airline perspective, this has almost become a "labor of Sisyphus." Those of you who are scholars of classical mythology know Sisyphus as the king who offended Zeus and was punished by being forced to roll an enormous boulder to the top of a steep hill. Every time the boulder neared the top, it would roll back down, and Sisyphus would have to start over.

The relevancy of that story to me is that – despite the bad press we've gotten in recent years – I can tell you that American has invested more money during the last three years, trying to offer a better product and traveling experience for our customers, than we've done in any previous *ten* year period. And while I'm proud of the things we've done – from More Room Throughout Coach, to our expanded luggage bins, to the rescheduling of our connecting hubs, to dozens of other initiatives – I can see in the marketplace that many of our competitors are doing the same sorts of things.

And yet, despite all this, airline customers today are probably less content than they've ever been – which means we have some more work to do. We are intensifying our own efforts to make the

system work. We're developing and applying new technologies to speed along airport processes and share more information, faster, with our customers.

It's somewhat ironic that the thing we're most frequently criticized for these days is our ongoing struggle to communicate with our customers about the causes of delays they experience. Think about that for a second. We have the same or better lines of communications today that we have ever had. Is the root of the problem our failure to communicate, or is the root of the problem the delays themselves?

Even with the most sophisticated communications technology possible, the disenchantment of today's air traveler will not go away until we get at the root of our most pressing issue – air traffic control. I mention this widely-accepted fact – not to shift the responsibility for customer satisfaction – nor to point fingers – but simply to underscore the frustration caused by the fact that while all the efforts I mentioned are great, as an industry, the relationship between the airlines and our customers will remain damaged until the reliability and dependability of years-gone-by is restored to the nation's ATC system.

Which naturally brings me to the relationship – and in particular, the tone of the relationship – between the airlines and government. Here's an instance where our interests couldn't be more aligned. To wit, we've both got to answer to the same constituency. And though, they'll complain to whomever will listen, I believe -- perhaps naively -- that Americans are less concerned with assigning blame than with what's being done.

I think everyone involved – and we've got great people, from Administrator Garvey, to Secretary Mineta and men and women throughout the world of aviation focused on finding solutions – I think we all can agree that collaboration is crucial, and the first step toward effective collaboration is a civil dialogue.

But while dialogue and action go hand in hand, they are not the same thing. I can tell you that while Washington, DC is a great place to visit, sometimes I almost feel as though I live here. In

the past nine months, there have been some 33 Congressional hearings related to aviation issues. I have personally participated, happily of course, in five of those hearings, and other American Airlines officials have participated in three more. The point is, the way the game is played in aviation today, all of us are spending an extraordinary amount of time and energy here in Washington, responding to political issues, as opposed to focusing our energies on actually finding solutions, and running our airlines the best way we know how. To paraphrase a country song popular back in Texas, it's time for "a little less talk, and a lot more action."

The good news is that there are now serious attempts by both sides of the airline/government relationship to reorient ourselves away from assigning short-term blame, and towards an approach based on less rhetoric, less debate and more action to ensure our collective future, and meet our collective responsibilities. This means not only trying to find long-term solutions to ATC issues, but to make sure that the system works as well as possible until we get there. Among other things, we should be sure that the staffing levels for air traffic controllers remain at the levels needed to run the system in the years ahead. I am worried about the potential of huge numbers of controllers retiring in the next one to three years. We have no time to spare in raising this issue to the highest levels in Congress and the Administration. We also need to provide the FAA with the most tools possible to deal with the Spring-Summer season. Among those should be permission to grant antitrust immunity to carriers on a daily basis to discuss schedule rationalization in ways that even out the impact of cancellations throughout the system.

Primary among our responsibilities, of course, are safety and security. But while our public-private sector collaboration has historically been quite effective in this regard, I fear we are in danger of losing our way at the moment. Don't think for a moment that I am against a vigorous regime of federal safety regulation. But I am also absolutely convinced that the single greatest safety tool is the encouragement of self-disclosure and sharing of safety data among all the parties. And I am worried that the principle of self-disclosure – which has contributed to so many safety enhancements – may now be in jeopardy because of increasingly enormous fines proposed against carriers concerning circumstances reported by the airlines themselves. What's more, the

industry at large finds itself at the mercy of paperwork audits and security audits that continue indefinitely, until a violation is found. We simply cannot afford to allow the gottcha game to ruin the gains that we have made in safety through self-disclosure and collaboration.

Unfortunately, I think the safety/security issue is analogous to the customer service issue in that the inability of government and industry to collaborate in a coherent way undermines the mutual trust needed to produce the safest possible aviation system – and, time and attention that would be better spent proactively searching for and addressing potential safety issues is spent playing defense in an atmosphere of increasingly confrontational government audits.

I've spoken thus far of the need to replace confrontation and hostility with collaboration and civility as it relates to airlines and government – and I'm sure the question running through many of your minds is "what about airlines and labor?" After all, the labor relations in our business today are probably less settled than they've ever been.

Civility, collaboration, recognition of shared interests, words and deeds characterized by mutual respect – these describe the management-labor relations the airline industry will need if we are to have any hope of reaching our potential in the years to come. And it's no secret to anyone here that there's a pretty big gap between that ideal and today's reality.

The gravity, and the complexity, of the situation is such that I'm not sure I could even do it justice with an entire speech. What's more, as important as it is, and as much time as we all spend thinking about it, I don't have an easy answer – especially in the short term. Because ultimately, relationships require trust, on both sides, and trust takes time.

In the small amount of time I have today, the best I can probably do is talk about the symptoms of the problem. What are the symptoms? The symptoms are that we have fallen into a pattern in which management and union leadership reach tentative agreements, which are then voted down by the rank and file.

This failure to negotiate ratifiable deals is a disaster for all concerned, since not only do we have operational uncertainty, not only do we have interruptions that seriously harm our customers, but we're also faced with political upheaval within the unions representing our people. Witness the almost continuous state of leadership flux at unions scattered throughout the industry. Witness the fact that organizing drives have gone on – among already-unionized employee groups – at several airlines, and two of those drives have been successful.

The inability of management and the unions to sit down, and hammer out reasonable deals in a civil way has become a national problem. For several years, we've had politicians of all stripes coming out of the woodwork, saying "we must not have any more of these service interruptions." And what has been our response? Instead of working out our differences, we have seen Presidential Emergency Boards invoked at airlines twice in the past four years, with threats of more to come – this after a period of almost thirty years with no PEBs.

The chaos of today's labor relations is a debacle for all involved. And realistically, until the management-labor relationship improves, it is very unlikely that our industry's relations with our customers, or with government, will get any better either.

Again, I wish I could say "here are the three or four things we need to do to fix this." But the situation's too far gone, and too complex for that. I think management and union leaderships around the industry have a lot of soul-searching to do. And I know that a renewed commitment to civility – all around – would be a good start toward closing the gap between where we are and where we need to be.

Finally, some of you may remember that in my remarks here a couple years ago, I spoke of the airlines' need to get along better among themselves. I'd like to say that since I gave that speech, we've learned as an industry how to overcome our natural, and often healthy, inclination to kill each other -- and have learned, when appropriate, how to band together to fix our common problems and pursue a rational, mutually-beneficial industry agenda here in DC and elsewhere.

I'd like to say all that, but I can't. We are doing better in some areas, but still too often, one carrier will bad mouth another, will bend or fracture the truth in pursuit of some lobbying objective – or just generally act in a way that makes it harder for any of us to trust, or get along with each other.

The bottom line, in my view, is this: airlines, airports, government, labor – like it or not, we're all in this together. We share a common destiny, and history will judge us all – not based on the outcome of a few debates and skirmishes – but based on our ability to work collaboratively, and civilly, to build the future we all want for aviation in this country. At American, we're committed to doing our part, to leading this effort, and I look forward to being back here at the Aero Club down the road, when I will be able to report – I hope – on all the progress we will have made together.

Thank you very much.