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Airline avoids bankruptcy

From correspondents in New York
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AMERICAN Airlines, the world's biggest airline, appeared to swerve out of the way of a colossal bankruptcy today, as it squeezed workers' pay.

On other end of the scale, US Airways, the seventh-largest carrier, emerged from seven months of restructuring at the bankruptcy court, only to fly straight into an unprecedented industry crisis.

Both carriers want to combat plunging traffic during the Iraq war with fewer, less costly staff.

American Airlines, part of AMR Corp, appeared to be nearing its goal of slashing costs permanently by \$US1.8 billion (\$2.9 billion) a year to avoid a bankruptcy filing.

The Fort Worth, Texas-based airline said it had struck a tentative deal with the mechanics, the last of eight groups of Transport Workers Union (TWU) members to reach an agreement. The TWU covers 35,000 people at the airline.

The Association of Professional Flight Attendants (APFA) said it also had reached a draft agreement with American Airlines, which was being looked over.

News of the latest deals sent its shares shooting higher. AMR stock leapt 52 cents, or 32.91 per cent, to \$US1.58.

Only the pilots have yet to reach an agreement.

The Allied Pilots Association, representing 13,500 pilots at the airline, said yesterday it had presented management with a plan to save \$US660 million (\$1.1 billion) annually.

US Airways, which slashed \$US1.9 billion (\$3.1 billion) a year in annual costs under the supervision of the bankruptcy court, said it had secured \$US1.24 billion (\$2 billion) in financing to boost liquidity.

"We have taken very difficult - some would even say impossible - steps to restructure our company and lower our costs," US Airways president and chief executive David Siegel said in a statement.

"But government imposed costs continue to strangle this industry, and the war's direct impact has been substantial," he warned.

"I am very hopeful that Congress will respond with appropriate relief for the losses airlines are suffering because of the war and more stringent security requirements," he said.

The US airline industry last week appealed for some \$US4 billion (\$6.6 billion) in government aid, saying the outbreak of the Iraq war and terrorism fears had pounded air travel.

US Airways secured a \$US240 million (\$398 million) equity investment from Retirement Systems of Alabama Holdings LLC (RSA) in return for a 36.6 per cent stake in the carrier.

It also secured a \$US1 billion (\$A.6 billion) loan, backed by a \$US900 million (\$1.4 billion) government guarantee approved by the Air Transportation Stabilisation Board (ATSB).

"All funds were received today," the Arlington, Virginia-based US Airways said.

US credit rating agency Standard and Poor's downgraded AMR's debt on Friday, along with three other major carriers: Continental, Delta, and Northwest, citing the impact of the Iraq war.

AMR debt was cut to CCC - meaning it is considered to be vulnerable to default - from B-minus.

"The downgrades reflect financial damage from reduced revenues and deeper losses leading up to and during the Iraq war, and the risk of further deterioration should the war prove long and difficult, or if significant terrorist attacks occur," said Standard and Poor's credit analyst Philip Baggaley.

"Although fuel prices have fallen since the war began, aiding airlines somewhat, an accelerating erosion in passenger traffic will further undermine already weakened airline liquidity," he said.

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