



Aircraft Mechanics Fraternal Association

Administration Office: 67 Water Street, Suite 208A • Laconia, NH 03246

Tel: 603 527-9212 • Fax: 603 527-9151

TO: O.V. DELLE-FEMINE
NATIONAL DIRECTOR

FROM: KEVIN F. MCCORMICK
NATIONAL ADMINISTRATOR

DATE: MAY 21, 2001

RE: AMFA/NWA SUBCONTRACTING LIMITS

I have read the May 3, 2001, IAM Memorandum titled Subcontracting Limitations - NWA and UAL, and I believe that a comparison of subcontracting limits between the NWA contract and the UAL contract is not the appropriate comparison. If the IAM is attempting to rate the effectiveness of AMFA's subcontracting language to its own, then a more appropriate comparison would be the IAM language negotiated over its 40-year tenure at NWA versus language negotiated by AMFA after only 20 months of representation. Under the IAM contracts there were no limitations to subcontracting, theoretically allowing the Company to subcontract 100% of its work. Under the AMFA negotiated contract, the Airframe, Engine and Components (Tech Ops) division of the Company is limited to 38% of total labor dollars, which is some 263% better than that allowed under the IAM negotiated contracts at NWA. Additionally, the Memorandum fails to state that the subcontracting limit for Plant Maintenance is only 18%, Facilities Maintenance is only 28%, and Ground Operations Cleaners is only 7%.

Since the May 3rd Memorandum attempts to compare the AMFA/NWA methodology of subcontracting limitations to the UAL/IAM methodology, I will address the issues in the order they were raised:

1. I am not familiar with the "document" referred to that allegedly contradicts the language in the contract, but the 38% Tech Ops limit is intended to be a percentage of the total of outside vendor labor plus in-house labor, as is stated in the contract.

The language in Article II D of the UAL/IAM contract states "The Company can contract out up to 20% of all maintenance work annually as measured by the sum of the Maintenance Operations Division's gross annual budget, plus those portions of stations' total gross annual budgets, attributable to building maintenance and ground equipment maintenance...." Therefore the statement that AMFA's 38% calculation (labor only) is directly comparable to the 20% limit (total budget) is simply inaccurate.

2. The following is also an inaccurate comparison. If the \$138 in the example used by the IAM is the amount for total labor (outside vendor plus in-house) to apply the 38% AMFA limit, then it cannot also be used as the total of the Maintenance Operations Divisions gross annual budget to apply the UAL 20% limitation. This is mixing apples with oranges.

Instead of using hypothetical numbers, we will use the actual NWA Tech Ops expenses for 1997-1999 and apply both AMFA's 38% of labor limitation and the IAM's 20% of total expenses limitation to determine which method results in a lower amount of Airframe, Engine and Component subcontracting allowed at NWA:

(\$000)	1997	1998	1999	3 Year Total
Total Tech Ops Expenses	\$ 1,231,172	\$ 1,399,958	\$ 1,299,062	\$ 3,930,192
Maximum subcontracting allowed under IAM 20% total expenses method	\$ 246,234	\$ 279,992	\$ 259,812	\$ 786,038

Tech Ops. In-House Labor	\$ 324,941	\$ 317,536	\$ 292,899	\$ 935,376
Maximum subcontracting allowed under AMFA 38% labor method	\$ 199,156	\$ 194,619	\$ 179,519	\$ 573,294
AMFA vs IAM \$000	\$ 47,078	\$ 85,373	\$ 80,293	\$ 212,744
%	23.6%	43.9%	44.7%	37.1%

This example, using actual data, clearly demonstrates that from 1997 to 1999, the IAM methodology would have allowed NWA to subcontract \$212,744,000 (37.1%) more than under AMFA's negotiated language. In order to meet AMFA's subcontracting limitations the IAM would have to have had a 14.5% limitation, not 20%.

- Article II C of the UAL/IAM contract states "...the Company reserves the right to contract for building maintenance or repair work when the Company's personnel or facilities are not sufficient or available; or to continue to contract out the types of work heretofore customarily contracted out; or to contract out any work when its facilities or personnel are not sufficient or available. Subject to the limitation set forth in Article II, Paragraph D, the Company reserves the right to contract out other work, but if such work comes within the Scope of this Agreement, notice will be served on the Union before such contracting takes place."

Enough said about exceptions.

- Prior to recommending this method of calculating subcontracting limits, we spent a considerable amount of time reviewing the company's internal detailed financial records and determined that there was sufficient information contained on invoices, including the breakdown between labor and materials, that would allow us to monitor the Company's compliance with the limitations. As part of the contract, the Company has agreed to quarterly audits to ensure compliance. The extra administrative work required to audit NWA records to monitor AMFA's negotiated language is more than justified by the \$212,744,000 savings realized over the less complicated method promoted by the IAM.

Additionally, limiting the number of budget items used to only in-house and outside vendor labor greatly reduces the areas that "accounting mischief" can occur. Using the IAM's total budget approach allows greater manipulation in the areas of management wages and benefits, non MCC classification wages and benefits, materials, overhead, supplies, capital projects versus expense projects, etc.

- Using DOT Form 41 Reports for analyzing financial performance is risky at best since no two carriers group their financial information in the same manner. The information on Form 41 is a carry-over from the pre-deregulation era, and the categories used in these reports are so broad and general that an airline-to-airline comparison is virtually impossible. Form 41 data is generally used by industry analysts to compare load factors, yields, and other general operating statistics.

It should be noted that the IAM propaganda literature states that "Northwest has NO Farmout Cap!" If this were true, why would the IAM publish their May 3rd memorandum attempting to compare the NWA subcontracting limits to the UAL subcontracting limits – two documents that are in direct contradiction to each other? If UAL exceeds its subcontracting limitations, the IAM could file a grievance. If NWA exceeds its subcontracting limitations, the AMFA membership will receive 100% of the amount in excess of the limitation without having to file a grievance.