Transportation by Anthony K. Wikrent

Another airline may not fly much longer

Northwest Airlines is threatening its employees with bankruptcy, as enormous debt payments loom.

Northwest Airlines has told its employees that the company may be forced into bankruptcy if they do not grant nearly $1 billion in contract concessions. In a letter to the International Association of Machinists (IAM) in the first week of June, Northwest's general counsel, Ben Hirst, wrote that if $900 million in concessions are not granted, Northwest "will be forced by economic realities to seek the abrogation of our collective bargaining agreements and the judicial imposition of substantial labor cost relief."

Hirst's letter was written immediately after IAM members rejected the advice of their national leadership and overwhelmingly rejected a proposal to grant Northwest $346 million in contract concessions. The International Brotherhood of Teamsters, which represents Northwest's flight attendants, immediately cancelled its vote on the issue. However, the Airline Pilots' Association has continued to negotiate with Northwest's management.

Northwest was one of the last large leveraged buyouts (LBOs) of the 1980s, completed just weeks before a failure to consummate the LBO of United Airlines triggered the October 1989 stock market mini-crash. Northwest has been crippled by $4.16 billion in debt stemming from the LBO, which was engineered by Al Checchi, the sweet-talking former adviser to the billionaire Bass family; Gary Wilson, the master of financial legerdemain from Disney Co. and Marriott Corp.; and Fred Malek, the former co-head of George Bush's failed 1992 reelection campaign. Checchi, Wilson, and Malek put up only $50 million of their own money in the financial maneuvers that gave them control of Northwest.

The latest panic at Northwest is due to the fact that the first big repayments of LBO debt ($1.5 billion) are due to begin in January. Their problem is that Northwest has been losing $2 million a day over the past four years, and the three have already tapped every other source of credit in sight:

- In the original 1989 deal, $400 million, or 70% of the equity, was provided by KLM-Royal Dutch Airlines, in return for only 20% voting rights. In November 1992, when Checchi, Wilson, and Malek asked KLM to ante up an emergency cash infusion of $500 million, KLM's board turned them down flat. By February 1993, KLM had written off the entirety of its original $400 million investment.
- In September 1990, Checchi, Wilson, and Malek obtained a $500 million loan from Airbus Industrie (the European jetliner maker) and General Electric Co., in exchange for Northwest agreeing to buy 75 Airbus A-320s equipped with GE engines. This spring, Northwest was forced to cancel the rest of its Airbus order.
- In May 1991, the Minnesota legislature approved $740 million in low-interest loans to Northwest, supposedly to build maintenance facilities for Northwest's new Airbus A-320 passenger jets. Gov. Arne Carlson quickly signed the package into law. Soon afterwards, the Minneapolis-St. Paul Metropolitan Airports Commission agreed to back an issue of $320 million of 30-year bonds. Northwest promptly used half of the $320 million to pay operating expenses; the stunned MAC quickly sequestered $50 million in a separate account to make sure interest payments would be made.
- By November 1992, Northwest had exhausted its $600 million credit line with its banks, and Wilson convened an emergency meeting with Northwest's creditors. By February 1993, all Wilson could squeeze out of them was another $50 million from KLM, $50 million from GE, $30 million from Airbus, $50 million from United Technologies, and $20 million from ABN Amro Bank (KLM's bank). Bankers Trust, which had been the lead bank for the 1989 LBO, would only kick in another $50 million.

Checchi, Wilson, and Malek, who could yield ownership to their creditors, intend to squeeze blood out of their employees. They offered Northwest's employees a 30% ownership stake and three seats on the board of directors in return for the wage cuts, which total 6-12%. They even promised to pay back all the concessions within 10 years. But the employees have seen how Northwest's creditors have been stiffed.

Meanwhile, the other shoe is about to drop in Minnesota. At the time the state and MAC forked over more than $1 billion, State Sen. Gene Merriam, who had been allowed to see Northwest's books in exchange for a vow of silence, warned that Northwest was not a wise investment. But Minnesota Attorney General Hubert "Skip" Humphrey, who does not shy from using his prosecutorial powers for blatantly political purposes, issued an unsolicited defense of the loans. With Walter Mondale on Northwest's board, Humphrey's signal was unmistakable. Minnesota's politicians did what they were told. Now, let's see if they will be called to account by the people left holding the bag—Minnesota's taxpayers.