

Food Fight: Caterer Stews Over Delta

Pilots Agree to Deal to Help Airline Avoid Staffing Shortages

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John Konrad was settling into his seat last week for a 28-hour trip on **Delta Air Lines** from New York's John F. Kennedy International Airport to Bombay, India, when he got some unpalatable news: Along with routine preflight announcements from the cockpit, the captain thanked several flight attendants who had driven to a nearby supermarket and bought muffins so that passengers on Flight 118 would have something to eat.

Hours earlier, Delta's primary food and beverage vendor had abruptly stopped serving the airline because of its worsening financial problems and other concerns.

"Not being able to eat anything substantial the entire trip from JFK to India was physically painful and inexcusable," complains Mr. Konrad, the chief mate on a cargo ship that sails in the Bay of Bengal.

The third-largest U.S. airline's biggest problems are sinking airfares, high labor costs, staggering losses and about \$20 billion in debt. But the food fight with Gate Gourmet Inc. shows that Delta faces the most immediate threat from surprisingly small issues. Even as Delta pursues a complicated, top-to-bottom restructuring that it insists is needed to avoid a bankruptcy filing, it has been forced to wrestle with embarrassments that seemingly erupted from nowhere.

One perilous problem was at least temporarily resolved yesterday, when Delta pilots approved a deal allowing the struggling airline to avert staffing shortages in the cockpit by bringing back retired pilots. Delta had warned earlier this month that an unexpected surge of retirements by senior pilots, who were leaving early to secure at least a portion of their pensions, could force Delta to park some of its most profitable planes and even push the carrier into bankruptcy.

But employee morale at Delta, already sapped by 16,000 job losses since 2000, is likely to take another hit as a result of a 10% cut in pay and benefits for about 49,000 U.S. workers. Employees also were told yesterday to expect higher health-care costs and less vacation time. Delta wouldn't say how much it expected to save from the employee wage and benefits cuts but said they would contribute to about one-fifth of \$5 billion in total cost savings the airline is aiming for by 2006.

"We have a small window of opportunity available to us to avoid Chapter 11," Gerald Grinstein, Delta's chief executive officer, told employees in a memo. Mr.

Grinstein, who moved into the top job in January at an annual salary of \$500,000, gave up his pay for the rest of the year.

Delta's spat with Gate Gourmet is particularly awkward, because hungry or otherwise disgruntled passengers can defect to low-cost carriers or Delta's major-airline rivals. Delta and Gate Gourmet have blamed last week's squabble on a "contract dispute," adding that they are trying to resolve their differences. Delta won a court order that temporarily prevents Gate Gourmet from halting delivery of food and drinks.

At the center of the dispute is Delta's zeal to pinch every penny that it can. The carrier has told Gate Gourmet it disputes nearly \$6 million of what it claims are overcharges and wrong invoices, according to people familiar with the situation. David Siegel, the caterer's chairman and CEO, said any allegations of overcharging are "patently false," and he complains that Delta has dragged its feet on overdue bills. The companies tried for six months to resolve their dispute before Gate Gourmet cut off service to the airline. Delta spends about \$5 million a week on Gate Gourmet's food and beverages.

Mr. Siegel knows a lot about the problems troubled airlines can cause their suppliers. In 2002, as CEO of US Airways Group Inc., he led that company into its first bankruptcy filing, which forced dozens of vendors to line up in hopes of getting paid. Mr. Siegel says part of his proposed resolution to the Delta dispute is to put the airline on a prepayment schedule.

While at US Airways, Mr. Siegel called Delta and two other carriers an "axis of evil" for pursuing a code-sharing deal, branding Mr. Grinstein's predecessor "Dr. Evil." Mr. Siegel says the comment wasn't intended to be personal and adds: "I have the highest personal and professional respect for Jerry Grinstein, and Delta as a leading airline." Mr. Siegel ended two tumultuous years at US Airways in April, walking away with a severance package valued at nearly \$5 million. Of his latest battle with Delta, he says: "Delta is trying to hold on to its cash. I'm very sympathetic."

Delta officials are furious that Mr. Siegel gave the airline only hours to wire Gate Gourmet a \$25 million payment or else lose catering service. Mr. Siegel denies marooning Delta flight attendants and passengers, saying that Gate Gourmet "sort of phased down our service." He adds: "We felt our hand was forced, and we had to take tougher action."

Delta continues to issue dire warnings of a possible bankruptcy-court filing as part of its strategy to win concessions from creditors and its unionized pilots. The carrier is seeking wage and benefits concessions from the Air Line Pilots Association of about \$1 billion a year, but the union has offered concessions it values at as much as \$705 million a year.

Yesterday, the union said 90% of the members who voted approved an interim agreement aimed at stemming the exodus of senior pilots. That deal doesn't affect the wider concessions talks.

All the moves are part of the turnaround plan announced by Mr. Grinstein earlier this month. "As you know, every customer counts, especially in this intensely competitive environment where some airlines will win and others will lose," he told Delta employees.

But some long-loyal passengers are starting to think of defecting. Mr. Konrad, the Delta passenger who got store-bought muffins on his flight to India, is a "Platinum Medallion" frequent flier and thus one of the customers Delta most desperately needs to keep happy. He says he might switch to another airline for his overseas business trips.

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