

# **Contesting the Crisis**

**Aviation Industrial Relations and Trade Union Strategies After 11 September**

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The terrible events on the morning of 11 September that resulted in the deaths of the crews and passengers of four aircraft and thousand of people on the ground also caused inestimable damage to the air transport industry. This report is dedicated to the memory of all those touched by the events of that day.

*“Contesting the Crisis”* is a landmark publication which takes a close look at the reaction of aviation companies and employees in the weeks and months following these tragedies. Based on an in-depth survey of more than 50 aviation trade unions in five continents, it provides an independent insight into the state of aviation industrial relations, and company economic performance. This report, published by the ITF but independently researched and written by industry experts, is an important contribution to the on-going debate on the future of the industry.

Central to the report’s conclusions is an acknowledgment that the underlying economic weakness of the aviation industry was not being tackled as the cyclical slump began to impact on enterprises at the beginning of 2001. While the events of 11 September clearly added to the economic weakness of airlines, airports and air traffic services, the deep-seated problems – exacerbated by an environment of extreme deregulation, privatisation and competition – were already in existence and having an impact. As Don Carty, the American Airlines’ chief executive recently commented: “We seem to learn these lessons every cycle and then forget them when the good times roll”.

In a cyclical market, labour cost adjustments have become the key means for executives to manage cash crises. Crucially, the report exposes the risks for the industry in using their workforce as the primary shock absorbers to manage the economic cycle. Aviation unions have developed a profound distrust of the commitment of their employers to sustainability of employment levels and working conditions. “Temporary” concessions made in the last downturn in the early 1990’s became permanent give-aways.

What the report highlights is the need for a completely new approach to the management of our national and international aviation infrastructure. Government economic planners, company executives and trade unions all have a role to play in promoting the stability of air services. The International Transport Workers’ Federation, which is the global representative body for aviation workers, is committed to working with others to find ways of doing so.

There are some hopeful signs. Aviation employers agreed, for example, at an ILO meeting earlier this year, that it was important to improve and promote social dialogue and employment stability. But much remains to be done. The International Civil Aviation Organisation, ICAO, will have a particularly important role through its dual mandate for safety and economic regulation to ensure that it’s founding objective of *promoting the orderly evolution of air transport services* can be met in an increasingly globalised world.

This is the second collaboration between the ITF Aviation Section and Cardiff University. In 1998 the ITF published a companion study to this one entitled *Contesting Globalisation: Airline restructuring, labour flexibility and trade union strategies*. Between them, these two reports add important new information for the key players and regulators of civil air transport.

There is no doubting the social and economic significance of the civil aviation industry to the world economy and the current era of 'globalisation'. Air transport is one of the fastest growing sectors of the world economy, with growth rates averaging 6.6% per annum between 1970 and 2001.<sup>1</sup> The industry transports 1,600 million passengers per annum around the globe and 40% of the world's manufactured exports (by value).<sup>2</sup> Conservative estimates indicate that, in 1998, the industry provided 28 million jobs for the world's workforce and US\$1,360 billion in annual gross output. Most of the jobs and economic activity attributed to the industry are the result of direct demand generated by airlines in related industries (e.g. aircraft manufacture, maintenance, computer systems, telecommunications, fuel and oil, insurance, etc) and indirect 'multiplier' effects generated by the spending of the sector.<sup>3</sup> At airports, for example, every 1 million passengers translates to around 750-2,000 direct jobs and an economic impact of US\$35 million to US\$225 million (depending on the airport's mix of domestic and international traffic, the importance of transfer passengers, and the industrial composition of local economic activities). Most importantly, aviation is at the heart of tourism and travel, which is now the world's largest industry. In 2000, there were 697 million international tourist arrivals and the industry supported around 192 million jobs worldwide (or 1-in-12 workers in the world) with an annual gross output of US\$3,550 billion (or 12% of total world GDP).<sup>4</sup>

In the latter part of the twentieth century, civil aviation was one of the great enablers of globalisation, which is generally understood as 'the spatial integration of product markets and the functional integration of dispersed economic activities', or more simply as 'the progressive annihilation of space by time'. Globalisation is manifest in a number of different ways, most notably the process of trade liberalisation and regional economic integration, ever increasing flows of direct foreign investment, and rapid technological change. Transport activities tend to expand at a disproportionate rate in relation to international trade growth and world GDP, especially civil aviation and maritime transport.<sup>5</sup> Thus, the dual role of transport is that it is both a proactive agent of globalisation and a beneficiary of its development:

*It acts as a catalyst for reduced restrictions on international trade, promotes new technologies and markets them on a global basis, seeks both national and international policy measures to support expanded transport investments, and often discourages regulatory measures to internalize the negative social and environmental costs associated with transport activities.<sup>6</sup>*

Globalisation has also promoted, and been promoted by, a shift in thinking on the relationship between governments and markets. This is reflected in an ever increasing reliance on markets as the 'independent regulators' of economic activities.<sup>7</sup> These developments have no doubt contributed to economic growth, especially for the world's trans-national corporations, but the benefits for transport workers are not always immediately apparent. In fact, numerous reports have documented the adverse effects of globalisation on transport workers.<sup>8</sup> This is certainly the case for workers in the civil aviation sector.<sup>9</sup> In

particular, the tendency of (global) airlines to increasingly ‘benchmark’ all their activities has raised fears of an ‘international race to the bottom’ in terms of workers’ pay and other conditions of employment.<sup>10</sup> Of course, not all unions or civil aviation employees are involved in the same race: for some, the experience of globalisation and restructuring is an assault on (labour) costs and the threat of out-sourcing; for others, the emphasis is on functional flexibility and more intense work routines. But in the words of Professor Rigas Doganis, former Chairman and CEO of *Olympic Airways*:

*Cost cutting is no longer a short-term strategy to deal with short-term economic downturns in the airline business. Cost reduction has become a continuous and long-term necessity for financial success ... The focus of cost reduction strategies will inevitably be on reducing labour costs.*<sup>11</sup>

In the aftermath of the recent terrorist attacks in New York and Washington DC, it would be an understatement simply to suggest that the challenges already facing civil aviation unions throughout the world have merely been ‘compounded’ or ‘exacerbated’ by the subsequent ‘fallout’. As the Chairperson of an ILO ‘Think Tank on the Impact of the 11 September Events for Civil Aviation’ (Geneva, 29-30 October 2001) concluded, the terrorist attacks ‘were unlike any other shock experienced by the industry to date. They have had a unique, unprecedented, devastating and immediate impact on all segments of the industry (airlines, air navigation service providers, airports, maintenance and catering providers, etc), with unpredictable economic and social consequences.’<sup>12</sup> The ILO Think Tank meeting identified a number of strategic responses to the crisis, including:

- closer collaboration between international organisations to deal in a coherent manner with the mid- and long-term effects of recent events,
- immediate action by governments, employers and workers to mitigate job and income losses and to retain skills, and
- a review of the economic and regulatory framework for all segments of the industry.

However, it was clear that more information was needed on the social and economic impact of 11 September. In particular, the ILO determined to:

1. collect information on best practices and innovative and socially responsible ways to respond to the crisis
2. undertake studies on (a) the differential impact at the regional, sub-regional and intra-regional levels, on various industry segments, and various markets; (b) the differential impact of the crisis on men and

women and on minorities; and (c) the impact of the crisis on the restructuring of the industry.

The initial findings of this research, conducted by the Universities of Cardiff (Wales) and Cranfield (England), were discussed at a 'Tripartite Meeting on Civil Aviation' held in Geneva at the end of January 2002.<sup>13</sup> The agreed recommendations of the Meeting included: strengthening the role of cabin crew and ground staff through training based on harmonised global standards; comprehensive occupational and safety legislation and regulations to be applied to all civil aviation employees; transparent forms of social dialogue at the workplace, enterprise, national, regional and international levels; and a recognition on the part of governments of the need to fund long-term training and re-training, as well as a recognition of the critical public interest role that civil aviation plays in the overall economy (which should therefore be afforded an appropriate place in national or regional strategic planning).<sup>14</sup>

Shortly after this Meeting, the first signs of recovery in the industry began to appear. In addition, more extensive information on the impact of 11 September became available from a range of national and international organisations. These data include further information from civil aviation unions who participated in a questionnaire survey on the impact of 11 September which was initially prepared for the ILO Tripartite Meeting.<sup>15</sup> The present report is based on information provided by 52 civil aviation unions, combined with more up to date information from a range of sources on the social and economic consequences of 11 September.

The following Section reviews the most recent data available on the impact of the crisis, the nature and extent of the present recovery, and the longer-term prospects for growth in the industry. The impact of these developments on industrial relations and human resource management, and vice versa, is also reviewed. Section III focuses on the cost-cutting and restructuring measures introduced in recent months by civil aviation companies and assesses the effectiveness of these policies in the context of the current crisis and the longer-term (cyclical) pattern of growth and recession in the industry. Parallels have been drawn between the current crisis and the impact of the Gulf War in the early 1990s. However, changes in the industry over the past decade present new options for corporate restructuring on a national and international stage, and may well hasten a number of structural developments in the industry (e.g. consolidation and out-sourcing). These and other developments suggest that civil aviation employees will increasingly bear the brunt of current and future restructuring initiatives. In Section IV, therefore, we explore the policy preferences of civil aviation unions (at both corporate and governmental levels) and discuss the regulatory measures and trade union initiatives that will be required to protect the interests of civil aviation workers. Notwithstanding the present recovery in traffic and the healthy long-term prospects for growth, civil aviation workers face a more uncertain future than at any time in the history of the industry.





The civil aviation industry has enjoyed unprecedented growth in recent years. Between 1980 and 1998, revenue passenger kilometres (RPKs) increased by 7% per annum and passenger numbers increased by 6% per annum. This compares to world GDP growth of just 2.9% per annum over the same period. Prior to the economic downturn in 2001 and the events of 11 September, both passenger and freight traffic were forecast to grow at 4-5% per annum in the first decade of the new millennium, which again is significantly higher than growth forecasts for world GDP.<sup>16</sup> On some routes, such as Europe ↔ North East Asia, North East Asia ↔ South East Asia, and North America ↔ South America, the forecasts were even higher, as Table 1 illustrates.

**Table 1: Projected Inter-Regional Traffic Growth (average annual growth, 1999-2009)**

ROUTE	1999 RPKS (BILLION)	2009 RPKS (BILLION)	AVG. ANNUAL GROWTH (%)
North America ↔ Europe	389	553	3.6
North America ↔ North East Asia	137	230	5.3
Europe ↔ Africa	91	158	5.6
Europe ↔ South East Asia	90	149	5.2
North America ↔ Central America	80	125	4.5
Europe ↔ North East Asia	60	117	6.9
North East Asia ↔ South East Asia	47	95	7.3
Europe ↔ South America	51	88	5.5
North America ↔ South America	45	84	6.3
North America ↔ South East Asia	33	50	4.4

Source: Boeing and L.E.K. Consulting (1999)

Although the industry has grown rapidly in recent years, it is extremely sensitive to general economic conditions in both domestic and international markets. Moreover, profit margins in the international civil aviation industry are slim in comparison to other industrial sectors. For example, taking operating profits (after taxes) less capital costs, US airlines only returned a positive economic value added in four years

(1996-99) between 1980 and 2000. Likewise, members of the AEA failed to earn the cost of their capital during the 1990s, with average profit margins of just 2.3% between 1993 and 2000. A 1% point change in any of the four main parameters of profitability – traffic, capacity, yield and unit costs – translates to a change of US\$1.6 billion on the bottom line of international scheduled airlines. The potential vulnerability of the world's airlines prior to the events of 11 September is indicated by the fact that, as a result of the recent economic slowdown and in particular a decline in business class passengers, the net profit of IATA members in 2000 was just US\$2.8 billion.<sup>17</sup>

In addition to general economic growth, the other main driver of traffic levels in the civil aviation industry is the price (fare) charged by airlines. In recent years, real price reductions have played an increasingly important role in generating traffic. Between 1960 and 1990, GDP growth accounted for 80% of air traffic growth compared to 20% arising from (real) price reductions. In the 1990s, in contrast, GDP accounted for 60% of traffic growth compared to 40% of growth attributable to falling (real) prices. Airline efficiency gains arising from the exploitation of new technology (e.g. wide-bodied aircraft and computerisation of ticketing), as well as labour productivity growth, played a major role in this progressive reduction of fares.<sup>18</sup>

Labour productivity growth is just one outcome of industrial relations and corporate human resource management policies. The latter have always played an important part in the competitive performance of airlines and other companies in the civil aviation industry. Indeed, work organisation, employee attitudes and the level and structure of labour costs are among the most important determinants of airline performance in general and service quality in particular.<sup>19</sup> As industry experts are quick to point out, 'Both in cost and marketing terms, labour is the key.'<sup>20</sup> These variables have assumed even greater importance in recent years as airlines rely less on general economic growth and more on their own competitive strategies to drive down price and attract passengers. Thus, in an industry where both domestic and international competition has intensified markedly as a result of deregulation, liberalisation, and the commercialisation or full privatisation of many airlines, labour assumes an ever more prominent role in the competitive strategies of carriers seeking to reduce fares and maintain or improve service quality:

On the one hand airline executives will be asking their employees to work harder, to be much more flexible in the way they work and to face up to the disruptions and uncertainty created by mergers and new alliances, while at the same time accepting minimal increases or even a freeze in their salaries and more performance-related pay. Yet on the other hand, they will expect those same employees in contact with customers to be open, friendly, helpful and very conscious of each customer's individual needs.<sup>21</sup>

Recent research indicates that team-working, customer care and quality control programmes are now commonplace throughout the industry, with many airlines investing heavily in new human resource management policies.<sup>22</sup> Despite these initiatives, however, there is little evidence of any general improvement in management-labour relations.<sup>23</sup> Measures of ‘bargaining efficiency’ in the USA, for example, indicate a significant rise in the time taken to negotiate new or revised collective labour agreements. Based on data for the ten major US carriers, the average duration of contract negotiations is now over 17 months, with *US Airways* recording a figure of almost 2 years and *America West* 30 months.<sup>24</sup> Elsewhere, it is now not uncommon for international airlines to impose, rather than negotiate, changes to working time, the introduction of performance-related pay or pay for new entrants, the re-grading or cross-utilisation of staff, and team-working.<sup>25</sup> In short, adversarial labour relations still characterise many airlines around the world.

In a recent international survey, more than two-thirds of civil aviation unions reported a marked deterioration in management-labour relations over the previous 5 years.<sup>26</sup> Cabin and flight crew in particular reported deteriorating employment relations.<sup>27</sup> For many airline employees, this is a direct result of deterioration in their working conditions and quality of working life. A recent survey of over 900 UK cabin crew, for example, concluded that a ‘potentially lethal combination is generated by poor quality physical working conditions, a stressful and demanding (physically and emotionally) role, and punishing work schedules.’<sup>28</sup>

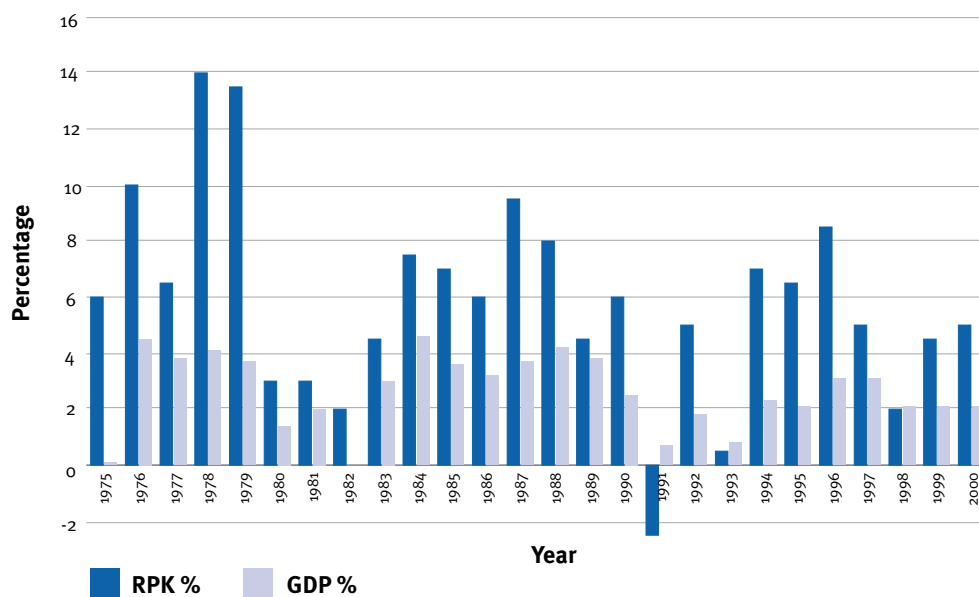
The problems created by adversarial labour relations and a deterioration in workers’ terms and conditions of employment assume particular significance as a result of three important features of the civil aviation industry, namely: ‘perishability’, pro-cyclical demand, and the proportion of total operating costs accounted for by labour costs. These features, in turn, are crucial to any assessment of the aftermath of 11 September and any evaluation of the propriety of different responses to the crisis.

*Perishability* – In addition to being increasingly price sensitive, the industry’s product is extremely perishable and airlines have no real inventory. Thus, if flights are cancelled, airlines cannot ‘stockpile’ or easily recover lost traffic in the immediate future, which has a direct impact on the company’s ‘bottom line’. The 3-day strike by *British Airways* cabin crew in 1997, for example, is estimated to have cost the airline £125 million in lost revenue. The dispute also led to a marked deterioration in employee morale, job satisfaction and, as a result, a decline in customer satisfaction.<sup>29</sup> In the event of a temporary dispute such as a strike, some passengers may defer flying to a later date (e.g. holidays may be re-arranged) and some revenue can be recovered. More serious disruption, however, such as terrorist attacks or wars, will have a more significant and longer-term (negative) impact on revenue and passenger confidence. Such events can set in motion a ‘vicious spiral’ of traffic losses, price reductions to win back passengers, higher

break-even load factors, further price reductions to attract passengers, and ever more elusive profitability.

*Pro-Cyclical Demand* – Demand for air transport is pro-cyclical, such that air traffic generally expands (contracts) with increased (reduced) economic growth but at a much faster rate. Business class travel is particularly sensitive to economic fluctuations, which has a disproportionate impact on airlines' revenue and profitability. This pattern is illustrated in Figure 1 for the period prior to 11 September.

**Figure 1: World Air Traffic Growth versus World Economic Growth**



*Proportion of Labour Costs* – Labour accounts for a significant proportion of total operating costs and is one of the few ‘variable’ costs under the direct and more immediate control of management (unlike fuel costs, landing charges, aircraft costs and the like). Labour costs typically account for a third of the operating costs of European and North American carriers, compared to around 20% for Asian carriers (whose wage rates are much lower by international standards).<sup>30</sup> The proportion of total operating costs accounted for labour costs can be as high as 40% (e.g. USAir or short-haul intra-European flights). As Table 2 illustrates, this creates massive differences in the efficiency of labour use (as measured by ATKs per US\$1,000 of labour cost) across the world’s major airlines (although it must be acknowledged that these figures can be ‘distorted’ by the extent to which an airline sub-contracts various activities). Thus,

for many airlines, labour costs have now become the largest single cost element and a major factor differentiating one airline's unit costs from another.<sup>31</sup> In other areas of the industry, such as air traffic control, labour can account for around two-thirds of operating costs.<sup>32</sup>

**Table 2: Cost Comparison of the World's Major Airlines (ATK per US\$1,000 labour cost, 1998)**

NORTH AMERICA	ATK PER US\$1,000 LABOUR COST	EUROPE	ATK PER US\$1,000 LABOUR COST	ASIA-PACIFIC	ATK PER US\$1,000 LABOUR COST
Air Canada	7,600	Lufthansa	7,900	SIA	22,700
Northwest	6,500	KLM	7,400	Malaysian	17,500
American	6,300	Alitalia	6,900	Korean	17,400
United	6,200	BA	6,000	Thai	15,700
Delta	6,100	AF	5,200	Cathay	12,300
US Airways	3,600	Iberia	4,500	JAL	12,100
		SAS	2,700	Qantas	8,500
				ANA	8,300

Source: Rigas Doganis

These three features of the industry have important implications for human resource management and labour relations. First, the 'perishability factor' means that in response to any crisis, airlines will try to move quickly to cut capacity in order to minimise financial losses. Capacity cuts invariably result in job losses, both directly and indirectly (i.e. jobs are lost at the airline in question and in a range of support activities such as catering, cleaning, fuelling, airport services, local suppliers, etc). In fact, cost-cutting is now *more* likely as a result of privatisation and deregulation: airlines with private shareholders are more 'willing', or maybe even 'compelled', to cut labour costs to satisfy shareholders, and with fewer operating restrictions they are more 'able' (i.e. have greater opportunity) to shed jobs and cut back workers' terms and conditions of employment. Even safety critical activities are now subject to 'market forces'. 'Commercialised' or 'corporatised' air traffic service providers, for example, display a greater propensity to lay-off air traffic controllers in order to reduce staff costs than was previously the case.<sup>33</sup>

Secondly, the ‘pro-cyclical factor’ often leads to the ‘expectations’ of management and labour being ‘out of sync’ with respect to current or future market conditions. For example, during any downturn or crisis, when airlines suffer a more significant decline in demand than most related businesses, costs will be tightly controlled and employees are often expected to make ‘sacrifices’ to safeguard the financial position of the airline. When business picks up, airlines still tend to be cautious on costs, knowing that traffic might be lost to rivals in an increasingly competitive and deregulated aviation market or adversely affected by any future downturn. Employees, in contrast, anticipate improvements in pay and benefits in line with business prosperity as well as an element of ‘catch up’ for previous sacrifices. This ‘mismatch’ is most apparent, and potentially most explosive, at the peak of the business cycle when employee expectations are still rising but airlines anticipate, or actually face, falling demand.<sup>34</sup>

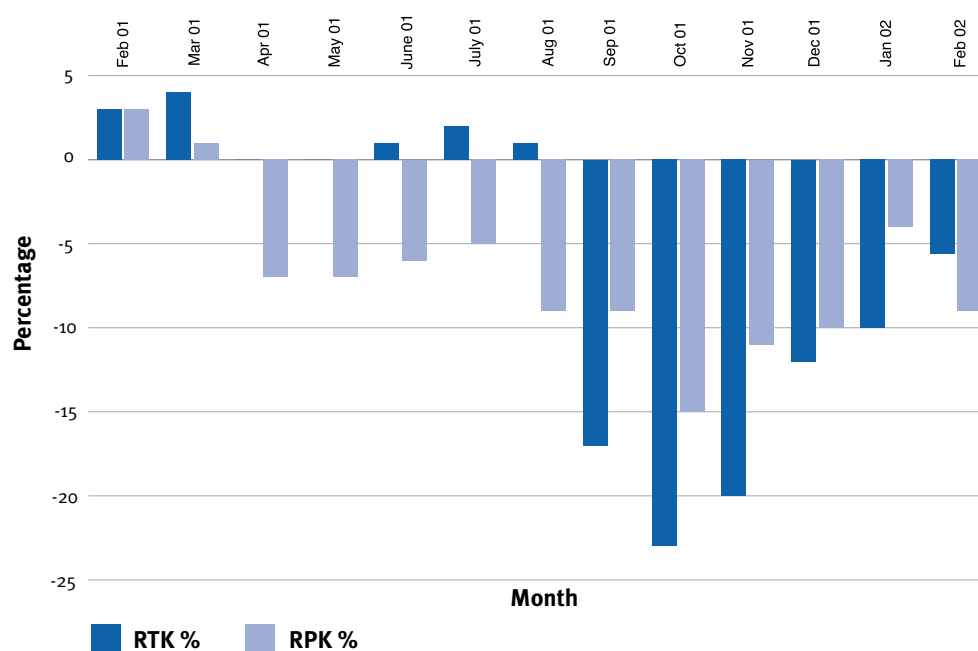
Thirdly, the airlines’ cost structure means that ‘adjustments’ to any crisis invariably focus on labour costs. As already noted, in an age of globalisation and an ever more deregulated operating environment, labour increasingly bears the brunt of cost-cutting programmes, service quality initiatives, out-sourcing strategies and the like.<sup>35</sup> The traditional view, long held in the civil aviation industry, was that management could do little about unit labour costs. This view has been progressively abandoned in step with the process of market liberalisation, the imperatives of privatisation and the possibilities of globalisation. Thus, in the 1990s, cost reduction strategies focused increasingly, but not inevitably, on cutting labour costs.<sup>36</sup> Throughout the first 8 months of 2001, many airlines around the world introduced new cost-cutting programmes as the industry struggled to sustain growth. Post 11 September, virtually all airlines focussed their attention on labour costs. The ‘ripple’ effects of capacity cuts and job losses at the world’s major airlines quickly spread to other civil aviation companies and related businesses.

Given these characteristics of the industry, it is perhaps unsurprising that the recent ILO Tripartite Meeting on Civil Aviation should agree that the industry must find better ways to manage the business cycle, especially during the period downturns that afflict the industry but also during the boom periods.<sup>37</sup> In particular, far too many airlines use debt to finance (over-ambitious) growth programmes during the upturn.<sup>38</sup> In addition, participants at the ILO Meeting agreed that alternatives must be developed to the industry’s present (over) reliance in labour as the principal adjustment mechanism to cope with any downturn or crisis in the civil aviation sector.

As Figure 2 illustrates, prior to the events of 11 September the growth of international passenger traffic had already stalled and air freight was in a ‘perilous state’.<sup>39</sup> The latter is often a leading indicator of any economic downturn (or upturn) and even without the terrorist attacks in the USA air freight was expected to record negative growth in 2001. Taking the three major civil aviation markets in the world, and the international routes that connect them, recent data highlight the severity of the current crisis:

- US international passenger traffic was hardest hit by the events of 11 September, with an annual reduction in RPKs of 6.2% in 2001. The biggest monthly fall came in October 2001 (-23%) with further year-on-year monthly reductions in excess of 10% through to February 2002.
- During the eight months to 31 August 2001, AEA members recorded a growth in RPKs of just 0.6% (North Atlantic routes declined by -2.0% and Far East/ Australasian routes declined by -2.6%). From 10 September through to 30 December 2001, AEA members suffered a -17.5% reduction in total international RPKs.
- Asia-Pacific traffic fared better in the first eight months of 2001, recording a growth in RPKs of 3%, but this was followed by a sharp decline in the last four months of 2001 for AAPA members in excess of -16%. Japanese airlines, which are more reliant on Transpacific routes, suffered more than others in this region. (*All Nippon Airways*, for example, saw its traffic fall by -33% in December 2001 and *Japan Airlines* suffered a -29% decline in the same month).<sup>40</sup>

**Figure 2: World Air Traffic, 2001-02**



The overall reduction in traffic during 2001 was the largest annual fall ever recorded. This had a direct impact on the world's airports, as data from more than 700 airports affiliated to ACI, reported in Table 3, clearly demonstrates. A separate ACI survey of the world's major international airports revealed that the decline in passenger and cargo traffic was even greater at these airports than the figures in Table 3 suggest.<sup>41</sup> The problems faced by airports are compounded by the fact that they are 'asset heavy' organisations with high fixed costs, which makes 'downsizing' far more difficult than is the case with airlines and other civil aviation enterprises.

**Table 3: World Airport Traffic 2001 (% change)**

	PASSENGERS 2000-01	PASSENGERS 09/00 VS 09/01	CARGO 2000-01	CARGO 09/00 VS 09/01	AIRCRAFT 2000-01	AIRCRAFT 09/00 VS 09/01
Africa	-1.7	-6.0	-4.3	+0.2	+1.5	+2.5
Asia/Pacific	+2.0	-3.4	-5.3	-11.6	+2.2	-0.8
Europe	-0.6	-2.8	-6.1	-14.9	-1.1	-3.3
Latin America/ Caribbean	+1.2	-4.2	-5.8	-15.6	-4.0	-6.5
Middle East	-0.8	-4.1	-2.4	-7.4	-1.7	-4.7
North America	-6.3	-31.6	-12.0	-28.8	-4.8	-24.2
<b>TOTAL</b>	<b>-2.6</b>	<b>-14.6</b>	<b>-8.4</b>	<b>-19.7</b>	<b>-3.0</b>	<b>-14.6</b>

Source: Airports Council International

All the main determinants of profitability moved in an adverse direction for the world's airlines in 2001, both before but especially after 11 September, leaving the industry 'drowning in red ink.'<sup>42</sup> International RPKs declined by -4.4%, ASKs fell by -1.3%, unit costs increased by 3.3% and yields fell by -1.7%. International losses for IATA member airlines are estimated to be US\$12 billion for 2001, exceeding the combined profits made in the previous 3 years. Total industry losses, including domestic services, are estimated to be US\$17 billion. As expected, the major US carriers suffered particularly big losses, as Table 4 indicates (with the notable exception of *Southwest*).



**Table 4: Financial Performance of Major US Airlines**

AIRLINE	NET RESULT 2001 (US\$ MILLION)
United Airlines	-2,145
US Airways	-1,969
AMR Corporation (American)	-1,762
Delta Air Lines	-1,216
Northwest	-423
America West	-148
Continental	-95
Southwest	511
<b>TOTAL</b>	<b>-7,247</b>

In 2001, *British Airways* recorded its biggest losses (£200 million) since privatisation in 1987. Other European airlines have also been hit hard, especially those dependent on Transatlantic traffic such as *Aer Lingus*. Overall, European airlines lost €3.4 billion in income during the last 111 days of 2001, compared to the worst ever losses of €2.4 billion recorded by AEA members in 1992. Many Asia-Pacific carriers have fared much better, especially those less dependent on Transpacific traffic (e.g. *China Southern Airlines* recently posted a profit to shareholders of US\$41.1 million).

Moreover, the faster than expected recovery in the region has enabled several carriers to revise their anticipated losses (e.g. *All Nippon Airways* reported a net loss of US\$64 million for the year ended 31 March 2002 instead of the US\$83 million it had previously predicted). African airlines have been less directly affected by the events of 11 September, although *South African Airways* expects a loss of R600 million for 2001 and *Kenya Airways* estimates that it has lost KSh35 million in cargo and passenger revenue as a direct consequence of 11 September.<sup>43</sup>

Despite these heavy losses, by March 2002 there were already some signs of revival in the industry. Most US regional airlines, for example, had returned to profitability, leading some industry analysts to claim that 'Business has never looked better ... It's a good time to invest'.<sup>44</sup> European low cost carriers have also fared well. In fact, during the last quarter of 2001 the passenger traffic carrier by *easyJet*, *Ryanair* and *Go* increased by up to 30%. Some analysts predict that the number of low cost travellers in Europe will increase from the current 20 million passengers per annum to 125 million by 2015.<sup>45</sup> While it might be stretching the point to suggest that low cost carriers 'welcome' any general downturn in the industry, they certainly benefit by attracting more price conscious passengers from mainline carriers, including business travellers.<sup>46</sup>

Current projections indicate that passenger numbers (international and domestic) will show a small

decline in 2002, largely due to the downturn in the US domestic market, followed by a strong recovery in 2003.<sup>47</sup> Over the period 2001 to 2005, international traffic is expected to grow by 3.5% per annum and domestic traffic by 1.6% per annum, giving a combined growth of 2.2% per annum. The annual average growth rate for the intra-European route area is expected to record a bigger increase (4%) as is the Trans-pacific region (6.3%). Freight traffic is expected to recover much sooner and more positively than passenger traffic, with growth rates up to 9% forecast for 2003.<sup>48</sup>

Amidst all the uncertainty surrounding the industry, some of the major US airlines have already begun re-hiring staff (e.g. *United Airlines* from February 2002 and *America West* from March 2002), as have several European airlines (e.g. *British European* and *Virgin*) and airports (e.g. Birmingham International).<sup>49</sup> After making a profit in the first 3 months of 2002, *British Airways* restored earlier pay cuts and deferred bonuses, as did *Mesa Air*. In April, *EVA Airways* announced that its pay levels were to be restored and the number of staff increased. This might lead some to the (mistaken) view that the current situation is just another short-term crisis in the wider context of long-term optimism, another example of the industry's historic pattern of 'boom and bust' (albeit a 'bust' of greater magnitude and wider scope than any previous crisis). In the new millennium, however, there are significant and on-going changes to both the regulatory regime and market structures that should quickly dispel such optimism, especially on the part of labour and civil aviation unions. These changes raise fundamental questions about how airlines and other civil aviation companies have responded to the current crisis, and in particular the sustainability of on-going restructuring programmes in the context of an industry subject to further market liberalisation, multi-national as opposed to national ownership, private as opposed to national (flag) ownership, the concentration and consolidation of business into a handful of international alliances, a downward trend in fare levels, and continuous (labour) cost-cutting strategies.

In the immediate aftermath of 11 September, international airlines moved quickly to reduce capacity, shed jobs and cut costs, especially North American carriers. Other civil aviation companies (e.g. aircraft manufacturers, catering companies, airports, air traffic services, specialist ground handling companies and maintenance firms) very quickly followed suit.<sup>50</sup> The human resource (HR) policy measures introduced by civil aviation companies to achieve a reduction in head-count, contain costs and enhance the organisation's responsiveness to the market can be grouped into four broad areas of flexibility, namely:

**NUMERICAL** – changes to the total workforce (e.g. recruitment freeze, early retirement, redundancy, furloughs, or the non-renewal of temporary contracts)

**TEMPORAL** – changes to working time (e.g. short-time working and part-time work)

**FUNCTIONAL** – changes to job boundaries or skills (e.g. training or re-training activities, job enlargement or job enrichment programmes)

**FINANCIAL** – changes to remuneration (e.g. pay cuts, wage freeze, forgoing bonus or holiday payments, or employee share-ownership plans to link pay more closely to corporate performance)

The data presented in Table 5 indicate that, post 11 September, numerical and financial adjustments characterised the cost-cutting programmes of most civil aviation companies, although it is important to note that these data are 'illustrative' rather than strictly (or statistically) 'representative'. The data are based on information collected from a survey of 52 civil aviation unions – including respondents from Europe (28 unions), Asia-Pacific (9 unions), North America (8 unions), Latin America (4 unions) and Africa (3 unions) – undertaken during November-December 2001. The sample includes 26 civil aviation unions representing both air and ground staff, 12 specialist cabin crew unions, 8 pilot unions and 6 unions representing air traffic controllers.

**Table 5: HR Policy Responses to the Crisis (% of respondent unions reporting implementation of policy)**

POLICY	MAJOR/FLAG AIRLINE	LOW COST AIRLINES	OTHER CIVIL AVIATION Co.s
<b>NUMERICAL</b>			
Recruitment freeze	78	43	63
Voluntary early retirement	44	11	23
Voluntary redundancy	42	9	29
Compulsory redundancy	22	18	34
Voluntary furlough	27	14	14
Compulsory furlough	18	14	14
Probationary staff not transferred to full-time contracts	47	23	34
Non-renewal of temporary contracts	53	32	49
<b>TEMPORAL</b>			
Short-time working	20	11	14
Shorter working week	9	-	6
Fewer shifts per month	11	9	17
Part-time working	33	14	26
<b>FUNCTIONAL</b>			
Work-sharing	13	5	14
Reduced training	27	7	17
Educational leave	9	5	14
<b>FINANCIAL</b>			
Unpaid holiday/leave	33	16	17
Forgo bonus pay	16	7	14
Forgo holiday pay	9	-	6
Pay freeze	38	23	31
Pay cut – management	44	20	26
Pay cut – staff	33	16	23

The survey responses and interview data from both trade union representatives and airline management suggest that many of the measures introduced in the wake of 11 September are intended as no more than short-term, cost-cutting initiatives (especially various forms of financial flexibility such as pay cuts, a wage freeze, or forgoing bonus or holiday payments). This was borne out in the response of trade unions when they were questioned about the ‘acceptability’, or otherwise, of the various HR policy responses to the crisis (these issues are explored in more detail in the next Section). Notwithstanding the current optimism of some industry analysts and several low cost/regional airlines, and the healthy prospects for growth in 2003, it would appear that many airlines have adopted a ‘quick fix’ rather than address some of the more fundamental, underlying causes of poor financial performance and their vulnerability to external market ‘shocks’.

When the data are analysed on a regional basis, it is evident that North American carriers were more likely to focus on numerical flexibility, which is consistent with the practice of lay-offs and re-hiring by inverse seniority (especially via voluntary or compulsory furloughs). Moreover, within this category of flexibility, *compulsory* cut-backs were more likely in North America, as Table 6 illustrates. This was also the case for low cost carriers and other civil aviation companies in the region.<sup>51</sup> In fact, there is a clear asymmetry in the response of North American compared to European airlines. In North America, airlines immediately announced swathing job cuts and then embarked on a process of (often difficult) negotiations with employee representatives as trade unions sought to reduce the scale and mitigate the effects of impending job losses. In Europe, in contrast, job losses were only announced after extensive consultation with employee and trade union representatives, usually in accordance with national employment law, and most airlines considered, and subsequently implemented, a range of alternatives to direct job losses. Half the North American sample reported the implementation of less than five of the restructuring measures listed in Tables 5 and 6. The other half of the North American respondents reported between five and ten measures implemented at major airlines. More than a fifth of the European unions, in contrast, reported in excess of ten restructuring measures at their major/flag carrier.<sup>52</sup> As Table 6 indicates, European airlines were more likely to seek a wider range of financial flexibility measures than their North American counterparts, as were airlines in the Asia-Pacific region.

**Table 6: HR Policy Responses – Major/Flag Carriers (% of respondent unions reporting implementation of policy)**

POLICY	NORTH AMERICA	EUROPE	ASIA PACIFIC	LATIN AMERICA	AFRICA
<b>NUMERICAL</b>					
Recruitment freeze	60	75	89	75	100
Voluntary early retirement	80	50	33	25	-
Voluntary redundancy	60	46	56	-	-
Compulsory redundancy	20	33	11	-	-
Voluntary furlough	60	33	11	-	-
Compulsory furlough	60	13	-	50	-
Probationary staff not transferred to full-time contracts	40	58	58	-	67
Non-renewal of temporary contracts	20	63	56	-	100
<b>TEMPORAL</b>					
Short-time working	40	25	11	-	-
Shorter working week	20	8	11	-	-
Fewer shifts per month	40	13	13	-	-
Part-time working	40	33	33	-	67
<b>FUNCTIONAL</b>					
Work-sharing	80	8	8	-	-
Reduced training	20	21	33	25	67
Educational leave	20	9	-	-	33
<b>FINANCIAL</b>					
Unpaid holiday/leave	40	25	67	-	33
Forgo bonus pay	-	25	13	-	-
Forgo holiday pay	-	17	-	-	-
Pay freeze	20	42	56	-	33
Pay cut – management	60	42	67	-	33
Pay cut – staff	-	38	11	25	33

The approach to restructuring and social dialogue adopted in North America – massive job losses (on a compulsory basis if necessary) followed by negotiations to minimise the scale and pain of these cuts – seems to have exacerbated long-standing tensions between management and labour. *United Airlines*, for example, encountered problems with the re-negotiation of pilot contracts and faced the prospect of strike action by machinists in the immediate aftermath of 11 September. *American Airlines* initially stated that it intended to invoke *force majeure* clauses in its labour contracts that would permit it to void certain lay-off benefits, but the carrier retreated in the face of widespread criticism from trade unions and other organisations. More recently, strike action has been announced at *Midwest Airlines* and *Mesa Air Group*.

Given the history of labour relations in the industry, the impact of pro-cyclical demand, a perishable product and the high proportion of labour costs, it is perhaps unsurprising that crisis can lead to opportunism, or at least accusations of opportunism, rather than constructive dialogue or the creation and consolidation of social partnership. This was the initial conclusion of the MIT's Global Airline Industry Study, which has reported that responses to the crisis, to date, have increased tensions, lowered trust, and will probably lead to intensified conflict in the immediate future.<sup>53</sup> Several US civil aviation unions have claimed that management used the events of 11 September to push forward pre-existing restructuring plans, developed during the earlier downturn of 2001, often without proper consultation. Roy Freundlich, the spokesman for the Air Line Pilots Association (ALPA) at *US Airways*, for example, claimed that the carrier's proposed cuts were 'opportunistic and, it appears, excessive ... There is a difference between getting through a crisis and taking advantage of it ... They've cried poverty too many times before.'<sup>54</sup>

Similar criticisms have been voiced elsewhere. Unions in Brazil, for example, accused their airlines of taking advantage of the crisis to justify various concessions such as wage adjustments.<sup>55</sup> In the UK, the British Air Line Pilots' Association (BALPA) has suggested that charter airlines may be using the crisis to 'make amends' for 'rash post-consolidation expansion.'<sup>56</sup> As Mustafa Yagci, Secretary General of Hava-Is (the Turkish civil aviation union) pointed out, 'Well before the events of September 11 corporate executives were working out plans for drastic cost-cutting measures, including the elimination of thousands of jobs. Airline and aerospace executives have now latched onto the tragic events of September 11 to escalate their attack on the labour force.'<sup>57</sup>

This view has even been echoed in some sections of the business press. *Fortune* magazine, for example, pointed out that while 11 September caused the descent into crisis, management should be held responsible for the financial vulnerability of many airlines.<sup>58</sup> *Fortune* attributed this vulnerability to a 'binge-purge' cycle of adding capacity and loading on debt during good times and then pleading for government assistance and concessions from labour during bad times. As the Director General and CEO

of IATA admitted, ‘Even before September 11 this industry was ill prepared to weather successfully even a fairly mild regular economic cycle.’<sup>59</sup>

Despite, or in some cases precisely because of the crisis in the industry, a spate of court actions, strikes and other forms of industrial disruption have characterised industrial relations in the weeks and months after 11 September. These developments illustrate, on the one hand, the legacy of adversarial relationships in the civil aviation industry and, on the other hand, the need for more constructive forms of social dialogue and a more effective regulatory regime. The former is understood to include all types of negotiation, consultation or exchange of information between the representatives of workers, employers, governments and international agencies. The latter can be understood simply as the ‘rules of the game’.<sup>60</sup>

It is only through the process of social dialogue that the ‘acceptability’ of different approaches to the crisis can be established and the range of possible alternatives determined. These issues were explored in our survey of civil aviation unions and are discussed in the following Section. As for the ‘rules of the game’, for many years these were established through bilateral air service agreements negotiated by the respective national governments and collective labour agreements negotiated by management and unions. Today, not only have the rules been re-written, but the rule-makers have changed and some of the players no longer abide by the rules. In the product market, for example, deregulation and the consequent concentration of ownership and market power has enabled larger carriers to use predatory pricing strategies to drive competitors out of business.<sup>61</sup> In the labour market, employers have a greater willingness to by-pass established consultation procedures and collective bargaining arrangements.<sup>62</sup> Ironically, many employers support the ‘free market’ and further liberalisation but at the same time lament their apparent impotence in the face of market forces. The Secretary General of AEA, for example, has argued that, ‘From our side, we are content to let the market determine the way we develop.’<sup>63</sup> But as the Director General and CEO of IATA pointed out, if airlines could just charge an extra US\$10 per passenger then this would wipe out the industry’s current losses – instead, the competitive regulatory regime pushes airlines down the path of heavily discounting fares and making generous offers to frequent fliers, which undercuts already low yield margins.<sup>64</sup> Perhaps the time has come to consider a new regulatory framework for the 21st century.



In order to determine what might be regarded as ‘socially responsible ways to respond to the crisis’, which was a major issue raised by the ILO Think Tank in October 2001, civil aviation unions were asked ‘how acceptable’ a range of different human resource (HR) policies would be to their members. Responses ranged from ‘Acceptable under normal circumstances’ to ‘Only acceptable as a short-term/crisis measure’ and ‘Unacceptable under any circumstances’. The responses to this question are reported in Table 7.

The majority of respondents regarded voluntary early retirement, part-time working and educational leave as HR policies that might be introduced at any time. Despite the acceptability of early retirement, however, the cash flow crisis faced by the industry in the aftermath of 11 September effectively precluded this particular option for many companies. In contrast, the limited take-up of part-time working can be attributed to the problems this can create for HR planning – most civil aviation companies were looking for a quick (numerical) fix rather than a longer-term (temporal) solution to their staffing problems. In fact, there have been some cases (e.g. *Aer Lingus*) where restructuring involved the elimination of part-time working arrangements which were previously favoured by many airline personnel (most notably female cabin crew). It is also interesting to note that comparatively few airlines or other civil aviation companies made use of educational leave (Tables 5 and 6). This no doubt reflects managements’ preference for numerical and financial flexibility as opposed to HR policies that might enhance functional flexibility. There was also a willingness to accept voluntary redundancy, voluntary furloughs and Employee Share Ownership Plans (ESOPs) as a ‘normal’ response to economic fluctuations.<sup>65</sup>

Rather more HR policies were only acceptable as a short-term/crisis measure, including working time adjustments (e.g. short-time working/shorter working week and/or a reduction in the number of shifts), the non-transferral of probationary staff to full-time contracts, and forgoing bonus pay. Once again, there was only limited take-up of these HR policies (see Tables 5 and 6), despite the acceptability of many temporal flexibility measures (albeit as short-term crisis measure).

**Table 7: Union Responses to Human Resource Policies (% of respondents)**

POLICY	ACCEPTABLE UNDER NORMAL CIRCUMSTANCES	ONLY ACCEPTABLE AS A SHORT-TERM MEASURE	UNACCEPTABLE UNDER ANY CIRCUMSTANCES
<b>NUMERICAL</b>			
Recruitment freeze	29	58	13
Voluntary early retirement	73	24	3
Voluntary redundancy	44	54	2
Compulsory redundancy	2	37	61
Voluntary furlough	48	39	13
Compulsory furlough	-	41	59
Probationary staff not transferred to full-time contracts	10	61	29
Non-renewal of temporary contracts	33	51	16
<b>TEMPORAL</b>			
Short-time working	15	70	15
Shorter working week	33	61	6
Fewer shifts per month	18	70	12
Part-time working	62	29	9
<b>FUNCTIONAL</b>			
Work-sharing	37	39	24
Reduced training	4	48	48
Educational leave	61	28	11
<b>FINANCIAL</b>			
Unpaid holiday/leave	32	29	39
Forgo bonus pay	-	55	45
Forgo holiday pay	-	31	69
Pay freeze	-	52	48
Pay cut	3	30	67
ESOP	46	27	27

Despite the outright opposition of many civil aviation unions to a number of HR policy measures – most notably compulsory redundancies or furloughs, reduced training, pay cuts, pay freezes, and forgoing holiday or bonus payments – these policies have been widely adopted (see Tables 5 and 6). In many cases, industrial disputes have ensued. More detailed analysis of the survey data, however, revealed important differences by geographical region and the occupational group(s) represented by the union in question. North American unions, for example, were more vehemently opposed to financial flexibility than their European or Asia-Pacific counterparts (these unions were more willing to countenance such measures as a *short-term* response to the crisis). In addition, North American unions were more likely to resist the non-renewal of temporary contracts or any decision not to accord full-time status to employees on probationary contracts.<sup>66</sup> Unlike North American or European civil aviation unions, both Latin American and Asia-Pacific unions would only sanction voluntary furloughs as a short-term crisis measure. For Latin American unions, temporal flexibility was acceptable as a short-term measure at best (e.g. fewer shifts per month or a shorter working week). Both short-time working and work sharing were unanimously opposed as ‘unacceptable under any circumstances’.

When these responses are compared with the data presented in Table 6, it is apparent that differences by region can largely be accounted for by the acceptability of various HR policies to the unions concerned. This reinforces a point made earlier in relation to Table 5, namely that the data presented in this Report are illustrative rather than strictly representative. As such, they should not be interpreted as a ‘blueprint’ for restructuring – every situation must be carefully considered on its own merits and the HR policies to be adopted should be properly negotiated and fully endorsed by the social partners.

Further insight can be gained by considering the responses of unions representing different occupational groups. For example, pilots were more willing to accept a temporary pay cut/freeze and to forgo bonus/holiday payments, in all instances as a short-term crisis measure, when compared to other civil aviation unions. Thus, even within the same airline, a different ‘mix’ of HR policies will prove more (or less) acceptable to different occupational groups and the unions that represent them.

At the other extreme, pilots were most vehemently opposed to any reduction in training, as were air traffic controllers. The latter group were also more likely to report outright opposition to any compulsory redundancies or compulsory furloughs, a freeze on recruitment or the non-renewal of temporary contracts, or any attempt to defer the transfer of probationary staff to full-time contracts. Pilots and air traffic controllers are particularly concerned that even a temporary freeze on recruitment or a cut-back in training could spell long-term problems for the industry. According to InterCockpit Pilot Training Network, an independent subsidiary of Lufthansa Flight Training, European airlines will need up to 80,000 new pilots over the next 10 years. The European Cockpit Association (ECA) has therefore called on the

European Commission to consider policies that might ensure the continuation of qualifications and licenses amongst unemployed pilots, the need to support the existing and future training costs of pilots, and policies to promote labour mobility within the European Union. Air traffic controllers have also expressed grave concerns about cut-backs to training in some countries. Worldwide, it is estimated that there is a 15-20% shortage of air traffic controllers and it takes 3-5 years for controllers to be fully trained and operational.<sup>67</sup> Many more unions emphasised the need for on-going training, whatever the current circumstance of immediate prospects in the industry.

The HR policies discussed thus far relate primarily to company-level decisions, although given that many flag carriers and other civil aviation companies are publicly owned (e.g. airports) these policies will often involve government input. For example, governments might offer financial support for early retirement programmes and voluntary severance packages or partial assistance for short-time working. Unions were therefore asked about the policies they believe national governments should pursue to support the civil aviation industry during the current crisis. The summary results are reported in Table 8.

**Table 8: Preferred Government Policies (% respondent unions)**

POLICY	DISAGREE	NEITHER AGREE NOR DISAGREE	AGREE
Initiatives to promote social dialogue	-	6	94
Financial support to airlines/ airports for improved security	6	6	88
Protect services to remote communities	2	12	86
Funding for retraining programmes	-	17	83
Extending unemployment benefits	9	15	76
Contribution to pension funds for early retirement	13	14	73
Financial support to airlines for higher insurance costs	7	23	70
Funding for severance pay	18	13	69
Funding for medical/health insurance	13	19	68
Payments to partially cover short-time working	5	28	67
Financial compensation to airlines for loss of traffic	19	19	62
Low cost loans to civil aviation employees	15	27	58
Payments to fully cover short-time working	13	30	57
Financial compensation to airports for loss of business	23	21	56
Financial compensation to other companies (e.g. air traffic services, catering, aircraft manufacturers, etc)	24	24	52
Promote mergers/take-overs/consolidation	49	29	22
Relaxation of foreign ownership rules	61	28	11

There was very strong approval for funding to support retraining programmes, as well as funding for severance payments, early retirement and unemployment benefits. Not surprisingly, payments to partially or fully fund short-time working arrangements were most strongly supported by (European) unions whose members had been placed on short-time work. Financial support to enable airlines and airports to improve security elicited very strong support, as did financial support to enable airlines to cover higher insurance costs. These issues have been discussed at several international conferences in the weeks and months following the events of 11 September, most notably the 33rd General Assembly of ICAO (Montreal, September-October 2001) and the ICAO High-Level Ministerial Conference on Aviation Security (Montreal, February 2002). At the latter Conference, ICAO recognised the ‘need for further improvement of human resources’, especially in relation to training.<sup>68</sup> Unfortunately, the ability of the industry to deliver such improvements has been undermined by the (highly competitive) economic regulatory regime now governing the industry. The willingness of airlines and other civil aviation companies to cut-back training (Tables 5 and 6), despite the opposition of trade unions, is an indication that globalisation and intense international competition can erode efforts to maintain safety and security. Cost competition, for example, has led many airlines and airports to sub-contract a range of services that were previously provided in-house.<sup>69</sup> Argenbright Security is one of the most notorious examples of the extent to which some companies will go to cut costs and win contracts.<sup>70</sup> It is difficult, to say the least, to provide high levels of security and safety when pay and conditions are less attractive than McDonald’s Restaurants and the average rate of turnover for screener operators is in excess of 100%. At some US airports the turnover rate is in excess of 400%.

In contrast to union approval of additional financial support for safety and security, financial support for loss of business/traffic received far less support. In fact, several unions, especially those from North America, were extremely critical of such support. As one US union official explained: ‘The airlines demanded privatisation and deregulation in the 1980s. They should not now be turning to the government for financial assistance.’<sup>71</sup> European unions have also expressed concern over the financial support offered to US airlines, which is widely regarded as a potential ‘distortion’ of competition on Transatlantic routes. Loyola de Palacio, the EU’s Transport Commissioner, has stated that the problem at present is not so much to maintain a level playing field in Europe but how to guarantee fair competition with the USA. However, whereas the European Commission is trying to minimise any state support to European airlines, European unions would like to see a similar level of support to that offered in the United States. Trade unions are particularly concerned about the possibility of enforced consolidation within the EU as a result of the current crisis.

Not surprisingly, most unions, not only in Europe, are opposed to any policies designed to promote

mergers/take-overs/consolidation, or indeed the immediate relaxation of foreign ownership rules (see Table 8). The merger or take-over of financially weak airlines is unlikely to improve the general financial health of the industry.<sup>72</sup> Such moves are often driven by the desire of major airlines to achieve market domination. What the advocates of market liberalisation often fail to appreciate, or at least publicly acknowledge, is that as competition intensifies, so does the desire for consolidation and concentration.<sup>73</sup> Competition implies risk and uncertainty, the bane of any business, whereas consolidation and market domination creates a more predictable, and more comfortable, operating environment. Thus, in an industry where profits are increasingly hard to come by even at the best of times, and where so many items of cost are beyond the immediate control of corporate decision-makers (e.g. fuel, landing charges, aircraft), the pressures for consolidation can be overwhelming. Several airlines have merged or been declared bankrupt in recent months (including *Sabena*, *Swissair*, *JAL/Japan Air Systems*, *Ansett*, *Transbrasil*, *Canada 3000*) and others have been ‘bailed out’ by their national government (e.g. *Air New Zealand*). Further consolidation is very much in evidence in other areas of the industry (e.g. *Texas Pacific’s* bid for *Gate Gourmet*). The scope for consolidation means that industrial restructuring in the new millennium will be very different to that precipitated by the Gulf War in the 1990s.

Consolidation and state financial support for airlines inevitably raises questions of public interest and the public service role of civil aviation. In the USA, for example, it has been cogently argued that, as a result of the terrorist attacks of 11 September, civil aviation is more central than ever before to national security and the recovery of the macro economy. As the industry cannot recover without improvements in employee and labour relations, industry experts at MIT have suggested that the Air Transportation Stabilization Board (ATSB) should require each loan applicant to demonstrate the commitment of the company and its workforce to an HR strategy that can contribute to the industry’s recovery.<sup>74</sup> Without such a strategy in place, airlines run the risk of failure and public funds will be wasted.

The interaction of industry regulation and industrial relations can be readily demonstrated. For example, if all firms in a particular industry are signatories to a collective agreement which standardises basic pay and other conditions of employment, then competition on the basis of labour costs is effectively precluded. Firms must therefore look to reduce costs by improving productivity (via training, flexibility etc), and seek competitive advantage in the product market through service quality, reliability, punctuality, etc. Such action is widely regarded to be in the ‘public interest’, demonstrating that ‘social constraints’ can be highly productive.<sup>75</sup> In this way, appropriate forms of regulation can enable as well as constrain the activities of service providers, ensuring both efficiency in the product market and equity in the labour market.

Individual unions have made a strong claim for continued public support of their national airline, typically

on the basis of ‘public interest’. The Central Representative Council of *Aer Lingus*, for example, has argued that, as an island economy, Ireland would suffer substantial losses without a national airline. The public interest case for the continuation of *Aer Lingus*, already in a very weak financial situation prior to 11 September as a result of foot and mouth in the UK and the recession in the USA, is based on:

- The importance of tourism to the Irish economy (140,000 jobs). Passengers who fly direct into Ireland stay longer and spend more money (100% of *Aer Lingus* operations are into and out of Ireland).
- The peripheral location and small population of Ireland demands services that are not purely dictated by profit maximisation.
- The continuation of foreign direct investment, especially from the USA, depends on regular, reliable and direct air links for both passengers and freight.<sup>76</sup>

Many more unions support government action to protect services to remote communities on similar grounds (see Table 8), especially ‘island economies’ (e.g. Greece, Iceland, Indonesia and the Philippines) and countries with a large land mass and poor internal transport infrastructure (e.g. Brazil and the Democratic Republic of Congo).<sup>77</sup>

The policy that elicited strongest trade union support was ‘Initiatives to promote social dialogue’. Many individual airlines and other civil aviation companies should be applauded for their efforts to promote extensive and more meaningful social dialogue following the tragic events of 11 September. But numerous companies have neglected social dialogue in their haste to cut costs. In recent months, many airline employees only discovered that they were to lose their job when they read their local newspaper, tuned into their local radio station, or watched the TV news. The problems such neglect can create, including threatened or actual strike action, must be addressed in the first instance at the corporate level, especially as the vast majority of airlines now deal with industrial relations and related matters at the corporate or enterprise levels.<sup>78</sup> In addition, many civil aviation unions still regard government initiatives in this area as vitally important.

The scale of the crisis has demanded government intervention in a range of business and related decisions, not least labour restructuring programmes, and unions want to be fully involved in these deliberations and policy decisions. Moreover, unions favour initiatives to promote social dialogue at the regional and international as well as the national level. European unions, for example, along with other industry organisations, have pressed the European Commission to initiate social dialogue and create an *ad hoc* group to look at the social consequences of the civil aviation crisis (on the same basis as groups



dealing with security and insurance issues).<sup>79</sup> The first meeting of this group took place in Brussels (3 December 2001). Such discussions are part of an on-going process of social dialogue at the EU level. At a global level, the ITF has made an important contribution to a range of international meetings convened to consider the impact of 11 September, most notably the 33rd General Assembly of ICAO (Montreal, September-October 2001), the ILO Tripartite Meeting on Civil Aviation (Geneva, January 2002), the ICAO High-Level Ministerial Conference on Aviation Security (Montreal, February 2002), and the IATA Airline Financial Summit (New York, April 2002).<sup>80</sup>

Social dialogue has arguably assumed even greater importance in an industry where deregulation has exacerbated the 'fragility' and 'susceptibility' of airlines to cyclical downturns and unforeseen events such as the terrorist attacks of 11 September. It is imperative, therefore, to lay the foundations now for more effective social dialogue, not only for the present crisis but for subsequent cyclical downturns. The provision of more information to employees and trade union representatives would be an important first step – airlines will often 'open the books' when they are in the red but invariably close them again when they return to profitability. The provision of information implies trust between the social partners and recognition of the legitimate interests of employees and trade unions in the future of the industry. All this counts for nothing, however, without a system to ensure the compliance of all parties to democratically negotiated agreements and the wider 'rules of the game'. All too often, civil aviation unions have been forced to resort to industrial action to ensure compliance. The 1997 ITF survey revealed that the vast majority of civil aviation unions (82%) still regard industrial action as an effective union strategy to combat the threats of globalisation. Only a minority (46%) regarded union-management co-operation as effective.<sup>81</sup> The events of 11 September clearly demand greater co-operation between the social partners, but in the current regulatory and competitive environment it seems that recent events are more likely to foster opportunism and engender social conflict.



For civil aviation employees around the world, the devastating effects of 11 September on the industry highlight two fundamental issues. The first is the need for a new approach to labour management; the second is the need for a more effective regime of industrial regulation.

In recent years there has been too much reliance on labour as a ‘variable cost of production’, as the primary adjustment mechanism to be varied simply in accordance with product market demand. Instead, airlines and other civil aviation companies must recognise and affirm the vital contribution of labour to safety, security, reliability and customer service. It is essential for the industry to employ workers who can be verified as qualified and competent to meeting existing and future operational requirements, especially in relation to safety and security functions. This might involve the extension of licensing to a wider range of occupational groups (e.g. the licensing and re-classification of cabin crew as ‘safety professionals’), but at a minimum will require a new culture of airline management which values employees as a resource rather than a cost and invests accordingly in these human resources. As a matter of urgency, human resource management must address the problems of work intensification and quality of working life, possibly through the extension of a ‘human factors’ approach which pays much greater attention to the interaction and effective integration of people, technology and the working environment.

Through extensive and intensive social dialogue, there is much that individual airlines and other civil aviation companies can do to address these problems and thereby set a new course for the 21st century. Just as there are numerous examples of ‘good practice’ and socially responsible accords developed in response to the events of 11 September,<sup>82</sup> there are numerous airlines around the world who represent a model or ‘benchmark’ for good HR practice.<sup>83</sup> Too much benchmarking activity in recent years has been directed to the (negative) cost-cutting approach of human resource management – it is time the focus shifted to the (positive) productivity-enhancing approach of employee development and investment in human resources.

Many airline managers would no doubt concur with such arguments, and yet airlines and other civil aviation companies continue to cut-back on training and other investments in their human resources, even in areas such as safety and security. Rather than simply berate these companies for their myopic approach to human resource management, it is important to recognise that, in some regulatory contexts, managers sometimes adopt an irrational strategy for rational reasons. For example, if all other firms are cutting costs and sub-contracting ‘non-core’ activities, then it ‘makes sense’ for the *individual company* to do the same.<sup>84</sup> The net effect, however, is to reduce the *industry’s* capacity to provide a safe, secure and reliable service because there is insufficient investment in the human resources of sub-contractors and other service providers whose main concern is to minimise cost. To create a new culture of airline management, and to avoid the problems that can arise when ‘non-core’ activities are sub-contracted on

the basis of ‘market price’ or ‘least cost safe option’, requires a new approach to regulation in the civil aviation industry.

Employees and their trade union representatives are all too aware of the adverse effects of deregulation, privatisation and the extension of ‘free competition’ in the industry. Even employers recognise the problems created by sub-contracting, fragmentation etc, which in the words of Pierre Jeannot (Director General and CEO of IATA), ‘encourages a climate of excessive competition with the fight for market share being considered far more important than the preservation of a good bottom line.’<sup>85</sup> At the same time, however, most employers bristle at the mention of regulation. This arises from two fundamental misconceptions: first, the idea that it is possible to have a market with no regulation or restrictions on business activities; and secondly, the idea that all regulation involves ‘unnecessary bureaucracy’ or ‘red tape’, which therefore results in ‘market inflexibility’. These misconceptions are founded on the neo-liberal principle of ‘self-regulation’ via the market mechanism and the maxim of ‘competition where possible, regulation only where necessary’.

According to neo-liberals, regulation is only necessary in the event of market failure. To correct market failures, however, two different modes of regulation are available: structure and conduct regulation. The former concerns which firms are allowed to engage in economic activities, the latter with how firms behave in their chosen activities.<sup>86</sup> In brief, structural regulation aims to create a situation in which the incentives or opportunities for undesirable behaviour are removed, whereas conduct regulation addresses not the undesirable underlying incentives but the behaviour that they would otherwise induce. As information on the structure of an industry is generally better than information on firms’ behaviour in that industry, and as the latter involves intensive monitoring and enforcement, public agencies (and trade unions) have traditionally preferred structural rather than behavioural regulation (e.g. restrictions on entry, statutory monopoly, single capacity rules and qualifications, rather than measures to guard against anti-competitive behaviour, price controls, rules against advertising or other restrictions on competitive activity). It can be extremely difficult, for example, to define predatory pricing behaviour, let alone detect and deter such behaviour.

One of the principle effects of 11 September appears to be an even greater reliance on conduct regulation (e.g. as a result of further sub-contracting and calls for the termination of state support or intervention in the industry). Even in the United States, however, regulators have acknowledged the potential dangers of an over-reliance on conduct regulation. This was most clearly demonstrated in the debate on security at US airports and the decision to ‘federalise’ the employment of security personnel.<sup>87</sup> Thus, the choice now facing the industry is not between a ‘free market’ and a ‘regulated market’, but between different forms of structure and conduct regulation and ensuring an appropriate balance between the two. ‘The answer’,

according to Shane Enright (ITF Civil Aviation Secretary), ‘isn’t more or less regulation but rather more targeted intelligent regulation, what unions have called “SMART” regulation.’<sup>88</sup> Smart economic regulation implies that the new ‘rules of the game’ must be: **S**ustainable and thereby compatible with the long term social, economic and environmental needs of the industry; **M**easured to the extent that any regulations should not over-burden the industry in ‘red tape’ but at the same time provide adequate protection for employees, passengers and other interested parties; **A**ccessible to the input of all stakeholders; establish clear lines of **R**esponsibility for various activities or the provision of different services; **T**argeted towards key areas of activity such as training, safety and security.

In a wider context, the purpose of regulation should be the promotion of ‘fair’, not ‘free’ competition, both in the product market and the labour market. An effective regulatory framework for fair competition requires compliance, legitimacy and trust. Legitimacy can only be achieved through a democratic process – hence the importance of involving all potential stakeholders, especially employees – and there must also be effective methods of accountability which are open and transparent. Most importantly, trust can only be generated through the creation of shared norms and repeated contacts (via social dialogue). Thus, if trust is to become a valued resource in its own right, leading to high levels of productivity and lower transaction costs, then there must be a commitment to job security and a strong institutional base which provides (statutory) rights for consultation, participation and employee representation. In summary, the challenges facing the industry and its workforce demand a new regulatory regime which can only be created, and sustained, through social dialogue.



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## Abbreviations

<b>AAPA</b>	Association of Asia Pacific Airlines
<b>ACI</b>	Airports Council International
<b>AEA</b>	Association of European Airlines
<b>AF</b>	Air France
<b>ANA</b>	All Nippon Airways
<b>ASK</b>	Available Seat Kilometre
<b>ATAG</b>	Air Transport Action Group
<b>BA</b>	British Airways
<b>CEO</b>	Chief Executive Officer
<b>ECA</b>	European Cockpit Association
<b>ESOP</b>	Employee Share Ownership Plan
<b>FAA</b>	Federal Aviation Administration (USA)
<b>HR</b>	Human Resource
<b>IATA</b>	International Air Transport Association
<b>ICAO</b>	International Civil Aviation Organization

<b>ILO</b>	International Labour Organisation
<b>ITF</b>	International Transport Workers' Federation
<b>JAL</b>	Japan Airlines
<b>RPK</b>	Revenue Passenger Kilometre
<b>RTK</b>	Revenue Tonne Kilometre
<b>SIA</b>	Singapore Airlines



<sup>1</sup> Figures are based on international scheduled passenger traffic.

<sup>2</sup> ATAG (2000) *The Economic Benefits of Air Transport*, Geneva: Air Transport Action Group.

<sup>3</sup> Nearly 4 million workers are directly employed in the civil aviation industry, 8 million people are employed in related industries, and the 'induced' or 'multiplier' effect of spending by the sector creates more than 15 million jobs (see ATAG, op. cit.). ICAO has calculated that every US\$100 of output produced and every 100 jobs generated by the air transport industry triggers additional demand of US\$325 and 610 jobs in other industries.

<sup>4</sup> Statistical and other information on tourism and travel is available from the World Tourism Organization at [www.world-tourism.org](http://www.world-tourism.org)

<sup>5</sup> Air traffic tends to grow about twice as fast as the annual growth in the world's GDP. See Rigas Doganis (2001) *The Airline Business in the 21st Century*, London: Routledge, p.10. For a discussion of the impact of globalisation on the maritime and port transport industries, see Peter Turnbull (2000) 'Contesting Globalization on the Waterfront', *Politics & Society*, Vol.28, No.3, pp.273-97.

<sup>6</sup> Donald G. Janelle and Michel Beuthe (1997) 'Globalization and Research Issues in Transport', *Journal of Transport Geography*, Vol.5, No.3, p.200.

<sup>7</sup> See Peter Turnbull (1999) *Regulation, Deregulation or Re-Regulation of Transport?* Symposium on the Social and Labour Consequences of Technological Developments, Deregulation and Privatization of Transport, Discussion Paper No.4, Geneva: International Labour Office.

<sup>8</sup> See, *inter alia*, Paul S. Dempsey (1989) *The Social and Economic Consequences of Deregulation: The Transportation Industry in Transition*, New York: Quorum Books; Bert Essenberg (1999) *Labour Relations in a Changing Industry*, Symposium on the Social and Labour Consequences of Technological Developments, Deregulation and Privatization of Transport, Discussion Paper No.1, Geneva: International Labour Office; ITF (1998) *Transport Workers and the Global Economy*, London: International Transport Workers' Federation; Turnbull (2000) op. cit.; Peter Turnbull and Victoria Wass, V. (1995) *Reform and Structural Adjustment in the World's Ports: The Future for Labour and the Unions*, London: International Transport Workers' Federation.

<sup>9</sup> See Paul Blyton, Miguel Martínez Lucio, John McGurk and Peter Turnbull (1998) *Contesting Globalisation: Airline Restructuring, Labour Flexibility and Trade Union Strategies*, London: International Transport Workers' Federation.

<sup>10</sup> Ibid. See also Paul Blyton, Miguel Martínez Lucio, John McGurk and Peter Turnbull (2001) 'Globalization and Trade Union Strategy: Industrial Restructuring and Human Resource Management in the International Civil Aviation Industry', *International Journal of Human Resource Management*, Vol.12, No.3, pp.445-65.

<sup>11</sup> Doganis op. cit., p.14, original emphasis.

<sup>12</sup> [www.ilo.org/public/english/dialogue/sector/techmeet/imica01/summary.htm](http://www.ilo.org/public/english/dialogue/sector/techmeet/imica01/summary.htm)

<sup>13</sup> See, respectively, Peter Turnbull and Geraint Harvey (2002) *The Impact of 11 September in the Civil Aviation*

*Industry: Social and Labour Effects*, Working Paper No.182, Geneva: International Labour Office; and Peter S. Morrell and Fariba Alamdari (2002) *The Impact of 11 September on the Aviation Industry: Traffic, Capacity, Employment and Restructuring*, Working Paper No.181, Geneva: International Labour Office. Background documents, the Chairperson's summary, and an issues paper are available from the ILO web site. This was the first ILO tripartite meeting on civil aviation in over a decade.

<sup>14</sup> See the *Final Chairperson's Summary* (TMICA/2002/9) Geneva: International Labour Office, which is also available at [www.ilo.org/public/english/bureau/inf/pr/2002/3.htm](http://www.ilo.org/public/english/bureau/inf/pr/2002/3.htm). All these Recommendations were agreed by employer, trade union and government representatives. In addition, the Meeting also urged governments to ensure the provision of unemployment benefits, health insurance, and training and re-training for furloughed and unemployed workers; provide support (including funding) for security and insurance costs to avoid labour conditions and job cuts from being the main focus for adjustments; extend all stop-gap measures to allow sufficient time for the development of permanent solutions; ensure the independence and integrity of national aviation safety regulators; ensure that their national aviation authorities have the necessary means and resources for the effective oversight and implementation of all components of an increasingly global yet fragmented industry; in coordination with ICAO, consider the establishment of effective legal protection and remedies against violence at work for flying personnel, including a review of jurisdictional issues and establishment of safety requirements and procedures; and ensure that the fundamental workers' rights of aviation employees, including the right to privacy, are protected and respected in cases where such employees are subject to security vetting due to the sensitive nature of their employment.

<sup>15</sup> The report by Turnbull and Harvey for the ILO (see note 13) was based on information received from 35 civil aviation unions. Subsequent to the preparation of this Report a further 17 unions responded to the questionnaire survey.

<sup>16</sup> ATAG, op. cit. See also Doganis, op. cit., p.10.

<sup>17</sup> Pierre J. Jeannot, (2002) 'Recovery, Growth and Profits', Address to the IATA Airline Financial Summit, 8 April, New York. See also Doganis, op. cit., pp.2-4.

<sup>18</sup> ATAG, op. cit. Taking an index of world air fares with 1975=100, the index fell to below 80 by the early 1980s and less than 70 by the mid 1980s. The index increased from 1986-91, but then recorded a very sharp fall to less than 60 by the late 1990s.

<sup>19</sup> Peter Cappelli (1995) *Airline Labor Relations in the Global Era: The New Frontier*, Ithaca: ILR Press.

<sup>20</sup> Doganis, op. cit., p.125.

<sup>21</sup> Ibid., pp.124-5

<sup>22</sup> Blyton *et al.* (2001) op. cit., p.456.

<sup>23</sup> Although strike activity in the USA declined significantly in the late 1980s and 1990s, industrial relations in the European civil aviation industry have recently been punctuated by a succession of disputes. See Paul Blyton and Peter Turnbull (1995) 'Growing Turbulence in the European Airline Industry', *European Industrial Relations Review*,

No.255, pp.14-16; and Gregor Gall (1996) 'Converging on Conflict', *European Journal of Industrial Relations*, Vol.2, No.2, pp.255-60.

<sup>24</sup> 'Duration' is defined as the number of months to elapse between the amendable date of the previous contract and the ratification of the contract being negotiated. See MIT (2001) 'Average Length of Negotiations for Airline Labor Contracts', Global Airline Industry Program, Massachusetts Institute of Technology, USA.

<sup>25</sup> Blyton, P., Martínez Lucio, M., McGurk, J. and Turnbull, P. (1998a) *Contesting Globalisation: Airline Restructuring, Labour Flexibility and Trade Union Strategies*, London: ITF, p.19. US evidence indicates that 'hard bargaining' and union avoidance strategies of this ilk are not very successful. See Jody Hoffer Gittell, Andrew von Nordenflycht and Thomas A. Kochan (2001) 'Mutual Gains or Zero Sum? Labor Relations and Stakeholder Outcomes in the Airline Industry', Harvard Business School, USA. One of the main conclusions of the MIT's Global Airline Industry Research Program is that 'attempts to reduce labor's bargaining power are likely to lead to negative, if not disastrous, results.' See Andrew von Nordenflycht (2001) 'Alternative Approaches to Airline Labor Relations', Massachusetts Institute of Technology, USA.

<sup>26</sup> Blyton *et al.* (2001) *op. cit.*, p.453.

<sup>27</sup> *Ibid.* See also Paul Blyton, Miguel Martínez Lucio, John McGurk and Peter Turnbull (1998b) *Globalisation, Deregulation and Flexibility on the Flight Deck*, report prepared for the European Cockpit Association, Cardiff Business School, Cardiff University; and Jack Eaton (2001) 'Swim Together or Drown Separately', *The AVMARK Aviation Economist*, October, pp.12-13.

<sup>28</sup> Carol Boyd (2001) 'HRM in the Airline Industry: Strategy and Outcomes', *Personnel Review*, Vol.30, No.4, p.451.

<sup>29</sup> David Lebrecht (1999) 'Effects on Airline Employees of Growing Competition', Airline Industrial Relations Conference, SMi Group, 25-6 October, London. US research also indicates that labour conflict is negatively associated with airlines' service quality, productivity and various financial outcomes. See Hoffer Gittell *et al.*, *op. cit.*

<sup>30</sup> Tae Hoon Oum and Chunyan Yu (1998) *Winning Airlines: Productivity and Cost Competitiveness of the World's Major Airlines*, Boston, MA: Kluwer, p.201.

<sup>31</sup> Doganis, *op. cit.*, p.101.

<sup>32</sup> Alexander ter Kuile (CANSO), information made available at the ILO Think Tank Meeting (Geneva, 29-30 October 2001). Nav Canada, the privatised Canadian air traffic control authority, estimates that 72% of its operating expenses are tied up in salaries and benefits.

<sup>33</sup> ITF (2001) Air Traffic Services Conference, 28-29 November, London: International Transport Workers' Federation.

<sup>34</sup> Researchers at MIT have found that the length of contract negotiations in the US civil aviation industry is not only 'cyclical' but that the 'worst' periods, in terms of the likelihood of prolonged negotiations, seem to straddle the cusp of the industry's financial slumps (i.e. beginning in the later years of the industry's 'boom' times and stretching into

the first years of the 'bust' times). See MIT, op. cit. Examples of labour disputes in North America, Europe and Asia-Pacific during the downturn of 2001, which followed a prolonged period of growth, are presented by Turnbull and Harvey, op. cit., p.5.

<sup>35</sup> Blyton et al. (2001), op. cit.; See also Oum and Yu, op. cit.

<sup>36</sup> See Doganis, op. cit., p.115; and Miguel Martínez Lucio, Peter Turnbull, Paul Blyton and John McGurk (2001) 'Using Regulation: An International Comparative Study of the Civil Aviation Industry in Britain and Spain', *European Journal of Industrial Relations*, Vol.7, No.1, pp.49-70.

<sup>37</sup> [www.ilo.org/public/english/bureau/inf/pr/2002/3.htm](http://www.ilo.org/public/english/bureau/inf/pr/2002/3.htm)

<sup>38</sup> Many airlines do not have access to (international) capital markets and are consequently debt-dependent and seriously under-capitalised.

<sup>39</sup> IATA (2002) 'Industry Briefing: Airline Industry Trends Since September 11th', at [www.iata.org](http://www.iata.org)

<sup>40</sup> Transpacific traffic declined by -13% in 2001, which was even bigger than the decline in Transatlantic traffic (-9%) but not as great as the decline in North American ↔ South American traffic (-22%). All figures are based on RPKs. See IATA, op. cit.

<sup>41</sup> ACI (2002) *Economic Impact of September 11 on Airports*, Geneva: Airports Council International. The figures presented in Table 3 are mirrored in the regional decline of tourist arrivals during the last four months of 2001 (Africa -3.5%, Americas -24.0%, East Asia and the Pacific -10.3%, Europe -6.2%, Middle East -30.2%, and South Asia -24.0%). The worldwide decline in tourist arrivals in 2001 was -1.3%, with a decline of -10.9% between September and December off-setting an increase of 2.8% during the first eight months of the year. This was the only significant annual decline in tourism since World War II. Further information is available at [www.world-tourism.org](http://www.world-tourism.org)

<sup>42</sup> Pierre Jeannot, op. cit. Industry-wide losses are expected to be US\$4-8 billion in 2002.

<sup>43</sup> The problems experienced by many African airlines owe more to years of mismanagement than 11 September, as the recent collapse of Air Afrique serves to illustrate.

<sup>44</sup> Bob Falkenberg (Babcock Brown) 8 March 2002, at [www.rati.com/MarketingModule/news](http://www.rati.com/MarketingModule/news)

<sup>45</sup> Data from stockbroker West LB Panmure. Low cost airlines now hold 14% of the UK and Irish travel market, from virtually nothing 5 years ago, but only 2% of the continental European market. This represents considerable growth potential for low cost airlines. During the financial year to 31 March 2002, Ryanair carried 38% more passengers and increased profits by 40%. The company aims to become Europe's largest airline, carrying 40 million passengers per annum (the company currently carries just over 11 million passengers per annum).

<sup>46</sup> For example, 'business' travel accounts for 40% of Go's market.

<sup>47</sup> See Morrell and Alamdari (2002) op. cit., p.2; IATA (2002) op. cit; FAA (2002) 'FAA Forecast Continued Drop in Air

Traffic This Year, Strong Recovery in 2003', Press Release, 12 March, Washington DC.

<sup>48</sup> IATA (2002) op. cit. See also OECD (2002) 'Workshop on the Liberalisation of Air Cargo Transport', January, Paris, at [www.oecd.org](http://www.oecd.org)

<sup>49</sup> Low cost carriers such as *Southwest* and *easyJet* had already bucked the trend by announcing new recruitment for 2002.

<sup>50</sup> See Turnbull and Harvey, op. cit., pp.8-12 and 15-16.

<sup>51</sup> These figures are not reported here but are available from the authors on request.

<sup>52</sup> Of the European unions, 43% reported fewer than five HR measures and 36% reported between five and ten. Among the Asia-Pacific respondents, 44% reported fewer than five HR policies, a similar number reported 5-10 measures, and just over 11% reported 11-15 measures. Given the smaller number of respondents, the data for other regions, low cost carriers and other civil aviation companies are not reported. However, it is worth noting that the problems faced by many African airlines prior to 11 September severely limited the range of cost-cutting measures available to them. *Ghana Airways*, for example, had already introduced a 6-month pay cut, reduced flying allowances and suspended many flights. Post 11 September, the company was forced to lay-off staff as there was very limited scope for further financial flexibility.

<sup>53</sup> Thomas A. Kochan (2001) 'Requirements for Airline Industry Recovery', Massachusetts Institute of Technology, USA.

<sup>54</sup> *Airline Business*, November 2001.

<sup>55</sup> ITF Civil Aviation Briefing, Issue 28, 13 November 2001.

<sup>56</sup> Authors' interview notes.

<sup>57</sup> Communication to the ITF, dated 15 January 2002.

<sup>58</sup> *Fortune*, 15 October 2001.

<sup>59</sup> Pierre Jeannot, 8 April 2002, at [www.iata.org](http://www.iata.org)

<sup>60</sup> Daniel Yergin, Richard H.K. Vietor and Peter C. Evans (2000) *Fettered Flight: Globalization and the Airline Industry*, Cambridge, Mass.: Cambridge Energy Associates.

<sup>61</sup> One example is 'price bracketing', whereby airlines charge much lower fares on flights departing immediately before or after the flights offered by rival airlines.

<sup>62</sup> See Blyton *et al.* (1998a) op. cit., p.18.

<sup>63</sup> Karl-Heinz Neumeister, 31 January 2002, at [www.aea.org](http://www.aea.org)

<sup>64</sup> Pierre Jeannot, op. cit.

<sup>65</sup> It is worth noting that ESOPs tend to produce more polarised views. This mirrors the findings of our earlier study of civil aviation unions in which less than one-in-five unions with experience of ESOPs regarded this form of financial participation as a vehicle to improve management worker co-operation, and 45% saw ESOPs as a 'ploy' to make workers pay for past mis-management. See Blyton *et al.* (1998a) op. cit., p.23.

<sup>66</sup> This approach is consistent with the North American practice of lay-offs and recall by inverse seniority.

<sup>67</sup> Marc Baumgartner (IFATCA), information made available at the ILO Think Tank Meeting (Geneva, 29-30 October 2001).

<sup>68</sup> Consolidated Conclusions, Recommendations and Declaration, Agenda Item 4: Financial and Human Resources, AVSEC-Conf/02, ICAO High-Level Ministerial Conference (Montreal, February 2002). The full text is available at [www.icao.int/icaonet/cnfrst/avseconf2002/declaration](http://www.icao.int/icaonet/cnfrst/avseconf2002/declaration)

<sup>69</sup> Three-quarters of the civil aviation unions who responded to the 1997 ITF survey reported the sub-contracting of work previously undertaken in-house. Most commonly (in seven out of every ten cases) this involved sub-contracting 'support' services, including security. See Blyton *et al.* (1998a) op. cit., p.17.

<sup>70</sup> See ITF (2002) *Transport International*, No.8, London: International Transport Workers' Federation, p.9.

<sup>71</sup> Survey notes.

<sup>72</sup> In Europe, for example, the majority of international mergers have brought no extra value (and in some cases negative value) to shareholders. As Mario Monti, the EU Competition Commissioner, recently acknowledged, 'Many high-profile multi-billion dollar mergers, which are claimed to generate huge cost-savings and improve efficiency, do nothing of the kind and should be viewed with scepticism' (*The Guardian*, 5 June 2002).

<sup>73</sup> Alfred Kahn, the architect of US domestic airline deregulation, clearly failed to anticipate the market power of major carriers or the impact of hub-and-spoke networks and computer reservation systems. He later admitted that 'We thought an airline was nothing but a marginal cost with wings' (*Independent on Sunday*, 13 January 1991).

<sup>74</sup> Kochan, op. cit.

<sup>75</sup> See Wolfgang Streeck (1992) *Social Institutions and Economic Performance*, London: Sage.

<sup>76</sup> CRC (2001) 'Crisis in Aer Lingus', Dublin: Central Representative Council.

<sup>77</sup> Small communities in the USA have expressed their anger about services being slashed post 11 September, as have communities in Australia who lost air services following the collapse of Ansett.

<sup>78</sup> See Blyton *et al.* (1998a) op. cit., p.19.

<sup>79</sup> See, for example, the joint statement issued by ACI, AEA, CANSO, ECA, ERA, ETF and IACA EUROPE to the Council of Transport Ministers meeting in Luxembourg, 16 October 2001.

<sup>80</sup> Unlike many other international trade union secretariats, the ITF's Civil Aviation Section enjoys comprehensive affiliation by well organised national unions and is widely recognised by international (regulatory) bodies. As a result, it is well placed to ensure that the interests of civil aviation workers are effectively represented. For a discussion of the 'pre-requisites' for effective international union organisation in the civil aviation industry, see Blyton *et al.* (2001) *op. cit.*

<sup>81</sup> Blyton *et al.* (1998a) *op. cit.*, p.21.

<sup>82</sup> See Turnbull and Harvey, *op. cit.*

<sup>83</sup> See Hoffer Gittell *et al.* (2001) *op. cit.*; von Nordenflycht (2001) *op. cit.*; and Heike Bruch and Thomas Sattelberger (2001) 'Lufthansa's Transformation Marathon: The Process of Liberating and Focusing Change Energy', *Human Resource Management*, Vol.40, No.3, pp.249-59.

<sup>84</sup> More accurately, competitive pressures 'dictate' such a response.

<sup>85</sup> Pierre Jeannot, *op. cit.* This is yet another example of an 'irrational strategy' which can only be 'rationalised' under the current 'rules of the game'.

<sup>86</sup> See John Kay and John Vickers (1990) 'Regulatory Reform: An Appraisal', in Giandomenico Majone (ed.) *Deregulation or Re-Regulation? Regulatory Reform in Europe and the United States*, New York: Pinter, p.223.

<sup>87</sup> Rather than rely on monitoring the conduct of private sub-contractors, regulators have redefined who can participate in the market and provide security services (i.e. a return to structural regulation).

<sup>88</sup> Shane Enright (2002) 'It's Time to Get Smart', *Transport International*, No.8, London: International Transport Workers' Federation, p.12.

