

Contesting the Financial Crisis:

Aviation Industrial Relations and Trade Union Strategies After the Financial Crisis

Dr Geraint Harvey

Swansea University School of Business and Economics,
Swansea University, Wales UK

&

Professor Peter Turnbull

Cardiff Business School, Cardiff University, Wales UK



**Report for the
International Transport Workers Federation**

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Abbreviations

AEA	Association of European Airlines
ANSP	Air navigation service provider
APDC	Airline Personnel Directors Conference
ATC	Air traffic control
ATCO	Air traffic control officer
CANSO	Civil Air Navigation Services Organisation
ECA	European Cockpit Association
ETF	European Transport Workers' Federation
IALPA	International Airline Pilots Association
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
IFATCA	International Federation of Air Traffic Controllers' Associations

Foreword

The ITF and the ILO have undertaken research into the impact of the financial crisis on aviation workers and commended the study 'The Impact of the Financial Crisis on Labour in the Civil Aviation Industry' by Professor Peter Turnbull of Cardiff University and Dr. Geraint Harvey of Swansea University. The findings are summarised in this publication that has updated the "Contesting the Crisis" document (from the same authors and published by the ITF) on the effects on workers of the 2001 crisis

The economic recovery will take time and its benefits are unlikely to filter down to the workforce in the near future. Moreover, the economic situation will continue to be used by governments and business managers to promote restructuring and to attack jobs and working conditions.

Our industry is going through structural change. The current crisis is not simply yet another cyclical dip. This means a drive for permanent restructuring by companies and an increasing emphasis on regional and global networks.

The crisis is also being used by airlines to hasten the shift towards the negative aspects of the low cost carrier model, with the intention of downgrading working conditions and promoting greater casualisation to reduce labour cost. This strategy is misguided and will not only damage industrial relations but could have a harmful impact on safety, security and the quality of passenger care.

There is the need to continue to demand carriers and aviation related companies, governments and international bodies act urgently to develop an effective strategy with unions that benefit the aviation industry and its workers. Thus, this publication merits serious consideration and debate by the industry and should form the basis of a stakeholder dialogue which the ITF has called for.

Gabriel Mocho Rodriguez

Secretary Civil Aviation Section

ITF

1. Introduction

There is no doubting the social and economic significance of the civil aviation industry to the world economy. The global economic impact of civil aviation is estimated to be around US\$3.5 trillion, equivalent to 7.5 per cent of world GDP.¹ In 2006, civil aviation contributed US\$408 billion directly to global GDP, as much as the pharmaceuticals industry, and a further US\$465 billion indirectly through the 'multiplier' effects of aviation related jobs and economic activity. The industry supports 31.9 million jobs globally; it created 5.5 million jobs directly in 2006 (with 4.7 million people employed by airlines and airports and around 800,000 employed in the civil aerospace sector) and a further 6.3 million jobs via the purchases of goods and services in the air transport supply chain; 2.9 million jobs are created by the spending of employees; and 17.1 million jobs are created through air transport's 'catalytic' impact on tourism. However, the synergy between the global economy and demand for air transportation means that in any economic downturn, civil aviation companies will suffer – and suffer more than most. While the global crisis of capitalism has wrought its effects on virtually all industrial sectors, the impact on the international civil aviation industry is especially severe.

This ITF Report documents the findings of research commissioned by the ILO to examine the impact of the global financial crisis on the major civil aviation markets of the world economy, namely: North America, Europe and Asia Pacific, along with connecting intercontinental markets (some data have been gathered, en passant, for Africa, South America and the Middle East). The research focuses on the restructuring of several different types or category of airline, namely: scheduled/full service, regional, low cost and charter. In addition, information has been obtained from the air navigation service providers (ANSPs) that support civil aviation.

The principal source of information for this Report is data supplied by 61 civil aviation unions affiliated to the ITF. The data therefore mirrors that collected in 2001 in the wake of 9/11, which formed the basis of a previous ITF report (Harvey and Turnbull 2002², see also Blyton et al. 1998³).

In this latest Report we analyse the impact of the financial crisis and the subsequent restructuring on the workforce at both airlines and ANSPs, and in particular, job losses: how these are managed (e.g. voluntary or compulsory, selection criteria, etc.); how job losses have been avoided (e.g. early retirement, short-time working, extended vacations); and any other changes to workers' terms and conditions of employment (e.g. pay cuts, suspension of bonus payments, extended hours etc). Before reporting on the impact of the crisis, we review the broader economic environment for civil aviation, in particular the (pro-cyclical) pattern of demand, the industry's cost structure, and the recent and very rapid growth of low cost airlines. Any one of these factors can create uncertainty and unwelcome competitive pressures on airlines and their workforce. When combined with a global financial crisis and the restructuring of the industry that is currently set in motion, there is every reason to believe that civil aviation will be a more hostile place for trade unions and a much harsher place for the industry's workforce.

¹ Data from ATAG (2006) *The Economic and Social Benefits of Air Transport 2008*, Geneva.

² Harvey, G., and Turnbull, P., (2002) *Contesting the Crisis: Aviation Industrial Relations and Trade Union Strategies After 11 September*, International Transport Workers Federation (ITF), London. ISBN 0-901969-83-4.

³ Blyton, P., Martínez Lucio, M., McGurk, J. & Turnbull, P. *Contesting Globalisation: Airline Restructuring, Labour Flexibility and Trade Union Strategies*, 28 pages, London: International Transport Workers' Federation, 1998.

2. Traffic growth, labour relations and the current crisis

The impressive growth of the civil aviation industry has continued apace after the downturn following the 9/11 industry crisis. Between 2001 and 2008 passenger numbers increased from 1.6 billion to 2.3 billion, with attending revenue increase from \$307 billion to \$564 billion. Although the industry has recovered well from the last major crisis, it remains extremely sensitive to general economic conditions in both domestic and international markets. Of particular importance to business success in the industry is the airlines' employment relations strategy, which has always played an important part in the competitive performance of carriers and other companies in the civil aviation industry.⁴ Historically, strikes and other forms of industrial conflict have attracted a great deal of adverse attention, no doubt because of their visibility and the immediate impact of any work stoppages on passengers and revenue. The strike action undertaken by cabin crew at British Airways in March 2010, for example, cost the airline an estimated £43 million. Disputes such as these often lead to a deterioration in employee morale, job satisfaction and, as a result, a decline in customer satisfaction.⁵

Three important features of the industry ensure that industrial relations are invariably an exigent endeavour. First, the industry's product is perishable and airlines have no real inventory. Thus, if flights are cancelled, airlines cannot "stockpile" or easily recover lost traffic in the immediate future. Second, demand for air transport is pro-cyclical, that is, 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. Third, 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, etc.). Labour costs typically account for a fifth of the operating costs of Asian airlines and a third for European and US carriers.⁶ In other areas of the industry, such as air traffic control, around two-thirds of operating costs are labour costs.

These three features of the industry have important implications for human resource management policies 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.). It has been argued that for every one job lost in an airline, between four and ten jobs will be lost inside the perimeter of the airport and a minimum of a further three jobs per airline lost outside the perimeter.⁷ In the words of one union official, "Job losses in the industry are like a wave, or a ripple on a pond. It starts with the airlines and just gets bigger and bigger the further out you move from the airport to the local community and related businesses".⁸

The second factor, the pro-cyclical nature of the industry, is illustrated in Figure 1. This particular pattern of demand often means that the expectations of management and labour are out of step with 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, cost 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" to make up for previous concessions. 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.

⁴ Turnbull, P., and Harvey, G. (2001) *The Impact of 11 September in the Civil Aviation Industry: Social and Labour Effects*, Working Paper No. 182, Geneva: International Labour Office.

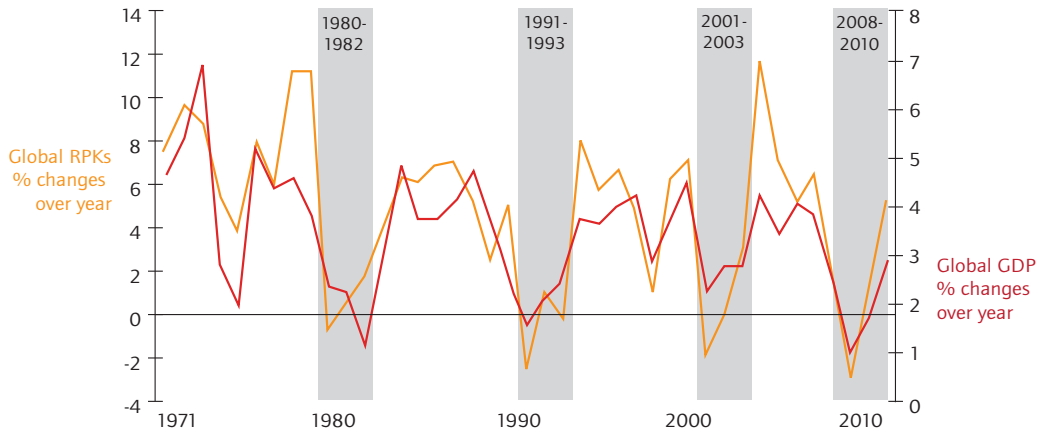
⁵ Lebrecht, D. (1999) *Effects on Airline Employees of Growing Competition*, Airline Industrial Relations Conference, SMI Group, 25-6 October, London.

⁶ Doganis, R. (2006) *The Airline Business*, London: Routledge.

⁷ TGWU (2001) *Evidence to the Transport Sub-Committee from the Transport and General Workers' Union*, London: TGWU.

⁸ Interview notes.

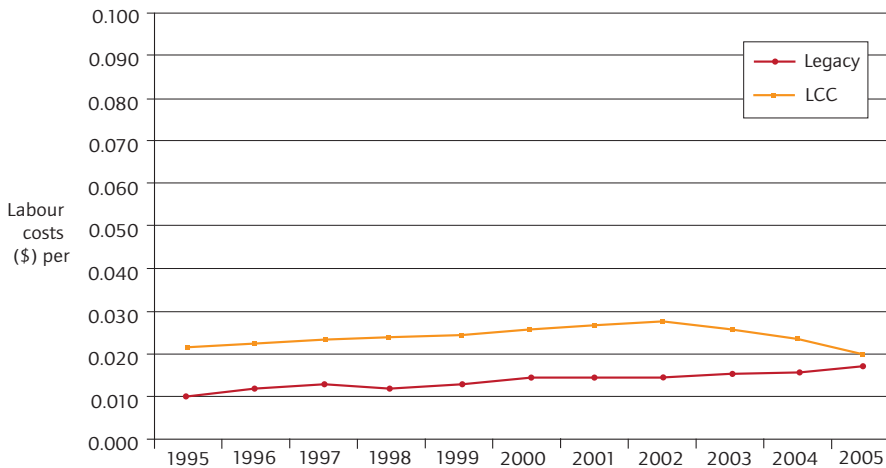
Figure 1. Pro-cyclical demand and economic crises in the civil aviation industry



Source: ICOA, EIU, IATA

The third factor – airlines' cost structure – means that adjustments made in response to any crisis invariably focus on personnel costs. In fact, in an age of globalisation and an ever more deregulated operating environment, labour increasingly bears the brunt of cost-cutting programmes, service quality initiatives, outsourcing strategies, etc. Indeed, after September 11th the cost reduction strategies of airlines, especially those based in North America, included a range of HR policies designed to elicit cost reduction from labour, most notably voluntary and compulsory redundancies.⁹ Despite this, US airline employment costs have continued to rise in line with general wage increases and the consumer price index, which is testament to the bargaining power of organised labour.¹⁰ More importantly, while labour cost reductions have provided short-term relief for US carriers, this has not led to long-term improvements in operational performance (productivity and service).¹¹ For full service carriers in particular, closing the gap on low cost airlines in terms of labour costs, which is illustrated in Figure 2, does not necessarily translate into a narrowing of the overall cost disadvantage they face in relation to low cost airlines, as illustrated in Figure 3. The lesson is clear: it takes far more imagination, innovation and creativity on the part of airline management than simply cutting workers pay and/or terms and conditions of employment if they hope to remain competitive in the face of low cost competition.

Figure 2. Converging Labour Costs: US Legacy vs Low Cost Carriers (LCC)



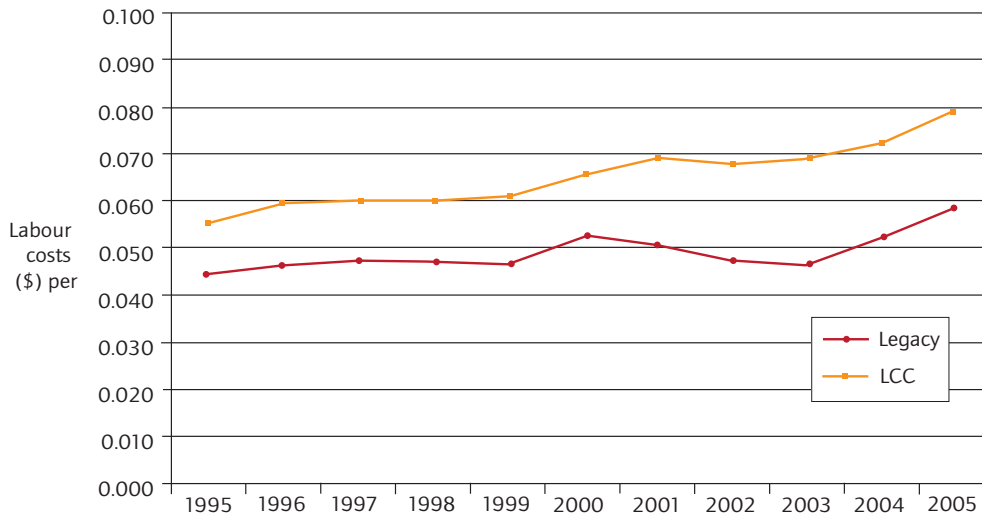
Source: MIT Global Aviation Project

⁹ Turnbull, P., and Harvey, G. (2001) *The Impact of 11 September in the Civil Aviation Industry: Social and Labour Effects*, Working Paper No. 182, Geneva: International Labour Office.

¹⁰ Civil aviation is one of the most highly unionised industries in the USA.

¹¹ Bamber, G.J., Hoffer Gittell, J., Kochan, T.A. & von Nordenflytch, A. (2009). *Up in the Air: How Airlines Can Improve Performance by Engaging their Employees*. New York: Cornell University Press.

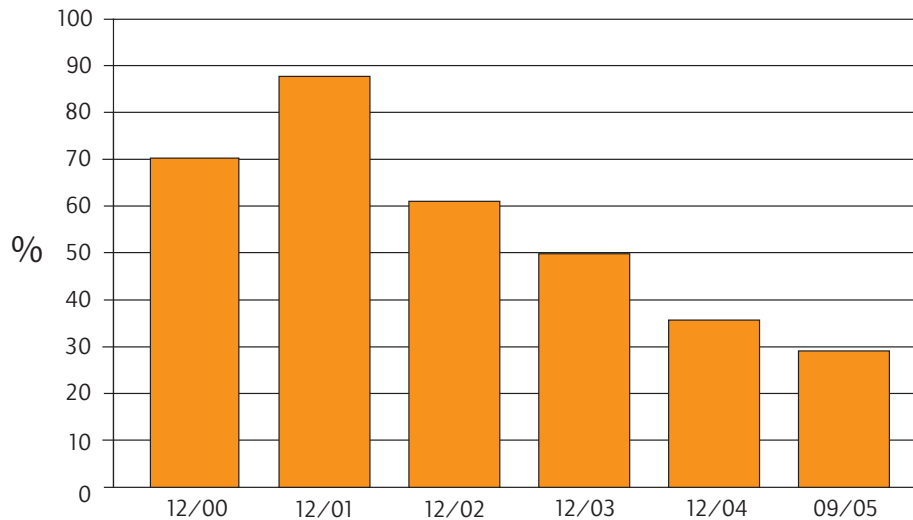
Figure 3. Diverging Unit Costs: US Legacy Airlines vs Low Cost Carriers



Source: MIT Global Aviation Project

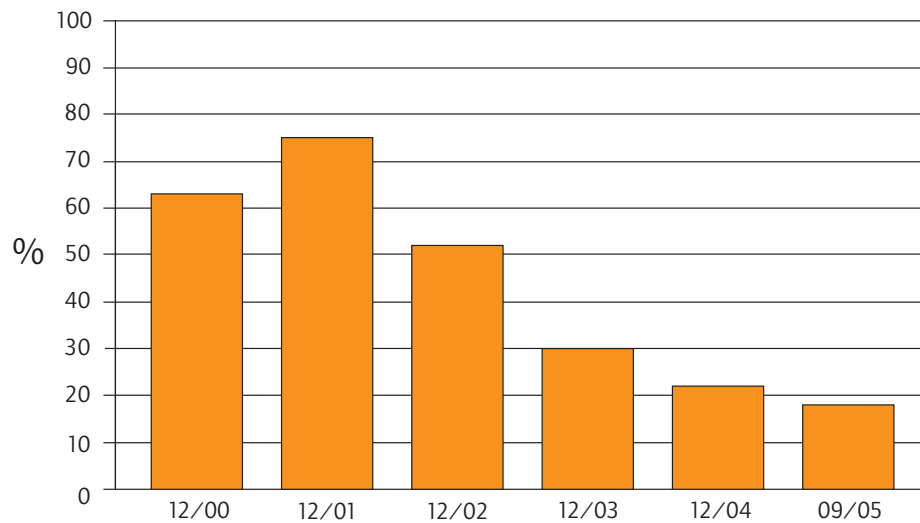
The impact of cost-cutting in the USA in the wake of 9/11 is graphically illustrated by data from the Wilson Center for Public Research. Data from interviews with more than 150,000 flight attendants and pilots shows a marked decline in the number of employees who report a positive assessment of how managers are running the airline (Figure 4), how they treat employees (Figure 5), and not surprisingly their perceptions of morale in the industry. There is no need here to spell out the implications of these findings for customer service.

Figure 4. Positive Views of How Management is Running the Airline



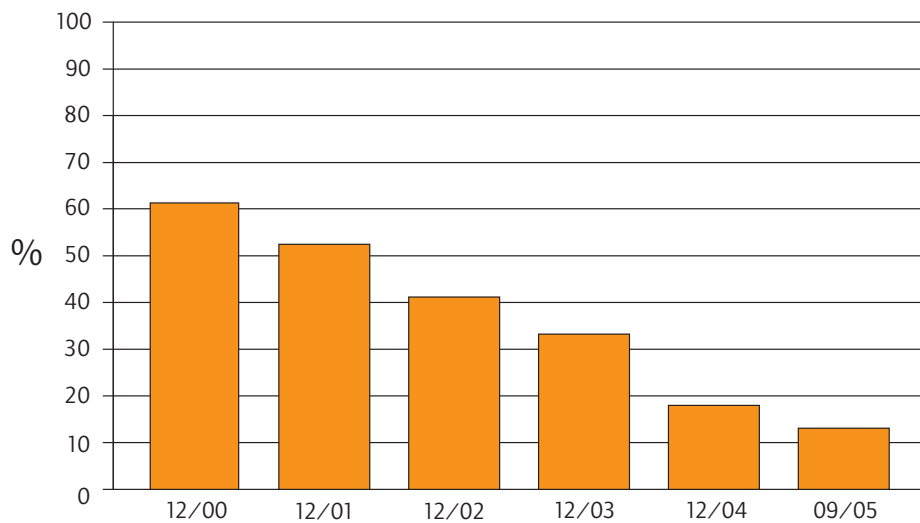
Source: The Wilson Center for Public Research, Inc

Figure 5. Positive Views of Management's Treatment of Employees



Source: *The Wilson Center for Public Research, Inc*

Figure 6. Positive Views of Employee Morale



Source: *The Wilson Center for Public Research, Inc*

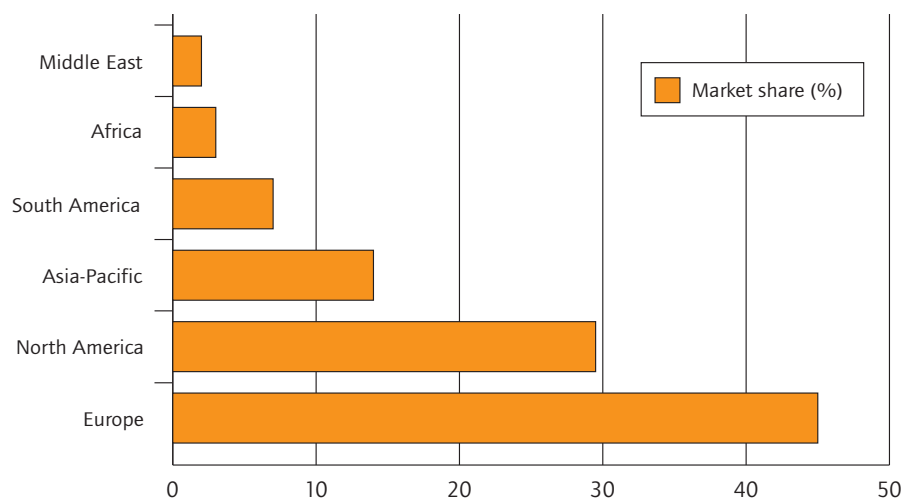
The operating conditions that prevail in civil aviation – a perishable product, pro-cyclical demand, and a high proportion of labour costs – have assumed greater importance in recent years due to changes to the competitive and legislative environment of civil aviation. Both domestic and international competition has intensified markedly as a result of deregulation, liberalisation, and the commercialisation or full privatization of many airlines. Liberalisation permitted the establishment of the low cost airline - the success of this model, particularly since the industry crisis that followed September 11th 2001, has proven especially problematic for labour as many traditional scheduled or legacy airlines have set up their own low cost airline, while others have been forced to cut costs in order to compete. In the latter case, labour plays an ever more prominent role in the competitive strategies of carriers that seek to reduce fares while maintaining or improving service quality. Further liberalisation of the industry is set to exacerbate matters for labour as many airlines stand to gain (and many trade unions to lose) from ever increasingly open skies.¹²

On some routes, low cost airlines “stimulate the market” (e.g. London-Barcelona or London-Athens). In other words, they add additional passengers while legacy airlines continue to carry a similar number

¹² Turnbull, P., and Harvey, G. (2009) “Just Another Crisis? Recession, Legislation and the Future of Industrial Relations in the International Civil Aviation Industry”, presented at the BUIRA conference, Cardiff (June).

of passengers compared to the period before the entry of low cost airlines. On other routes, they eat into the market share of legacy airlines (e.g. London-Valencia) while also adding more passengers. Whatever the competitive dynamics, the result is an ever increasing market share captured by low cost airlines. In Europe, for example, they held 43% of the market in 2008 compared to only 17% in 2003. In several European countries (e.g. Spain, UK, Ireland, Poland and Italy) low cost airlines now account for more than half the market. As Figure 7 illustrates, low cost airlines hold a much larger share of the European market than other regional markets. For unions in these other markets, the European experience may well be a portent of what is to come.

Figure 7. Market Share of Low Cost Airlines 2008 (Region-by-region)



In this context, the global financial meltdown has occasioned a profound crisis in civil aviation, the impact of which has already eclipsed that of 9/11. In June 2009, Giovanni Bisignani, Director General of the International Air Transport Association (IATA), stated that the current economic crisis has produced a civil aviation context without "modern precedent ... This is the most difficult situation that the industry has faced". Comparing the current crisis with that which followed 9/11, Mr Bisignani noted that revenues fell by 7 per cent post-2001 whereas the decline in 2009 was 15 per cent. Today's crisis is expected to reduce passenger demand by 8 per cent and freight traffic by 17 per cent. The operating losses of the world's top 150 airlines in 2008 totalled US\$15bn, marking a massive US\$44bn swing from the US\$29bn profit recorded by these airlines in 2007.¹³

IATA data indicate that no geographical region was immune to the crisis with total losses of \$16 billion in 2008 and specific geographical losses of US\$9.6 billion among US carriers, US\$4.7 billion among Asia-Pacific airlines, US\$0.3 billion among Middle Eastern carriers, US\$1.4 billion among Latin American airlines, and US\$100 million among African carriers. In the words of Paul Coby, Chief Information Officer at British Airways, "This economic crisis which we are facing today is different to any other we have faced in our lifetime. It is hitting every region. What next? The four horsemen of the apocalypse?"¹⁴

In the USA there were thirteen airline bankruptcies in 2008. In 2009, several US airlines ceased trading leading to the loss of thousands of jobs, e.g. Aloha Airlines (1,900 staff) and ATA Airlines (2,300 staff). Reminiscent of their response to the crisis following September 11th, US airlines moved very quickly to announce employment cutbacks (see Table 1). It has been argued that US carriers would be able to weather the crisis better than airlines in other geographical regions as a result of the changes made by the airlines early in 2008 in response to increased fuel prices. US airlines responded to the fuel price inflation by retiring older and less economical aircraft and so were better placed to deal with the reduction in demand. Moreover, airlines in the US have a much lower level of fuel hedging and so stood to benefit from the sharp reduction in the cost of oil throughout 2008.¹⁵ Bureau of Transport Statistics, presented in Table 1, illustrate the actual headcount reduction at the US majors and larger low cost and regional airlines between May 2008 and May 2009.

¹³ *Airline Business* (August, 2009). The last time the world's top 150 airlines sank into the red was in the wake of 9/11, when they lost US\$5.7bn.

¹⁴ *Airline Business* (August 2009).

¹⁵ Schofield, A., and Wall, R. (2008) "Role Reversal", *Aviation Week and Space Technology*, 169(23) December 15th, Pages 34-35.

Table 1 – Initial and actual job reductions among US majors and larger low cost and regional carriers

Carrier	Initial lay-offs announced in 2008	Actual FTE* headcount differential (May 2008 and May 2009)	
		Total	% of workforce
Southwest	NA	1,500	4.4%
American Eagle	NA	(500)	(5.8%)
Continental	3,000	(1,500)	(4.1%)
US Airways	1,700	(1,900)	(5.8%)
Delta	4,000	(3,300)	(6.9%)
Northwest	2,500	(4,300)	(14.7%)
American Airlines	7,000	(4,900)	(6.6%)
United Airlines	7,000	(6,600)	(12.6%)

Note: * FTE (full time equivalent employees) include all employees, with two part time employees included as one full time employee.

Job reduction at the recently merged Delta/Northwest reflects the innovative approach adopted by the former in response to the industry crisis after September 11 th.¹⁶ At that time, the airline offered six different voluntary job reduction programmes, so that only 2,000 of the required 11,000 job losses were involuntary. Similarly, in 2008, Delta offered a voluntary severance scheme to 4,000 employees. The merged airline announced that the same approach would be used to reduce its 75,000 strong staff by 8% in 2009.

In Europe, several airlines have also ceased trading. For example, UK based XL Airways, which employed around 1,700 staff, and Dalavia, the Russian carrier formerly employing around 2,800 staff, have gone bust. Job reduction schemes have been widespread among European airlines. In the autumn of 2008, Aer Lingus announced 1,500 job losses. In July 2009, the airline proposed a further headcount reduction of 800 staff. Scandinavian Air Services has announced the most radical job reduction plans in Europe with 9,000 job losses (some 40% of the employee workforce).

Policy alternatives to job cuts were seen at Lufthansa, which planned to reduce the working hours of 2,600 employees at its air freight operations.¹⁷ Meanwhile, pay freezes were imposed on staff at BA, bmi and Virgin (the latter consulting with staff over the possible loss of 600 jobs, while the CEO of BA asked staff to work one month without pay). Finnair has limited its redundancies, to around 120 jobs lost, by temporarily laying off 380 staff along with 3,000 staff who will be out of work for a month. The firm will also not renew the temporary contracts of 400 staff. Fellow Finnish airline Blue1 has implemented a scheme whereby each of its 100 pilots was laid off for 11 days between January and May 2009.

In the Asian Pacific region, anticipated to be hardest hit by the current financial crisis, Oasis Hong Kong Airlines (with some 700 staff) ceased trading. Air New Zealand has retrenched 200 jobs while Australian carriers Qantas and Virgin Blue have announced 1,750 and 400 job cuts respectively. The latter has also required that senior managers take 30% pay reduction. In October 2008, Indian airline Jet Airways sacked 800 employees, of 1900 planned redundancies, only to reinstate them several days later following industrial action at the airline.¹⁸ Alternative labour cost savings policies were being considered at the airline including a recruitment freeze and the non-renewal of temporary contracts. The airline has announced plans to reduce salaries by between 5% and 25%.

¹⁶ See Turnbull, P., and Harvey, G. (2001) *The Impact of 11 September in the Civil Aviation Industry: Social and Labour Effects*, Working Paper No. 182, Geneva: International Labour Office.

¹⁷ Lufthansa was ranked as the most profitable airline worldwide in 2008. It is also the world's top carrier by revenue (Airline Business, August 2009).

¹⁸ The national government in India has openly criticised airlines that have tried to retrench large numbers of staff.

Asia Pacific airlines have also introduced policy alternatives to job reduction. For example, furloughs have been introduced at Air India whereby 15,000 workers were given the opportunity to voluntarily take leave without pay for three to five years. In April 2009, Cathay Pacific asked that its 17,000 employees take up to four weeks unpaid holiday in the subsequent 12 months. Singapore Airlines has frozen wages and required that personnel take one day's leave per month as annual or unpaid leave. Similarly in January 2009, Japan Airlines required its 16,000 employees to take two months unpaid leave. The airline also temporarily suspended its pilot training, raising concerns not only about aircraft safety but of the airline's ability to meet the inevitable increase in demand on the economic upswing due to the global shortage of pilots.

Elsewhere, the South African budget carrier, Nationwide Airlines, employing some 800 staff, ceased trading, while the Mexican airline AeroCalifornia was grounded in July 2008 as a result of unpaid debts.

3. Industry restructuring in the wake of the financial crisis

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 non-renewal of temporary contracts)
- Temporal – changes to working time (e.g. short-time working and part-time working)
- 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 this section are 'illustrative' rather than strictly (or statistically) 'representative'. The data are based on information collected from a survey that returned responses from: 61 trade unions representing airline employees (33 from Europe; 10 from Asia Pacific; 8 from Africa; 5 from Latin America; 1 from the Middle East; 4 from North America); 21 unions representing air traffic control employees (13 from Europe; 3 from Asia Pacific; 2 each from Latin America and the Middle East; and 1 from North America); and management at 13 airlines (6 from European airlines; 2 from North American carriers; 2 from Middle Eastern airlines; and 3 from Asia Pacific airlines).

The survey of trade unions representing airline staff reveals the most common response to the current crisis to be a recruitment freeze (reported by 80 per cent of respondent airline unions).¹⁹ Other common cost cutting measures designed to avoid the enforced lay-offs of core staff include voluntary redundancy (reported by 57 per cent of respondent airline unions); non-renewal of temporary contracts (57 per cent); pay freeze (51 per cent); probationary staff not being transferred to full time contracts (44 per cent); voluntary retirement (43 per cent); and unpaid holiday leave (43 per cent). Despite all of this, 38 per cent of unions reported compulsory redundancy.

In terms of numerical, financial and functional flexibility, a very similar picture emerges from the current data to that of 2001, with widespread use of recruitment freeze, voluntary redundancy, probationary staff not being transferred to full time contracts and non-renewal of temporary contracts. However, there appears to have been a greater reliance upon the use of HR policies designed to achieve temporal flexibility in order to save costs this time around.

The 2009 data indicate that policies were more likely to be introduced by international or major airlines rather than at domestic or regional carriers (as they were among ground handling firms as opposed to catering, maintenance or airports). Compulsory redundancy, voluntary furlough and compulsory furlough were more likely to affect North American employees than their counterparts in either Europe or Asia Pacific.

In Europe, several examples of 'good practice' have emerged.²⁰ AirFrance-KLM have announced that the 3,000 job cuts required will be achieved through suspending hiring, not renewing temporary contracts and not replacing retiring members of staff thereby avoiding redundancies. In the UK, consultation between British Airways and the British Air Line Pilots Association (BALPA), the trade union for pilots in the UK, has led to agreement over a cost reduction package that will save the airline £26million per year. The deal will entail a 2.61 per cent cut in basic pay and a 20 per cent reduction in flying time allowances (leading to a saving of £16million). Moreover, an increase in annual duty hours, a reduction in turnaround times on short haul flights and reduced crewing arrangements on some long haul flights would save the company a further £10million. The pay reduction and productivity deal

¹⁹ Recruitment freeze was also the most common policy introduced in the wake of 9/11, with 83 per cent of respondent unions recognising this policy at airlines in which it represented workers.

²⁰ 'Good practice' is defined in terms of being more 'socially acceptable' to those affected

Table 2 – HR policy Responses to the Crisis at Airlines (2001/2009 comparison)

Policy	2001 *	2009
NUMERICAL		
Recruitment freeze	78	80
Voluntary early retirement	44	43
Voluntary redundancy	42	57
Compulsory redundancy	22	38
Voluntary furlough	27	31
Compulsory furlough	18	16
Probationary staff not transferred to full time contracts	47	44
Non-renewal of temporary contracts	53	57
TEMPORAL		
Short-time working	20	39
Shorter working week	9	25
Fewer shifts per month	11	33
Part-time working	33	36
FUNCTIONAL		
Work-sharing	13	20
Reduced training	27	33
Educational leave	9	25
FINANCIAL		
Unpaid holiday/leave	33	43
Forgo bonus pay	16	18
Forgo holiday pay	9	7
Pay freeze	38	51
Pay cut – management	44	33
Pay cut - staff	33	26

**data for 'major/flag' airlines*

have been exchanged for shares worth £13million, to be given in June 2011 if certain company targets are achieved.²¹

Similarly, Thomson Airways has engaged in elaborate discussion with BALPA in order to arrive at an agreement on a 5% pay cut for pilots employed at the airline in order to save up to 100 pilot jobs. The latter has been described by the union as a 'landmark agreement', which ensures that the 96 pilot jobs that would otherwise have been lost as a result of the airline's decision to operate eleven fewer aircraft. The agreement entitles pilots to additional days off in lieu of their loss of pay. BALPA General Secretary, Jim McAuslan, said of the deal that it reflected a partnership of 'mutual trust and mutual respect' between the union and the airline and their shared 'desire to find an answer, not a problem'.²²

As indicated above, the knock-on effects of the reduction in the capacity of airlines can be substantial, both inside and outside of the civil aviation industry. The impact of the current crisis in civil aviation on the air navigation service provider (ANSP) is especially potent as many are prevented from holding financial reserves or obtaining commercial loans. With falls of up to 20 per cent in revenues, ANSPs are, in the words of Alexander Ter Kuile, Secretary General of CANSO, 'facing an unprecedented financial crisis which may result in them not being able to meet their financial obligations'.²³ Moreover, ANSPs

²¹ *More recent events at BA – the airline's unwillingness to accept a similar package of cost reduction measures proposed by Unite – indicate that the airline's agenda is not simply driven by a desire to cut costs but also to cut the bargaining power of cabin crew.*

²² www.balpa.org

²³ CANSO's Open Letter to Aircraft Operators, 27th March 2009

²⁴ Michaels, D. And Pasztor, A. "Staffing shortages raise concerns about air safety", *Wall Street Journal Europe*, 8th May 2008.

Table 3 – HR Policy Responses (by Region)

Policy	North	Europe America	Asia	Latin Pacific	Africa America	Middle East
NUMERICAL						
Recruitment freeze	25	88	70	100	75	100
Voluntary early retirement	50	58	40	0	0	100
Voluntary redundancy	50	64	60	60	25	100
Compulsory redundancy	50	36	20	60	38	100
Voluntary furlough	50	39	20	0	13	100
Compulsory furlough	50	12	10	0	38	0
Probationary staff not transferred to full time contracts	0	55	20	60	38	100
Non-renewal of temp. contracts	0	73	50	40	38	100
TEMPORAL						
Short-time working	50	49	20	20	38	0
Shorter working week	25	27	10	20	25	100
Fewer shifts per month	25	39	10	40	25	100
Part-time working	25	49	20	20	13	100
FUNCTIONAL						
Work-sharing	25	18	20	20	13	100
Reduced training	0	30	20	60	50	100
Educational leave	25	24	40	0	13	100
FINANCIAL						
Unpaid holiday/leave	25	46	70	20	25	0
Forgo bonus pay	0	9	30	20	38	100
Forgo holiday pay	0	6	0	0	13	100
Pay freeze	50	49	70	60	25	100
Pay cut – management	0	30	50	20	38	100
Pay cut – staff	0	21	30	20	50	100

are restricted in their HR policy response to the crisis due to the Spartan staffing of ANSPs by air transport control officers (ATCOs).²⁴ IFATCA claim that around 3,000 ATCOs are required to meet the present needs of the world's ANSPs, adding the caveat that this is a conservative estimated as many ATCOs are currently working excessive overtime.²⁵ CANSO claims that ANSPs have responded to the crisis by reducing staff overtime and/or external staff numbers; freezing pay; offer voluntary early retirement; and reducing training.

Unions representing ATCOs report the use of far fewer HR policies that affect their members: only 24 per cent of respondents identify a recruitment freeze; no respondent identified voluntary or compulsory redundancy, reflecting the staff shortages, while compulsory furloughs were reported by only 5 per cent. Far more widespread was the use of non-renewal of temporary contracts (24 per cent) and remuneration adjustments such as pay freezes (reported by 29 per cent) (see Table 4).

The most widely used policy was that of reduced training (reported by 38 per cent of respondents). This is of considerable concern to IFATCA, and its affiliate unions representing ATCOs, who rightly point out that training is fundamental to the safe operation of air traffic management. Moreover, they argue that the 'concept design, development, prototyping, testing and validation' of the new SESAR and NEXTGEN technologies will require experienced air traffic controllers. The safe introduction of these new advanced technologies necessitates not only greater levels of staffing, but also more extensive training. Reduced training is thus seen as a considerable threat to the general operation of air traffic management and certainly to the safe introduction of this new technology.

²⁵ *Ibid.*

Table 4 - HR policy Responses to the Crisis at Air Navigation Service Providers

Policy	Responses
NUMERICAL	
Recruitment freeze	24
Voluntary early retirement	14
Voluntary redundancy	0
Compulsory redundancy	0
Voluntary furlough	10
Compulsory furlough	5
Probationary staff not transferred to full time contracts	10
Non-renewal of temporary contracts	24
TEMPORAL	
Short-time working	5
Shorter working week	0
Fewer shifts per month	5
Part-time working	10
FUNCTIONAL	
Work-sharing	0
Reduced training	38
Educational leave	5
FINANCIAL	
Unpaid holiday/leave	19
Forgo bonus pay	19
Forgo holiday pay	5
Pay freeze	29
Pay cut – management	19
Pay cut - staff	14

4. Social dialogue, government intervention and industry regulation

In order to determine what might be regarded as “socially responsible ways to respond to the crisis”, trade unions were asked how acceptable a range of different human resource policies would be to their members. Responses ranged from “Acceptable under normal circumstances”, “Only acceptable as a short term/crisis measure” and “Unacceptable under any circumstances”. The response of trade unions representing airline employees is reported in Table 5, while the response of trade unions representing ATCOs is reported in Table 6.

The majority of respondents considered voluntary early retirement and educational leave as policies that might be implemented at any time. The majority of the policies listed, however, were considered acceptable only as a short term or crisis response. For airline employees, several of these such as recruitment freeze, non-renewal of temporary contracts and pay freeze had been widely implemented.

A previous study has shown that a significant number of the human resource policies listed, such as compulsory redundancy and unpaid holiday leave, were deemed unacceptable.²⁶ Despite vehement opposition in the previous crisis, and in the current crisis these policies have been extensively used by airline management.

Table 5 – Trade union response to, human resource policies at airlines

Policy	Acceptable under normal circumstances	Only acceptable as a short term/ crisis measure	Unacceptable under any circumstances
Recruitment freeze	16	59	8
Voluntary early retirement	36	34	3
Voluntary redundancy	26	41	10
Compulsory redundancy	2	15	54
Voluntary furlough	21	38	10
Compulsory furlough	3	30	38
Unpaid holiday leave	16	28	36
Short-time working	5	59	15
Shorter working week	7	56	10
Fewer shifts per month	7	54	15
Part-time working	23	39	10
Work-sharing	16	38	15
Probationary staff not transferred to full time contracts	7	33	33
Non-renewal of temp. contracts	15	48	20
Reduced training	5	28	43
Educational leave	33	18	13
Pay freeze	3	44	33
Forgo holiday pay	3	8	57
Forgo bonus pay	8	23	34
Pay cut (management)	-	-	-
Pay cut (staff)	-	-	-
Pay cut	0	20	61

N.B. these data reflect the omission of response and so the percentages for the acceptability of the policies do not sum to 100.

²⁶ See Turnbull, P., and Harvey, G. (2001) *The Impact of 11 September in the Civil Aviation Industry: Social and Labour Effects*, Working Paper No. 182, Geneva: International Labour Office.

Due to the critical import of training to the safe operation and technological evolution at ANSPs, no respondent considered the policy of reduced training to be acceptable under normal circumstances, whereas more than two thirds deemed this policy to be unacceptable under any circumstances.

Table 6 - Trade union response to, human resource policies at ANSPs

Policy	Acceptable under normal circumstances	Only acceptable as a short term/ crisis measure	Unacceptable under any circumstances
Recruitment freeze	5	38	5
Voluntary early retirement	29	14	0
Voluntary redundancy	10	24	5
Compulsory redundancy	0	5	38
Voluntary furlough	19	19	5
Compulsory furlough	0	14	29
Unpaid holiday leave	5	14	24
Short-time working	14	19	10
Shorter working week	14	24	5
Fewer shifts per month	10	24	10
Part-time working	24	14	5
Work-sharing	14	24	5
Probationary staff not transferred to full time contracts	5	24	14
Non-renewal of temporary contracts	19	14	10
Reduced training	0	14	29
Educational leave	14	14	5
Pay freeze	0	24	19
Forgo holiday pay	0	5	33
Forgo bonus pay	0	29	14
Pay cut (management)	-	-	-
Pay cut (staff)	-	-	-
Pay cut	0	0	43

N.B. these data reflect the omission of response and so the percentages for the acceptability of the policies do not sum to 100.

The human resource policies discussed thus far relate primarily to company-level decisions, although given that many flag carriers are publicly owned these policies will often involve government input (e.g. 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. A summary of the results are reported in Table 7.

Mirroring responses to the survey of aviation trade unions after the 2001 industry crisis, there was strong approval of funding for retraining programmes, whereas financial compensation for loss of business/traffic received far less support. A US union official quoted in the previous study explained the attitude in this way: "The airlines demanded privatization and deregulation in the 1980s. They should not now be turning to the Government for financial assistance".²⁷

Once again, the promotion of mergers, acquisitions and consolidation received very little support (although far fewer respondents disagreed with the policy) as these issues are closely associated with questions of public interest and public services.

²⁷ Interview quote from Tumbull, P., and Harvey, G. (2001) *The Impact of 11 September in the Civil Aviation Industry: Social and Labour Effects*, Working Paper No. 182, Geneva: International Labour Office.

Table 7 – Government policies preferred by unions

Policy	Disagree	Neither agree nor disagree	Agree
Contribution to pension funds for early retirement	13	16	56
Funding for severance pay	13	26	48
Low cost loans to civil aviation employees	24	22	43
Payments to partially cover short time working	18	23	44
Payments to fully cover short time working	18	24	39
Extending unemployment benefits	13	16	59
Funding for medical/health insurance	11	12	65
Funding for retraining programmes	5	13	72
Financial compensation to airlines for loss of traffic	31	28	27
Financial compensation to airports for loss of business	33	29	23
Financial compensation to other companies (e.g. air traffic services, catering, aircraft manufacturers, etc.)	28	28	29
Financial support to airlines/airports for improved security	16	21	52
Relaxation of foreign ownership rules	33	27	22
Protect services to remote communities	6	39	37
Promote mergers/take-overs/consolidation	23	35	28
Initiatives to promote social dialogue	5	10	76
Funding compensation towards maintaining employment	6	10	56

The policy that elicited the strongest trade union support was initiatives to promote social dialogue, as it did in 2001. There is evidence of airlines engaging in extensive and meaningful dialogue with unions in order to restructure in a socially responsible fashion, and unions evidently regard government initiatives in this area as vitally important. Unions clearly see the need for legislative intervention requiring management to engage labour in restructuring deliberations and policy decisions.

5. Conclusions

Once again, the devastating effects of the financial crisis on the industry reiterate the fundamental issues we identified after 9/11: the need for a new approach to labour management and the need for a more effective regime of industrial regulation.²⁸

There has been little change since the last industry crisis of 2001 in terms of the over reliance on labour as a 'variable cost of production', as the primary adjustment mechanism to be adjusted simply in accordance with product market demand. It remains of paramount importance that aviation firms recognise and affirm the critical role of the employee in the success of the business and that the firm demonstrates this commitment by: ensuring adequate staffing levels; investing in its staff to ensure the appropriate levels of skill and ability; and involving its staff in order to harness the benefits of tacit knowledge, so very important within civil aviation. At a minimum, this will require a new culture of aviation management built on the principal that employees are a resource to be nurtured and not simply a cost to be limited.

In the wake of this terrible catastrophe for the industry, pioneers of good practice have adopted a range of socially responsible initiatives to meet this new challenge. We have noted previously that too much benchmarking activity has focused on a cost-cutting (negative) approach to human resource management – we renew our call for the focus to be shifted to the (positive) productivity-enhancing approach of employee development and investment in human resources, which provides the basis for long term success. In particular, legacy airlines cannot hope to compete with low cost carriers simply by cutting labour costs. If unions are asked to support cost-cutting measures, they need to consider whether this is simply a short term palliative for an unimaginative management responding to the (short-term) pressures of financial markets, or a genuine attempt to change the cost structure, operating principles and long-term competitiveness of the airline.

The last ten years has been marked by further deregulation in the industry, with moves towards Open Skies and a Single European Sky. This has promoted 'free', not necessarily 'fair' competition. We renew our call for regulation to enhance 'fair' competition, achieved through legitimacy and trust. Legitimacy can only be achieved through a democratic process – hence the importance of involving all potential stakeholders. Trust can only be engendered with the development of shared norms, and only made possible via social dialogue. With a strong institutional base which provides (statutory) rights for consultation, participation and employee representation, aviation firms will be better placed to address the long term challenges facing the industry, instead of being permitted to respond in a myopic, cost-focused manner. The civil aviation environment requires a new regulatory regime that must be created and sustained through social dialogue.

²⁸ Harvey, G. And Turnbull, P. (2002) *Contesting the Crisis*, International Transport Workers Federation, ISBN: 0-901969-83-4



International Transport Workers' Federation

49-60 Borough Road London SE1 1DR, UK

Tel: +44 (0)20 7403 2733

Fax: +44 (0)20 7357 7871

www.itfglobal.org