

WORLDWIDE AIR TRANSPORT CONFERENCE: CHALLENGES AND OPPORTUNITIES OF LIBERALIZATION

Montreal, 24 to 29 March 2003

Agenda Item 1: Preview

1.1: Background to and experience of liberalization

THE IMPACT OF THE RESTRUCTURING OF CIVIL AVIATION ON EMPLOYMENT AND SOCIAL PRACTICES

(Presented by International Labour Organization (ILO))

INFORMATION PAPER

SUMMARY

This paper presents the Executive Summary of a study by the ILO.

1. INTRODUCTION

1.1 The tragic events on 11 September 2001 in the United States had a direct, devastating and immediate impact on civil aviation. There are indications that the industry will recover from the crisis subsequent to 11 September in the not too distant future, although may be slower than originally expected. While acknowledging the impact of these events, the study will concentrate on the longer-term employment and social effects of the continuous process of restructuring in the civil aviation industry.

2. AN INDUSTRY IN CHANGE

2.1 The ILO *Tripartite Meeting on Civil Aviation* (Geneva, 21-25 January 2002) noted the important contribution of the air transport industry to the global and national economies. It also noted the linkage between global economic growth and air traffic development. It was recognized that aviation provided an important infrastructure which is in the public interest, including for island, land-locked, tourism-dependent and least developed countries, as well as for countries covering a large land mass.

¹ French and Spanish versions provided by the International Labour Organization (ILO)
(7 pages)
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3. OPERATING ENVIRONMENT

3.1 Civil aviation is one of the world's most important services which, according to ICAO estimates, contributed no less than 6 million jobs to world economies in 1998. The ILO noted this important contribution to the global and national economies.

3.2 The aviation industry is cash-flow dependent and is characterized by cyclical demand. It provides a vital national and international service that has on average achieved only marginal profitability in "good years", even in those countries where the industry has achieved major economies of scale. A relatively recent phenomenon in the industry is the creation and surprisingly rapid growth of low-cost carriers; they have not been affected by the present crisis.

4. REGULATION

4.1 The current regulatory situation for international air transport is marked by different degrees of regulation depending on the States, types of services and specific activity involved, resulting in different degrees of flexibility for air carriers. A more detailed description of the economic regulation of the industry can be found in ICAO's *Manual on the Regulation of International Air Transport* (Doc 9626).

4.2 The International Transport Workers Federation (ITF) calls for a system of targeted and intelligent regulation, in other words "SMART" regulation.

5. PUBLIC INTEREST FUNCTION

5.1 One of the fundamental issues in the regulation debate is the question about the basic function of commercial air transport, namely whether it acts as a public service or as a strictly commercial activity geared primarily to making profit, or something in between the two. The ILO *Meeting on Civil Aviation* recognized that the existence of a vibrant civil aviation industry is in the public interest. The availability of and access to air transportation can serve as a powerful engine for national economic growth, benefiting the public as a whole whether or not the individual is a consumer of air transportation. Therefore, the interests of public safety and security dictate that governments play an active role in the protection and maintenance of a civil aviation structure. Additionally, it is in the national economic interest to ensure that the civil aviation infrastructure provides adequate capacity for growth in the aviation industry. Within the trade union movement there is strong support for the maintenance of the public interest function of civil aviation.

6. LIBERALIZATION

6.1 The liberalization of civil aviation has been progressing in much of the world. The experience of different countries and regions with airline liberalization has shaped their views as to which method or combination of methods offers the greatest scope for widening liberalization in the future. The common denominator in the various types of existing agreements is the reliance on a pragmatic and aviation-specific approach to reach their goals. Typically, they also include a transitional mechanism, involving safeguards and phased liberalization.

6.2 ICAO has recently pointed out that the danger in regional and plurilateral developments lies in the creation of blocs, each with similar but different rules. These could have a perverse effect of inhibiting liberalization in the long term.

7. **PRIVATIZATION**

7.1 Privatization is an important policy instrument through which governments in many countries promote and sustain economic development. As the concept of privatization spread, it expanded to cover a wide range of approaches. Increasingly, privatization is seen more broadly as all efforts to encourage private sector participation not only in the provision of commercial goods but also of public services and infrastructure. Such policies assume that many goods and services for which people can pay - such as transport, electric power or housing - can be delivered more efficiently by the private sector directly or through contracting with government agencies.

7.2 The trend towards partial or full privatization of government-owned **airlines** is continuing, notwithstanding the fact that due to the present state of the industry plans to privatize several airlines had to be abandoned or postponed.

7.3 The main reason for the privatization of **airports** is the recognition that government expertise in managing airports may be limited, and that others can provide it with reduced costs, increased revenues, and improved and more efficient services. Successful airport privatization has been achieved in many parts of the world.

7.4 In recent years, there has been an increasing trend towards separating **air navigation services (ANS)** provision from government, although, in most cases, ownership of the body established to provide ANS remains with the state. ICAO has chosen to use the term “autonomous authority” to reflect the fact that the commercialization of ANS does not necessarily mean that the organization has to move out of the scope of government jurisdiction, or that the government can abdicate its responsibility for the provision of air navigation services. In general, most governments have either retained their regulatory responsibilities for safety and economic aspects or allocated them to bodies independent from the service provider. International professional organizations remain opposed to the privatization of air navigation service providers as they fear that the drive to maximize profits may threaten the safety of the system.

8. **OWNERSHIP**

8.1 Airlines are artificially restricted in their ability to grow beyond their own national markets. Normal merger and acquisition activity in aviation is made virtually impossible by foreign ownership limits. International regulations require an airline to be majority-owned by nationals of its home country or risk losing its traffic rights to third countries. However, there appears to be an increasing feeling in the industry that the costs of mergers have become too high and that they do not deliver the expected benefits. One of the major problems in airline mergers is the question of seniority.

9. **PART II: SOCIAL AND EMPLOYMENT CONSEQUENCES**

9.1 This part looks at the role of the International Labour Organization, the resistance to restructuring, the employment effects, promoting social dialogue and participation, the social consequences of restructuring as well as giving some examples of experiences in other industries.

10. ILO, GLOBALIZATION AND DECENT WORK

10.1 The international community has on numerous occasions reaffirmed the role of the ILO in setting and dealing with international labour standards. This consensus has avoided a situation in which different organizations work on the basis of different sets of labour standards, with possibly conflicting interpretations of their meaning and application. The ILO has recently established the *World Commission on the Social Dimension of Globalization* to prepare a major, authoritative report on the subject.

10.2 The ILO's Decent Work Agenda provides the basis for an integrated approach to the economic, social and political dimensions of public policy. Its four strategic objectives: rights at work, employment, social protection and social dialogue, are intertwined because there are a number of complementarities which can only be realized when these four objectives are pursued simultaneously.

10.3 Internationally adopted labour standards provide a framework for pursuing decent work in any national context according to national conditions. International labour standards cover all workers, although the strategies and methods for applying them may differ.

10.4 Globalization has re-emphasized the need to take account of the views of the social partners in economic and social policy formulation, and in enterprise and sectoral activities. Social dialogue and participation can make a significant contribution to the protection of workers, social stability, labour peace and good governance. This can also contribute to productivity and competitiveness. The ILO promotes participatory processes in which those who work and are affected by policy decisions - at any level of decision-making - have a voice in the formulation and implementation of such policies.

11. RESISTANCE TO RESTRUCTURING

11.1 The restructuring of the civil aviation industry has consequences for managements and workers. The drive of airlines is to cut costs, including labour costs, and to demand higher productivity and improved service quality from the workforce. These strategies have important implications for trade unions and industrial relations, as decentralization invariably creates fragmentation, detachment involves shifting responsibility for employment and industrial relations to an external supplier, and the disintegration can create a two-tier workforce, typically with inferior terms and conditions of employment.

11.2 In recent years several studies have been conducted on the experience and reactions of trade unions and their members in the aviation industry with regard to the restructuring of the industry. Airline unions reported extensive change during that period. The unions' overall assessment of the effects of restructuring on their members was negative or at best neutral, especially in relation to the impact of competition from low-cost carriers.

11.3 Unions with members in global airlines were more likely to view global outsourcing as an unwelcome development, confirming an overwhelming concern among trade unions to maintain the integration of their national carrier. With regard to the impact of restructuring on their members' substantive terms and conditions of employment, more than three-quarters of all respondents noted the negative impact of restructuring on work intensity. Other dimensions of employment were also seen to have deteriorated, most notably levels of job security, job satisfaction and the quality of union-management relations.

11.4 In order to prevent that the restructuring may lead to a disruption of social dialogue, it is necessary to involve the parties concerned, as early as possible, in the process of liberalization. Labour relations are a function of practices regarding freedom of association, collective bargaining, the restrictions affecting the right to strike in the public service, the employment impact of opening up to competition, remuneration and social benefits, or even the importance that workers and their representatives attach to the

public status of operators and their staff. Trade unions (ITF) and industry professional organizations (International Federation of Air Traffic Controllers' Associations (IFATCA), The International Federation of Air Traffic Safety Electronics Association (IFATSEA)) differ in their willingness to accept various forms of liberalization and restructuring. They all agree, however, that any process of liberalization should address employees' insecurity fears and their desire for secure employment in a stable industry.

12. EMPLOYMENTS EFFECTS

12.1 ICAO estimates that air carriers, other commercial operators and their affiliates in 1998 had 2.3 million employees on their payrolls. Prior to 2001, industry employment worldwide has tended to remain relatively stable, growing less than one per cent per year. Employment among certain occupational groups - notably pilots and cabin crew - directly employed by the world's airlines has increased, but it has declined or stagnated amongst other occupational groups (many of these jobs may have been outsourced to non-airline companies, which are not included in International Air Transport Association (IATA) statistics).

12.2 The slow but continuous growth of aviation employment was abruptly interrupted in 2001. Following the events of 11 September, carriers moved quickly to announce schedule and employment cuts. Early lay off announcements matched the scheduled capacity cuts. There was a clear asymmetry in the response of North American and European airlines to the crisis. In North America, airlines immediately announced drastic job cuts and then embarked on a process of (often difficult) negotiations with employee representatives as trade unions sought to reduce and mitigate the effects of impending job losses. In Europe, many carriers considered and implemented a range of alternatives to direct job losses and consulted extensively with employees and trade unions, usually in accordance with national legislation, and also because provisions for social dialogue via works councils and other mechanisms require such prior consultations.

12.3 The net result of the different approaches, however, may be well the same in terms of a much lower number of lay offs than initially anticipated. The approach to social dialogue in North America seems to have exacerbated long-standing tensions between management and labour.

12.4 There is little or no statistical evidence that broadened criteria for air carrier ownership and control, increased market access and competition have a direct impact on employment in the companies concerned or the industry as a whole. Job losses often occur when companies are reorganized in preparation for privatization or corporatization. In order to get an understanding of what might happen in civil aviation when various forms of restructuring gain in importance, it will be necessary to look at anecdotal evidence from within the industry or look at experiences in other industries.

13. SOCIAL CONSEQUENCES

13.1 Employees often feel that they are the first to suffer from any crisis in the industry because the companies will ask them to make concessions. This was the case in the early 1990s and is now again the case in the United States particularly. The pro-cyclical nature of the industry often means that the expectations of management and labour are out of step with current or future market conditions. 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.

13.2 Table 8.1 gives an overview of which kind of human resource policies unions find acceptable under normal circumstances, only acceptable as a short-term or crisis measure or which are unacceptable under any circumstances.

14. PROMOTING SOCIAL DIALOGUE AND PARTICIPATION

14.1 Social dialogue is defined by the ILO to mean all types of negotiation, consultations or simply exchange of information between representatives of governments, employers and workers on issues of common interest relating to economic and social policy. This definition incorporates traditional industrial relations systems into a broader concept of social dialogue as a mechanism for reconciling the conflicting views of the actors, whether at the enterprise, sectoral, national or international level.

14.2 Liberalization presents a number of challenges as well as opportunities for the development of social dialogue. The changing nature of the employment relationship and deregulation of labour markets have undermined traditional processes of social dialogue. Frequently, the social partners are excluded from meaningful participation on vital issues affecting employment. Collective bargaining is increasingly becoming an instrument for enterprise, sectoral or economic restructuring - rather than serving only as a distribution mechanism. Through negotiation, workers and employers can jointly arrive at solutions for enhancing competitiveness, while simultaneously promoting and protecting employment.

14.3 Labour relations have always played an important part in the competitive performance of airlines and other companies in the civil aviation industry. 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.

14.4 These issues have assumed even greater importance in recent years. In an industry where both domestic and international competition have intensified markedly as a result of deregulation, liberalization and privatization of many airlines, labour assumes an ever-more prominent role in the competitive strategies of airlines seeking to reduce fares and maintain or improve service quality.

14.5 The ILO *Meeting on Civil Aviation* concluded that “in order to contribute to the development of a resilient aviation industry for the 21st century, social dialogue at the workplace, enterprise, national, regional and international levels should be encouraged....Social dialogue should include the provision of information on the situation of the company to all stakeholders. It should be based on good faith and seek to minimize all possible negative social consequences. Cooperation and dialogue between the social partners and with governments is vital to this end. Governments should be an active partner in social dialogue as appropriate.”

14.6 Given the fact that many national airlines are publicly-owned, restructuring policies will often involve government input (such as financial support for early retirement programmes, voluntary severance packages or partial assistance for short-time working). Trade unions regarded government initiatives to promote social dialogue as vitally important to support the industry.

15. EXPERIENCES IN OTHER INDUSTRIES

15.1 Ongoing work in the ILO Sectoral Activities Programme shows that, in the context of globalization, a combination of technological change, changes in work organization, deregulation in most sectors and privatization in some sectors, has led to a marked change in industry structure in most sectors.

15.2 Reports from three sectors (banking & financial services, postal services and public utilities) highlight the difficulty to collect reliable data on the direct employment impact of restructuring. Plans may be re-adjusted during the restructuring process; it is difficult to disentangle with any precision the effects of restructuring from those of other factors, such as increased competition or the introduction of new

technologies. Job cuts may often happen prior to privatization in order to make the purchase more attractive to potential buyers.

15.3 Another aspect is the desire of employers to establish greater flexibility (increased use of part-time work and fixed-term contracts, redeployment, decentralization of labour relations). Information and communications technologies (ICT) have affected working conditions, safety and health, and perhaps the status of workers, especially in recent years.

15.4 Strategies for reducing the workforce in the context of the liberalization of markets depend on a number of factors, among others: the pace and the scope of reductions sought; the strength of trade unions; the methods of social consensus; the nature of the operators (public, private or partly controlled by government); the degree of opening up to competition; the funds provided by governments for social measures to accompany staff reductions; training; the occupational and geographical mobility of employees; and interest in schemes to encourage departures.

15.5 With regard to the various forms of restructuring, participants in a number of tripartite ILO Meetings stressed that:

- a) restructuring does not free governments from their responsibility to ensure universal access to public services on a fair and equitable basis;
- b) available evidence suggests that there is no necessary correlation between efficiency and quality of public services and restructuring;
- c) reorganization of a public utility can represent an alternative to privatization in terms of improving services and may precede privatization;
- d) gender equality may additionally be affected by reforms, including reduced employment and pay for women and more casual working arrangements;
- e) social dialogue is an essential prerequisite for designing, implementing and evaluating restructuring; it is a continuous process that does not end when the reform is implemented; and
- f) the replacement of a public by a private monopoly should be avoided or, if monopoly continues, it should be strongly regulated.

— END —