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Aviation in Transition:
Challenges & Opportunities of Liberalization

Session 7: The Future of Liberalization

The Perspective of Aviation Labour

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I think our seminar these past two days has more than met the challenge set by our moderator, Paul Dempsey, in his opening remarks yesterday morning when he outlined an ambition to create a broad forum for amicable and contrary debate amongst ourselves on strategies, on objectives and even on ideology in advance of a more formal decision making process over the next days, in which many of us will be taking part.

I am pleased that ICAO has had the imagination – and the seminar organisers the vision - to hold such a forum, and I can certainly agree that much has been said that is provocative and controversial. I believe it has added real value to the debates ahead.

And now it falls to me to present the view of aviation labour, and at the back of my mind is the thought that, for some in this hall, employees are another of those special interest groups, whose perspectives will add controversy, depth and colour, but perhaps only background, to the proceedings ahead.

Well, at one level I hope this contribution will meet some of some of these expectations: The view of aviation workers goes against the mainstream of much of the debate so far, so I can't make any apology for being provocative or controversial on their behalf.

Of course, the arguments we bring have their own merit, I but I also will also be pleased if the ITF delegation here, surprise you during the week ahead by challenging some stereotypes about organised aviation labour as somehow conservative, inflexible, short-sighted or obstructive. Such views are wide of the mark. I speak for the ITF, of course, but I am pleased that the professional associations for pilots and air traffic services staffs are also here to add their views.

I’d like to start my contribution on a high point by reminding ourselves of the decision by governments at the last Air Transport Conference in 1994 that aviation labour are “stakeholders” in our industry. There was a good and lively debate then on what became known as the “ITF amendment”, We were very proud of it, and I am pleased to see that decision recognised in the draft declaration of the Conference to come, and acknowledged by more than a few contributors of working papers for the event. We want to have a dialogue with industry and regulators and this is but one contribution.

So, maybe aviation labour is moving from the exotic margins to the mainstream? I’ll leave it to you to make your minds up.

But there would be logic for such a shift. Despite being almost a hidden factor in the global aviation economic regulatory debate, aviation labour seems now to be the key to success or at least for survival for many aviation enterprises.

We’ve been here before, of course, but what is interesting now is the extent to which, whether acknowledged or not, the labour impact is either an objective or a consequence of importance in economic decision making, even if it is regrettably only a subtext of the Air Transport Conference ahead.

Sanat Kaul, of India, was one yesterday’s contributors to be most articulate in expressing that ambiguity – without perhaps meaning to be explicit -, when he characterised the privatisation of Air India as, in part, a vehicle for the government to overcome public sector employment conditions. Similar labour flexibility objectives have surfaced in other contributions while, at the other end of the scale, some presenters seemed almost careless or indifferent about the insecurity and job losses that might result amongst aviation workers from the application of their ideas.

So given all of the contributions so far, it would be fair for us to aim to:-

- To overcome some prejudices about aviation unions;
- To echo the central role of labour in the economic future of our industry;
- To present a positive economic vision on behalf of aviation labour;

Well, there isn’t time to do all three, and as the brief for Session 7 is pretty unambiguously “The future of liberalization” I will leave the first two ambitions to work their way through in debate, and focus on the vision and aims of aviation workers, which I hope will provide a sound basis for you to understand our reaction to liberalization.

So, what I'd like to do in the time I have is to describe and focus on the vision of aviation unions, in four key objectives:-

- Economic stability, sustainability and orderly growth for our industry;
- The right of all nations and stakeholders to shape their air services;
- Maintenance of a dynamic link between safety and economic regulation;
- and smart regulation in a changing industry;

And for sure, for us, economic stability is at the top of the list; we are all in uncertain times and this is perhaps not the best moment for radical change.

If you speak to any aviation union leader today, or to anyone who survived the last economic downturn in the early 1990's, they will likely tell you that their number one goal is to restore stability to their industry and vigour to the companies that they and their members work for.

For us, this means essentially two things; first, that economic regulation should promote the orderly evolution of air transport services, and secondly, that business managers and economic planners need to better manage the business cycle.

And if we look at the promises and expectations of liberalization to date and compare these with the evidence, we little cause for optimism on either front. Regulators are failing and some parts of the industry, particularly airlines and commercialised air traffic services, are in a mess. Even the most profitable are vulnerable.

It’s plain fact that economic deregulation, starting in the United States in the late 1970’s, and flowing to Europe and elsewhere since the mid 1980’s, brought unparalleled numbers of bankruptcies, and takeovers and facilitated significant levels of outsourcing and organisational restructuring.

It’s just as true to say that these decades have led to unprecedented growth in labour productivity - to which our members have contributed actively - but in our view liberalization has done little to strengthen or stabilise enterprises over the long term.

Open skies agreements and ground handling competition have encouraged a chase by carriers and service providers for market share that in turn has contributed to the unprecedented losses experienced in the current downturn. In the air traffic services domain it is the commercialised agencies and the privatised UK provider that now find themselves in the greatest economic difficulties. Far from promoting orderly evolution, liberalization to date has added to the instability of the aviation industry

It was new to me, but I recognised the point highlighted yesterday by Professor Doganis that, in relation to air carriers, liberalization has not improved profitability. He went on to say that, in fact, the downturns had become more extreme in a liberalized environment.

One thing is certain; aviation employees are sick and tired of being used as the primary shock absorbers for managing the business cycle.

Far too much attention is given to the cost side of the equation and not enough to the need to improve yields.

And this raises issues for us about the supposed benefit of liberalisation.

On a particular point of a number of contributors, I would like to pick up briefly on the national ownership issue and say that we unequivocally disagree with the notion that change is needed in order to improve access to capital. Investment is certainly an issue for many carriers and a very real concern for many aviation employees. But a majority of the world's carriers are already listed in national stock markets and the principal problems of market capitalisation for the airline sector comes from poor share and dividend performance.

The reason airlines have difficulties raising money is because of their business models, their long-term marginal profitability, and their inability to manage the business cycle. There is no lack available capital in the dominant aviation markets of the world; rather it is a lack of investor confidence that inhibits access to such capital. In our view, promoting an ordered growth of the industry in a low-risk or predictable-risk environment would be a better means of promoting access to future investment than any further deregulatory shocks.

There is no doubt that the national ownership criterion acts a barrier to global consolidation, but is that a bad thing? Consolidation is generally a code word for stripping out capacity. And that means shedding jobs and in some cases weakening the human capital base. It means cuts in routes, and cuts in frequencies. These are hardly consumer friendly outcomes.

And if the issue of access to capital is not the problem, then the question of financial and organisation restructuring certainly is. It seems to me that the debate about financial structure is more about reorganisation than about access to new money. Outstations and overseas become stand-alone entities and integrated enterprises become fragmented subsidiaries.

What measures do States intend to have in place to manage such change? In addition to the lurking problem of flags of convenience – with which the ITF is intimately familiar – it seems to us that globalisation of air carrier ownership brings risks of capital flight, of regulatory escape and safety and social dumping, as well as new uncertainty about jurisdictional authority, none of which, we believe, States and regulators are adequately prepared for.

And that brings me to the second issue. If consolidation of the sort envisaged takes placed, then what is the prospect for national enterprises? One speaker yesterday talked of a future with three global airlines. Whose interests would such mega-carriers serve? How can the public service dimension be protected in such circumstances? In the ITF we strongly support the right of all states to participate in the provision and management of their air services. How will the social and economic dimension of the national aviation infrastructure be preserved? There seem precious few answers to these questions.

One thing is for sure, however, and that is our belief in the role of ICAO as dual regulator of economic and safety standards. It is for this reason more than any that we reject any future role for the World Trade Organisation and the GATS. We have in the maritime side an awful example of what can happen when that link is broken. In aviation there are real questions about the extent to which national regulators are able to respond to global conditions. When an Argentine carrier is operating with wet leased aircraft from an

Icelandic operator, where does the regulatory supervision lie? We need more than article 83bis. We need globally harmonised standards for crews, and a regulatory framework that goes beyond nationality of aircraft registration.

And this is a question not of more rules, but of smarter rules. That is why we talk of smart regulation in the ITF. Our vision is of a regulatory regime that will recognise the need to maintain the safety and security chain of command in subcontracted enterprises, that will adapt to new industrial realities and that, more than anything, will establish a global framework to match the globalised industry in which our members work. This is the least that is required if social and safety dumping is to be avoided.

So what does our vision amount to? I suppose it could be summed up in the notion of an aviation infrastructure that meets the economic, social and cultural needs of nations, that is responsive to all stakeholders and that operates competitively in a market where measured and sustainable growth is promoted by the regulatory authorities. Of course we are a long way away from those conditions, but something has to be done to bring stability to our industry and further deregulatory shocks are not the right response here and now.

What is for sure is that aviation labour has moved to centre stage, particularly in air carriers and amongst air traffic services providers. Our members are stakeholders in our industry and are committed to bringing stability to our industry. We hope that governments and regulators will follow suit.