



***Aviation in Transition:
Challenges & Opportunities of Liberalization***

Session 2: Industry Challenges for the Regulator

**Restructuring — How to Deal with
Workers' Feelings of Insecurity**

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The aviation industry is going through an intense and rapid process of change, accelerated by the attacks in the US on 11 September 2001. Various forms of restructuring will have an impact on managers and workers in the industry. Employees often feel that they are the first to suffer from any change in the industry, but managers are also affected. This article considers how workers' feelings of insecurity can best be addressed.

Reasons for Workers' Feelings of Insecurity

The aviation industry is cash-flow-dependent and characterised by cyclical demand. It has, on average, achieved only marginal profitability in 'good years', even in those countries where the industry has achieved major economies of scale. The 'bust and boom' periods in the industry, new entrants to the market and the failures of other companies make employment and benefits in the industry insecure. This, in turn, results in feelings of insecurity among the industry's employees.

Employment

When airlines have to adopt cost-cutting measures because of declining operational results or restructuring, reductions in the number of employees are often high on the list. Immediately after the attacks on 11 September 2001, airlines worldwide announced about 200,000 job cuts. However, not all these cuts were effected, often as a result of negotiations between carriers and unions, during which alternative solutions could be found. In 2002, many airlines had to announce further cuts because of continued low passenger demand, higher fuel prices and the delayed recovery of the economy.

Under normal circumstances, such reductions are mainly achieved either through natural attrition or through early retirement plans often developed in consultation with trade unions and workers' representatives.

The recent developments in the US best demonstrate the employment insecurity. In 2001, the US airline industry cut more than one out of every 10 jobs. The total number of jobs decreased by 11% to 653,488 in 2001 from 732,049 in 2000. In the first half of 2002, some airlines started to recall those employees who were given leave of absence but, when the economy remained weak and airlines continued to lose millions of dollars a day, they had to announce drastic cost-cutting programmes. Since the beginning of July 2002, major US carriers have announced another 31,000+ job cuts.

Earnings

The procyclical nature of the industry 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, costs will be tightly controlled and employees are often expected to make sacrifices to safeguard the financial position of the airline. When business improves, airlines still tend to be cautious on costs, knowing that traffic might be lost to rivals in an increasingly competitive and deregulated aviation market. Employees, in contrast, anticipate improvements in pay and benefits in line with business prosperity, as well as an element of 'reward' to make up for previous sacrifices. This discrepancy 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.

Seniority

Past experience has taught that mergers and acquisitions often create more problems than they solve, the question of seniority being one of the most difficult problems. For example, a key reason for labour tension involving pilots is the fact that seniority is such a crucial factor in determining the type of aircraft and the routes they fly. Senior pilots who lose their jobs have to start out on the least desirable route on another carrier – a situation that makes pilots highly sensitive to, and critical of, management decisions about routes and mergers. The question of seniority also applies to other categories such as cabin crews.

Final Entitlements and Pension Rights

Employees are also concerned that, if the company fails or ceases to operate, their entitlements – even those provided for under law – will not be paid in the absence of a social plan or the necessary funds. The acute possibility of a collapse of airline pension plans is reminiscent of previous pension crises in the industry. Major airlines are suffering because they must assume the risks of the traditional ‘defined benefit’ pension plans they offer.

Resistance to Restructuring

A 1998 study¹ revealed that airline unions reported extensive change in recent years. Overall, the unions’ assessment of the impact of these developments on their membership was negative or, at best, neutral, especially in relation to the impact of competition from low-cost carriers. It is worth noting that most unions perceived the adverse effects of industry restructuring to be worse in their own country than in the industry generally.

Many unions feel that global alliances have an overall negative effect on employees, but almost one in four unions had a more positive view. Unions with members in alliances 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.

In recent years, airlines have sought to intensify labour use. More than three-quarters of all respondents noted the negative impact of restructuring on work intensity, levels of job security, job satisfaction and the quality of union–management relations.

The International Transport Workers’ Federation (ITF) and its members are willing to consider ownership and control changes under the International Civil Aviation Organization (ICAO) Chicago Convention bilateral system. However, such changes should take into consideration the honest concerns of workers and address employees’ insecurity fears arising from these experiences and their desire for secure employment in a stable industry.

The International Federation of Air Traffic Controllers’ Associations (IFATCA) and the International Federation of Air Traffic Safety Electronics Associations (IFATSEA) have both been apprehensive about the concept of commercialisation and privatisation of air navigation service providers from the very introduction of the concept. The two issues most feared in this process were a ‘profit before safety’ mentality and the loss of employment security. Staff reductions, and consequently the regular use of overtime, have a substantial negative impact on both the health of the air traffic controller and on system safety.

Management

Structural change poses several challenges to airline management, such as how to maintain their share – or, preferably, to gain a bigger share – of the growing market, how to participate in the consolidating market

¹ P Blyton, *et al.* (1998), *Contesting globalisation: Airline restructuring, labour flexibility and trade union strategies* (London), ITF, p. 13.

and how to adapt to increasing domestic and international competition. In order to remain competitive, airlines compete concurrently on the basis of lower costs, higher quality and product innovation.

Global alliances allow their partners to gain access to a more comprehensive route network with far less risk, securing economies of scale and scope. In the framework of alliances, airlines are seriously interested in the possibility of sharing crews and aircraft throughout the network. However, as deregulation progresses, it threatens to destabilise some of the existing alliances. Many airlines have been the target for criticism from their passengers. While impressive resources have been ploughed into making operations as efficient and safe as possible, most investments on the passenger side have been focused on trying to involve the travellers more in the efficiency effort. Recently, a high-level industry conference was held in an effort to improve airline–passenger relationships.²

The Role of the International Labour Organization

One of the motivations behind the establishment of the International Labour Organization (ILO) in 1919 was the awareness that the integration of national economies needed to be based on social justice and that the improvement of labour conditions required joint international action.³ In 1998, the International Labour Conference adopted the ILO Declaration on Fundamental Principles and Rights at Work and its follow-up. All ILO Member States have, by virtue of their membership of the ILO and acceptance of the ILO Constitution, accepted certain obligations with respect to these fundamental principles and rights at work. This has repercussions beyond the ILO and its Declaration. Members should take positions in other international forums that are consistent with this obligation. Similarly, policy advice from other organisations should not be in contradiction with them – though not because they have any obligation under the Declaration as such, but because they would be interfering with an international obligation that the states concerned have formally recognised as arising out of their membership of the ILO.

Promotion of Social Dialogue

In the ILO definition, social dialogue includes 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. The definition incorporates traditional industrial relations 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.

Globalisation and restructuring have re-emphasised the need to take account of the views of the social partners in economic and social policy formulation and in enterprise and sectoral activities. In this context, dialogue and participation can make significant contributions to the protection of workers, 'labour peace' and to addressing workers' feelings of insecurity. 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 an influence in the formulation and implementation of such policies.

Restructuring affects industrial relations differently, depending on the sector and the country. Indeed, labour relations are a function of practices regarding freedom of association and 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. At the same time, restructuring presents a number of challenges as well as opportunities for the development of social dialogue.

² *"Managing Technology & Information for Profit: Technology: Re-inventing Airline-Passenger Relationships"*, Washington, USA, 13–14 February 2003.

³ See Preamble to the ILO Constitution, "...Whereas also the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries..."

Collective Bargaining

A recent ILO study⁴ concluded that the respect and realisation of the principles of freedom of association and the effective recognition of the right to collective bargaining and the institutions built thereon (representative organisations, collective bargaining and social dialogue) are not a barrier to economic performance. Second, no single ideal model of industrial relations and social dialogue is more conducive to economic growth than any other. Respect for, and the realisation of, the fundamental principles and rights at work are consistent with different systems of industrial relations.

Collective bargaining – one of the traditional means of social dialogue – is increasingly becoming an instrument for enterprise, sectoral or economic restructuring rather than serving only as a distributional mechanism. Through negotiation, workers and employers can arrive jointly at solutions for enhancing competitiveness, while simultaneously promoting and protecting employment. For example, although Southwest Airlines only flies domestically, it has some of the lowest costs and highest worker productivity in the industry, despite its unionised workforce.

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 and other companies in the industry, labour assumes an increasingly more prominent role in the competitive strategies of companies seeking to reduce fares and maintain or improve service quality. Apart from reducing the possible economic and social costs of adjustment, dialogue and collective bargaining at the level of the company or the industry significantly improves the quality of information available and the effectiveness of decisions. It is in this spirit that American Airlines' top management has asked employees to forge an unprecedented partnership with management to find solutions to the airline's continuing financial crisis.

Labour-management relations in the aviation industry have often been fraught with conflict. According to ICAO, many new labour contracts are reached only after long disputes that, in a number of cases, involve industrial action. On a global basis, pilot and cabin crew unions are the most active in staging industrial action. The current aviation crisis in the US has rekindled the debate about whether labour relations in the industry should continue to be governed by the Railway Labour Act (RLA) rather than by the National Labour Relations Act (NLRA). A high-level airline executive recently commented that, under the RLA, you have a labour system that was designed for a world that no longer exists. It is extremely frustrating for the labour side and it is extremely frustrating for the management side that the negotiations often take place long after the contract is due for amendment because there is no incentive on either side to settle.

The ILO Tripartite Meeting on Civil Aviation (Geneva, January 2002) reached the following conclusions.

- In order to contribute to the development of a resilient aviation industry for the twenty-first century, social dialogue at the workplace, enterprise, national, regional and international levels should be encouraged.
- Social dialogue has helped to find innovative and socially responsible solutions to the crisis, but much more needs to be done.
- 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 minimise all possible negative social consequences.
- Co-operation and dialogue between the social partners and with governments is vital to this end. The government should be an active partner in social dialogue as appropriate.
- Social dialogue should be an on-going process.

⁴ *ILO (2000), Organization, bargaining and dialogue for development in a globalizing world, ILO, Geneva, GB.279/WP/SDG/2.*