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WORKING PAPER

CIVIL AVIATION: THE WORST CRISIS EVER?

Bert Essenberg

Working papers are preliminary documents intended to stimulate discussion and comment

INTERNATIONAL LABOUR OFFICE GENEVA

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Sectoral activities in the ILO

The Sectoral Activities Department is part of the Social Dialogue Sector of the ILO. Its objective is to promote social dialogue at the sectoral level and to facilitate the exchange of information among the ILO's constituents on labour and social developments concerning particular economic sectors. One of its means of action is practically oriented research on topical sectoral issues. This publication is an outcome of that research.

The particular characteristics of the various primary, manufacturing and service sectors account for the different form taken in them by issues such as globalization, flexible work organization, industrial relations, the implications of structural and technological change, trends in the number and nature of jobs, and the situation of special groups such as children and women workers. The Sectoral Activities Department is the ILO's interface with its constituents at the sectoral level.

Continuing attention is given to 22 industries or sectors dealing with:

- Industrial activities (extractive, rural, manufacturing, construction);
- Maritime industries (shipping, fishing, ports, inland water);
- Services (commerce; financial and professional services; media, culture, graphical industries; post and telecommunications; education; health; public service; utilities; rail, road and air transport; hotels, catering and tourism).

These sectors are vital in virtually all national economies. Issues concerning other sectors or sub-sectors are addressed on an ad hoc basis.

One of the principal activities of the Sectoral Activities Department is the holding of international sectoral meetings that provide a forum for discussion and an exchange of views on current issues in the sector concerned. Sectoral meetings are generally tripartite, with equal participation by governments, employers and workers. Where the government is the predominant employer, however, participation reflects this. From time to time, meetings also take the form of seminars or specialized meetings of experts. An outcome of most meetings is agreed conclusions that serve as guidelines for policies and measures for dealing with the issues and problems – at the national level and by the ILO.

The Department undertakes follow-up activities to these meetings and provides various forms of technical assistance, including the promotion of tripartite sectoral dialogue on priority labour issues at national level, and the provision of advisory services on sectoral labour issues. It also collects, analyses and disseminates technical sectoral information and carries out studies, such as this one, on issues of concern to particular sectors or groups of sectors.

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Preface

This paper is a first analysis of the impact of recent developments (the war in Iraq, the Severe Acute Respiratory Syndrome epidemic, security incidents) on the civil aviation industry worldwide, in particular of the social consequences. It examines the background to the crisis, and then looks at how events in March 2003 caused a rapid slump in activity. The author shows how the initial capacity reductions were followed by longer-term changes in employment, and the trade union response is assessed. At the time of writing (end of May 2003), it was clear that although the major military operations in Iraq were over, the problems relating to SARS were still developing and the consequences for the industry could not be fully evaluated.

Even if the SARS epidemic were to end tomorrow, it would take another four to six months at least before the prospects for the civil aviation industry could be more clearly examined. In any event, it would appear that the impact of SARS on the civil aviation industry may be far greater than the impact of 11 September 2001 and the war in Iraq combined in terms of its impact world-wide. Social dialogue therefore has a key role in identifying socially acceptable solutions to the problems being encountered.

The ILO’s Sectoral Activities Department commissioned this working paper as a follow-up to the *Tripartite Meeting on Civil Aviation: Social and Safety Consequences of the Crisis subsequent to 11 September 2001* (Geneva, January 2002). That Meeting was part of the continuing work of the Department on 22 sectors of economic activity, of which the transport sector is one.

It is hoped that this study will help to promote action to mitigate the impact of the current crisis in the civil aviation industry, and complement work being carried out by the ILO and other organizations at various levels to assist the industry to recover and to safeguard employment in the transport sector around the world.

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Summary

The paper is a first analysis of the impact of recent developments (war in Iraq, the severe acute respiratory syndrome (SARS), security incidents) on the civil aviation industry, and in particular the social consequences. While the war in Iraq is "technically" over, the SARS epidemic is still developing and its consequences for the industry cannot be fully evaluated at the time of writing (end-May). Even if the SARS epidemic would end tomorrow, it will take another 4 to 6 months at least before the picture becomes clearer. Never before in its history has the aviation industry been hit with so many negative factors out of its control. The traditional recipes for crisis management – reducing capacity, cutting costs, particularly labour costs, and waiting for the economy to recover, are having little effect.

As a result of the combined crises, the number of passengers carried in March plummeted in all regions: Market conditions have considerably worsened since then. Overall international traffic in the United States suffered a 20.8% drop. In Canada, traffic on Asian routes is down almost 60%. In Europe, figures for the week ending 18 May showed weakness in all major markets and, overall, traffic was down 9.5% compared with the corresponding week in 2002.

In response to the crisis, airlines worldwide are working hard to contain or reduce costs. The emergency measures include reductions in capacity, including the suspension of routes to certain destinations or reductions in flight frequencies, the use of smaller planes and the parking of excess aircraft. On the personnel side, wage reductions, compulsory uncompensated leave and redundancies are among the emergency measures being put in place.

According to the recent ILO report on new threats to employment in the travel and tourism industry, it was estimated that by May 2003 no less than 5 million jobs may be lost in that industry worldwide, or over 6 per cent if the industry's total employment. The airline industry worldwide has until now announced some 35,000 job losses since the outbreak of the crisis in March. Many thousands of employees have been placed on short time or similar working arrangements.

The number of job losses may seem relatively small, but it should be remembered that -- as a result of the continuing restructuring of the industry since 11 September 2001 -- between 300,000 and 400,00 airline jobs worldwide have been lost or will disappear in the near future.

It is clear that the trade unions are very concerned about the consequences of the crisis for jobs, wages and working conditions. Confronted again with the dilemma of either making concessions or the company folding down, many unions and their members have understood the gravity of the financial situation of the companies and accepted to make painful concessions in order to protect as many jobs as possible.

There is probably no industry expert or analyst who would dare to predict what the outlook for the coming months would be. SARS is still developing and there may be more warnings of possible security incidents. There is agreement that recovery from the present industry crisis will be slow and that yields will remain under pressure. Yields may never recover to previous levels, particularly in Europe, as a result of the low-fare airline revolution.

Tripartite social dialogue at all levels has helped to find innovative and socially responsible solutions to earlier crises. Now that the industry finds itself in the deepest crisis in its history, social dialogue should be further encouraged. Cooperation and dialogue between the social partners and with governments, as appropriate, is vital to this end. Experience has shown that every situation must be carefully considered and properly negotiated by the social partners. Some examples of good practices and initiatives (Europe, Latin America) are given.

1. Introduction

The papers prepared for the ILO *Think Tank on Civil Aviation* (Geneva, October 2001) gave an overview of the immediate reaction by airlines after the 11 September events. The Issues Paper prepared for the ILO *Tripartite Meeting on Civil Aviation* (Geneva, January 2002) described the developments in the broader air transport industry until the end of 2001. Another paper analysed the developments in the air transport industry during 2002.[1] The present paper – which is necessarily incomplete – will try to analyse the developments in civil aviation in the first months of 2003, and in particular the social consequences. In a related context, the ILO recently published a report on new threats to employment in the travel and tourism industry resulting from the combined effect of the world economic situation, safety concerns, hostilities in the Middle East, and the Severe Acute Respiratory Syndrome (SARS).[2]

Developments in recent years have, once again, demonstrated that there is no such thing as a global, homogeneous airline industry. Very different influences and factors in different parts of the world, be they economic, regulatory or even social and cultural, create different operating environments and ultimately, different financial results.

At the beginning of 2003, most airlines in the world were still recovering from the aftermath of the 11 September 2001 events and the continued economic downturn. A number of other factors such as the rise in aviation fuel prices, increased use of the internet by passengers to find the best prices, and the sharp fall in the number of premium class passengers were also hampering recovery. Forward bookings remained flat because of uncertainty about a war in Iraq. Many airlines – particularly in North America – continued to suffer massive losses, while airlines elsewhere, mainly in the Asia-Pacific region and, to a lesser extent, in Europe, were showing more positive results and started to be cautiously optimistic for the future. It is estimated that the member airlines of the International Air Transport Association (IATA) suffered a combined loss of nearly US$ 25 billion in 2001-2002 (international and domestic). The airline industry as a whole was still trying to find solutions to its underlying structural problems such as overcapacity, the consolidation of the industry, the rapidly growing market share of low-cost carriers, and changes in the dominant business model.

[1] Essenberg, B.: *The crisis in civil aviation subsequent to 11/09/2001*: *15 months later*, Geneva, 2002, unpublished paper.

[2] Belau, D.: *New Threats to Employment in the Travel and Tourism Industry - 2003*, ILO (Geneva), 13 May 2003.

2. March 2003: the crisis deepens

n March 2003, the crisis deepened with the war in Iraq, continuing economic worries, a later Easter, and, to top it all, SARS. Never before in its history had the aviation industry been hit by so many negative factors out of its control. The Iraq war had more serious consequences for the industry than expected. And in May, several governments issued warnings for possible security incidents in certain countries. The United States government, for example, raised the terror alert status to *high* from *elevated* because of renewed risk of attacks there. All these developments had a serious impact on passenger traffic around the world. The traditional recipes for crisis management - reducing capacity, cutting costs, particularly labour costs, and waiting for the economy to recover – were having little effect.

The International Air Transport Association (IATA) reported that global international passenger traffic plummeted 18.5% in April compared with the year before. The unprecedented combination of crises has had a disastrous impact on international air transport, in a magnitude approaching or probably even greater than that of 11 September.[3]

Asia-Pacific region

In Asia, the region most severely hit by the SARS epidemic, international revenue passenger kilometres (RPK) growth slowed to 5.2% year-on-year in February 2003 as compared to 13.5% in January, because of concerns over the imminent Iraq war and the time frame in which the Chinese New Year fell. Passenger traffic within the Asia-Pacific region for February showed slower growth of 2.8% as compared to 9.4% in January. The traffic increase on inter-regional routes also slowed, largely due to concerns over the pending Iraq war. In March, international revenue passenger kilometres plummeted 10.6% year-on-year due to the outbreaks of the Iraq war and, more significantly, SARS. This dramatic single month decline of passenger traffic resembled the ones that occurred in September 2001 and the Asian financial crisis in March 1998. The number of passengers carried within the Asia Pacific region fell by 11%, with all sub-regions experiencing declining traffic. Trans-Pacific traffic dropped by 13.7%, with Asia-USA routes recording a decline of 14.7%. The slight growth in February for traffic between Asia and Europe was reversed with an 11.1% slump in March. In April, market conditions had worsened and a huge amount of capacity had been removed from the market.[4]

According to IATA, in a few weeks since the outbreak of the epidemic, the traffic to Hong Kong declined by 60%, and 40% of the flights to that destination had been cancelled. The flights to Singapore and Seoul had been reduced by 40% to Bangkok by 37% and to Kuala Lumpur by 36%.

In Australia, overseas tourism dropped to a five-year low in April amid concerns about SARS and the war on Iraq. Official figures showed that visitor arrivals in the country fell 11% in April, the third fall in a row and the biggest monthly drop since records began 33

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[3] Hill, L.: *World passenger traffic fell 18.5 % in April*, www.atwonline.com, 26 May 2003.

[4] Association of Asia Pacific Airlines: *AAPA March 2003 traffic results*, www.AAPAirlines.org, 20 May 2003. See also Belau, op. cit.

years ago. Australians were also staying home in greater numbers, with the largest monthly drop in outbound tourism in March since the start of the first Gulf War in 1991.[5] ***Qantas*** reported that international traffic declined by 10.9% in March.

North America

In the United States, the Air Transport Association of America (ATA) reported that revenue passenger miles (RPMs) in March 2003 were 5%lower than in March 2002 and 11.8%lower than in March 2000.[6] In April, traffic continued to be affected by the lingering effects of the war in Iraq and the SARS outbreak. Pacific RPMs were down 35.9% to 2.5 billion compared to the same month in 2002. Atlantic traffic also suffered in April with RPMs falling by 21.7% to 4.94 billion. Latin American traffic was slightly up year-on-year. Overall international traffic fell 20.8% to 10.27 billion RPMs, ASMs declined 12.5% to 15.26 billion and the load factor dropped 7.1 points to 67.3%.[7]

Traffic to Canada was hit by the World Health Organization (WHO) warning against travel to Toronto because of the severe SARS outbreak in that city. Traffic on Asian routes was down almost 60 per cent, and Toronto enplanements were off by more than 25 per cent. Bookings for the key summer period have been decimated.

Europe

The Association of European Airlines (AEA) members' traffic for March clearly reflected the impact on passenger traffic of the Iraq war. Hostilities began on 20 March, but the market had already been weakening before that date, in anticipation of the conflict. Overall, passenger traffic was 4.5% lower than in March 2002, which itself was depressed by the events of September 2001. Massive losses were sustained on Middle Eastern (-34.4%) and North African (-20.5%) routes. The decline in the Far Eastern/Australasian market was 7.3%, showing the early signs of reaction to the SARS outbreak. The AEA announced that the figures for week 19 (ending 11 May) include the heaviest traffic downturn so far on Far East/Australia services, and an abrupt reversal of slightly more favourable recent trends on European and North Atlantic operations. The Far East market was down 29.2% on the same week in 2002. This was the fourth – and worst – in a sequence of losses in excess of 25%. The figures for week 20 (ending 18 May) showed weakness in all major markets. Overall, traffic was down 9.5% compared with the corresponding period in 2002. The drop in traffic on Far Eastern routes was 31.0%, the worst weekly figure of the year. Equally disturbing were the trends in other major markets.[8]

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[5] AAP: *SARS cuts inbound tourist numbers*, www.smh.com.au, 20 May 2003.

[6] Air Transport Association of America: *ATA Monthly Passenger Traffic Report*, www.airlines.org, 22 April 2003.

[7] Air Transport World: *Other News*, www.atwonline.com, 19 May 2003.

[8] Association of European Airlines: Press release, www.aea.be, 27 May 2003.

3. Capacity reductions in the industry

In response to the crises, airlines worldwide have been working hard to contain or reduce costs. The emergency measures included reductions in capacity, including the suspension of routes to certain destinations, reductions in flight frequencies, the use of smaller planes the parking of excess aircraft (***Air Canada, Austrian Airlines, Cathay Pacific, China Eastern Airlines, Lufthansa, Malaysia Airlines, Northwest Airlines, SIA, Swiss and United Airlines***). Other companies advanced the already scheduled withdrawal of certain types of aircraft as part of their fleet rationalization programmes. In most cases, the suspension of routes and reductions in frequency are being reviewed on a month-to-month basis. On the personnel side, wage reductions, compulsory uncompensated leave and redundancies are among the emergency measures being put in place.

Asia

In May, AAPA member airlines were cancelling over 1,150 flights a week, the vast majority of which were on the bread and butter routes in the Asia-Pacific region. ***Singapore International Airlines (SIA)*** cancelled over 200 (or 31.5% of its available seat kilometres (ASKs), ***Cathay Pacific*** nearly 200 (or 45% of all its scheduled flights) and ***Dragonair*** 127 flights per week or virtually its entire operation. Among the other airlines in the region, ***Qantas*** (Australia) suspended 20% of its international flights between 1 April and mid-July, ***Air New Zealand*** suspended 8% of its total available international capacity until mid-September, ***Japan Air Lines (JAL)*** reduced its May schedule by more than 17% while ***Thai Airways*** suspended a number of flights to Asian destinations. ***China Eastern Airlines,*** based in Shanghai, was forced to ground 60% of its 80 aircraft as passenger numbers plummeted owing to SARS fears.

North America

In the United States, the ATA member airlines have made adjustments to capacity, with available seat miles (ASMs) reduced by 10.1%, system wide, for the week ended 20 April 2003. In comparison with April 2001, the reduction was 21.9%. Atlantic and Pacific capacities were again most affected, while there was a slight increase in capacity on Latin American routes.[9] Later in April, United States airlines announced further capacity reductions and the suspension of flights on transpacific routes.

Europe

In Europe, major capacity cuts in March concerned routes to the Middle East (- 13.0%) and to a lesser extent to the Mid and South Atlantic (-2.0% and -1.6% respectively) but overall

[9] Op. cit.

capacity still increased 3.2%when compared with March 2002.[10] In April, airlines had to announce reductions in their flight schedules to the Far East – especially China, Hong Kong, Taiwan (China) and Singapore. In May, the three major airlines ***(Aeroflot, Sibir, Pulkovo)*** in the Russian Federation had to suspend all flights to China, Hong Kong and Taiwan (China) following a government order to stop selling tickets to SARS-affected areas.

4. Severe Acute Respiratory Syndrome (SARS) and the airline industry

SARS may have caused more damage to the global airline industry than the 11 September attacks and the war in Iraq combined. Virtually every airline in the world is affected, and the world=s airlines could lose more than US$ 10 billion this year because of the epidemic. At no time in the history of civil aviation, have there been declines of the magnitude now seen in the Asian region as a result of SARS.[11]

An IATA survey on business travel revealed that about half of the executives interviewed had postponed travel to SARS-affected countries. Some 20% had cancelled their travel and 10 to 20% travelled by alternative routes.[12]

In April 2003, ***Cathay Pacific Airways*** carried 340,691 passengers, or an average of just over 11,300 a day, down 65.7% from the same month in 2002. By mid-May, it was carrying about 7,000 passengers a day.

China Southern Airlines, whose Guangzhou base is at the heart of the SARS virus outbreak, saw its April passenger numbers fall 36.5% from the same month of the previous year. It implemented various measures to adjust its operational capacity.[13]

The AAPA noted that those flights being operated in the Asia-Pacific region to maintain a semblance of a network have load factors that render them highly unprofitable. The result is that airlines are bleeding cash on a daily basis.[14]

It is clear that SARS will have a longer lasting impact, not only on the airlines, but also for all other segments of the air transportation industry: airports, air traffic service providers, ground handling and catering companies, other auxiliary services as well as equipment manufacturers.

The Director General of AAPA, Richard Stirland, recently declared “The dramatic fall in demand for air travel as a result of the spread of Severe Acute Respiratory Syndrome (SARS) across the region has had a devastating effect on the airlines of the Asia Pacific

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[10] Op. cit.

[11] Teves, O.: *Airlines: SARS Did More Damage than 9/11*, www.washingtonpost.com, 15 May 2003.

[12] ATS: *Le SRAS pourrait coûter 13,5 milliards aux compagnies*, Le Temps (Geneva), 6 May 2003. Teves, O.: *Airlines: SARS Did More Damage than 9/11*, www.washingtonpost.com, 15 May 2003.

[13] The Straits Times Interactive: *Passengers shun China Southern*, http://straitstimes.asia1.com.sg, 14 May 2003.

[14] AAPA: *SARS: “Crisis is not over for airlines, optimism premature@, says AAPA*, www.AAPAirlines.org, 13 May 2003.

region. While the malaise is very focused on certain countries and cities, and airlines operating from and to those destinations are suffering disproportionately, even airlines based thousands of miles away have been hard hit. Airlines are only one element of the infrastructure established to provide global air transportation, others being airports and service providers, including for example air traffic control, security, immigration, customs and quarantine authorities. Many of these elements are both government operated and monopoly providers of services. It is not just desirable but vital to the survival of the existing air transport industry that these share the financial consequences of SARS."

Several governments (China, Singapore) and airports (Auckland International, Changi International, Hong Kong International, Manila International, Taipei International and others) responded positively to the crisis, for example, by waiving taxes on airline passenger revenue, rebates of landing charges, discounts on landing and departure fees.

In mid-May Asian airport officials from 10 ASEAN countries plus China, Japan and the Republic of Korea adopted a series of measures to prevent the spread of SARS by air travel, including mandatory standardized health declaration cards for departing passengers and temperature screening of all passengers. The health declaration will be in use from 15 June and the temperature screening will be implemented by 15 August. All the countries agreed that passengers suspected of SARS would be quarantined and placed under medical treatment, but that they would not be denied entry into any country in the region.

5. Employment and social impact of the crisis in aviation

According to the recent ILO report on new threats to employment in the travel and tourism industry, if the situation did not improve soon, it was estimated that by May 2003, no less than 5 million jobs could be lost in the worldwide travel and tourism industry, or over 6% of the industry's total employment.[15] The number of job losses (some 35,000 and many thousands more on short-time working arrangements) and other measures announced so far by the airline industry worldwide are relatively small in comparison with the estimated losses for the travel and tourism industry. There are several reasons for the difference in impact in the aviation industry.

First of all, in the months following the 11 September (2001) events, the airline industry announced about 200,000 job losses. Not all of the announced job cuts were carried out, often as a result of negotiations between carriers and unions during which alternative solutions could be found. In the United States, in 2001, the airline industry cut more than one out of every ten jobs. The number of jobs dropped 11% to 653,488 in 2001 from 732,049 in 2000. The major airlines shaved their collective workforce from 672,294 to 607,857, a 10% drop.[16]

Secondly, in the course of 2002, many airlines were forced to announce further restructuring measures including job cuts (about 30,000[17]) because of low passenger demand, higher fuel prices and the delayed economic recovery. Some of these airlines included *Air Afrique* (4,200), *Air Canada* (1,300), *Air New Zealand* (1,000), *Olympic Airways* (2,000), *Scandinavian Airlines System (SAS)* (3,500), and *Varig* (1,400). This was followed by the second dismissal in less than nine months for those thousands of employees (15,000) who were rehired to relaunch *Ansett* in Australia.

In the United States, where the major carriers continued to lose millions of dollars a day in 2002, two companies were forced to file for bankruptcy protection and all carriers had to announce drastic cost-cutting programmes, including job cuts and demands for wage and work rule concessions. In the second half of the year, the companies announced 31,000 job reductions.

Thirdly, the airlines had prepared for the war with emergency scenarios that could be put into effect immediately after the start of the war. They were not prepared, however, for the SARS epidemic. In addition, the result of the reductions in 2001 and 2002 was that, at the beginning of 2003, most airlines had little or no excess staff to shed. Furthermore, many companies had decided to freeze recruitment until the future looked brighter.

Fourthly, it is very difficult to clearly distinguish between workforce reductions resulting from the recent developments (war in Iraq, SARS, security incidents) and those resulting from the continued malaise in the industry. Figures will also have to be treated with caution. The main sources of data are company press releases, general newspapers and specialized industry publications. The result could be both over- or under-reporting.

As a result of the continuing restructuring of the industry since 11 September 2001,

[15] Belau, op. cit., p. 2.

[16] Air Transport World: *Other news*, www.atwonline.com, 24 April 2002.

[17] See: Essenberg, 2002, op. cit.

between 300,000 and 400,000[18] airline jobs worldwide have been lost or will disappear in the near future.

Asia-Pacific region

However, the massive capacity and flight reductions, particularly in the **Asia-Pacific** region, have forced companies to have another look at the size of their workforce. So far, SARS has had little impact on employment in airlines or other segments of the industry in this region. However, if the epidemic lasts longer, carriers will be forced to resort to additional cost-cutting measures, including compulsory uncompensated leaves or job cuts, in the coming months.

The most drastic measures were announced by ***Qantas*** (Australia), which, already in March 2003, announced the abolition of the equivalent of 1,000 posts by bringing forward employee leave allocations and introducing a hiring freeze. In April, it announced that 1,000 people would be made redundant and that another 400 post would be abolished through natural attrition. In addition, 300 permanent posts would be converted to part-time posts. In May, the company announced further job reductions

SIA (Singapore) has announced that it will release 206 flight attendant trainees at the end of their training in July and August. They will receive a financial package as compensation. The company has also started talks with the unions about working time reductions. As part of these discussions, the company reached agreement with its cabin crew staff (over 6,600) to take seven days' unpaid leave every two months, from 1 May 2003 until March 2004. It proposed to its pilots (1,800) that all captains take 12 days' compulsory no-pay leave every two months, and first officers take 10 days every two months over the same period.[19] ***SIA's*** management (240) will take pay cuts of 22.5 to 27.5% with effect from 1 June 2003. The present cuts go far deeper than in 2001 after the 11 September attacks. The members of the board of directors have decided to take a 50% cut in their fees. It is not clear how long the cuts will last. Salary cuts (15%) for other staff are being negotiated with the relevant unions.[20] All employees - including the chairman, CEO and directors - of ***Cathay Pacific*** (Hong Kong) have been asked to accept a Less Work Less Pay programme whereby individuals will take 4 weeks unpaid leave between June and September 2003.

Dragonair (Hong Kong) has introduced a similar measure and has also asked its 2,800 employees to take 4 weeks unpaid leave between June and September, while ***SilkAir*** (Singapore) will release 8 expatriate pilots before the end of their contract.

Europe

In contrast, several companies in Europe had to reduce their workforce, including ***Austrian Airlines*** (to eliminate 150 posts and to discuss short-time work arrangements with employee representatives), ***British Airways*** (accelerated 3,000 earlier announced lay offs - extended its policy allowing staff to take unpaid leave with a minimum duration of 1 month rather than 3),

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[18] Flint, P.: *IATA's Bisignani sees reductions in user fees, help on security charges*, www.atwonline.com, 3 June 2003.

[19] Goh Chin Lian: *Pilots reject SIA's no-pay leave measures*, http://straitstimes.asia1.com.sg, 21 May 2003.

[20] Lee, R.: *SIA management to take up to 27.5 % pay cut*, http://straitstimes.asia1.com.sg, 23 May 2003.

British Airways CitiExpress (will eliminate 620 jobs over a two-year period), ***Finnair*** (1,200 until the end of 2005), ***KLM*** (seeking to cut some 3,000 jobs through non-renewal of temporary contracts, a full hiring stop and redundancies), ***Lufthansa*** (introduced a 35-hour week for most of its 16,000 Germany-based employees with a corresponding salary reduction), ***Maersk Air*** (Denmark - to eliminate 160 jobs), ***SAS*** (to lay off another 4,000 employees over an 18-month period), ***Swiss*** (a 10% reduction in staff to 9,000). Even the buoyant low-cost carriers did not escape: ***Ryanair*** had to lay off staff when it acquired ***Buzz***, and ***easyJet*** closed a call centre (113 jobs) and intends to reduce its administrative staff by 15% to eliminate overlaps created by the takeover of ***Go***.

North America

The more important workforce reductions, carried out in Canada and the United States, are, for the time being, more directly related to the industry=s structural problems than to the consequences of the Iraq war and SARS. ***Air Canada***, which filed for bankruptcy protection in March 2003, has invoked *force majeure* and plans to eliminate 3,600 jobs before the end of 2003 - a 20% reduction. In a new move, the company has informed its unions that it wants to reduce its workforce by a further 7,800 jobs over a three-year period.

In March, ***United Airlines***, which is under bankruptcy protection, placed some 3,400 employees on “authorized no pay” status from 1 April with recalls between 15 June and 15 August. It expects to lay off more pilots, while in May, the company filed a court motion that it intends to close down its maintenance centres in Indianapolis and Oakland, affecting some 2,300 employees. It has, however, announced plans to rehire 1,527 flights attendants with effect from 1 June.

Also in March, ***Northwest Airlines*** announced plans to cut 4,900 jobs affecting all employee groups. ***American Airlines***, negotiating concessions from its various employee groups to avoid bankruptcy, said early April that it will lay off about 2,500 pilots in 2003-04. Mid-May, it announced that it will lay off 3,123 flight attendants with effect from 1 July. Of these, 1,545 will go on voluntary leave or share jobs. In addition, it will trim 1,200 ground workers, probably from 1 June.

Continental Airlines plans to reduce its senior management group by 25% and the overall officer group by 15% and to lay off 1,200 other workers by the end of 2003. Further job losses are not excluded.

Other airlines in the United States have announced relatively smaller reductions in jobs (***Atlantic Coast Airlines, Atlas Air, Delta Air Lines, Mesaba Aviation, US Airways***). On 10 May, the Transportation Safety Administration (TSA) announced that it will have to lay off 3,000 airport screeners by the end of May and another 3,000 before end September for budgetary reasons.

6. Union reactions to the crisis

It is clear that the unions are very concerned about the consequences of the crisis for jobs, wages and working conditions. Confronted again with the dilemma of either making concessions or the company closing down, many unions and their members have understood the gravity of the financial situation of the companies and accepted to make painful concessions in order to protect as many jobs as possible. An earlier study suggested that a significant number of human resource polices were widely regarded by unions as being unacceptable for their members under any circumstances, including compulsory redundancies and furloughs, the suspension of holiday pay and pay cuts. Even the suggestion of these policies has lead to the threat of or actual strike action by several unions around the world (***Alitalia***) in recent months. Even within the same airline, however, pay cuts and compulsory job losses have been agreed by some unions and rejected by others (***SIA***).[21]

North America

In the United States, the airline industry is one of the most unionized in the country, with almost 60% of all pilots, flight attendants, mechanics and air traffic controllers belonging to a union. Overall, just 13.2% of the American workforce is organized. Bankruptcy law allows labour contracts to be voided if a company can prove those obligations are endangering the health of the business. Virtually all United States airline unions have been taking one cut after another because they had no bargaining power to resist when the airline companies have lost significant market power. Nevertheless, the unions have been able to hold their own in a certain way and forced the companies to make comparable concessions.

For example, the unions= outrage over bankruptcy-proof pensions and huge bonuses granted to ***American Airlines*** executives, disclosed after the workers had agreed to US$1.8 billion in cuts, led to the resignation of CEO Donald Carty. Besides Carty=s resignation, unions were able to win back some of the concessions they had agreed to, including a shorter term for new contracts. The ***Aircraft Mechanics Fraternal Association***, Local 33, which represents employees at ***Northwest Airlines***, recently said that the company was overstating the SARS threat in order to continue avoiding obligations in its labour contracts. ***Northwest Airlines*** had invoked a force majeure clause that would release it from contract commitments affecting wages and job security.

In Canada, ***Air Canada*** is seeking some 770 million Canadian dollars in annual wage reductions from its employees – a crucial part of devising a viable business plan for keeping the money-losing airline alive in the long term. The judge overseeing the court-assisted restructuring has set a deadline of 31 May for the company and its main unions to reach agreement about the cost cuts. He has appointed a former labour lawyer as facilitator to help speed up these negotiations.

The ***Air Canada Pilots Association*** announced that the pilots would provide a 10% wage reduction during June and July in order to furnish interim relief and to make an

[21] Turnbull, P. and Harvey, G.: *The impact of 11 September on the civil aviation industry: social and labour effects*, ILO (Geneva), 2001, SAP WP 182, p. 18.

immediate contribution to help alleviate the cash-flow problems of the company, pending completion of labour cost restructuring. Three hours after the deadline of 31 May, the carrier and the pilots' union reached a six-year cost-cutting deal that provided the airline with a significant contribution toward achieving the cost cuts it had been seeking to stay alive.

A representative of the ***Canadian Union of Public Employees*** (CUPE) accepted that ***Air Canada*** needed to cut surplus employees and that there are about 1,000 flight attendants who had volunteered to leave. The union had earlier negotiated a voluntary separation package in the last collective agreement that allowed 300 people to go. It was stopped because of the bankruptcy protection process.[22] The President of the ***Canadian Auto Workers*** (CAW) described the deal his union reached with the company as the "worst setback" in the union=s history.[23]

In Mexico, the ***Association of Aviation Pilots of Mexico*** and the ***National Labour Union of Aviation Workers*** agreed to the conditions set by the CEO of ***Mexicana*** for a 10% reduction in labour costs through workforce reductions and salary cuts. Negotiations with the ***Association of Flight Attendants*** are still underway.

Asia-Pacific region

Cathay Pacific held consultations with its unions and staff group representatives to spread the reduction in take-home pay resulting from the Less Work Less Pay programme (all employees take 4 weeks unpaid leave between June and September) over six months to help ease employees= financial burden. A minimum take-home pay level was created to protect the lowest-paid workers.

In Singapore, the ***Air Line Pilots Association-Singapore*** (ALPA-S) is opposed to the management plan that pilots take 10 to 12 days unpaid leave every two months between 1 May 2003 and end March 2004 in order to reduce wage costs. ALPA-S wants ***SIA*** to first release 120 overseas-based captains, who are employed by a wholly-owned subsidiary in Mauritius and seconded to the airline. Except for the pilots= union, the group=s four other unions have indicated their understanding of the company=s need for wage reform and wage cuts, provided they get assurances about the restoration of the wages once the financial situation of company improves.

7. Virtual travel: an alternative?

SARS has forced companies and business travellers to look at other means of communication such as audio- or video conferencing. Though teleconferencing has been around for years, new technology is making it easier and cheaper than ever, meaning that it will probably continue to eat in the revenues of airlines even when SARS has disappeared. A Business Travel Coalition poll in April 2003 indicated that the SARS epidemic was contributing to the shift to technology from air travel. Many executives, however, feel that teleconferencing can never replace human contact.[24]

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[22] Paddon, D.: *Air Canada talks with most unions on hold as company, unions regroup*, www.canada.com, 16 May 2003.

[23] Vieira, P.: *CAW strikes Air Canada labour deal*, www.nationalpost.com, 28 May 2003.

[24] NZZ: *Statt ins Flugzeug in die Videokonferenz*, www.nzz.ch, 29 April 2003. See also Levere, J.: *Virtual travel is giving airlines heartburn*, International Herald Tribune (Paris), 9 May 2003.

8. Outlook for the civil aviation industry

There is probably no industry expert or analyst who would dare to predict what the outlook for the coming months would be. SARS is still developing and there may be more warnings of possible security incidents. The Director General of the Association of Asia-Pacific Airlines, Richard Stirland, commented: "Even if the SARS outbreak went away tomorrow, it would take months before passenger demand picked up and the industry is restored to its former health."[25] The Secretary General of the Association of European Airlines (AEA) said that: "Each successive week's figures are telling us that our markets are not behaving in predictable ways. The huge drop in Far Eastern traffic, especially, clearly demonstrates that the market effect of SARS is running a course which has become independent of the trend in the phenomenon itself."[26] Forward bookings in the United States for the summer season - usually the most profitable for airlines - remain flat. The Travel Industry Association of America estimates that air travel will increase 1% this summer compared with last summer.

The CEO of ***Delta Air Lines*** commented recently that the US airline industry faces another difficult year and may not see a pickup in traffic until mid or late 2004. The heads of major Asian and European airlines showed cautious optimism because they feel that the slump in travel demand caused largely by the SARS virus has reached its bottom, though recovery from the current industry crisis would be slow. Yields, or profitability per seat, will remain under pressure. It may never recover to previous levels, particularly in Europe, as a result of the low-fare airline revolution. For airline executives the difficulty now is not necessarily filling seats, but getting passengers – particularly frequent business travellers – to pay higher fares.[27]

Many airlines have reported that SARS is having a serious negative impact on their operations and their financial results. For example, ***Lufthansa*** is losing some 55 million Euros per week at the moment, and it forecasts an operating loss of undetermined dimensions for the full-year 2003 in view of the current uncertainties. It remains severely impacted by persistent weak demand, accelerated by the SARS-driven erosion of key Asia/Pacific business, the Iraq situation and global economic doldrums. [28] ***British Airways*** had a ,200 million loss in the first quarter of 2003 attributed to the Gulf War, SARS and terrorism. Its CEO said that it was impossible to give any meaningful predictions about future trading because there were too many issues.[29]

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[25] eTurbo News: *Asian airlines expect to bleed for months*, 15 May 2003.

[26] AEA: *Press release*, www.aa.be, 27 May 2003.

[27] Mason, J. : *European, Asian Airlines: Recovery Coming*, www.washingtonpost.com, 31 May 2003. See also: The Straits Times: *Air travel slump 'has bottomed'*, http://straitstimes.asia1.com.sg, 2 June 2003.

[28] ATS: *Aviation - Le SRAS et la crise coûtent 55 millions par semaine à Lufthansa*, Le Temps (Geneva), 5 May 2003.

[29] Hotten, R.: *Pension woes and trade fears hit BA*, www.timesonline.co.uk, 20 May 2003.

9. Social dialogue in civil aviation

Tripartite social dialogue at all levels (workplace, enterprise, national, regional and international) has helped to find innovative and socially responsible solutions to earlier crises in the industry. Now that the industry finds itself in the deepest crisis in its history, social dialogue should be further encouraged. It should include the provision of information on the situation of the company to all stakeholders. Social dialogue 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 active partners in social dialogue as appropriate. Information on best practices concerning socially acceptable human resource policies should be shared and broadly disseminated.

A 2001 study on the social and labour effects in the civil aviation industry of the 11 September events, based on a survey of 35 unions, looked at a range of different human resource policies that might or might not be acceptable to union members.30 The majority of respondents regarded voluntary early retirement, part-time working, educational leave and employee share ownership plans (ESOPs) as human resource policies that might be introduced at any time. Rather more human resource policies were only acceptable as a short-term/crisis measure, including working time adjustments (e.g. short-time working/shorter working and/or a reduction in the number of shifts), the non-transferral of probationary staff to full-time contracts, and forgoing bonus pay. Experience has taught that every situation must be carefully considered and properly negotiated by the social partners. Information on best practices concerning socially acceptable human resource policies should be shared and broadly disseminated.[31]

Lufthansa has always been an example of social dialogue at enterprise level. The social partners have always tried to find solutions for the company's problems without resorting to compulsory redundancies. The main argument is that it wants to keep "know-how" in the company and also to avoid costly severance payments. In response to the present crisis, Lufthansa has introduced a 35-hour working week for its 16,000 Germany-based employees with a corresponding reduction in income. This reduction was made possible by the collective agreements in force. There are fears, however, that this may not be enough and that job cuts may finally be necessary. The chairperson of the central works- council of ***Lufthansa***, Wolf Liebetrau, recently said that the members of the works- council were realistic and are already mentally prepared for the company having to shrink in size. But such a change in structure will have to be discussed with the works' councils. It would be in everybody's interest to start the discussions about the changes envisaged for the next three to five years in the very near future so that socially acceptable solutions can be sought soon.[32]

The Dutch carrier ***KLM*** was forced to cut 3,000 posts as a result of the present crises. Following negotiations with its main unions, agreement was reached about the conditions under which 1,000 employees can be made redundant. In exchange for a postponement by

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30 Turnbull and Harvey: op. cit., p. 17.

[31] ILO: *Final report* of the Tripartite Meeting on Civil Aviation: Social and Safety Consequences of the Crisis subsequent to 11 September 2001, (Geneva, ILO), 2002, pp. 39 - 44.

[32] Die Welt: *Lufthansa dementiert überlegungen des Betriebsrates zum Stellenabbau*, www.welt.de, 27 May 2003.

eights months of a wage increase of 2.5 % scheduled for October 2003, employees who have been given notice, will remain employed for a maximum of 12 months. During that period, they should be actively looking for alternative employment. The unions had preferred that the dismissals would be based on the "last-in, first-out" rule, but the company had argued that it was necessary to have dismissals among all age groups in order to reflect the structure of its workforce. ***KLM*** has accepted to pay the compulsory higher severance payments for older workers.

The recent ILO tripartite workshop on civil aviation in Latin and Central America: the employment and social consequences of restructuring after 11 September 2001 was in itself an exercise in social dialogue. Government, employer and worker representatives from 10 countries in the region discussed during three days the role social dialogue could play in solving or mitigating the employment and social consequences of the ongoing restructuring in the industry. At the end of the workshop, the participants adopted a series of realistic and practical conclusions and recommendations. The employer resource person, Mr. Pedro Sobrino of ***Iberia***, made a presentation describing the restructuring of the airline as well as the social plans for the different employee groups which were developed in close consultation with the concerned trade unions or associations and, for certain elements, also with the government.

Aviation unions in the Southern Cone of Latin America are making rapid progress in drawing up an urgent rescue plan for their industry. The sub-region's problems reflect in part the global crisis in aviation but it faces additional problems of under-investment, poor management, fragmentation and ill-conceived government deregulation of markets. The workers' plan is based on an integrated open internal market involving Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay, but with strict controls and reciprocity on flying rights with other regions. The unions are convinced that an integrated aviation market for the sub-region is the only way to bring stability and economic vigour to both the public infrastructure and commercial providers. At the heart of the unions' vision is the notion of the public service function of aviation as part of the essential national economic infrastructure and as a mechanism to bring people and cultures together.

In Argentina, government and unions collaborated very closely to create a new state-owned airline to replace the defunct airlines ***Lapa*** and ***Dinar***. The two airlines together used to employ over 1,300 employees. Experts from among the ***Lapa*** employees and from the Ministry of Transport worked together to develop a viable business plan for the new company, ***Intercargo***. It will, in the first instance, absorb the majority of the ex-***Lapa*** employees and, hopefully, later also those of ***Dinar.*** The new company will be privatised once its operations guarantee profitability.