
The social impact on civil aviation of events subsequent to 11 September 2001

Briefing paper for discussion at the
Think Tank on the Impact of the 11 September
Events for Civil Aviation
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1. Introduction ¹

1. Following 11 September, the air transport industry, already experiencing declining and even negative growth rates due to an economic slowdown, faced a sharp decline in air travel. It was reported that in the first four days after the event, domestic US bookings fell by 74 per cent, and bookings for the world excluding the United States were down by 19 per cent. ² Owing to the “fear factor” some passengers have been cancelling holidays and business travellers are postponing business meetings or conducting them by video or teleconferencing.
2. According to the Air Transport Association (ATA) of the United States, which accounts for around 95 per cent of total US traffic, domestic revenue passenger miles (RPMs) decreased by 32.5 per cent in September 2001 compared to the same month of 2000, while international RPMs decreased by 30.1 per cent. The system-wide load factor (percentage of seating that is utilized) was 59 per cent in September, down from 69.9 per cent a year ago. The domestic load factor was 56.2 per cent and the international load factor was 66.1 per cent.
3. One of the most successful US carriers, Southwest, reported that load factors had risen steadily since they resumed flying on 14 September, and in the first two weeks of October they were only 5.4 percentage points below the same period in 2000. However, their yields were well below the previous year, and were 10-12 per cent below break-even.
4. As a result of the downturn in business, airlines have cut frequencies and routes. Swissair stopped operations for two days, stranding thousands of passengers around the world, and there are daily stories in the world media regarding the imminent bankruptcy of major airlines. This situation, in addition to the “fear factor”, created a sense of unease and uncertainty among potential passengers. Passenger confidence in air transport is thus attacked from two sides, making the current crisis potentially much more damaging than earlier ones. Therefore, the traffic forecasts for short-term growth are all negative (table 1). It is predicted that the 11 September impact will be double the Gulf War effect. It is assumed that the full rebound will take place in 2003, some 18 to 24 months after the disaster impact, compared to six to 12 months after the Gulf War. ³
5. In Asia, Japan Airlines forecasts a 20 per cent drop in international passengers for the six-month period to the end of March 2002.
6. The International Air Transport Association (IATA) has also produced forecasts by region for the whole of 2001 compared with the previous year (table 2). At the same time it has postponed publication of its annual three-year forecast.

¹ This briefing paper is based on a document prepared for the International Labour Office by Mr. Peter Morrell and Dr. Fariba Alamdari, Air Transport Group, Cranfield University, United Kingdom.

² Commerzbank, 28 Sep. 2001.

³ *Aviation Strategy*: “Global demand outlook”, Oct. 2001.

Table 1. Post-11 September traffic forecasts

	US dom.	US int.	Euro dom.	Euro int.	Asia dom.	Asia int.	RoW dom.	RoW int.
Initial (Sep.-Dec. 2001)	-30	-40	-10	-20	-5	-10	-5	-15
Short term (Jan.-Aug. 2002)	10	-20	-5	-10	-2	-5	-3	-10
Short term (Sep.-Dec. 2002)	5	10	5	10	5	5	5	5
Rebound (2003)	15	20	7	20	15	20	12	20
Medium term (2004-06)	4	6	5	6	9	9	5	8

Note: RoW: Rest of world.
Source: *Aviation Strategy*, Oct. 2001.

Table 2. IATA traffic forecast for 2001 compared to 2000 (passenger-kilometres, percentage change) (October 2001)

US domestic	-7 to -13
Transatlantic	-6 to -12
Trans-Pacific	-4 to +0
Intra-European	-1 to -5
Total international	Up to -6

7. The reduction in total international traffic predicted for 2001 compares with a decline following the Gulf War of 3.8 per cent in 1991 compared to 1990. The 1991 decline for the international services of the Association of European Airlines carriers was 6.3 per cent, but it bounced back in 1992 with an increase of 14 per cent. US carriers' international traffic was less affected by the Gulf War and recession, with a drop of only 2 per cent for 1991 compared to 1990.
8. An industry faced with such a decline in demand has no choice but to reduce capacity and its workforce. That is exactly the policy the majority of airlines have employed, as will be described in the next sections.

2. Aircraft grounding

9. Lufthansa has shelved purchases of 15 A380s and four B747-400s, and will ground some 20 aircraft out of its fleet of 236. Air France will retire five A310s early, and ground a B747 freighter. Over the next four months they will retire a further four A310s, and four B747-200s will go at the beginning of summer 2002.
10. Virgin Atlantic has grounded five B747-200s, and Aer Lingus will return two A330s and a A321 to lessors and retire two B737-400s. British Airways' B747-200 fleet was already planned for withdrawal, and they are now retiring a further six B767s, as well as four unspecified narrow-bodies and ten other long-haul aircraft. bmi British Midland has grounded eight aircraft, and SAS will retire 16 aircraft.
11. Lufthansa, which has parked 28 aircraft since 11 September, will respond to sluggish demand by sidelining an additional ten short- and mid-range aircraft and five long-haul jets, further reducing seat capacity by 8 per cent for intercontinental traffic and 7.5 per cent in European services. Airline CEO Wolfgang Mayrhuber reportedly told employees via Lufthansa's Intranet that daily passenger numbers are 30,000 below figures for the

corresponding period last year. With the start of the winter timetable on 28 October, the airline will drop its Berlin-Moscow flights along with the Berlin-Washington, DC, service. Altogether, 42 long-haul services have been chopped from the schedule with another nine to go by mid-January. As of 1 November, more than 200 daily flights will have been scrapped from Lufthansa's short- and medium-range network.

12. It was estimated that of the 6,300 jet aircraft operated by US carriers 1,250 may be placed into storage, returned to lessors or, where possible, sold.⁴ Aircraft values are thought to have already dropped by some 15 per cent compared to prices quoted earlier in 2001, which had already fallen by around 10 per cent in anticipation of a recession.
13. Delta Air Lines is to ground up to 60 aircraft at any given time. Flights from New York to Tokyo, Tel Aviv, Munich, Dublin, Shannon, Cairo, Dubai, Zurich and Brussels will be suspended until March 2002, and flights to Stockholm have been suspended indefinitely.
14. US Airways has increased to over 100 the number of older aircraft earmarked for retirement. This will include MetroJet's entire fleet of 42 B737-200s and closing down its low-cost subsidiary operation. Other aircraft due to be phased out over the next seven months will include 40 Fokker 100s and 20 Boeing MD-80s.
15. Northwest is grounding 21 aircraft, comprising five McDonnell Douglas DC-10s, three DC-9s, 12 B727s and one Airbus A320. Its two regionals are also cutting back, with Express I laying off 650 staff and reducing services by 20 per cent. Mesaba is shedding 30 per cent of its management and cutting services by 20 per cent. Southwest Airlines will defer delivery of the 11 remaining B737-700s on order for this year
16. Boeing is reducing its expected aircraft deliveries for 2001 from 538 (already revised following the US downturn) to 500, and for 2002 from 510-520 to the low 400s. Airbus has not yet made any announcement in this regard.
17. As will be further described in section 4 below, the response of airlines to the decline in traffic has been to reduce capacity and implement extensive job cuts. This raises the question of how the industry can come out of these crises with the minimum impact in terms of job losses. To address this question it would be useful to review the trend in traffic, capacity and employment following the economic recession and the Gulf War in the early 1990s.

3. Past trends in employment, traffic and capacity

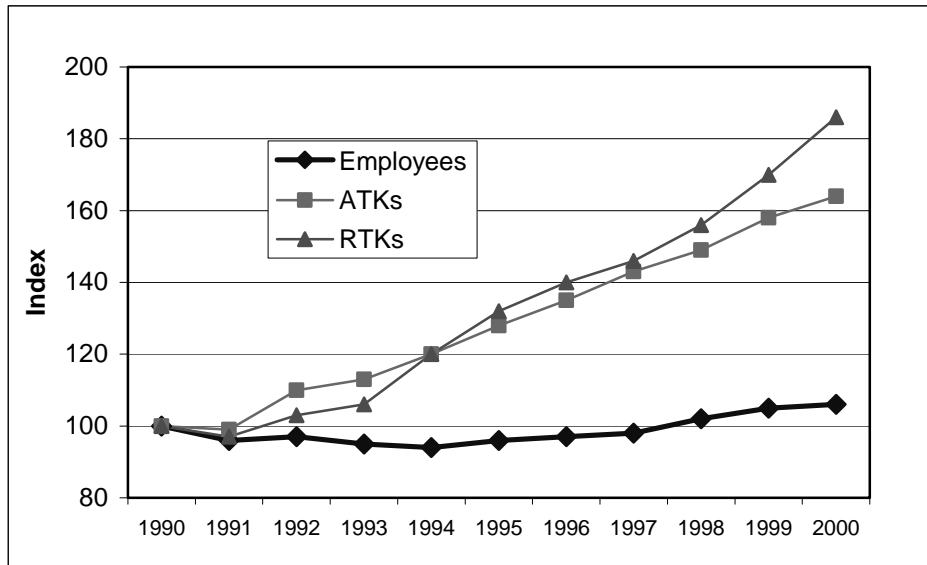
18. As can be seen from figure 1, the economic recession and the Gulf War dampened the subsequent demand for air travel. Due to the perceived threat of a terrorist attack, North Atlantic traffic dropped in the first quarter of 1991 by 35 per cent. In the same period traffic from Europe to the Middle East declined by 70 per cent.⁵ Consequently, airlines reduced their capacity and workforce. But the impact on labour was more profound. It is noticeable that despite the fact that traffic picked up in 1993 the level of employment continued to decline until 1995 before it started to rise again.

⁴ *Aircraft Value News*, 24 Sep. 2001.

⁵ AVITAS Inc.: *Are we for another 1991 situation?*, Sep. 2001.

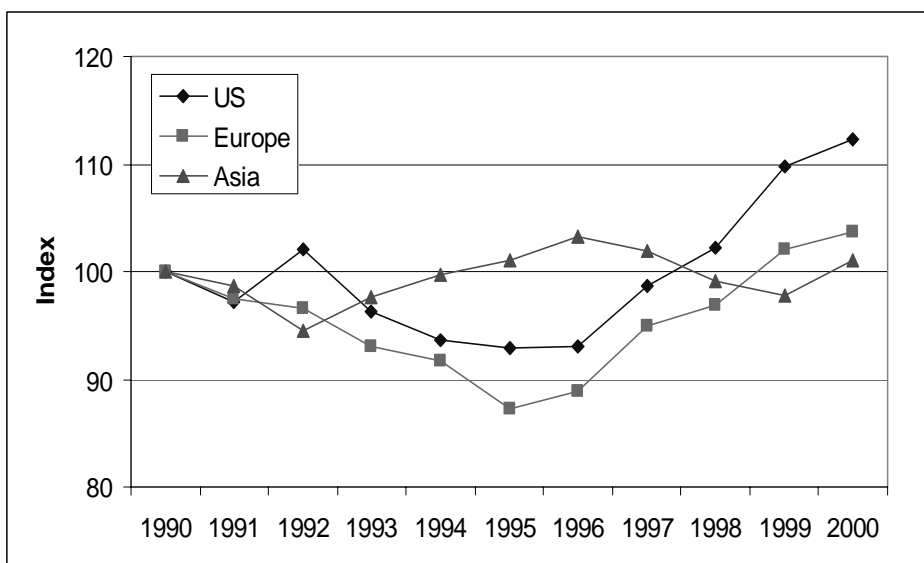
19. To obtain a better understanding of post-recession trends of the early 1990s, a more detailed examination was made of the top five airlines (measured in terms of total traffic or tonne-kilometres) in each region (figure 2). The employment level declined in all regions in 1990 and 1991. However, there was a slight increase in the US top five carriers' level of staff employed in 1992. This is partly due to the fact that airlines such as Delta hired a proportion of former Pan Am employees in connection with its acquisition of Pan Am assets following its bankruptcy. However, examining the total level of employment for the whole industry indicates that the employment level remained below that of 1990 until 1995, when it started to increase again.

Figure 1. World airline traffic, capacity and employment level



Note: ATK: available tonne-kilometre; RTK: revenue tonne-kilometre.
 Source: IATA: *World Air Transport Statistics (WATS)*, 2001.

Figure 2. Top five airlines employment level by region



20. European airline employment levels continued to fall, even through the mid-1990s, due to the liberalization of intra-European operations in January 1993. Airlines in Europe had to control costs as competition intensified. Greatest attention was given to labour costs, being around one-third of their total operating costs, and more controllable than many other cost items.
21. Asian airlines also reduced their workforce in the first three years of the 1990s owing to the global recession. They also had to implement policies to reduce labour costs as a result of the Asian financial crisis of 1997-98.
22. The array of measures to reduce the workforce that has been used by airlines includes: voluntary or compulsory staff redundancy, reductions in wages, introduction of two-tier wage rates, contracting out of labour, the use of overseas-based employees, the use of cheaper overseas labour, and franchising. Employees in some airlines in the United States have traded concessions for profit sharing and increased participation in management through stock ownership and board representation. The latter measure has also been adopted in Europe. A management buyout is currently being considered for the Belgian charter subsidiary of Sabena, Sobelair.
23. It should be mentioned that the reduction in the number of employees since 1991 has not always meant a worsening level of employment in the industry as a whole. In some cases labour moves from one organization to another. This happens when airlines outsource some of their activities such as maintenance and catering. For example, Shannon Aerospace in Ireland performs aircraft maintenance on behalf of a number of European carriers, including its shareholders, Swissair and Lufthansa. Lufthansa transferred a significant amount of maintenance work to this company, effectively moving jobs to a lower-wage country.

4. Capacity and job cuts

24. Table 3 shows how the larger airlines in the three regions have reacted over the period since 11 September. In total, almost 30,000 job cuts were announced by European airlines, or around 10 per cent of their total workforce. The situation was clearly worse in North America with 95,000 job cuts, or 20 per cent of the workforce. In Asia, the region least affected, cuts so far announced only amounted to 2,500, or 2.5 per cent of the total.

Table 3. Job cuts and capacity reduction announcements since 11 September

	Job cuts	Capacity reduction
Europe		
Aer Lingus	2 500 (38%)	25%
Air France	None announced	10%
Alitalia	3 500 (15%)	13%
bmi British Midland	600 (9%)	20%
British Airways	7 000 (13%)	10%
Finnair	None announced	7%
Iberia	None announced	11%
KLM	2 500 (9%)	15%
Lufthansa	None announced	11%

	Job cuts	Capacity reduction
Sabena	1 421 (20%)	N/a
SAS	1 100 (5%)	12%
Swissair	9 400 (52%)	Approx. 33%
Virgin Atlantic	1 200 (15%)	20%
North America		
Air Canada	9 000 (36%)	n/a
American Airlines	20 000 (22%)	20%
Continental	12 000 (25%)	18%
Delta Air Lines	13 000 (18%)	15%
Northwest	10 000 (18%)	20%
Southwest	None	20%
United Airlines	20 000 (20%)	26%
US Airways	11 000 (26%)	23%
Other regions		
Cathay Pacific	None announced	Limited
Japan Airlines	1 300 (7%)	6%
Korean Air	500 (3%)	^a
Lan-Chile	650 (9%)	10%
Qantas	^b	^b
Singapore Airlines	None announced	None announced

Notes: ^a International and domestic route suspensions, and frequency reductions. ^b Big expansion in domestic routes following Ansett collapse; some switch of international capacity onto domestic routes.

Sources: Commerzbank; Flight International; Air Transport Intelligence.

25. It should be noted that some of the job cuts listed in table 3 were already planned before 11 September. For example, 1,800 of the 7,000 British Airways staff cuts were already scheduled following the downturn in business traffic and the slowing of the US economy. It should also be added that related businesses such as Atraxis, with a 25 per cent reduction in staff, and suppliers such as Boeing, with a 20-30 per cent cut in total staff, were also badly affected.
26. There have been a number of airline collapses, or near collapses, since 11 September. In Australia, Ansett was already in trouble prior to 11 September, but was finally declared bankrupt on 14 September. Its owner, Air New Zealand, was also in trouble, but was eventually supported by the New Zealand Government, which now holds 80 per cent of the equity, compared to none before. Singapore Airlines will see its stake cut from 25 per cent to 4.3 per cent.
27. Swissair temporarily stopped flying between 2 and 4 October 2001, following delays in obtaining a loan from the Swiss banks UBS and Credit Suisse First Boston. These banks had initially invested Sw.fr.260 million in acquiring 70 per cent of Crossair, and it was intended to transfer Swissair's viable routes to Crossair, which also had an option to use the Swissair name. Crossair would take over two-thirds of Swissair's routes in two stages: the European routes on 28 October and the intercontinental routes by the end of March 2002. The final rescue package of Sw.fr.4.24 billion was more than six times the amount originally estimated by UBS and Credit Suisse, and those banks did not increase their investment beyond the additional Sw.fr.350 million already pledged under the new deal. The Swiss federal Government takes a 20 per cent stake in Crossair, while some cantons

and the city of Zurich took 18 per cent, and a further Sw.fr.1.7 billion was provided by a number of Swiss companies (including the money from the two Swiss banks). The new investment includes Sw.fr.1 billion to sustain the long-haul routes until next March, as well as the losses that Crossair will incur until it becomes profitable. Just under 10,000 of the Swissair workforce will be laid off.

28. Prior to 11 September, IATA was forecasting a loss in 2001 for their members' international services of US\$2.5 billion. They are now estimating operating losses of \$10 billion, compared to \$4 billion in 1991 and the record loss of \$4.8 billion in 1992 after the Gulf War crisis.

5. Pay cuts and reduced hours

29. British Airways and representatives of their employees' major trade unions (TGWU, GMB and MSF) were discussing a 5 per cent pay cut for the airline's 3,500 middle managers.⁶ This followed a 10 per cent cut agreed by 600 senior managers, and a 15 per cent reduction by directors. Furthermore, no management bonuses would be paid in 2002. British Airways is also trying to manage overtime working more efficiently, as an alternative to making even bigger redundancies. Where lay-offs involve paying large severance packages, restricting overtime may be a more cost-effective option.⁷
30. Lufthansa's pilots' union (*Vereinigung Cockpit*) was reported to be willing to accept a pay cut of 16 per cent in 2002, if Lufthansa fails to make a profit in 2001. The airline also reportedly proposed the introduction of a four-day working week, in addition to the freezing and cancellation of all short-term contracts that had so far been introduced. The union representing around 80 per cent of Lufthansa's workforce, Ver.di, expressed surprise at the four-day week proposal, and said it needed to know what conditions would be attached before making any comment.⁸
31. United Airlines has so far not sought wage reductions or work rule concessions: an announcement by the airline's chief executive that the airline might have to go out of business "sometime next year" may have been a warning to staff that cuts might be necessary, but it was criticized as also warning off potential passengers.⁹
32. Air Canada was also exploring the introduction of a four-day working week, but was trying to get approval from the Government for staff to draw benefits for the fifth day from the government employment insurance programme. It was argued that since the payments would be directly to employees, this would not amount to state aid.

6. Social dialogue to reduce conflict

33. In the days following 11 September, airline management stressed the distinction between immediate crisis management and longer term concessions. At the same time, the International Transport Workers' Federation (ITF) issued a plea for partnership and a "new

⁶ *British Airways News*, 18 Oct. 2001.

⁷ *The Economist*, 13 Oct. 2001.

⁸ Bloomberg, 16 Oct. 2001.

⁹ Reuters, 17 Oct. 2001.

level of cooperation” between industry, government and unions to upgrade security. They also argued for ensuring that industry has the personnel equipped and motivated to deliver safety and security, and suggested that deregulation and restructuring of the industry be reassessed.

34. The president of the US airline pilots’ association (ALPA) also said that “it was time for all airline pilots to work together to ensure that any rights and benefits we choose to set aside temporarily, so that airlines on the cusp of financial ruin can regain lost momentum, are not abrogated for the long run”.¹⁰
35. Earlier this year, the pilots, and to a lesser extent cabin attendants and mechanics, had secured pay increases of up to 30 per cent (although phased in over a number of years). It was argued, however, that this only represented a catching up, since pay cuts following the Gulf War and recession had never been fully reinstated after allowance for inflation. The feeling of unions was that such recent gains would only be given back for the very short term.
36. Cathay Pacific Airways pilots are calling an end to more than three months of industrial action, saying they hope it will lead to new talks to end a long-running dispute over pay and rostering issues. The Hong Kong Aircrew Officers Association (HKAOA) says it has written to Cathay management informing it that industrial action and strict contract compliance will be suspended from midday on 21 October. It adds that there are no preconditions either to talks or their outcome.
37. The union repeatedly said it wanted to return to negotiations but Cathay refused, saying it would only do so if the union dropped its industrial action campaign and withdrew any threats of further action. One of the union’s preconditions for a settlement was the reinstatement of more than 50 pilots sacked soon after the industrial action began, but this has recently been dropped, following the loss of business and lack of public support for their position.
38. Pilots at UK carrier bmi British Midland have agreed to implement a work-sharing agreement in an effort to reduce cockpit crew job losses, after the airline announced that it planned to lay off 20 per cent of its pilots as part of a cost-reduction strategy. Earlier this month British Midland said it would cut around 600 personnel, including 109 pilots across all fleet types, from its staff of 5,500.
39. But under a deal hammered out in union discussions with the British Air Line Pilots Association (BALPA), British Midland is bidding to reduce the number of redundancies by offering all 721 of its pilots the opportunity to work half-time in return for half their pay.¹¹

7. Governmental measures

7.1. United States

40. Congress adopted an emergency package of measures on 21 September:

¹⁰ President’s Forum: “Working together”, in *Air Line Pilot*, Oct. 2001, p. 4.

¹¹ *Air Transport Intelligence*, 24 Oct. 2001.

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- Direct and immediate aid of \$5 billion to compensate airlines for losses directly stemming from the closure of airspace and traffic reduction. This would be a cash distribution to all airlines according to their available seat-miles operated prior to 11 September. So far 50 per cent of this money has been paid.
 - A further \$10 billion would be available in the form of government loan guarantees for airlines, with requests evaluated by an Air Transportation Stabilization Board according to criteria “fixed by the President”. It is thought unlikely that airlines will have to provide collateral in terms of title to aircraft, most of which are in any case already pledged to secure existing loans.
41. The aid is subject to a freeze on salaries above a certain level until 11 September 2003, and obligations to maintain essential air services.
42. An additional \$3 billion was allocated for safety and security measures from the victims’ compensation fund.
43. Government support also included provisions for:
- limits on airline liability for the attacks to the maximum of their insurance cover;
 - government-guaranteed war risk cover for 180 days and reimbursement for premium increases;
 - airlines receiving loan guarantees have to give the Government purchase options in their companies, the intention being that the Government will have the opportunity to benefit from a restoration in the industry’s fortunes;
 - a two-year pay freeze for executives of airlines obtaining loan guarantees, if they are already paid more than \$300,000 per year.

7.2. Europe

44. The European Commission approved government support for compensating airlines for the extra cost of insurance incurred since 11 September. This was initially limited to one month, while they looked for a more permanent solution.
45. The Commission also allowed airlines to keep their airport slots at least until the summer 2002 season in case they wished to suspend certain services temporarily. If they cut services they would normally lose the slots associated with these flights.
46. The Commission did not, however, relax the rules on coordination of schedules and fares, but said they would give favourable consideration to such moves where they were essential to maintain services. They also proposed drawing up a “code of conduct” with the US authorities to prevent unfair competition.
47. The European Union aid package also offered the following:
- looking at airline mergers more favourably, and thus allowing further consolidation to take place more easily;
 - government to help fund the increased security measures at airports;
 - airlines will be entitled to compensation for the days on which they were grounded following the 11 September attack.

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48. In Europe, the Belgian Government was given approval by the European Commission to lend 125 million euros to the ailing carrier for restructuring. This decision is likely to be followed by requests from the Irish, Italian, French and German Governments.
 49. Lufthansa has requested 180 million euros in state aid to compensate them for revenues lost as a result of 11 September. The French Government had agreed to pay Air France and other French carriers FF650 million.¹²
 50. Alitalia has asked the Italian Government for L600-700 billion to cover payments for staff redundancies through the cancellation of the 10 per cent ticket tax.¹³ This is in addition to the airline's receipt of the third and final L750 billion tranche of aid agreed by the European Commission in October 2001, on a "one-time, last-time" basis and subject to various conditions.

7.3. Asia

51. Both Japan Airlines and All Nippon Airways have asked for financial assistance from their Government, in addition to underwriting increased insurance costs for six months. They specifically asked for government help with increased security costs.
52. In the Republic of Korea, the Government has asked for parliamentary approval for them to provide "soft" loans of up to 250 billion won (\$192 million) to Korean Air and Asiana, as well as tax relief on aircraft purchases and jet fuel imports. The total package is thought to come to over 900 billion won.¹⁴

8. Conclusions

- The airline industry is cyclical: after a period of prosperity it goes through a period of slowdown. However, 11 September turned a difficult situation into a major crisis with a profound impact on the industry and on labour.
- Airlines have learnt from the impact of recession in the early 1990s and have therefore reacted faster and more drastically to the events of 11 September, although some of the job cuts were already in the pipeline as a result of the economic downturn and slump in cargo traffic.
- Governments around the world were quick to provide support for continued insurance cover and, in North America and Europe, to target aid to losses incurred as a direct result of the very special circumstances.
- The US airlines reacted more drastically in relation to capacity cuts and resulting job cuts. This has been due to the more severe economic downturn in the United States compared to Europe or Asia, and also to the fact that the events took place in the United States using US airlines. Both factors have therefore led to a more serious impact on US airline traffic and revenues.

¹² Bloomberg, 16 Oct. 2001.

¹³ *Flight International*, 1 Oct. 2001.

¹⁴ *Air Transport Intelligence*, 17 Oct. 2001.

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- The unions have also been adjusting their negotiating stand to current circumstances, realizing that it is possible for large airlines to go out of business completely, leaving the entire workforce jobless.
 - Some airlines made redundant or furloughed staff fairly drastically across the board. Other airlines are relying on a recruitment freeze, voluntary retirement, a ban on overtime and asking staff for pay cuts. Apart from British Midland, there is little evidence of more innovative schemes such as voluntary leave of absence programmes, voluntary reduced working weeks, and job sharing.
 - The current crisis clearly has affected airline employees in particular. However, related industries have also been badly hit, making it harder for laid-off airline employees to seek jobs in other firms.
 - To reduce the current negative impact, there is a major role for employers and unions to work together on the types of innovative arrangements to help the industry overcome the crisis.