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Issues paper for discussion at the

Tripartite Meeting on Civil Aviation: Social and Safety Consequences of the Crisis Subsequent to 11 September 2001

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Contents

Introduction

At its 279th Session (November 2000), the Governing Body of the International Labour Office decided that a Tripartite Meeting on the Restructuring of Civil Aviation: Consequences for Management and Personnel would be included in the programme of sectoral meetings for 2002-03.

The events of 11 September 2001 have had a dramatic impact on the aviation industry and precipitated a major crisis in the industry. The Director-General of the International Labour Office convened a Think Tank on the Impact of the 11 September Events for Civil Aviation. The Think Tank, which was held in Geneva from 29 to 30 October 2001, brought together Government, Employer and Worker experts, as well as independent and industry experts from the civil aviation industry, for two days of intensive discussions on the impact the crisis was having on the industry.

At its 282nd Session (November 2001), the Governing Body, on the basis of a document prepared by the Office and taking into account the report of the Think Tank and the Chairperson's summary, [1] decided to modify the title and the purpose of the Meeting to take account of these developments. The Meeting is now entitled Tripartite Meeting on Civil Aviation: Social and Safety Consequences of the Crisis subsequent to 11 September 2001. The purpose of the Meeting is to enable governments, employers and workers to discuss the consequences of the crisis facing the industry and, as appropriate, to provide guidance to governments and employers' and workers' organizations at the national level and to the ILO on ways to address them. The Meeting may adopt a report on its discussions and could make appropriate recommendations to the Governing Body in a format which would best respond to the circumstances. The Governing Body also decided, in addition to the 60 participants initially envisaged, to extend invitations to the governments of the other ILO member States, and to invite relevant international organizations and relevant and directly concerned international non-governmental organizations to attend the Meeting as observers.

The report originally prepared by the Office reflected the situation in the industry as at the end of July 2001. [2] It is available as a reference document. This Issues paper is intended to serve as the basis for discussions at the Meeting. The work on the Issues paper was coordinated by Bert Essenberg, Senior Transport Specialist, Sectoral Activities Department, International Labour Office. Two studies provided important inputs into this paper. The first, *The impact of 11 September on the civil aviation industry – Social and labour effects*, was undertaken by Peter Turnbull and Geraint Harvey. The second, *The impact of 11 September on the aviation industry*, was prepared by Peter Morrell and Fariba Alamdari. These studies will be made available to the participants in the Meeting and will later be published in the Sectoral Activities Programme Working Papers series.

All tables are appended in a statistical annex.

[1] ILO: GB.282/14/6, Sixth supplementary report: Think Tank on the Impact of the 11 September Events for Civil Aviation; ILO: *Chairperson's summary*, Think Tank on the Impact of the 11 September Events for Civil Aviation, Geneva, 29-30 Oct. 2001.

[2] ILO: *Restructuring of civil aviation: Consequences for management and personnel*, Reference documents, Tripartite Meeting on Civil Aviation: Social and Safety Consequences of the Crisis subsequent to 11 September 2001, Geneva, 2002.

1. The general impact of the crisis

The events of 11 September 2001 were unlike any other shock experienced in the history of civil aviation. They have had a unique, unprecedented, devastating and immediate impact on all segments of the air transport industry in its broadest sense: airlines, airports, air navigation service providers, ground-handling and cleaning companies, air transport equipment manufacturers and a multitude of other suppliers.

It is estimated that one operational aircraft supports 150-250 direct jobs, and there is one additional indirect job for every direct airline job. [1] The United Kingdom's Transport and General Workers' Union (TGWU), which represents over 46,000 employees in the industry (including cabin crew, catering, ground handling and security), estimates that for every one job lost in an airline between four and ten jobs will be lost inside the perimeter of the airport and at least another three jobs per airline lost outside the perimeter. [2] In the words of one union official, "Job losses in the industry are like a wave, or a ripple on a pond. It starts with the airlines and just gets bigger and bigger the further out you move from the airport to the local community and related businesses." [3]

The airline industry was competing in a difficult climate even before the attacks. No airline had been able to totally escape the effects of fuel prices that had risen considerably above forecasts, cutting profit margins even more than usual. Added to this, despite continued predictions of healthy growth for the industry, average growth across the board over the last 12 months was only approximately 0.5 per cent. As a result, many carriers were experiencing hardships they would not have budgeted for and, in the days following the events, some airlines announced harsh measures to cope with the financial problems they were already facing.

An additional problem is the fear of flying resulting from the 11 September events, as well as the loss of passenger confidence in airlines' ability to remain operational following the collapse of several airlines. Traffic had slowly started recovering in October but the crash in New York on 12 November was another blow to passenger confidence.

An opinion poll conducted in Canada between 13 and 15 November 2001 suggests that the turmoil in the airline industry, which has put *Canada 3000* out of business and *Air Canada* in financial distress, has eaten away at Canadians' confidence in air travel more than the theoretical risk of a hijacking. Two-thirds of the people questioned worry that an airline they plan to use will cease operations, leaving them stranded. Only one in two are concerned about a hijacking and 62 per cent worry that poor maintenance could cause an aircraft mechanical failure. [4]

The International Air Transport Association (IATA) forecasts that insurance costs for airlines will increase tenfold in 2002. The total costs could amount to US$9.5 billion. If so, the share of insurance premiums in operating costs will increase from 1 to 10 per cent. In

[1] ILO: *Chairperson's summary*, op. cit.

[2] TGWU: "Evidence to the transport sub-committee from the Transport and General Workers' Union" (London, 2001), cited in P. Turnbull and G. Harvey: *The impact of 11 September on the civil aviation industry – Social and labour effects*, unpublished document, 2001.

[3] Turnbull and Harvey, op. cit.

[4] I. Peritz: "Survival of airlines main worry: Poll", www.globeandmail.ca, 19 Nov. 2001.

addition, the coverage provided will be lower than in the past. Instead of $2 billion per aircraft, companies offer coverage of between $150 and $500 million. The Director-General of IATA predicts that this situation will necessitate government intervention worldwide. [5]

The crisis had a fatal impact on some of the already financially weak airlines: *Ansett*, *Canada 3000*, *Midway Airlines*, *Sabena* and *Swissair*.

It will probably take months for the longer term effects of the crisis to become clear. *Boeing* predicts that it will take 28-42 months for commercial airline traffic to recover from the events.

[5] *Le Temps*: "Transport aérien: le coût des assurances va décupler" (Geneva), 5 Dec. 2001.

2. The impact on scheduled airlines

2.1. Traffic

2.1.1. Global and regional impact

After 11 September, the air transport industry faced a sharp decline in air travel. It was reported that in the first four days after the event, domestic bookings in the United States fell by 74 per cent, and bookings for the world excluding the United States were down by 19 per cent. [1]

The total international traffic in terms of passenger-kilometres of IATA members remained unchanged in the period from January to September 2001, compared to the same period in 2000. This suggests that the impact of the economic recession was already having an effect on traffic, since there was no growth following an increase of almost 10 per cent for the whole of 2000. For the month of September alone, however, total international passenger traffic fell by 17 per cent. [2]

A similar picture emerges from the statistics of the Association of European Airlines (AEA). Their members recorded an increase in total international passenger-kilometres of 0.6 per cent for January to August 2001, followed by a decline of 19 per cent between 10 September and 28 October compared to the same period in 2000. [3]

United States

The Air Transport Association (ATA) of America, which accounts for around 95 per cent of total US traffic, reported that passenger numbers in October 2001 were, on average, down 23 per cent. The number of domestic passengers declined by 22.3 per cent and international passengers by 30.7 per cent. The system-wide load factor (percentage of seating utilized) was 62.7 per cent in October 2001 compared to 70.6 per cent in October 2000. The domestic load factor was 64.8 per cent and the international load factor was 56.9 per cent in October 2001, compared to 69 per cent and 74.9 per cent, respectively, a year ago.

Recent estimates by aviation consulting firm *Avitas* show a reduction in US traffic of 6.4 per cent for the full year 2001. [4]

Europe

The AEA weekly monitor now provides ten weeks of data. Traffic on the North Atlantic, which saw a dramatic drop in the days immediately following the events in the United States and the closure of airspace, has failed to regain lost ground. With the

[1] Commerzbank, 28 Sep. 2001, cited in P. Morrell and F. Alamdari: *The impact of 11 September on the aviation industry*, unpublished document, 2001.

[2] IATA news release (Geneva), 30 Oct. 2001, cited in Morrell and Alamdari, op. cit.

[3] AEA Information Sheet (Brussels), 6 Nov. 2001, cited ibid.

[4] Avitas, Nov. 2001, cited ibid.

aggregate results for the month of October, AEA figures provide a dramatic assessment of the first full month's impact. On all route areas, passenger traffic recorded losses in double digits, with only the mid-Atlantic managing any growth at all, at 6.7 per cent.

AEA members' North Atlantic traffic declined by 33.8 per cent over the period from 10 September to 18 November 2001 compared to the same period in 2000, while Asian traffic fell by 17.6 per cent over the period 10 September-18 November 2001 compared to the same period in 2000. [5]

The traffic downturn was significantly worse for business traffic compared to leisure traffic. *British Airways* reported a 22 per cent drop in economy-class passengers in October 2001 over the previous October, while premium-class traffic was down by 36 per cent. Traffic overall declined by 25 per cent. There was evidence of increased use of teleconferencing, with the French company *Genesys* reporting a 50 per cent increase in revenues since 11 September. [6]

The European regional airlines were already suffering from the economic recession, with passenger numbers down by 14 per cent for the period January-June 2001. The collapse of the United Kingdom regional carrier *Gill Air* occurred after 11 September, but the airline's problems stemmed from before that date.

The above figures do not include the fast-growing low-cost airlines, which will be discussed in 3.2 below.

Rest of the world

The traffic results of Association of Asia Pacific Airlines (AAPA) member airlines in September were severely affected by the 11 September events. Revenue passenger-kilometres (RPKs) dropped by 13.3 per cent and passenger numbers fell by 8.1 per cent to 7.9 million, the lowest monthly figure since January 2000. Not surprisingly, the worst-affected routes were those across the Pacific, where passenger numbers declined by 30 per cent, while intraregional and European routes suffered to a much lesser extent, with a drop of 4 per cent. Passenger traffic within South-East Asia actually grew by 3.4 per cent during the month, but the overall regional figure was dragged down by a 6.7 per cent decline on the denser North-East Asia routes.

Avitas has estimated an increase in Asia/Pacific traffic of 2 per cent for the full year 2001. [7]

Qantas announced mid-November that it would reduce its workforce by the end of the year by the equivalent of 2,000 jobs, along with further large cuts in international services. According to the company, bookings from Japan and the United Kingdom were down 25 and 23 per cent respectively. In some other regions, traffic had dropped 10-20 per cent.

Singapore Airlines is facing the most difficult conditions in its history and maintaining its loss-free record this year will be a challenge. Passenger loads and yields have fallen sharply since 11 September, particularly on transpacific, transatlantic and

[5] Morrell and Alamdari, op. cit.

[6] Bloomberg, 31 Oct. 2001, cited ibid.

[7] Avitas, Nov. 2001, cited ibid.

Japanese routes, while cargo loads and yields had been declining since the beginning of the year, also because of the slack demand for electronics.

SriLankan Airlines will, within two months, offer voluntary retirement to about 20 per cent of its 3,800 staff. Some 1,000 employees accepted similar offers earlier this year. Four of the carrier's 12 Airbus aircraft were destroyed in summer 2001 in an attack at Colombo international airport. According to the company, the ideal number for its size and operation is around 3,000-3,200 employees. [8]

The Civil Aviation Authority of China (CAAC) estimates that the economic cost to the Chinese civil aviation industry of the 11 September events will exceed $242 million. The losses include forgone passenger and cargo revenue during the four days that US airspace was closed to foreign airlines. In addition, the decline in the value of the dollar against the yen following the attacks created exchange losses of 220 million yuan on yen-denominated debt held by *Air China, China Eastern* and *China Southern*, the three airlines that fly between China and the United States. Chinese airlines have also paid more than 1 billion yuan in higher insurance costs since 11 September. [9]

Regional traffic has hardly been affected, with perhaps a slight increase in traffic as more people will opt to spend their holidays within the region. Smaller companies like *Bangkok Airways, Silk Air* or *Merpati* have opened routes to new destinations.

In the Middle East, *Gulf Air* reported only a 6 per cent decline in September traffic over the previous year, but during the first two weeks of October traffic was down 20.4 per cent in terms of passengers and 25.6 per cent in terms of passenger-kilometres, implying that long-haul traffic was worst hit. *Saudi Arabian Airlines* experienced a 50 per cent decline in bookings on flights to the United States since 11 September, and European bookings were down 30 per cent compared to the same period in 2000.

South Africa is a country that seems to be benefiting from the crisis because it is considered a safe destination. Although the number of airlines flying into South Africa had been declining from 74 in 1997 to 52 in 2001, this trend appears to have been reversed, as several international airlines plan to start flying to South Africa or to increase the number of flights there. [10]

Brazil's major airlines all face the problem of mounting debt-servicing obligations and falling sales in the aftermath of 11 September. *Transbrasil*, the fourth largest airline, is facing an uphill struggle to resume its flights after being grounded early in December because of unpaid fuel bills. In efforts to cut costs 1,000 employees were made redundant in 2001, and the 2,000 remaining employees have only received a fraction of their wages in the past three months. Adding to their financial problems is the fact that most Brazilian airlines' costs are denominated in dollars, while their income is in local currency. Previous attempts at consolidation, either through the merger of *Transbrasil* and *TAM* or *Transbrasil* and *Varig*, have been aborted during the past two years. [11]

[8] *Air Transport World*: "Other news", www.atwonline.com, 12 Dec. 2001.

[9] ibid., 5 Dec. 2001.

[10] N. Degli-Innocenti: "Airlines switch to 'safe' South Africa", in *Financial Times* (London), 3-4 Nov. 2001.

[11] T. Ogier: "Crisis deepens at Transbrasil", in *Financial Times*, 5 Dec. 2001.

2.1.2. Near-term forecasts

The traffic forecasts for short-term growth are all negative. 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 18-24 months after the disaster impact, compared to 6-12 months after the Gulf War [12] (see statistical annex, table 1).

More recent forecasts prepared by *Avitas* predict a 1 per cent drop in 2002 for US traffic (international and domestic), and a bounce-back of 11.8 per cent in 2003. This would mean an overall gain of 3.6 per cent between 2000 and 2003.

For the European region, *Avitas* forecasts a 2.2 per cent drop in 2002, recovering in 2003 with growth of 6 per cent. This would mean an overall gain of only 0.8 per cent between 2000 and 2003. Europe thus appears to have been hit harder than the United States over the three-year period. However, these forecasts cover the majors and do not include the smaller regional airlines. It is also doubtful whether the low-cost carriers have been included.

For the Asia-Pacific region, *Avitas* forecasts a 3 per cent advance in 2002, and higher growth of 7 per cent in 2003. Thus, growth rates remain positive throughout the three-year period, although at much reduced levels.

IATA has also produced forecasts by region for the whole of 2001 compared with the previous year. At the same time, it has postponed publication of its annual three-year forecast. For the 12 months to the end of December 2001, traffic is expected to decline by between 7 and 13 per cent compared to 2000 for US domestic routes, and by between 1 and 5 per cent for European routes.

The reduction in total international traffic predicted for 2001 of up to 6 per cent 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 AEA 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.

2.2. Airline capacity impact

The impact of the recent events in terms of airline capacity is best represented by available seat-kilometres. This measure captures both seats offered and distance travelled, and allows comparisons to be made across routes. The new winter 2001-02 published schedules have been examined and compared with those of the previous winter. This avoids including the situation immediately after 11 September, when airlines stopped flying, but allows the shorter term impacts to be taken into account. Comparisons with capacity prior to 11 September are distorted by the summer to winter changeover.

Both transatlantic and transpacific routes were hardest hit, with around 15 per cent fewer seats in November 2001. On the North Atlantic, airlines with the largest reductions in capacity were the US carriers, with *Continental* down by 22 per cent, *American Airlines* by 20 per cent and *Delta* by 19 per cent. On the other hand, *Northwest* (with close ties to European carrier *KLM*) planned to reduce seat-kilometres by 8 per cent, and *Lufthansa* only by 5 per cent.

[12] Aviation Strategy: *Global demand outlook*, Oct. 2001, cited in Morrell and Alamdari, op. cit.

Capacity on the routes from Europe to North-East Asia has changed little, while carriers have switched capacity from transpacific and transatlantic routes to those linking Europe and South-East Asia, on which capacity is up by 9.4 per cent. AEA member airlines, on the other hand, reported that capacity to Asia and Australasia was down by 8 per cent in October 2001 compared to the same month in 2000. AEA carriers also reduced capacity on routes to and from the Middle East and North Africa, with a 13 per cent drop in October 2001 compared to October 2000.

3. The impact on other types of air carriers

3.1. Charter airlines

Charter airlines generally operate flights as components of inclusive tours. In Europe, they account for the vast majority of non-scheduled traffic. Charter companies in Europe are very often referred to as transport departments of tour operators. In the United States, charter operations are not as common as in Europe, and there are therefore only a few charter carriers in North America. The same applies to Asia, where only a small proportion of airline traffic is in the form of charter operations.

The level of charter operations is closely affected by public willingness to take holidays. As a result of the 11 September events, people appear to be nervous about taking holidays abroad, especially to the United States and countries in the Middle East. Tour operators experienced an initial 40 per cent drop in bookings from Europe to the rest of the world. However, towards the end of November this figure is reported to have decreased to 25 per cent. [1]

In the charter industry, the months of January and February are very important as the bookings for summer holidays are usually made at the beginning of each calendar year. Therefore all operators are very anxious about the level of bookings in this period. Some have started to offer discount rates to stimulate demand. Others believe that, rather than cutting prices, capacity should be reduced and priority should be given to a campaign to increase passenger confidence in travelling. The latter approach is based on the premise that the drop in holiday bookings is mainly due to fear of flying rather than a slowdown in the economy.

Despite the above, the International Air Carrier Association (IACA) reports that tour operators' future bookings are down on the previous year. European airlines operating to traditional winter sun destinations, including the United States, Africa, the Middle East and Turkey, are suffering severely as the reductions in bookings for these areas are in excess of 50 per cent. IACA also reports that bookings to holiday destinations from Europe for winter 2001-02 are down by 20 to 40 per cent. [2]

3.2. Low-cost carriers

Before the crisis low-cost carriers were already making increasing inroads into the market share of major carriers. They also attracted many new passengers who would otherwise never have flown. The market leader and the inventor of "no-frills flying", *Southwest Airlines* in the United States, is now the largest domestic airline in the country. It is the only big US airline not to have laid off workers after 11 September 2001. *Southwest* has also suffered from a sharp decrease in the number of passengers. Before the attacks, *Southwest's* jets flew 74.6 per cent full, but occupancy dropped to 45.4 per cent over the period from 14 to 30 September. Since then, the load factor has steadily improved, rising to 62.5 and 67 per cent in the first two weeks of October. The net result in the third quarter was down by 18 per cent to $151 million.

[1] *Travel Trade Gazette*: "Lessons of the Gulf War", 26 Nov. 2001, cited ibid.

[2] International Air Carrier Association: *Air transport crisis: The position of IACA*, 31 Oct. 2001, cited ibid.

Europe's low-cost carriers are also flying high. *EasyJet* announced at the end of October that, after a brief post-11 September dip, seat sales were almost back to normal. Pre-tax profits had increased by 82 per cent in the year to the end of September. *Ryanair* earned €64.8 million in the fiscal second quarter ended 30 September 2001, a 43 per cent gain from €45.3 million a year earlier, as the low-cost carrier benefited from recent expansion and said it would keep growing. *Ryanair* is pressing ahead with plans to open at least 10-12 new routes in Europe next year. *Go*, one of the UK low-cost carriers, earned $24.1 million before taxes in the half-year ended 30 September, a 51 per cent gain over the previous year. In October 2001, *Go* raised its capacity by 31 per cent compared to the same period in 2000. The actual load factor remained stable at 75.5 per cent.

Low-cost carriers do not appear to have been hit by the crisis; in fact, recent developments in the airline industry appear to have opened up opportunities for the low-cost sector. Encouraged by the failure of flag carriers like *Sabena* and *Swissair*, the low-cost carriers are chasing airport slots that lie idle. They sense a historic opportunity as the flag carriers, which mostly lose money on short-haul traffic, retrench. [3]

3.3. Air cargo carriers

Air cargo carriers, many of which had suffered cutbacks prior to 11 September, have been hard hit and the air cargo industry, like other segments of the industry, has no clear picture of its near and longer term future. A longer term problem for the industry is to assess how 11 September 2001 might affect growth rates for the air cargo industry.

The slump in cargo traffic in Asia which had been seen in earlier months was accentuated by the events, and the percentage figures were far worse than those for passengers. Transpacific cargo dropped by 35.6 per cent, with a 41 per cent fall in east-bound traffic. European cargo traffic was down by 10.8 per cent, the bigger decline being in exports from Asia to Europe. Intra-Asian demand is little better than other areas, but it is difficult to predict how long this will last if the US economy weakens.

Air cargo volumes for US carriers plunged in September, with international traffic down by 21.1 per cent and domestic business by 19.2 per cent. The sharp declines stemmed largely from the shutdown of US airspace for several days following the 11 September events. Federal Express operations, for example, were badly disrupted, not only during the two-day airspace closure, but afterwards too as companies reduced their requirement for overnight deliveries. So far, however, FedEx has avoided job losses. [4]

[3] *The Economist*: "No frills, plenty of promise" (London), 3 Nov. 2001.

[4] T. Allett: "September 11th: What happens next?", in *Airports International* (Stamford), Vol. 34, No. 8 (Oct./Nov. 2001), p. 8.

4. The impact on aviation-related sectors

4.1. Airports

Even before 11 September, 2001 was already a poor year for airports. Data for the period June 2000-June 2001 indicated that there was, on average, no growth in the number of passengers, while passenger numbers decreased in North America. Cargo traffic worldwide declined by 3 per cent during that period and aircraft movements were flat.

Airports Council International (ACI) has reported that larger airports (especially international hubs) have faced a far greater impact on their business as a result of the recent events.

In North America, where airports generate an estimated $450 billion per annum and employ 1.9 million employees (and generate a further 5 million “dependent” jobs in local communities), total revenue losses resulting from 11 September were estimated to be:

- $84 million for the period 11-15 September, when airports were shut down or severely affected;
- $101 million for the week 16-22 September; and
- $2.3 billion for the 12-month period up to September 2002. [1]

ACI-North America (ACI-NA) has also sought to gauge the impact of 11 September on major food and beverage and retail concessionaires in US airports, based on a survey of nine major companies collectively employing over 31,000 people in US airports. ACI-NA conservatively estimates that these companies will lay off 9,600 employees, or one-third of their total workforce. As the nine companies account for around 50 per cent of the total airport concessions market, it is estimated that total job losses could be around 20,000. [2] A similar level of job losses (i.e. 30 per cent) has been reported by professional service providers certified as “disadvantaged business enterprises” (DBEs). [3]

In the Asia-Pacific region, in contrast, many small and medium-sized airports have reported positive passenger growth for the third quarter of 2001 compared with the third quarter of 2000, despite the events of 11 September. An ACI survey of members representing 20 of the Asia-Pacific region’s 154 ACI member airports found that only 18 per cent had introduced lay-offs or furloughs of staff. The majority had relied on other cost-cutting measures such as reduced staff travel (46 per cent) or a combination of

[1] These figures are based on a survey of 50 large, medium-sized and small airports. Airports Council International-North America: “The US airport industry and estimates of airport economic impacts of recent terrorist threats”, 27 Nov. 2001, cited in Turnbull and Harvey, op. cit.

[2] ibid.

[3] ibid.

recruitment freezes, reduction of contract and/or “on-loan” staff, and curtailing “discretionary” expenditure such as training (64 per cent). [4]

The preferred strategy of airports in this region has been to retain staff and cut back on other costs such as capital budgets. As one representative from the region put it, “Airports survived the Asian economic crisis, albeit with some staff retrenchments. This is another bump on the road, but the long-term prospects are for growth and airports need to retain good staff.” [5]

Even the financially healthiest airports in the United States are facing pressure, collecting severely diminished revenues while struggling to meet higher costs of security and insurance. In addition, many US airports have been operating without liability insurance since their policies were cancelled on 30 September. To be insured again, the airports would have to pay rates four-five times higher than before the cancellation for far less coverage.

Several airports in the United States have already announced lay-offs (Detroit Metropolitan Airport, Logan International Airport, Jackson Municipal Airport). Airport-related companies such as car rentals (*Avis, Budget* and *Hertz* at Sea Tac Airport, *ANC Rental Corp.*) and airport restaurants have also started reducing their workforces.

BAA in the United Kingdom, which operates Heathrow, Gatwick, Stansted and Glasgow airports, among others, announced that 551,000 fewer North Atlantic passengers passed through its airports in October 2001 – a drop of 31.3 per cent on the previous year. The overall year-on-year decline in passenger numbers had stabilized at 12 per cent, similar to the second half of September. BAA also reported a considerable worsening of the trend in long-haul flights. Excluding North Atlantic routes, long-haul passenger numbers were 16.4 per cent lower year-on-year in October, against a 6.8 per cent drop in September. European scheduled traffic was down 11.2 per cent year-on-year. [6]

Frankfurt Airport reported a 13.9 per cent drop in passengers in October 2001 compared with the same month in 2000. They expect traffic for the year to be down by “a low single-digit rate”. Cargo traffic was down by 11.7 per cent and the number of flights down by 2.5 per cent. Airline passenger load factors declined from 72.9 per cent in October 2000 to 63.6 per cent in October 2001.

4.2. Aviation catering

As part of the efforts to reduce costs, several airlines decided to stop serving meals on short-haul flights, i.e. those lasting under two hours. Combined with the overall reduction in the number of flights, this has serious consequences for aviation catering companies. Two of the world’s leading catering companies have reduced their operations in the United States (*LSG/Sky Chefs* – 5,000 lay-offs; *Gate Gourmet* – 3,000). Unions in that country have warned that if more airlines decide to eliminate meals, the jobs of up to 45,000 catering workers will be put at risk.

[4] ACI-Pacific: *Report on the impact of events of September 11 on airports in the Pacific Region* (2001), cited in Turnbull and Harvey, op. cit.

[5] Turnbull and Harvey, op. cit.

[6] J. Kipphoff: “BAA says passengers fall by third”, in *Financial Times*, 13 Nov. 2001.

In view of the particularly severe impact of the crisis on *LSG/Sky Chefs*, *Lufthansa* has set up a working party to draft additional measures to save costs and safeguard the future of the catering arm by the end of January 2002. Those measures will, above all, include the introduction of flexible working hour models and the employment of a bigger percentage of the staff on flexible employment contracts.

4.3. Other service providers

The indirect consequences of the aviation crisis are hitting a multitude of companies providing services to the industry.

4.3.1. Air traffic control

The 30 member States of the European Organisation for the Safety of Air Navigation (EUROCONTROL) recognize the difficulties currently affecting the aviation industry as a whole, as well as the liquidity problems experienced by airspace users as a result of the current crisis. They have unanimously agreed to keep the 2002 unit rates at their 2001 level for the first quarter of 2002. The resulting loss of revenues will be recovered from airspace users during the remaining nine months of 2002, together with the air navigation costs relevant to this period.

Air traffic control (ATC) providers are faced with the problem that declining air traffic results in lower revenues, but the costs remain unchanged. Compensation through the use of financial reserves is, in most cases, not possible as ATC providers work on the principle of full cost coverage and are not allowed to build up reserves.

The German ATC provider is meeting with the Board of Airline Representatives in Germany (BARIG) to examine possible means of cutting costs in order to avoid increased charges. Negotiations on this issue will also be held with the trade unions. However, under no circumstances will there be cuts in the training of air traffic controllers. The recruitment and training of air traffic controllers should continue in any case: at the moment, there is a shortage of 200 controllers in Germany.

4.3.2. Flight reservation systems

Amadeus Global Travel Distribution, one of the three leading international flight reservation systems, is suffering from a reduction in reservations since 11 September 2001. Between 11 and 30 September, reservations dropped by 27.5 per cent, and in October the decline was 16.3 per cent. [7]

4.4. Air transport equipment manufacturing

According to *Avitas*, net orders of jet aircraft peaked at 1,803 in 2000, falling to 816 in 2001. [8] Aircraft deliveries had been running at just over 1,100 a year over the past three years. Aircraft retirements are expected to increase from 201 in 2000 to 332 in 2001 and 449 in 2002. The latter figure does not include grounded aircraft that may be brought back

[7] *Die Welt*: “Reservierungssystem Amadeus leidet unter Passagierrückgang”, www.welt.de, 6 Nov. 2001.

[8] *2002 Global Outlook for Air Transportation*, Special Edition, Nov. 2001.

into service later, but does take into account the accelerated withdrawal of noisier and older aircraft that were in any case going to be retired over the next few years. There were already around 1,200 aircraft stored in August 2001, and this number is likely to have risen by about 800.

The 11 September events ended a mini-boom in commercial aircraft manufacturing and will result in an estimated 4.4 per cent decline in total US aerospace industry sales next year. The civil aircraft segment of the market is projected to end the year with sales of $50.4 billion, roughly a third of the total industry and up from $48.4 billion in 2000. But business will fall 22 per cent next year to an estimated $39.2 billion, the lowest figure since 1997.

It is estimated that of the 6,300 jet aircraft operated by US carriers, 1,250 may be placed in storage, returned to lessors or, where possible, sold.[9] 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.

Avitas estimates that average aircraft values in 2001 as a whole will be 11.7 per cent below trend, with wide-bodied aircraft somewhat worse affected than the average. Their forecasts for the next two years can be compared with the trends in values after the Gulf War (see statistical annex, table 2).

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. Against this background, *Boeing* decided to reduce its commercial aircraft workforce by up to 20-30 per cent and has announced plans to lay off 18,000 workers before the end of 2001 and another 12,000 before the end of 2002.

The other major aircraft manufacturer, *EADS (Airbus Industrie)*, has also been forced to adjust its production schedule and has reduced its production target for 2002 from more than 400 aircraft to 375. Should major airlines defer the delivery of more aircraft, *EADS* will reduce its 2002 output by another 30 aircraft. *EADS* has announced plans to cut some 2,000 jobs, most likely through the early retirement of workers at the age of 57-and-a-half years.[10]

The anticipated shakeout among regional jet manufacturers began in earnest when *BAE Systems* announced that it will terminate its Avro RJ-85 and RJ-100 programmes, as well as its RJX project, because of the severe industry downturn and will cut 1,700 jobs. The announcement all but brings to an end the United Kingdom's more than 90-year heritage of building civil transport aircraft. Other major manufacturers of regional jets, *Bombardier* and *Embraer*, had already announced job cuts.

General aviation aircraft manufacturer *Cessna* had already announced cuts in its workforce back in June 2001 as the US economy weakened and orders turned down. *Raytheon*, which is also in the general aviation market, as well as markets for small jets and avionics equipment, likewise laid off employees earlier in the year.

For manufacturers of ground support equipment, such as *ABB* and *Siemens* in Germany, aviation accounts for quite a small part of their total business, which in any case had been hit by the economic downturn.

[9] *Aircraft Value News*, 24 Sep. 2001.

[10] *International Herald Tribune* online: "Airbus sees cuts in jobs", www.iht.com, 17 Dec. 2001.

Inflight entertainment (IFE) and communication suppliers have also suffered from the current crisis, with orders being cancelled by airlines. Spending on IFE is expected to fall this year for the first time in ten years as airlines defer and cancel aircraft deliveries. *American*, *Delta* and *United Airlines* have withdrawn from *Boeing's* Connection inflight broadband project as the airlines try to focus on core activities. *Tenzing Communications*, offering email and Internet services to airlines, had to halve its workforce as airline customers cancelled or deferred their programmes.

A series of other transport equipment manufacturing companies have in turn been affected by the crisis in the industry. For example, among the engine manufacturers, *Rolls-Royce* has announced plans to lay off 6,000 workers and *Pratt & Whitney (UTC)* to lay off 2,500 workers.

4.5. Aircraft lessors

The two largest operating lessors, *GECAS* and *ILFC*, together accounted for around 20 per cent of the backlog of firm orders for jet aircraft still to be delivered earlier in 2001. All of the 2001 deliveries and most 2002 deliveries had already been placed prior to 11 September. However, aircraft lessors are having aircraft returned to them (coming off lease or returned without onerous penalties), and in some cases have to repossess aircraft operated by bankrupt airlines. They are also taking a number of deliveries of new aircraft from manufacturers, which could not be deferred. These are clearly very difficult to place, and lessors have had to reduce lease rates substantially to keep some of the aircraft flying. This brings them in direct competition with manufacturers, who are also trying to place aircraft with airlines.

5. The regulatory framework: Does it prevent flexible answers to the crisis?

Aviation is one of the enablers of globalization; but, as an industry, it is lagging behind in adapting to globalization owing to the peculiarities of its organization and the embedded weight of a half-century of national and international regulation. During the drafting of the Convention on International Civil Aviation (Chicago Convention), 1944, most participating nations identified aviation with national security and adopted a regime based on national ownership and a system of designated flag carriers. Operations would be governed by bilateral air-service agreements regulating which airlines flew where, when and at what fares. The result was a highly regulated industry.

The regime governing the airline industry has only begun to adapt to the new imperatives of globalization. As in other industries, tension is building up between existing rules and the demands of globalization. Because airlines are so closely linked to the nation State, these tensions are particularly sharp both for the airline industry and the complex infrastructure – airport and air traffic control – on which it depends. The regulatory structure that governs aviation was dictated by a number of crucial objectives. The aims can be summarized as follows:

- to promote the expansion of the industry on an orderly, safe basis, avoiding costly and destabilizing boom-and-bust cycles;
- to ensure high-quality service across a broad expanse;
- to meet national objectives of security, identity, economic development and industrial policy; and
- to provide a mechanism for cross-subsidization between high-density and lower-density routes, in order to meet the service objectives.

The experience of different countries and regions with airline liberalization has shaped their views as to which method or combination of methods offers the greatest scope for widening liberalization in the future. They range from bilateral open skies agreements to regional and plurilateral agreements.

The United States has been particularly successful in opening foreign markets through bilateral open skies agreements with 53 countries. From a practical standpoint, United States reliance on the bilateral approach has produced good results. Other countries have also concluded over 30 open skies agreements with partners other than the United States.

The experience of the European Union (EU) has been different and its outlook has been conditioned by the successful plurilateral system put in place by the Third Liberalization Package of 1993, that now extends to the European Economic Area (EEA) and in time will include ten States in Central and Eastern Europe.

In addition, 110 States are involved in ten regional agreements covering, for example, the Andean Pact, MERCOSUR, the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA).

The common denominator in these arrangements is reliance on a pragmatic and aviation-specific approach to reach their goals. Typically, they also include a transitional mechanism, involving safeguards and phased liberalization.

The International Civil Aviation Organization (ICAO) has recently pointed out that the danger in regional and plurilateral developments lies in the creation of blocs, each with similar but different rules. These could have the perverse effect of inhibiting liberalization in the long term. [1]

In some countries, the present crisis has rekindled the debate about the regulation or re-regulation of the industry. In Canada, for example, after the collapse of *Canada 3000*, *Air Canada's* domestic market share soared to 80 per cent. Concerned about this lack of competition, the Government is holding talks with the company in order to reduce its market share. After considering various options such as the re-regulation of the industry, the opening up of Canadian skies to foreign competitors or allowing US carriers to fly Canadian passengers from one Canadian city to another through a US hub, the Government has, as a first step, strengthened Canada's competition laws. The amendments allow the Competition Tribunal to fine transportation companies found guilty of anti-competitive behaviour as much as Can.$15 million and allow cease-and-desist orders to be extended against companies accused of predatory practices. In response, *Air Canada* has proposed that US and Canadian carriers be granted "modified sixth freedom" rights as a stepping stone to full cabotage (the privilege to carry revenue traffic flown between two treaty partners (B to C) operating through a carrier's territory (A)), thereby creating a single market between the nations. Modified sixth freedom rights would involve allowing airlines to carry domestic traffic from each other's countries over their respective hubs. This "home country" cabotage is the next logical step for the nations to take after their 1995 open skies agreement. However, US airline unions have historically opposed cabotage. [2]

In Australia, the group offering to revive the collapsed *Ansett* airline had asked the Government to tighten competition laws, to introduce cease-and-desist orders and, in general, make it easier for regulators to act against airlines involved in anti-competitive behaviour. The Government, however, announced that trade practices legislation will not be altered to provide additional protection to *Ansett*. Instead, it intends to develop a voluntary code of market conduct with *Qantas*.

Individual unions have made a strong claim for continued public support of their national airline, typically on the basis of "public interest". The Central Representative Council of Aer Lingus, for example, has argued that, as an island economy, Ireland would suffer substantial loss without a national airline.

Not surprisingly, most unions, not only in Europe, are opposed to any policies designed to promote mergers/takeovers/consolidation, or indeed the relaxation of foreign ownership rules. These issues are closely associated with questions of public interest and public services. [3]

[1] R. Smithies: "Airline liberalization – Consequences and policy implications", paper presented at the OECD Tourism Committee Round Table on Air Transport and Tourism, Paris, 25 Oct. 2001.

[2] *Air Transport World*: "Air Canada proposes single market between US and Canada", www.atwonline.com, 7 Dec. 2001. See also R. Luciw: "Open skies to US carriers, Milton urges", www.globeandmail.ca, 6 Dec. 2001.

[3] Turnbull and Harvey, op. cit.

6. The response of governments to the present crisis

It is a general opinion among airlines and their representative bodies that the 11 September attacks were targeted against government policies rather than against the air transport industry. Therefore governments must respond appropriately as long as market conditions cannot be restored to normality. Although some carriers require specific government support, others believe that governments should try to offer solutions to meet the common problems encountered by all the different air operators.

One of the consequences of the present crisis is that a number of airlines around the world find themselves in financial difficulties. Some will be forced to cease operations and be placed in liquidation, others may be re-nationalized or receive subsidies. The end result will be a move in the direction of industry consolidation that will present challenges for governments, users and airlines alike.

The Association of Asia Pacific Airlines (AAPA) has called on the region's governments to aid the industry in its attempt to recover from the crisis by providing relief from landing fees, terminal charges and taxes. They have also asked governments to help by promoting tourism and facilitating international air travel.

Low-cost airlines such as *Ryanair* believe that the European Commission and European governments should firmly resist any calls for state aid. If either really want to assist the airline industry in crisis, they should focus on measures that reduce airline costs (such as the air passenger duty in the United Kingdom, or airport and landing charges at many government-owned airports), because this will result in an immediate reduction in costs and air fares, which will in turn stimulate air travel, and help to limit the impact of any economic downturn on the economies of Europe.

Charter operators have also asked to be included in any government compensation to scheduled airlines. The charter airline trade association, the International Air Carrier Association (IACA), has stated that while it does not advocate state subsidy, it believes that governments should provide financial assistance to compensate for additional costs incurred by the industry as a consequence of the 11 September attacks.

United States

The United States Congress adopted an emergency package of measures on 21 September 2001, including direct and immediate aid of $5 billion to compensate airlines for losses directly stemming from the closure of airspace and traffic reduction, as well as a further $10 billion in the form of government loan guarantees. The aid is subject to a freeze on salaries above a certain level until 11 September 2003, and obligations to maintain essential air services. [1] The Government has made it clear that there would be no further aid to the airlines.

The airline industry in the United States appears to be on the verge of the most radical restructuring since the start of deregulation more than 20 years ago. The end result could be fewer airlines and higher prices. The Government, through the Air Transportation Stabilization Board, could play an important role in this process. In order to mitigate the growing cash problems of airlines, the Government has deferred to 15 January 2002 a $2

[1] For more details see Morrell and Alamdari, op. cit.

billion tax payment by the airlines due on 15 November 2001. The Air Transportation Stabilization Board will decide how the federal Government will distribute $10 billion in loan guarantees that was part of the bailout approved by Congress. Although it is unclear how the Board will distribute the loan guarantees, the sheer amount of money involved means that the Government, for the first time in years, will be playing a major role in restructuring the airline industry. The end result, several industry executives say, could be a system of air transportation dominated by a handful of airlines – probably *United, American, Delta* and possibly *Northwest* – and a few low-cost carriers, such as *Southwest Airlines* and *JetBlue Airways*. [2]

America West Airlines was the first carrier to seek the aid created by Congress as it applied for $400 million in federal loan guarantees. Despite the fact that the Air Carrier Loan Guarantee criteria explicitly state that applications will be more favourably considered if they include concessions from employees, *America West* felt that the employees had already given enough as it had eliminated 2,000 positions, thus creating additional work for remaining employees. In return for government support, *America West* would let the Government buy about 3.4 million Class B shares in its parent firm, *America West Holding Corp*.

Europe

The European Commission approved government support for compensating airlines for the extra cost of insurance incurred since 11 September. Although initially limited to one month, the measure has since been extended until the end of March 2002. The EU 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;
- compensating airlines for the days that they were grounded following the 11 September events.

Several European governments are trying to put together a rescue package for their ailing airlines as they realize the chances of the European Commission allowing state aid are very slim.

Asia

Both *Japan Airlines* and *All Nippon Airways* have asked for financial assistance from the Japanese Government, in addition to underwriting increased insurance costs for six months. They specifically asked for government help with increased security costs.

In the Republic of Korea, the Government has asked for parliamentary approval for “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

[2] M. McNeil Hamilton; F. Swoboda: “Airlines on course for a restructuring”, www.washingtonpost.com, 14 Nov. 2001.

over 900 billion won.[3] However, such options are not open to *Singapore Airlines* and *Cathay Pacific Airways*.

[3] Air Transport Intelligence, 17 Oct. 2001.

7. Restructuring of the industry: What can be expected now?

The creation of global airline businesses comparable to those in other sectors continues to be blocked by the national ownership and effective control provisions in bilateral agreements. As a proxy for true mergers and acquisitions, most airlines have entered into a variety of commercial or alliance agreements to extend the scope of their operations.

For the alliances, mergers and acquisitions are not a must, but they could become an instrument to enable consolidation. The major European carriers are therefore in favour of unified European rules on ownership and regulation.

In the United States, foreign participation in airlines is limited to a maximum of 24.9 per cent. It is not likely that this will change quickly after the 11 September events.

Many industry experts are convinced that state subsidies and re-nationalization are not the answer to the problems in the industry. Governments have to be assured that, even without a national airline, aviation services can be guaranteed. If consolidation is managed in a rational and controlled manner, good employment opportunities will remain.

In Europe, there is the political will to consolidate the industry. European Commissioners Mario Monti (Competition) and Loyola de Palacio (Transport) have indicated that they take a more favourable view of consolidation in the European aviation industry. The feeling is that there are too many European airlines competing for the available business, and that without consolidation, the whole industry will be dominated by the US airlines. Trade unions are particularly concerned about the possibility of enforced consolidation within the EU as a result of the current crisis.

A document prepared by the International Association of Latin American Air Transport (AITAL), to be discussed by Latin American transport ministers, states that air transportation – directly or indirectly – is responsible for 12 per cent of the region's gross internal product. To improve the long-term business prospects for Latin American airlines, it proposes a common regulatory framework which would reduce costs and help to improve aircraft and crew utilization, similar to the Joint Aviation Authorities (JAA) in Europe; a joint air traffic control (ATC) authority, like EUROCONTROL; easing of foreign ownership regulations, particularly for investors from outside the region; and taking the first steps towards the creation of a common Latin American aviation market by immediately easing requirements for the approval of code-share agreements and making traffic rights more flexible.

While international consolidation may not be possible in the immediate future for a variety of reasons, including the bilateral structure of aviation agreements, consolidation within a country is possible and has effectively happened in Australia. In Japan, too, *Japan Airlines* has acquired control of *JAS*, the third largest domestic carrier, resulting in a near duopoly on Japanese domestic routes.

8. Alliance and company strategies in response to the crisis

8.1. Alliances

Owing to regulatory and national considerations, it is through alliances that the aviation industry has so far responded to changing needs of customers and forces of globalization. One of the key questions is how alliances will evolve following the 11 September events. Although alliances offer the benefits of bigger networks, they create uncertainties for investment decisions, entail transaction costs, and impose other limitations that could be overcome by the full integration that is possible in other industries. Cooperation within alliances poses several challenges to managers: the size of the alliance, the need to intensify cooperation and the harmonization and standardization of common processes, and the search for synergies to reduce costs. However, in times of crisis, alliances do not necessarily prevent stiff competition between the partners.

At present, five alliances – *OneWorld*, *Star*, *Wings*, *Sky Team* and *Qualiflyer* – stand out as the core groupings around which other airlines with strong regional networks will come together to form worldwide networks and can be described as global alliances. But they remain fragile creations subject to competing attractions and economic forces. Over the years, several companies have switched from one alliance to another. *Austrian Airlines*, for example, moved from the *Qualiflyer* to the *Star* alliance. *Air France* has recently floated the idea of creating a Mediterranean alliance with *Alitalia* and *Iberia*. To make this three-way deal possible, *Iberia* would have to leave the *OneWorld* alliance.

8.2. Companies

Airlines took the various short-term measures that have been described above, but few changed their longer term strategies. The network carriers did cut out some unprofitable routes, and reduced frequencies on others. The 11 September events provided an important catalyst for such measures, as well as others described above (such as grounding older aircraft and reducing labour costs). In addition to grounding aircraft, airlines also cut all non-essential capital expenditure. Investment in aircraft already contracted for had to be paid in most cases, but investing in other airlines was not considered possible in the short term.

The most common response by airline companies to the crisis has been to freeze recruitment. Other cost-cutting measures designed to avoid laying off core staff include the non-renewal of temporary contracts, probationary staff not being transferred to full-time contracts, greater temporal flexibility such as shorter working time, part-time working and work sharing, pay cuts for management, pay freezes for airline staff of varying duration, pay cuts for non-managerial staff and voluntary furloughs.

The *Austrian Airlines Group* is cutting 12 per cent of its workforce and slashing capacity. It decided to continue to cut costs aggressively and build on its strength as a niche player in Central and Eastern Europe. *Alitalia*, as part of its two-year industrial plan, has announced that it will focus its activities on domestic air travel and that it will keep only selected intercontinental routes. *Scandinavian Airlines System (SAS)* considers that it is in a fight against time to carry out necessary restructuring to be in a position to resume growth in 2003 and avoid being reduced to a regional feeder carrier. *Czech Airlines* has dropped plans to expand its fleet in 2002 in view of the decline in demand since 11 September. It will not trim its 30-aircraft fleet but will aim at maximum utilization of the fleet, which means that the aircraft will be operated more frequently and their daily utilization will be higher.

Air New Zealand, recapitalized by the Government, has adopted a five-year business plan as part of its survival strategy. The key objectives are: (i) minimizing cash operating costs in the current financial year; (ii) adapting to lower demand for air travel by reducing the network to a sustainable core in the medium term; (iii) securing distribution in Australia to make up for the loss of feeder traffic caused by *Ansett's* collapse; and (iv) ensuring that the airline retains its competitive advantage in its core markets. [1]

[1] D. Riordan: "Air NZ's delicate balance", in *New Zealand Herald* online, www.nzherald.co.nz, 6 Dec. 2001.

9. Security and safety

The events in the United States showed how easy it was to circumvent security systems in air transport. Legislators, airports, airlines and manufacturers across the world are attempting to close up the security loopholes that allowed these events to take place with a raft of measures and new regulations.

The International Civil Aviation Organization (ICAO) Assembly (September-October 2001) adopted a resolution, *Declaration on misuse of civil aircraft as weapons of destruction and other terrorist acts involving civil aviation*. In follow-up to this resolution, the ICAO Council decided to convene a high-level ministerial conference on aviation security, which is expected to endorse an ICAO Plan of Action for Strengthening Aviation Security and reaffirm the responsibility of States to provide aviation security for their territories. [1]

The United States Congress approved an overhaul of the nation's aviation security system to put the federal Government firmly in control of airport safety operations. Under the legislation, the private baggage-screening system will be replaced with a 28,000-strong federal workforce that will inspect passengers' luggage. In addition, it also mandated other security measures on aircraft.

All airports will have to adopt a federal baggage-screening system within one year of the Bill's enactment; electronic screening machines must be installed by the end of 2002. All newly hired baggage screeners will have to be United States citizens. Foreign screeners would not be fired during the transition, but some security companies said they expect many employees to leave soon because of the uncertainty over their jobs. The largest union of federal employees objected that the legislation did not guarantee the right of federal screeners to unionize, but it welcomed the fact that Congress created a new federal workforce of 28,000 people. [2]

Latest indications are that the Department of Transport may not be able to meet the deadline for screening all checked airline luggage for bombs because of the shortage of workers, bomb-sniffing dogs and screening machinery. [3]

The European Civil Aviation Conference (ECAC) has developed a series of measures to reinforce security on the ground and on aircraft while in flight, as well as ongoing work to meet the essential need to maintain ground-to-air communications in a crisis. The European Aviation Security Training Institute (EASTI) has an important role to play in the training of all security personnel. [4]

In a statement on regulations needed to ensure air security before the United States Congress Subcommittee on Energy Policy, Natural Resources and Regulatory Affairs, John O'Brien, Director of Engineering and Air Safety for the Air Line Pilots Association

[1] ICAO, press release PIO 15/2001, 28 Nov. 2001.

[2] J. Eilperin; C. Mayer: "Federal air-security Bill clears Congress", www.washingtonpost.com, 17 Nov. 2001.

[3] G. Robinson: "US cannot meet deadline for new airport security", in *Financial Times*, 28 Nov. 2001.

[4] ECAC: Press Release No. 177E, 4 Dec. 2001.

(ALPA) pointed out that "Pilots at many US airlines view the security training that they receive from their companies as boring, irrelevant, and unrealistic – much of it is repetitive from year to year and may largely consist of watching video tapes." ALPA endorses "calls for the Government and industry to develop detailed guidance for a scheduled passenger air carrier flight and cabin crew training program to prepare crew members for potential threat conditions". These measures should be extended to all-cargo pilots, who have special requirements in this regard. ALPA will work with government agencies and industry organizations to develop a "common strategy" for training airline personnel on air piracy strategies. [5]

[5] ALPA, www.alpa.org, 27 Nov. 2001.

10. The social consequences of the crisis

10.1. The employment effects

Following the events of 11 September, US carriers moved very quickly to announce schedule and employment cutbacks. The industry had already been hit by falling passenger demand, especially for business travel, and most carriers announced cuts of around 20 per cent. Early lay-off announcements matched the schedule cuts (see statistical annex, table 3).

In Europe, the fall in traffic was much less severe, and so too were the initial announcements of job losses. Three factors appear to account for the slower adjustment.

First, there was greater uncertainty about the impact of 11 September. Second, flag carriers were unclear about whether, or to what extent, any financial or other support would be forthcoming from national governments or the European Commission (EC). Third, provisions for social dialogue via works councils and other mechanisms required prior consultation with employees and trade union representatives.

There is a clear asymmetry in the response of North American and European airlines to the crisis. In North America, airlines immediately announced drastic job cuts and then embarked on a process of (often difficult) negotiations with employee representatives as trade unions sought to reduce the scale and mitigate the effects of impending job losses.

In Europe, in contrast, many carriers considered, and implemented, a range of alternatives to direct job losses and consulted extensively with employees and trade union representatives, usually in accordance with national employment law.

The net result of the different approaches in North America and Europe may well be the same in terms of a much lower number of lay-offs than initially anticipated (see statistical annex, table 4). However, the approach to social dialogue in North America seems to have exacerbated long-standing tensions between management and labour.

Charter airlines, like the scheduled carriers, have experienced job losses and agreed to pay cuts. For example, *Air 2000* pilots have accepted a 5 per cent reduction in pay, saving 45 jobs. However, 32 pilots will still be made redundant and 16 captains will be demoted to first officers. It is planned to reinstate the 5 per cent of pay when business picks up next summer. *Air 2000* has also grounded two Boeing 757s.

Tour operators are also reacting to the recent crisis through capacity, job and pay cuts. Up until early November, 3,000 jobs were lost in this sector of the industry. Tour operator *Thomas Cook* has announced 1,500 job cuts in the United Kingdom and a 10 per cent pay cut for the remaining staff. The company’s senior executives have also accepted a 15 per cent cut in their salaries. Other companies have also announced reductions in their labour force: 500 at *First Choice*, 400 at *Thomson* and 350 at *Airtours*.

10.2. The differential impact on women, men and minorities

There is a dearth of information on the employment of women and different ethnic groups in the civil aviation industry. ICAO, for example, collects data on the total number of employees for airlines in 55 countries, but does not compile gender data.

Data for individual countries are equally scarce. In the United Kingdom, for example, official statistics provide a breakdown for male (47.5 per cent) and female (52.5 per cent) employees in "air transportation", but there is no detailed breakdown for different occupational groups or subsectors of the industry (for example, airlines versus aircraft maintenance, flight crew versus cabin crew).

The United States is one of the few countries to publish more detailed information. These data reveal that pilots are predominantly white males with college degrees (women make up only 3.7 per cent of the pilot workforce, blacks 1.9 per cent and Hispanics 4.3 per cent). Likewise, amongst mechanics, only 6 per cent are female, 8.3 per cent are black and 9 per cent Hispanic. Flight attendants, by contrast, are 80 per cent female (blacks constitute 12 per cent of the cabin crew workforce and Hispanics 8 per cent). [1]

In the survey carried out by Turnbull and Harvey, the most common response to questions about any differential impact on women and minorities was that human resource policies were applied equally in the case of women and that there was generally no disproportionate effect on ethnic minorities. Most unions, however, were keen to distinguish between "disproportionate effects" and "discrimination".

It was not uncommon for unions whose membership was predominantly female (for example, cabin crew) or drawn from ethnic minorities (for example, catering and cleaning) to report a "disproportionate impact" on these groups as a result of recent labour restructuring programmes. For example, the Association of Flight Attendants (AFA) in the United States and the Union of Commercial Cabin Crew (SNPNC) in France, both with a predominantly female membership, pointed out that there was a "disproportionate effect", by definition, on women. [2]

Other unions pointed out that many of the temporary or contract jobs targeted by "soft" cost-cutting measures (i.e. protecting the airline's "core" staff by dismissing "peripheral" groups) had a disproportionate effect on women and ethnic minorities. However, a full assessment of the differential impact on men, women and minorities would require a detailed analysis of different airlines, airports and other civil aviation companies, broken down by job category. In the limited time available it was impossible to compile such data. [3]

On the question of discrimination, several unions cited the role of contract clauses, most notably seniority rules, as an effective form of protection for women and minorities. As one union official commented, "Racism and sexism are institutionalized within some parts of the industry, but seniority is one labour market institution which counteracts this". [4] In some cases, however, seniority clauses have been waived to provide additional benefits or advantages to these groups (e.g. the part-time working agreement signed by *bmi*/*British Midland* and the British Airline Pilots Association (BALPA) states that pilots

[1] Bureau of Labor Statistics. For a discussion, see N. Brown Johnson: *Airlines* (School of Management, University of Kentucky, 2001), cited in Turnbull and Harvey, op. cit.

[2] Turnbull and Harvey, op. cit.

[3] Requests were made to several civil aviation companies for such data. Most firms, however, said that they did not yet have any detailed breakdown and/or that they would not normally make such information available.

[4] Turnbull and Harvey, op. cit.

wishing to take up part-time work following maternity leave will be given priority for any vacancies, regardless of seniority).

There were other examples, however, of human resource policies that may be "formally fair" but are "informally discriminatory". Many restructuring programmes involve changes to working time or new shift patterns which might be less suitable for female employees. At *Aer Lingus*, for example, some employees have expressed concerns about proposed changes to shift arrangements that might lead to a significant number of female cabin crew "volunteering" for the redundancy package now on offer.

It has long been recognized that, in any restructuring exercise, there will be a range of decisions on job cuts ranging from compulsory redundancy (employer-selected) to voluntary redundancy (worker-selected). But many employees will "accept" a severance package because proposed changes to work organization and conditions of employment are no longer acceptable ("forced voluntary" redundancy). [5]

Redundancy schemes and changes to working arrangements should therefore be carefully monitored. Neither management nor unions should simply assume that an employee who "volunteers" for redundancy or leave of absence is acting of his or her own volition.

10.3. Training and retraining

During an emergency meeting of the European Sectoral Social Dialogue Committee on Civil Aviation, the social partners agreed that, in respect of security, not only were aviation workers' lives at risk – they were also responsible for enforcing many of the existing and new security measures under discussion. The workers had the additional enormous responsibility for passenger safety and the protection of the flying public. Therefore, fully trained, professional staff must be employed in the sector on the ground and in the air. Funding should be made available for this purpose in particular. [6]

The study by Turnbull and Harvey [7] reveals that pilots in particular expressed concerns about recruitment freezes and reduced training. According to InterCockpit Pilot Training Network, an independent subsidiary of Lufthansa Flight Training, European airlines will need up to 80,000 new pilots over the next ten years. The European Cockpit Association (ECA) has therefore called on the European Commission to consider policies that might ensure the continuation of qualifications and licenses amongst unemployed pilots, the need to support the existing and future training costs of pilots, and policies to promote labour mobility within the EU.

Air traffic controllers have also expressed grave concerns about training cutbacks in some countries. Worldwide, it is estimated that there is a 15-20 per cent shortage of air

[5] See P. Turnbull and V. Wass: "Redundancy and the paradox of job insecurity", in E. Heery and J. Salmon (eds.): *The insecure workforce* (London, Routledge, 2000), pp. 57-77, cited ibid.

[6] Joint Opinion of the European Social Partners in Aviation (Brussels), 12 Oct. 2001.

[7] Turnbull and Harvey, op. cit.

traffic controllers, and it takes three to five years for controllers to be fully trained and operational. [8]

The crisis raises again the question of the certification of cabin crew and ground staff as safety professionals, a position strongly promoted by the International Transport Workers' Federation (ITF). It argues that "industry and governments need to recognize the safety-professional role of crews and ground staff to ensure that the industry has the personnel equipped, qualified and motivated to deliver safety and security". [9]

Today, approximately 50 per cent of ICAO member States issue cabin crew licenses. However, such licenses are not required in the largest countries, and therefore less than 10 per cent of cabin crew members worldwide are licensed.

According to the rules and principles applying to personnel licensing in the Chicago Convention, the State of registry of the aircraft is responsible for the qualification of the crew and the conduct of flight operations and maintenance. Annex 6 to the Convention, *Operation of aircraft*, outlines training requirements for aircraft crew, including cabin crew. A licence provides evidence of competency, but the competency itself is the result of selection and training. As a result, there is both a direct link and a hierarchical relationship between training and licensing. Training is a technical process which provides competency, while licensing is an administrative process which provides evidence of that competency.

Issues concerning industrial relations also arise. The issue of licences, and especially the validation of foreign licences, has often been used to control the flow of personnel into the workforce in addition to the basic purpose of providing proof of competency. It is generally true that licensed cabin crew members have more bargaining power in their industrial relations than those who are not licensed. In this context, there are those in the aviation community who believe that the demand for cabin crew licences is driven more by industrial relations concerns than by safety considerations. [10]

In order to assist former *Sabena* employees looking for other jobs, the Belgian regional governments have set up employment cells which will be operational for two years. The first task of these cells is to help the former employees to overcome the emotional shock of unemployment. Only once they understand that they have to look for another job will they be ready to apply for one. The cells assist clients with basic skills, such as how to apply for a job, how to write a curriculum vitae and how to sell themselves. In addition, the cells provide training, either in the regular employment service training centres or, in case of excess demand, in other training centres. The coordinator of the cells

[8] M. Baumgartner, International Federation of Air Traffic Controllers' Association (IFATCA): Information made available at the ILO's Think Tank on the Impact of 11 September Events for Civil Aviation, Geneva, 29-30 Oct. 2001, cited ibid.

[9] S. Enright: "Getting back off the ground", in *Transport International* (London, ITF), No. 4:2001, pp. 12-13.

[10] P. Lamy: "Cabin crew licensing is a question that may need to be revisited", in *ICAO Journal* (Montreal), Vol. 56, No. 8, Oct. 2001, pp. 5-6, 28.

considers that former *Sabena* employees will enrich the regional labour market because there were not enough highly qualified jobseekers. [11]

[11] T. Ysebaert: "Ex-werknemers Sabena zijn zegen voor arbeidsmarkt", in *De Standaard* online, www.standaard.be, 6 Dec. 2001.

11. Social dialogue

11.1. Labour relations in the civil aviation industry

Labour relations have always played an important part in the competitive performance of airlines and other companies in the civil aviation industry. Historically, strikes and other forms of industrial conflict have attracted a great deal of adverse attention, no doubt because of their visibility and the immediate impact of any work stoppages on passengers and revenue. The three-day strike by *British Airways (BA)* cabin crew in 1997, for example, is estimated to have cost the airline £125 million in lost revenue. The dispute also led to a deterioration in employee morale, job satisfaction and, as a result, a decline in customer satisfaction.

Likewise, there is clear evidence that labour conflict in the United States is negatively associated with airlines' service quality, productivity and various financial outcomes. [1] However, the most important influences on airline performance are the more mundane issues of work organization such as work rules, employee attitudes, the level and structure of labour costs, and the effects of these variables on productivity and service quality. [2]

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

There are some indications that management-labour relations have improved in recent years. In the United States, for example, strike activity declined significantly in the late 1980s and 1990s.

Other indicators of management-employee relations, however, suggest a rather different picture. Measures of "bargaining efficiency" in the United States, for example, indicate a significant rise in the time taken to negotiate new or revised collective labour agreements. Based on data for the ten major US carriers, the average duration of contract negotiations is now over 17 months, with *US Airways* recording a figure of almost two years and *America West* 30 months. [3]

It is now not uncommon for airlines in many countries around the world to impose rather than negotiate changes to working time, the introduction of performance-related pay

[1] J. Hoffer Gittell; A. von Nordenflycht; T. Kochan: "Mutual gains or zero sum? Labor relations and stakeholder outcomes in the airline industry", Harvard Business School, 2001, cited in Turnbull and Harvey, op. cit.

[2] P. Cappelli: *Airline labor relations in the global era: The new frontier* (Ithaca; ILR Press, 1995), cited ibid.

[3] Duration is defined as the number of months to elapse between the amendable date of the previous contract and the ratification of the contract being negotiated. See MIT Global Airline Industry Program: *Average length of negotiations for airline labor contracts* (Massachusetts Institute of Technology, 2001), cited ibid.

or pay for new entrants, the regrading or cross-utilization of staff, and team-working. [4] Evidence from the United States, however, indicates that "hard bargaining" and union avoidance strategies are not very successful. [5] In fact, one of the main conclusions of the MIT Global Airline Industry Research Program is that "attempts to reduce labor's bargaining power are likely to lead to negative, if not disastrous, results". [6]

The two Dallas/Fort Worth-based airlines, *American Airlines* and *Southwest Airlines*, are getting a boost from the generosity of their employees. Employees at *American Airlines* have contributed close to $2 million so far in donations to an "American Heroes" programme the carrier set up after the 11 September events worsened the airline's financial problems. The programme is open-ended. Some employees made one-time contributions, while others have authorized continuing deductions from their pay checks to support the company.

Southwest Airlines set up its "Pledge to Love" programme after many employees offered to help the carrier. Employees are donating $1.3 million from their November and December salaries to ease the airline's financial problems. [7]

Other companies, however, use the threat of bankruptcy to force employees and their unions to make concessions. The *Middle East Airlines' (MEA)* crisis has been resolved, with the loss-making company now 1,450 employees slimmer. The remainder of the airline's 2,500 staff were asked to sign contracts that would have increased their working hours and cut most of their benefits. The employees' unions were forced to accept the redundancies after *MEA* threatened to declare bankruptcy. The job losses and new contracts are part of the Lebanese Government's plan to streamline the airline with a view to finding a strategic investor by the end of the year. [8]

In early November, *Finnair* concluded agreements with five unions representing office staff, technicians, pilots, engineers and management on ways to trim payroll expenses in view of weaker market conditions. The accords encompass holiday and incentive bonuses for 2002 and general pay increases. As a result, *Finnair* said the possibility of four-week lay-offs originally discussed during negotiations can be avoided or at least shortened "considerably". [9]

Qantas has won the support of most of its labour unions for a wage freeze after offering assurance about the extent of outsourcing. Under a revised salary package, the airline excluded airport employees from the latest round of job cuts and promised not to contract out services in reservations, call centres, freight and load control. The salary

[4] P. Blyton; M. Martínez Lucio; J. McGurk; P. Turnbull: *Contesting globalisation: Airline restructuring, labour flexibility and trade union strategies* (London, ITF, 1998), p. 19, cited ibid.

[5] Hoffer Gittell et al., op. cit, cited ibid.

[6] A. von Nordenflycht: *Alternative approaches to airline labor relations* (Massachusetts Institute of Technology, 2001), cited ibid.

[7] T. Maxon: "American, Southwest workers have donated millions to aid firms", www.dallasnews.com, 19 Nov. 2001.

[8] *Airports International*: "MEA crisis ends", Vol. 34, No. 8, Oct./Nov. 2001.

[9] *Air Transport World*: "Other news", www.atwonline.com, 20 Nov. 2001.

package also includes enhanced staff travel perks and other benefits to offset the planned 12-18-month salary freeze. Nine of *Qantas'* 13 unions have agreed to the deal.

11.2. Governments

The human resources policies discussed thus far relate primarily to company-level decisions, although given that many flag carriers are publicly owned these policies will often involve government input (such as financial support for early retirement programmes, voluntary severance packages or partial assistance for short-time working). In the Turnbull and Harvey study, [10] unions were asked about the policies they believe national governments should pursue to support the civil aviation industry during the current crisis (see statistical annex, table 6).

There was very strong approval of funding to support retraining programmes, as well as extending unemployment benefits. Financial support to airlines/airports for improved security also elicited very strong support, as did financial support to enable airlines to cover higher insurance costs.

The policy that elicited strongest trade union support was "Initiatives to promote social dialogue". Many individual airlines and other civil aviation companies were applauded for their efforts to promote extensive and more meaningful social dialogue following the tragic events of 11 September. But unions still regarded government initiatives in this area as vitally important.

The scale of the crisis has demanded government intervention in a range of business and related decisions, not least labour restructuring programmes, and unions want to be fully involved in these deliberations and policy decisions. Moreover, unions favour initiatives to promote social dialogue at the regional and international, as well as the national level.

European unions, for example, along with other industry organizations, have pressed the European Commission to initiate social dialogue and create an ad hoc group to look at the social consequences of the civil aviation crisis (on the same basis as groups dealing with security and insurance issues). [11] The first meeting of this group took place in Brussels on 3 December 2001. Although the meeting produced only limited results, the Commission declared its intention to closely monitor the impact of the ongoing crisis in collaboration with the social partners.

At the global level, individual unions, the ITF and other international organizations have welcomed the ILO's initiatives to promote social dialogue, in particular the Think Tank on the Impact of the 11 September Events for Civil Aviation in October 2001 and the present Tripartite Meeting.

The Government of Belgium, the majority shareholder in the defunct *Sabena* company, negotiated a social plan with the unions for the *Sabena* employees. The agreement comes close to the legal redundancy entitlements, with a special effort to assist persons with at least 20 or less than five years of service with the airline.

[10] Turnbull and Harvey, op. cit.

[11] See, for example, Joint Opinion of the European Social Partners in Aviation, op. cit.

The Swiss Government has set up a task force to find the necessary funds to finance the social plan for former Swissair personnel, including those who were benefiting from early retirement pensions agreed upon under earlier restructuring programmes. The Government has decided to supplement unemployment benefits to 100 per cent of the last earned salary for unemployed employees until the end of 2001. It will not make any further contributions to the costs of the social plan.

The Government of Ireland is offering the *Aer Lingus* unions a 14.9 per cent shareholding in the company in return for over 2,000 redundancies and sweeping changes in work practices. The Government may lend the union side up to £Ir.5 million to buy out the existing 4.7 per cent shareholding in *Aer Lingus* already held by company employees on an individual basis. The workforce would not have to pay for the extra 10 per cent in the company on offer. The job cuts and acceptance of changes in work practice, worth an estimated £Ir.100 million in operational savings over three years, would suffice to finance this. In addition, a 10 per cent profit-sharing scheme would be introduced with immediate effect if workers accepted the company survival plan. In the event of *Aer Lingus* being sold off, or partially privatized, the profit-sharing scheme would have to continue or the staff would have to be compensated.

12. Best practices

Delta and *Continental Airlines* provide examples of innovative responses to the crisis. *Delta* was traditionally managed on the basis of a strong “family culture”, with high wages and a commitment to lifetime employment. This strategy worked very well for many years, until the carrier announced 15,000 lay-offs in 1994 and unilaterally cut wages. [1]

Following the events of 11 September, *Delta* has worked hard to avoid any compulsory lay-offs, with more than 11,000 employees accepting one of six different voluntary job reduction programmes. The number of involuntary job losses will therefore total only 2,000 (see statistical annex, table 4). Many employees on extended leave of absence will no doubt be recalled when demand picks up.

Continental Airlines has transformed its culture in recent years (post-1993) and the carrier has improved its performance based on higher levels of trust and employee commitment. [2] Frequent and substantive communications between management and employees at multiple levels have been introduced, along with performance-based pay, and policies and procedures covering all employees to foster inter-occupational cooperation. [3] The airline, which announced 12,000 jobs losses, expects to lower that number by about 3,500 as workers slated for dismissal opted for early retirement or leaves of absence. Employees who take leaves of absence may work full time for another company and still receive some benefits from *Continental* for as long as a year.

US Airways took a charge of $75 million in employee severance pay related to the furloughing of 11,000 workers, a number reduced to 9,000 through voluntary severance agreements. The programmes vary in length by labour group but generally involve time off for as much as three years. They were negotiated with unions representing the airline’s pilots, flight attendants, maintenance workers and passenger service employees.

Air Canada has reached a series of agreements with its different unions to avert, at least temporarily, one-third of 9,000 previously announced lay-offs. It has reached agreement with its flight attendants, represented by the Canadian Union of Public Employees (CUPE), on a voluntary workshare programme that will save 129 jobs. The agreement reduces scheduled work hours by 40 per cent for 26 weeks for the 300-plus flight attendants who have signed up to participate. The Government agency, Human Resources Development Canada, will provide partial compensation of the reduced hours through its Employment Insurance Workshare Programme.

It also reached an agreement, affecting 6,600 workers, with the Canadian Auto Workers (CAW) Union on voluntary programmes including leaves of absence, job- and work-sharing, special retirement incentives and other voluntary programmes, nullifying 1,281 lay-offs planned for members of that union. Customer sales and service workers represented by the CAW will work reduced hours for a 26-week period, which may be extended. The airline expects to realize savings beginning with the first pay period of January 2002.

[1] See Hoffer Gittell, et al., op. cit., cited in Turnbull and Harvey, op. cit. Delta is currently the subject of a union organizing campaign by the Association of Flight Attendants.

[2] See G. Bethune (with S. Huler): *From worst to first* (New York, John Wiley & Sons, 1998); see also Hoffer Gittell et al., op. cit., cited ibid.

[3] von Nordenflycht, op. cit., cited ibid.

A tentative deal was reached with the *Air Canada* Pilots Association to save 170 jobs through work sharing, an early retirement programme and other measures. The airline and the union, representing 3,225 pilots, agreed to use mandatory work-sharing, voluntary block time reductions and a retirement-incentive severance plan. Pending approval by the union membership, the deal would begin on 1 January 2002 and last 12-18 months.

Lastly, third-party contracts to provide technical services for other airlines have saved 1,080 jobs among the members of the International Association of Machinists and Aerospace Workers.

In Europe there has been an even greater emphasis on avoiding job losses wherever possible, especially on an involuntary basis. As in the United States, many European airlines simply do not have the money available to fund existing severance and early retirement packages (at least in the absence of state support) and most unions are strongly opposed to compulsory lay-offs.

KLM and seven unions agreed to postpone a scheduled pay increase, reduce some staff members' time off and possibly trim jobs without involuntary furloughs. The measures, which apply only to workers covered under the collective agreement in the Netherlands, are intended to help the airline adjust capacity in the face of continued hardship. A 2 per cent pay increase will be postponed from 1 December 2001 to 1 April 2002, but the workers will still receive the end-of-the-year bonus. *KLM* and the unions plan to work together in 2002 to devise ways to achieve a structural efficiency gain of 2 per cent. Ground staff have agreed to a four-day cut in time off while flight staff will take a six-day cut or an equivalent. The airline plans to reimburse employees for the days before April 2003 with a bonus equal to 2 per cent of their annual salary or the equivalent in time off. [4]

Lufthansa has applied to Germany's Federal Employment Service to put into effect shorter working hours for its 12,000 flight attendants after reaching union agreement on steps guaranteeing them 70 hours of flying time per month. In the process, jobs of 650 staff on probation will be spared. German law allows the State to make up the difference in pay. *Lufthansa* has also reached agreement with the Ver.di service sector union and the Vereinigung Cockpit (VC) pilots' union on a package of cost-saving measures that, in combination with previously announced steps, are expected to improve the 2002 cash flow by at least €210 million. The measures include a temporary wage freeze for ground and cabin staff and suspension of certain previously negotiated pay raises for VC members. In return for the concessions, *Lufthansa* will not resort to any lay-offs or dismissals of probationary staff until the end of 2002.

Asia-Pacific, Latin American and African airlines face a similar situation in terms of cash flow problems. Nonetheless, of the unions representing airline staff who responded to the Turnbull and Harvey survey, 63 per cent reported that voluntary early retirement programmes had been introduced since 11 September and 46 per cent reported voluntary redundancy programmes. Several African unions have stated that they are willing to accept and are well placed to deal with voluntary redundancies, as the necessary provisions exist in established collective agreements. In one case, however, these agreements were circumvented by parliamentary decisions and High Court rulings on bankruptcy. [5]

[4] *Air Transport World*: "Other news", www.atwonline.com, 3 Dec. 2001.

[5] Turnbull and Harvey, op. cit.

LanChile reached a four-year agreement with its 111-member pilot's union. The new contract, which the airline estimates will cost about $400,000, includes a 2 per cent annual real increase in salaries along with adjustments to productivity- and profitability-based incentives. The agreement follows recent long-term pacts between *LanChile* and its flight attendant and maintenance labour groups.

13. Tentative list of issues for discussion

The Meeting may wish to discuss the following issues from a short-, medium- and long-term perspective:

- general impact;
- economic and capacity impact;
- economic and regulatory framework of the industry;
- public interest function;
- restructuring of the industry;
- security and safety and the role of human factors;
- technology and investment, notably in security and safety;
- employment effects;
- differential impact on women, men and minorities;
- training and retraining;
- mobility, harmonization of licences;
- conservation of the knowledge pool for better days;
- social consequences: social plans, unemployment benefits, social security;
- best practices.

Statistical annex

Table 1. Short- and medium-term traffic forecasts
(percentage change)

	United States		Europe		Asia		Rest of the world	
	Domestic	Inter-national	Domestic	Inter-national	Domestic	Inter-national	Domestic	Inter-national
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

Source: *Aviation Strategy*, Oct. 2001, cited in Morrell and Alamdari, op. cit.

Table 2. Impacts of Gulf War and 11 September on jet aircraft values
(percentage deviation of all jet values from trend line)

11 September		Gulf War	
2001	–11.7	1991	–3.1
2002	–17.4	1992	–15.8
2003	–10.7	1993	–18.7
2001-03	–34.9	1991-93	–33.7

Source: Avitas, Nov. 2001, cited ibid.

Table 3. Initial cuts in the United States

Carrier	Total employees	Lay-offs (Oct. 2001)	Schedule cuts (%)
America West	14 000	2 000 (14%)	20
American*	138 000	20 000 (20%)	20
Continental	60 000	12 000 (20%)	20
Delta	82 500	13 000 (16%)	20
Northwest	53 000	10 600 (20%)	20
United	100 000	20 000 (20%)	20
US Airways	56 000	11 000 (20%)	23

* Includes TWA.
Source: Turnbull and Harvey, op. cit.

Table 4. Revised airline job losses worldwide

Airline	Initially proposed job losses (% of workforce)	Revised job losses (% of workforce)	Employment cost-reduction measures
North America			
Air Canada	9,000 (4,000 announced August 2001, 5,000 announced 26 September)	8,871	Customer sales and service agent members of CAW agree to 20 per cent reduction in hours for 20 weeks. Pilots agree to mandatory work sharing, voluntary block time reduction and retirement incentive scheme.
AirTran			Changes to pilots' four-year contract (22 per cent saving on pilot-related costs) in exchange for no furlough agreement.
Air Wisconsin	300 (10%)		Reduced pay and suspended bonuses for its senior officers and encouraged workers to take leave without pay for the month of October.
Aloha Airlines	250		
American Airlines (AA, American Eagle, TWA)	20,000 (14%)		Chairman and CEO Don Carty elected to forgo compensation for the remainder of the year. Employees take voluntary pay cuts – signing up using the company web site.
American Trans Air	1,500 (19%)		
America West	2,000 (14%)		
Atlantic Coast Airlines	11%		30-40 per cent reduction in executive pay and suspending all executive cash bonuses, freeze on merit pay increases for management and salaried employees, elimination of cash bonus programmes for 2001 and suspension of bonus for 2002.
Atlas	200 (14%)		
Canada 3000	1,400 (33%)	4,800/airline bankrupt	
Continental Airlines	12,000 (21%)	8,500 involuntary job losses (15%)	CEO Gordon Bethune and President Larry Kellner elected to forgo all compensation for the remainder of the year. Leaves of assistance and early retirements.
Corporate Airlines	100		

Airline	Initially proposed job losses (% of workforce)	Revised job losses (% of workforce)	Employment cost-reduction measures
Delta Airlines	13,000 (16%)	2,000 involuntary job losses (2%)	CEO Leo Mullin elected to forgo compensation for the remainder of the year. Meal service cut in economy class flights of less than 1,750 miles and first class less than 700 miles. One-, two-, three- and five-year voluntary leaves, voluntary severance and early retirement.
Emery Worldwide Airlines	130 (42%)		
Express Airlines	650 (30%)		
Frontier Airlines	440		20-40 per cent salary reductions for directors, management salary reductions.
Hawaiian Airlines	430 (12%)		
Mesa Air Group	700		Senior management 50 per cent pay cut. Middle management 20 per cent pay cut. Employees 10 per cent pay cut. All those affected offered stock option and bonus programme to make up for lost wages – those excluded (pilots/mechanics) refused to accept pay cuts.
Mesaba Airlines	400 (10.8%)		
Midway Airlines	1,700		
Midwest Express	450 (12%)		
Northwest Airlines	10,000 (19%)	9,000 (17%)	Attrition, voluntary leaves and elimination of open positions.
Southwest Airlines			Continue to hire pilots and flight attendants to maintain adequate staffing levels.
Spirit Airlines	800 (33%)		
Sun Country Airlines			One-year contract for flight crew involving a pay freeze, increased insurance benefits and a common rate of pay for all equipment types.
TSA	200		
United Airlines	20,000 (20%)		Chairman and CEO Jim Goodwin requests suspension of his salary through the end of the year, and directors pay reduced.
US Airways	11,000 (24%)	9,000	Time off (voluntary furloughs) for up to three years.

Airline	Initially proposed job losses (% of workforce)	Revised job losses (% of workforce)	Employment cost-reduction measures
Vanguard Airlines	10-15%		
World Airways	250		
Europe			
Aer Lingus	600 temporary staff and 1,700 (27%) permanent staff	2,026 (32%)	Non-payment of 5.5 per cent pay increase, release of temporary staff, curtailment of overtime, cancellation of cadet pilot and apprenticeship programmes, unpaid leave.
Air 2000	365 (14%)		5 per cent reduction in pilots' salaries, 16 captains demoted to first officers.
Air Europa	800 (38%)		
Alitalia	900 flight crew 1,600 ground staff	3,400 (including 2 500 compulsory) (14%)	Early retirement offered to 900.
Austrian Airlines	800 (10%)		Staff taking deep cuts in holiday pay, settling for unpaid holiday and stepping up part-time working and early retirement.
British Airways	1,800	7,000	CEO Rod Eddington and 12 senior executives take 15 per cent pay cut, 600 senior managers take 10 per cent pay cut – voluntary. BA refuse to pay management bonuses until 2002 and propose 5 per cent pay cut for middle management. 36,000 employees' holiday bonus for October "temporarily" unpaid. Reduced overtime, cutback of industrial placements, contractors and agency staff.
British European	50		
bmi british midland	600 (11%)		Job sharing for pilots (half week for half normal pay) will significantly reduce the number of pilot redundancies.
Cimber Air	44		
City Bird	600 (bankruptcy)		
Finnair			Management take 10 per cent salary reduction. Holiday and incentive bonuses and pay increases suspended for 2002 for office staff, technicians, pilots, engineers and management. Termination of temporary contracts.
Gill Airways	240 (ceased trading)		
Icelandair	273 (11%)		

Airline	Initially proposed job losses (% of workforce)	Revised job losses (% of workforce)	Employment cost-reduction measures
Iberia	Unspecified reductions as a result of downturn in traffic	2,516 (9.3%)	
JMC	105		
KLM	2,500		12,000 Netherlands-based employees on short-time shifts and employees asked to take “substantial pay cuts”. Scheduled pay increase postponed, ground staff to take a four-day cut in time off with flight staff taking a six-day cut.
LOT Polish Airlines	800 (20%)		
LTU			10 per cent pay cuts and working conditions agreement with pilots (loss of thirteenth-month bonus until 2003 and no pay rise until 2004).
Lufthansa	**None initially**	**2,000-4,000**	Executive board take 10 per cent pay cut in basic remuneration. Senior management expected to follow suit. 825 cabin crew on probation will not be taken to full-time contracts. Overall employee payroll to be trimmed by 10 per cent and shorter working hours for its flight attendants. Company has applied for 12,000 cabin crew to be placed on short-time working.
Monarch	80 (4%)		
SAS	800-1,100	3,300-3,600 (10%)	
Sabena	12,000: airline collapse	6,000 employees (50%) due to creation of DAT Plus	Creation of DAT Plus employing half of Sabena’s employees. Cabin crew forgoing seniority and pilots’ salaries reduced by 30 per cent despite increased productivity agreement.
Swissair	9,000	5,363 in October 2001	
THY Turkish Airlines	1,000		Recruitment freeze, voluntary redundancy, management and staff pay cuts and early retirement.
Transavia	323 (22%)		
Virgin Atlantic	1,200 (15.2%)		Recruitment freeze, voluntary early retirement/redundancy, voluntary furloughs, non-renewal of temporary/probationary contracts, pay cuts.

Airline	Initially proposed job losses (% of workforce)	Revised job losses (% of workforce)	Employment cost-reduction measures
Latin America			
LanChile	650 (6.5%)		Recruitment freeze and reduced training.
Mexicana	70		
Transbrasil			Non-payment of wages (90 per cent September, 100 per cent October and November.
Varig	1,700 (10%)		
Asia and the Pacific			
Ariana Afghan Airlines	1,300		
All Nippon Airways	1,000 (9%)		Voluntary leave offered to 12,000 (3,000 management and 9,000 general employees) early next year paid at 40 per cent less than their normal salary.
Air New Zealand	800 (8%)		6 of 12 senior executive posts have been cut, and remaining managers' pay reduced by 15 per cent.
Asiana Airlines	360 (5%)		
Cathay Pacific			Hong Kong staff lose their discretionary annual bonus and cabin crew were offered unpaid leave. **Hiring freeze in force for ground staff and cabin crew, pilot recruitment phased out.**
Korean Air	350 (5%)	1,000 (6%)	
Qantas	1,500-2,000		Wage "pause" in exchange for lump-sum bonus if profits exceed previous year. Annual and long-service leave, job sharing and unpaid leave.
Singapore Airlines			Pay cuts for management of 7-15 per cent. Pay cuts for employees of 5-7 per cent.
Africa and Middle East			
Air Afrique	4,000		
Gulf Air	450		

Source: Turnbull and Harvey, op. cit.

Table 5. Job losses in other air transport companies

Company	Initially proposed job losses (% of workforce)	Employment cost reduction measures
Airtours (MyTravel)	450	
Anglo Normandy	45	
BAE Systems	1,700	
BBA	50	
B/E Aerospace	1,000 (22%)	Senior management pay reduced by 35-50 per cent
Bombardier Aerospace	3,800	
Boeing	20,000-30,000	
Embraer	1,800	
FLS Aerospace	900	
Gate Gourmet	3,000 (10%)	
Globe Ground (Stansted Airport)	80	
Go-Ahead Aviance (airport services)	700	
Goodrich	2,400	
Heathrow Airport	6,000 (10%)	
LSG Sky Chefs	4,800 (30%)	
Manchester Airport	90	
National Air Traffic Services	225 (20%) of support and management staff	
Rockwell Collins	2,600 (15%)	
Rolls-Royce	5,000 (aircraft engine division)	
Sabena Technics	700 (30%)	
Shorts (Belfast)	2,000 (26%)	No overtime, non-renewal of contract workers
TRW Aeronautical Systems	1,100 (16%)	
Tenzing Communications	80 (sales and marketing)	
Thomas Cook AG	2,600 (10%)	Employees earning in excess of £10,000 a year asked to take a pay cut of 3-10%
Travelocity	(10%) non-customer service workforce	
UTC	5,000	

Source: Turnbull and Harvey, op. cit.

Table 6. Government policies preferred by unions
(percentage of respondent unions)

Policy	Disagree	Neither agree nor disagree	Agree
Contribution to pension funds for early retirement	15	15	70
Funding for severance pay	15	15	70
Low-cost loans to civil aviation employees	15	26	59
Payments to partially cover short-time working	8	31	61
Payments to fully cover short-time working	19	22	59
Extending unemployment benefits	8	11	81
Funding for medical/health insurance	11	30	59
Funding for retraining programmes	–	15	85
Financial compensation to airlines for loss of traffic	24	20	56
Financial compensation to airports for loss of business	31	19	50
Financial compensation to other companies (e.g. air traffic services, catering, aircraft manufacturers, etc.)	35	19	46
Financial support to airlines for higher insurance costs	12	16	72
Financial support to airlines/airports for improved security	8	8	84
Relaxation of foreign ownership rules	61	23	16
Protect services to remote communities	4	12	84
Promote mergers/take-overs/consolidation	61	23	16
Initiatives to promote social dialogue	–	7	93

Source: Turnbull and Harvey, op. cit.