ITF

CIVIL AVIATION SECTION

The Globalisation of the Civil Aviation Industry, and its Impact on Aviation Workers

FOREWORD

Working for Safety, Service Quality and Workers Rights

The 50th anniversary of the Chicago Convention on 7 December 1994 has been declared by the United Nations as the first International Day for Civil Aviation.The International Transport Workers Federation (ITF), which represents half a million aviation workers in 100 countries throughout the world, welcomes such international recognition of the importance of civil air transport. Trade unions are proud to point out the positive contribution made to social and economic development around the world by their industry.

However, trade unions are also concerned to draw public attention to some specific effects of the dramatic changes that have been taking place in the worldwide aviation industry over the last few years. For this reason the ITF has decided to mark this significant date in aviation history by reissuing this publication *The Globalisation of the Civil Aviation Industry and its Impact on Aviation Employees.*

Anything written about the civil aviation industry is liable to seem very out of date very quickly. It therefore may seem something of a risk to re-issue in late 1994 a report published in early 1993. However the focus of this report has been to identify trends which are still unfolding and to formulate an international trade union response which is still very much in the process of development. It is also a document which has not been widely circulated outside of the trade union movement, but which certainly deserves wider scrutiny.

The report came out of discussions at the ITF Civil Aviation Section Conference of November 11-13, 1992, the largest meeting of aviation trade unions from around the world ever held . While some examples given in the text may have been overtaken by more recent events (for example PWA in Canada eventually merged with American Airlines rather than with Air Canada) the analysis demonstrates as soundly as ever what the impact of globalisation has been on employees. Since its publication this document has been translated into at least seven languages and used in trade union education among civil aviation workers in five continents. It is still the most thorough account available of the trade union perspective on the current dramatic changes taking place in the industry.

It is worth briefly commenting on some events which have occurred since the report was first published. In particular two major industry investigations which have taken place: The National Commission for a Safe and Competitive Airline Industry in the United States and the Comité des Sages in the European Union were both set up to address the crisis largely brought about by liberalisation. Both bodies allowed unions only a minor input into their discussions. Both bodies refused to re-evaluate the political-economic assumptions behind liberalisation and as a result both inevitably could only recommend more liberalisation and more intense competitive measures (against each other's airlines) usually at the further expense of labour conditions.

Another event was the failure of the Alcazar project to merge four major European airlines. The collapse of this project, largely over the failure to resolve conflicts between airlines with different US alliance partners, indicated the greater importance attached to alliances stretching to key markets across the globe than those within the regional European market

The formation of an Employee Share Ownership Programme (ESOP) in the giant US carrier United Airlines, has involved massive concessions from the unions. But it has also given unions for the first time the majority ownership of one of the major players in global airline competition (and one which is not about to face bankruptcy). Both airline managements seeking to further reduce their costs and unions seeking to defend their conditions will be closely watching the outcome of this landmark arrangement and attempting to draw lessons for the future.

Finally the period has seen a number of governments, particularly the US government, attempting to push forward the process of global liberalisation. In response to pressures on the current bilateral system of international agreements, ICAO has organised a worldwide air transport conference on *International Air Transport Regulation; Present and Future* in Montreal in November 1994, which will discuss the crucial issue of economic regulation in the industry through international air agreements.

The ITF has already joined other international trade union bodies during recent discussions on the Global Agreement on Trade and Tariffs (GATT) in highlighting the fact that the international regulation of trade and services has a direct impact on tens of thousands of employees and their working conditions and that, therefore, social measures should be an integral part of any international trade agreement. The ITF similarly believes that international air agreements must include social measures which take into account and redress any negative impact of liberalisation and structural change in the industry on employees. In its views submitted to the ICAO Conference the ITF prposes that such social measures should be enforced through an International Civil Aviation Organisation (ICAO) Code of Conduct applying within international air agreements which would set out:

- Minimum labour standards
- Minimum employment rights, including the right to bargain collectively
- Minimum social security rights
- Minimum occupational health and safety standards
- Minimum training standards, including the licensing of all staff with safety responsibilities.

Our Federation believes that the social impact of the structural changes taking place in the industry requires urgent attention from governments and greater awareness from the general public. In a rapidly globalising aviation industry if flag carriers are not to be displaced by flags of convenience then international measures to guarantee minimum employment conditions such as those listed above are an urgent necessity. Trade unions seek a coherent and constructive approach to the regulatory system which allows the industry the freedom to prosper while safeguarding the right of countries to maintain national sovereignty on civil aviation matters. We seek a system which protects passengers with strict rules on aviation safety; which services public needs for essential and good quality air transport services; and which protects workers with decent minimum working conditions and employee rights.

Stuart Howard,
Secretary, Civil Aviation Section
November 1994.

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Introduction

In 1991, the civil aviation industry reported the worst results in the post-war history of civil aviation. In two years, 1990 and 1991 the air transport industry lost everything it had gained in twenty years. But though this has been a shock in what has always been a boom industry, the current civil aviation crisis is not about the Gulf War or the world recession.

The real crisis in civil aviation lies in the extraordinary global restructuring which is taking place in this vital industry. Aviation is shifting from being a highly regulated public service industry of national airlines largely run by national governments to a transnational industry directed from the closed boardrooms of a handful of global mega-carriers.

It gives little pleasure to note that throughout this process union predictions about the effects of deregulation and globalisation — the job losses, service deterioration, the safety concerns, the temporary and uneven nature of lower fares, the massive industry concentration — have been proved consistently accurate. Also as we predicted, employees and their unions have borne the worst burden of this restructuring. Massive job losses, wage cuts, worsening working conditions and attacks on trade union rights have characterised the changes taking place in the industry around the world.

1992 has been a land mark year for those seeking a deregulated and «globalised» industry. The European Community presented its final and most radical, package of measures for the liberalisation of aviation in Europe; a second phase of Australian deregulation was announced with moves towards a Trans-Tasman single aviation market. The first "open skies" agreement was signed between the US and a European country : Holland. A ferocious fares war may see the final phase of airline concentration in the United States.

There were significant airline mergers and alliances. The privatisation of Qantas and its merger with Australian Airlines; the likely merger of Air Canada and Canadian Airlines; Air France's purchase of Sabena and (in the first West Europe-East Europe equity link up) its purchase of CSA. Perhaps most significant of all, the demise of the old US "flag carrier" Pan Am in December 1991 has been followed, just one year later, by the world's biggest proposed global alliance between BA and USAir.

Predicting the outcome of deregulation is no longer a guessing game. We have had fourteen years to look at the results of deregulation in the US and more than four years to see the effects in Canada. Yet, we are at only the very beginnings of the process of the globalisation of civil aviation. In the future unions are going to be faced with global airlines determined to operate in a global market place, taking full advantage of a global labour force. The international co-ordination of trade union action is now a an essential part of trade union survival over the next decade.

It is not enough to analyse what has happened to the airline industry or to estimate what may happen to it in the future. Faced with the unprecedented changes which are taking place, the ITF's civil aviation section must also begin the task of devising a comprehensive and coherent strategy to enable affiliated unions to maximise the benefits and minimise the costs for aviation workers.

This document, and the discussions at the Section Conference are designed to assist ITF unions in arriving at that strategy.

PART 1:

TOWARDS THE GLOBAL AIRLINE

CHAPTER 1: PRIVATISATION

- **Airlines and National Interest**
- **Privatisation: Ideology and Cutting Government Spending**
- **Grooming Airlines For Sale**

A Public Utility Industry

Governments around the world have traditionally viewed civil aviation as critical to their national economic and defence interests. During the post-war growth of air transport, and after the 1944 Chicago Convention set international rules for civil aviation, national governments set tight conditions for market entry, the allocation of air routes and the setting of air fares. Competition played a very limited role. Bilateral agreements, by containing "effective control clauses", have effectively limited the scope for foreign investment in any airline. Most national governments, outside of the United States, established "flag carrier" airlines or took private carriers into state ownership.

The United States, while refraining from government-ownership of airlines, still regards the national security role of civil air transport important enough to justify limits on foreign ownership. A US State Department official recently stated: *"there are national security concerns that must be satisfied before any large scale opening to foreign investors is permitted. The US Civil Reserve Air Fleets (CRAF) program played a vital role in Desert Shield/Storm operations.."*[1]

In today's more competition oriented environment, while some governments are no longer so concerned with airlines as a way of "flying the flag", aviation is still recognised as of vital economic importance.

- Airlines are expected to play a special role in unifying large and multi-lingual countries such as Canada or India, or island groupings such as the Philippines, particularly where the other transport links to remoter areas are relatively undeveloped.
- The travel and tourism industry has boomed. It is now the world's largest employer and, according to the World Travel and Tourism

Council,[2] generates an annual gross output of $250,000 billion. For tourism-dependent countries from Jamaica to Ireland air links are now even more important.

- Air freight transport is vital to the manufacturing economy. According to IATA[3] one quarter (by value) of the world's manufactured goods are transported by air.

"In every region of the world, countries large and small depend on the aviation industry to fuel their economic growth and their financial strength. In 1989 the industry provided at least 21 million jobs for the world's workforce (and) US$ 700 billion in annual gross output."

IATA, "The Economic Benefits of Air Transport", prepared for the Air Transport Action Group, 1992

State-ownership and/or state regulation enables governments to plan air transport to link in with their overall transport strategy and national economic planning. Many Third World countries, already on the periphery of the global economy, believe that only by maintaining state ownership of airlines will they be able to maintain air links which serve national and regional development needs.

Even the most conservative Third World governments have recognised a relationship between airlines and economic and political independence. One Third World airline president[4] recently declared: *"No government will ever permit the majority of capital in an airline to be owned by foreign interests"*. Yet an increasing number of them are doing exactly that.

Privatisation

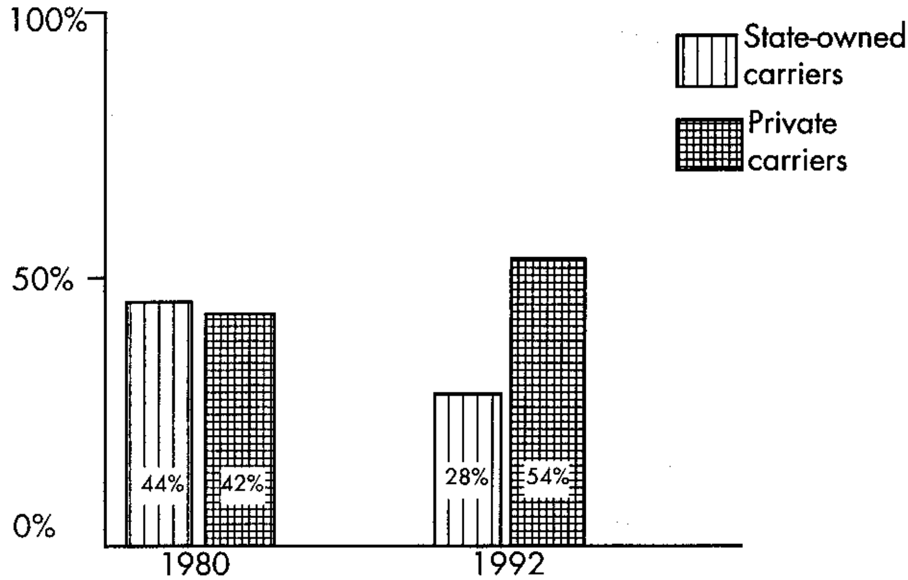
Privatisation has been pushed along by laissez-faire economic doctrines prevalent among many governments, along with the immediate needs of many governments to cut public spending.

There are degrees of state-control and degrees of privatisation. Many governments, while retaining state-ownership of the national airline, have re-organised it to behave as a private company and to operate in a commercial competitive environment. European airlines, such as Air France and Lufthansa, while still majority state-owned, are increasingly required to operate to commercial rather than public service criteria. Many state-owned airlines have substantially reduced the level of government ownership and allowed in private investment.

European state-owned airlines are currently still benefiting from large government subsidies, although the European Commission is now banning such subsidies under its competition rules. Government protections of various kinds have remained for privatised airlines such as British government protection for British Airways routes. In the U.S. Chapter 11 bankruptcy keeps airlines flying which according to commercial logic should have ceased operation.

The trend in airline ownership is clear. Around 40 airlines around the world are currently up for privatisation. The table opposite shows how world air travel (by Revenue Tonne Kilometers) has shifted from state-owned carriers to private carriers over recent years.[5]

Airline Ownership 1980 and1992



Ideology

The first wave of privatisations, in the mid-eighties (e.g. British Airways), was pushed forward by governments following a free market ideological agenda. This ideological approach links privatisation closely with deregulation.

> ***"the government has deliberately shifted control of this industry from publicly accountable regulators to private decision-makers in closed corporate boardrooms."***
>
> Joint IAMAW, CUPE, CAW submission to Hon. Jean Corbeil, the Canadian Minister of Transport, March 23, 1992

Private investors are not interested in responsibilities which "handicap" their profits. As Ulli Bauer of SH&E, a consultancy company which advises governments on airline privatisation, notes: *"State-owned airlines are subject to considerable economic headwind that private investors hope to elude. These handicaps range from having to serve destinations for political instead of commercial reasons to obligations in performing essential air services or cross subsidising money losing markets."*[6]

Privatisation, in combination with deregulation, detaches an airline from overall government economic or transport planning. It sheds the public service responsibilities of an airline and its air services. It also effectively gets rid of any form of public accountability and democratic control.

Capital Needs

A more recent second wave of privatisations has been impelled less by ideology and more by governments trying to escape the sheer financial burden of a state-owned national airline. Indeed, at a time when governments have been selling off many of their public utilities, when airline capital costs are escalating and most airlines (including privately-owned ones) are losing money, the privatisation of airlines is particularly tempting.

A recent ICAO study[7] estimates that:

- the world's airlines spent around $340 billion on either buying or leasing aircraft between 1970 and 1990 — roughly 0.95 per cent of cumulative world GDP,

- around $800 billion will be spent on upgrading or renewing aircraft fleets in the period 1991 to 2010 — the equivalent of 1.3 per cent of the forecast world GDP.

The need for capital comes not only from state-owned carriers. Canada and the United States, with privately-owned carriers, are both currently revising foreign ownership rules because of the desperate capital needs of their financially stricken carriers.
The search for capital is driving forward airline mergers such as USAir's recent embrace of British Airways, and KLM's investment in Northwest Airlines.

But even mega-carriers do not have the capital to buy all the airlines offering themselves up for privatisation. Financial analysts also increasingly point out that privatisation does not necessarily save an ailing airline or its air services.

"Grooming"

"Under privatisation, the national airlines will lose their national identity and wil become subsidiaries of global cartels and mega-carriers ... Labour cutbacks, reductions in wages, inreases in working hours and workload, cross-utilisation of manpower, and contract work are going to be the order of the day."

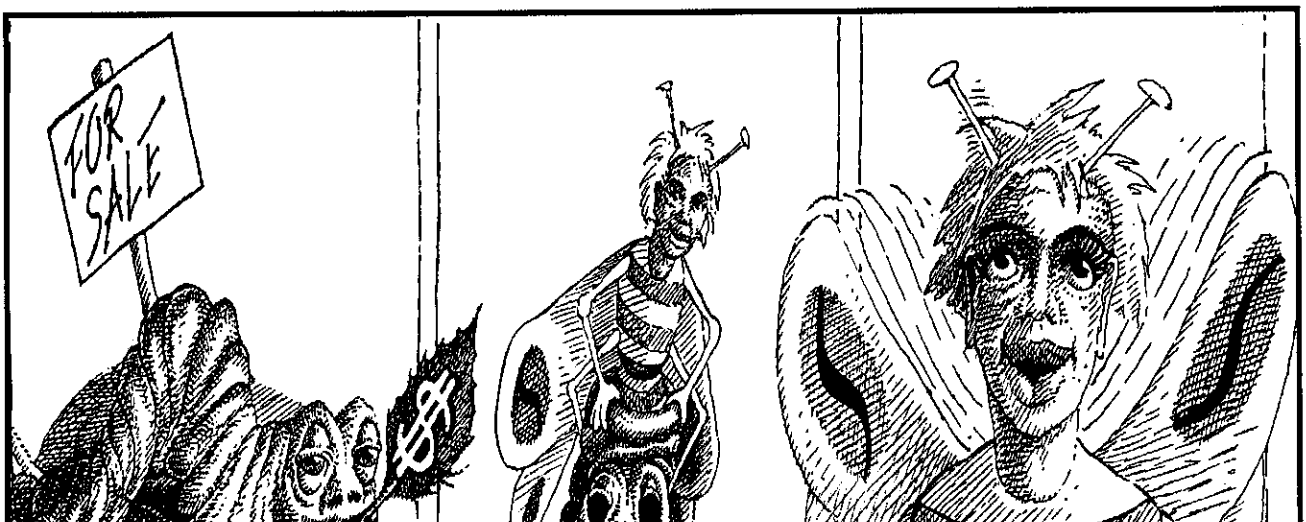
"Fight Against Privatisation of the Civil Aviation Industry" leaflet produced by the All India Co-ordination Committee of Aviation Trade Unions, Delhi, 1992

In the desperate search for investors, governments frequently restructure their airlines to make them more attractive to potential buyers. This "grooming" frequently involves injecting large amounts of money in re-capitalisation, the writing off of existing debts, insisting the company is run on a commercial basis, and cutting costs, including the shedding of large numbers of jobs. It may also involve getting rid of unions or reducing their rights in advance of privatisation (see chapter 8). This distortion effectively falsifies the frequently made performance comparisons between privatised and non privatised carriers, in favour of privatised airlines.

Unfortunately such restructuring frequently fails to take account of real operational needs. One recent study by airline privatisation specialists SH&E has shown that the unit costs reductions achieved by pre-privatisation "grooming" are frequently unrealistic and are not sustained after privatisation.[8] This study concluded: "*This cost improvement usually continues for a short period of 1 or 2 years following privatisation. However, some of these cost containment measures are not suitable and generally sometime after privatisation, unit costs tend to increase again to pre-privatisation levels, or even higher*".

Caterpillars into Butterflies

- Before the privatisation of Sabena the Belgian government wrote off a $445.5m debt in 1991 and injected $275m capital into the carrier, mostly to fund 2,200 planned job losses, with $265m more on offer for whenever a foreign investor struck a deal. As Airline Business put it: *“The ungainly caterpillar that for years has repelled prospective partners may soon be fluttering its brightly coloured wings seductively”.*[9]
- In 1988, the Mexican government prepared Aeromexico for privatisation by declaring the airline bankrupt (in the middle of a ground workers’ strike) and suspended all operations. The company shed two thirds of its 12,500 employees, and dropped unprofitable domestic routes. However, according to a SH&E study (see left): *“once operations resumed, unit costs increased to above their pre-privatisation levels”.*
- Prior to privatisation in March 1992, the already debt-burdened Philippines government assumed $520m of PAL’s debt and offered potential buyers a special law which cancelled all existing union contracts in companies undergoing privatisation. In July 1992, one of the first decisions of the new private owners was to ground PAL’s fleet of seven leased commuter aircraft, which had operated “unprofitable” island air links.
- After the coup in May 1992 the sale price of AeroPeru was dropped from $100m to $20m. Unions say the airline is worth $400m. The government aims to cut the workforce from 1,800 to 800 prior to privatisation.



Aerolineas Argentinas: the "nationalisation of private debt"

Two years after privatising Aerolíneas Argentinas, the experience has proved so disastrous that the Argentinian government has renationalised 28 per cent of the shares.

When Aerolíneas Argentinas was privatised in November 1990 the sale had the ironical result of privatisation placing Argentinian aviation into the hands of a loss-making state-owned carrier, Iberia. The Spanish carrier bought 30 per cent of the shares, but quickly acquired real control over 80 per cent of the company. Since AA has bought the domestic carrier Austral, Iberia now effectively controls Argentinian civil air transport. As Argentinian aviation unions put it:

"Instead of being a case of privatisation, only a transnationalisation was achieved, in this case in favour of the Spanish state".[10]

At the time of privatisation aviation unions were split between support for and opposition to the sell off. The actual experience of privatisation brought the unions together. There was a dramatic drop in working conditions, including mass dismissals, a fall in real wages, the breaking of wages agreements, breaches of duty time limits, the subcontracting of ground services, compulsory flexibility arrangements, and a disregard for union organisation.

There was a systematic pillaging of company assets. Many AA international routes were handed over to Iberia. AA's telecommunications system was ripped out and transferred to Iberia.

On 6 June 1992 the six unions in AA issued a joint statement condemning the state of the airline. The statement noted:

"(Iberia) is proposing to reduce Aerolíneas Argentinas to a mere subsidiary...This is detrimental to the interests of our country, of users and of workers, who are, after all, those who end up paying the price of such plundering".

Before privatisation AA was a profitable company. (Between 1980 and 1981 it even lent money to the national treasury.) However, soon after privatisation the airline was rumoured to be losing up to $11m per month. The current debts of AA are estimated at $800m.

In August 1992 the Argentinian government repurchased 28 per cent of AA shares from Iberia, giving the government a total holding of 43 per cent. The unions say the repurchase provides no guarantees against future plunder or for improvements in services or working conditions. They say that the government has simply bought into an $800m debt, still does not control the company, and is effectively "nationalising private debt".

Privatisation The World Bank : African Aviation For Sale

African airlines carry only 3.4 per cent of the world's passenger traffic. African air transport suffers from staggering political, economic and infrastructural problems. Most African airlines are a severe burden on their national economy, and the route structures still reflect the colonial past of the continent. It is usually much easier to fly to a European city from Africa than to travel between regions within the continent. Corruption is endemic and airlines suffer from being run for the personal convenience of presidents, ministers or members of the airforce rather than as enterprises.

A number of African countries have sought to maintain the survival of independent air links through regional co-operation and pooling of resources. In November 1984 a special conference of African governments and airlines adopted the Mbabane Declaration aimed at pushing forward more bilateral agreements on aviation freedoms between African states. In 1988, the Yamoussoukro Declaration provided a political framework for joint ventures and co-operation.

"It would be helpful if the (World) Bank advised and stopped short of running the airlines."

Mohammed Ahmed, Secretary General, African Airlines Association

A number of joint operations have been tried in the past and failed (e.g. East African Airways). More recently a number of airlines have entered close co-operation. A number of SADCC (Southern African Development Co-oordination Council) countries have built an alliance involving Air Botswana, Air Zimbabwe, Air Zambia and Air Tanzania. Air Malawi and Lesotho Airways may also join the group.

This regional grouping aims to pool resources, including aircraft and maintenance facilities, to ensure vital regional air transport service needs are maintained. As Brian Pocock, General Manager of Air Botswana, has put it: *"We believe the preservation of schedule and service independence will safeguard against having our air links become the casualty of a bottom line result in a board room in Paris or London".*[11]

Moves towards regional co-operation and development are, however, seriously threatened by the privatisation of African airlines. With little domestic capital available, the only realistic bidders for any African airlines will be foreign carriers. Foreign investment will inevitably turn African airlines into feeders for European or American mega-carriers. This will wreck regional co-operation attempts.

Yet privatisation of airlines and foreign investment are being energetically promoted in Africa. This direction is being initiated, as in other developing countries, not by governments or airlines, but by the World Bank. Privatisation is not part of a continental or regional or even national aviation strategy. It is a tempting cost saving item on a long list of public spending cut-backs required by the economic adjustment programmes which the IMF and World Bank demand of African governments.

The World Bank has taken on a powerful and highly directive role in African aviation. As Mohammed Ahmed, secretary general, African Airlines Association, recently put it: *"It would be helpful if the (World) Bank advised and stopped short of running the airlines".*[12]

The World Bank says that African governments should stop giving subsidies to airlines, which "should be viewed as commercial entities". [13] The Bank believes some unprofitable airlines should cease operation. Another recommendation is "reductions in staff and introduction of performance-based remuneration systems" and the contracting out of work. Already there have been job losses. In June 1992 Air Tanzania announced 700 job losses. The government put the blame on World Bank-imposed structural adjustments.

"Air Zimbabwe has now adopted a policy of staff reduction by reducing the number of divisions in the airline. This will result in many people losing their jobs, and yet financially the company has no money to pay the employees made redundant. The next step will be to request the World Bank to come to their rescue. This means that assistance will be accompanied by unbearable conditions which will do even more harm to the employees."

Ken Chipato, National Airways Workers' Union, Zimbabwe

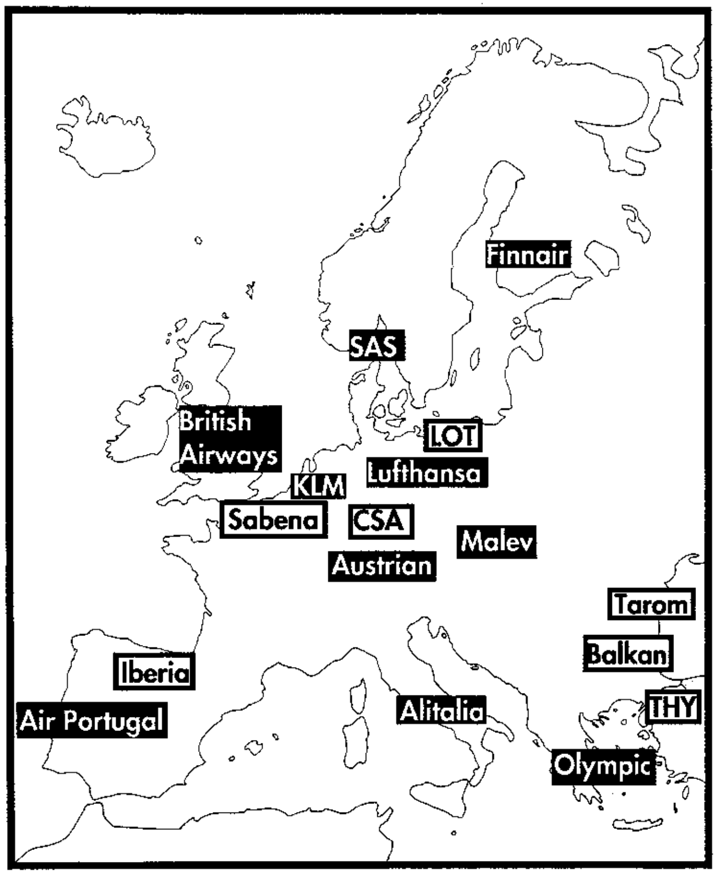
- Kenya Airways will be the first African airline to be privatised in 1993.
- A 40 per cent stake in Nigeria Airways is up for sale.
- Air Tanzania is inviting private sector partners.
- The Zambian government has hired a US investment bank to restructure Zambia Airways ahead of private sale.
- Air Zimbabwe, Sudan Airways and Air Djibouti have all announced they are up for privatisation.
- Air Afrique is a multinational airline, in which 10 states have successfully merged their airlines, and which now operates in profit. However, in 1992 the ten member states announced that they are to reduce their shares from 79 per cent to 50.5 per cent, privatising the rest.

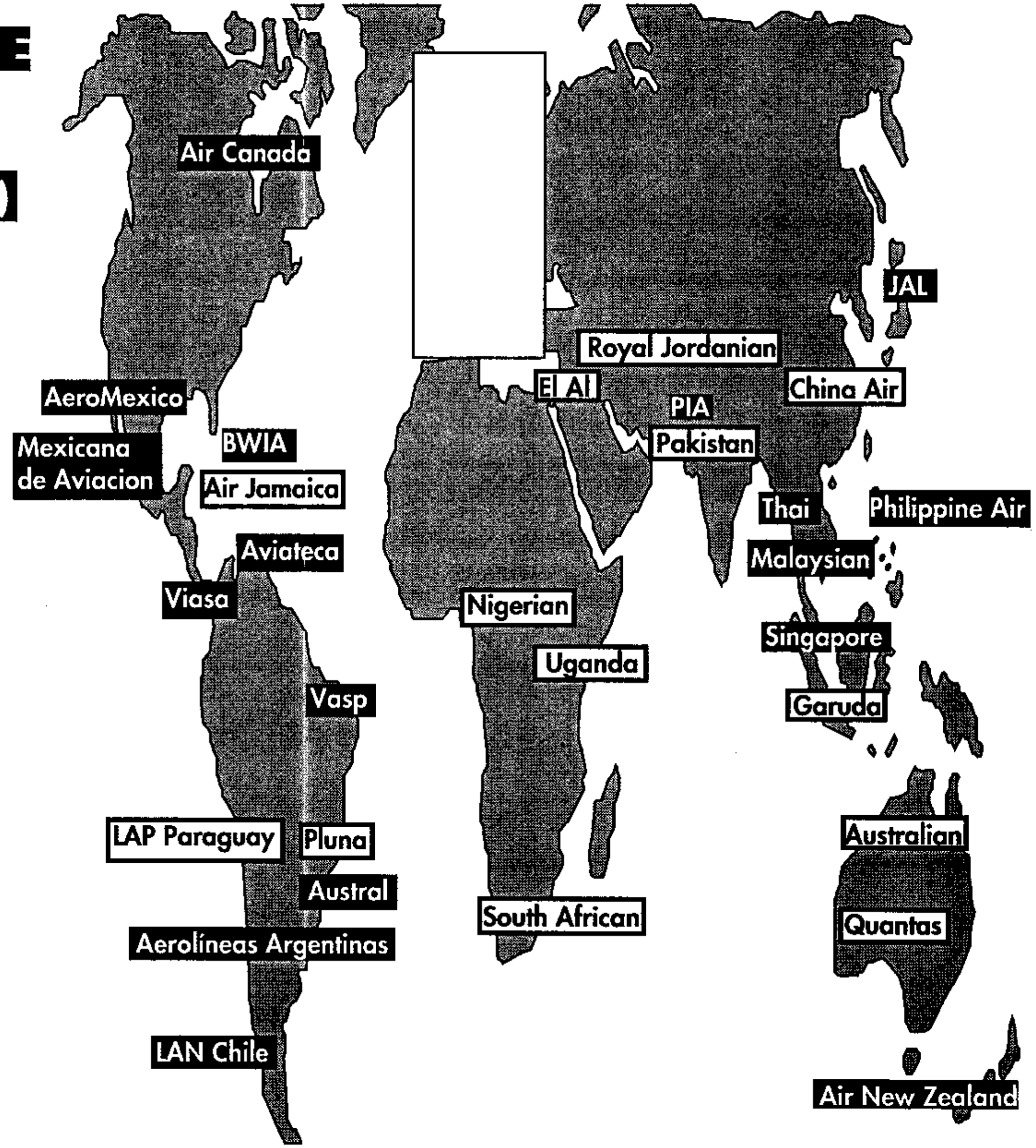
African countries need a comprehensive aviation strategy aided by funding from the international development banks. At the present time, they are getting short term austerity programmes which are off-loading African airlines, or those considered worth it, into the hands of the multinational airlines, without much concern for the role of air transport in the continent's wider economic development.

WORLDWIDE AIRLINE PRIVATISATIONS

Completed or in progress (26)

Proposed (20)





Source: Morgan Stanley and US DOT (May 92)

CHAPTER 2: DEREGULATION AND "OPEN SKIES"

- **Economic Liberalism**
- **Stages of Deregulation — Domestic Markets**
  International Agreements
  Global Open Skies

Civil aviation, as a vital public service and as an industry requiring the highest standards of safety, has been highly regulated by governments in every country in the world. In theory economic regulation and safety regulation are different and distinct from each other. However, as we shall point out in chapter 5, in practice the distinction is not so clear, since airlines which are protected from cut-throat competition have less incentive to cut safety-related costs. Indeed there is a strong argument which says that the more that airlines are exposed to competition the more safety should come under tighter regulation.

However, that situation is rapidly changing. In 1978 the United States, the single largest aviation market in the world, became deregulated. The second largest, Europe, is on the threshold of large scale liberalisation, which may have very similar effects.

Economic Liberalism

"In contrast, the deregulation movement focused largely on ends. Deregulators wanted the very heart of the regulatory function amputated from the body politic, and free-market economists provided the intellectual cannon fodder, insisting that airlines were not public utilities, as they had been commonly perceived."

Paul Stephen Dempsey, Address before the Second Annual Conference on Airlines, Airports and Aviation, Washington DC, May 1992

Deregulation in civil aviation is part of a wider doctrine of economic liberalism and *laissez-faire* espoused by what became known as the "New Right". It is a philosophy which was very fashionable in the 1980s but which is beginning to run out of steam today. It promotes free markets, free trade, free enterprise and the withdrawal of government regulation from business and the economy. Sir Lennox-Hewitt, former chairman of Qantas, described this philosophy as: *"descended from economic thuggery on its father's side and old fashioned anti-trust idealism on its mother's side"*.[1]

In many countries deregulation of air transport has been accompanied by deregulation in road haulage, bus services and other service industries such as banking and insurance.

Domestic deregulation is seen as the first step to an ultimate objective of global deregulation. The US government, in particular, saw international "open skies" as gaining US carriers a bigger share of the world aviation market.

The supporters of deregulation argued that regulation of both domestic and international routes aimed at protecting the public interest actually created airline monopolies, which kept prices artificially high, bred inefficiencies, and stopped new airlines entering the industry. They argued that deregulation would improve services to the consumer by:

- breaking up established monopolies, and encouraging new entrants
- creating more competition (or the threat of it)
- lowering labour costs
- providing more efficient services
- providing lower fares

For employers, this philosophy usefully counterposed the interests of consumer and labour. It claimed that consumers were paying artificially high prices, partly as a result of high labour costs. For politicians, the equation of deregulation with cheaper fares proved an effective election platform.

However, while deregulation has been highly successful in lowering labour costs and eroding working conditions, the benefits to the consumer have been highly questionable.

Stages of Deregulation

Deregulation in aviation involves two main stages:

i. Deregulation within internal domestic markets and market blocs

Those countries such as the United States, which spear-headed the doctrines of economic liberalism, were the first to deregulate. The Kennedy Report in 1974 laid the ground for the Airline Deregulation Act of 1978 by the Carter administration. Alfred Kahn, the "political commissar" of deregulation, was appointed head of the Civil Aeronautics Board to implement the new policy and oversee the eventual dissolution of the CAB itself.

Airline deregulation has since been exported around the world. EC Commissioner for Transport, Karel Van Miert, noted in May 1991: *"The drastic deregulation in the United States has been the beginning of a worldwide movement towards diminished government control and increased competition....This movement may be reluctant, it may not be as drastic as in the US, but it is there. The effects are noticeable around the world".*[2]

Deregulation reached New Zealand (1983), Canada (1987), Australia (1990). Such international institutions as the World Bank and the IMF are helping to export the ideology of liberalisation and deregulation of aviation, to Eastern Europe and the Third World.

> ***"...an open border poses too great a risk to the viability of a competitive Canadian airline industry and (the Task Force) recommends against it." ...The Task Force is of the opinion that in the longer run, the competitive advantages of U.S. carriers could lead to their domination of transborder services at the expense of Canadian carriers."***
>
> Report of Canadian Government Task Force on International Aviation Policy (1992), III, p.67

A 1986 European Court of Justice decision (the Nouvelles Frontières case), ruling that EC competition rules applied to air transport, effectively sounded the death knell of bi-lateral agreements between EC member states and propelled forward the whole process of European liberalisation. Europe has introduced deregulation in "packages". The third and final package will be implemented in January 1993.

The EC is, of course, a trading bloc made up of several countries. Other countries are also starting to form aviation market blocs. Australia announced in February 1992 a second phase of deregulation which would integrate Australia and New Zealand in a common aviation market. Talks are proceeding between the United States and Canada towards an "open skies" policy which may eventually be extended to Mexico. In Latin America, the Andean Pact, linking Venezuela, Colombia, Peru, Ecuador and Bolivia, which was formed in May 1991 has exchanged route freedoms, but not yet dismantled fares controls.

The move towards market blocs does not by any means benefit all participating countries equally. New Zealand is wrangling with Australia over terms of the Trans-Tasman air market. A Canadian government task force has said that the entire Canadian aviation industry is under threat from an open skies agreement with the US.

US deregulation

The 1978 Airline Deregulation Act followed several years of gradual relaxation of domestic aviation rules. The new law stipulated:

- **elimination of all entry controls except "fitness" from December 31, 1981**
- **elimination of any regulation of domestic route networks (including frequency and capacity controls) from December 31, 1981.**
- **elimination of all domestic fares regulation from December 31, 1982**
- **abolition of Civil Aeronautics Board from December 31, 1984 and transfer of its remaining responsibilities to the DOT.**

EC "Third Package"

On 22 June 1992 the European Community's Council of Transport Ministers agreed on a "third package" of aviation liberalisation measures. Two previous "packages" of liberalisation had relaxed some controls on route frequency, capacity and the regulation of fares. The new measures went much closer to full liberalisation. These consist of:

- elimination of entry barriers to all carriers majority-owned by EC member states or nationals and operating in the EC, other than on grounds of financial "fitness".
- right of access to all intra-Community routes for all EC carriers by 1 January 1993.
- Full cabotage by April 1997.
- Elimination of almost all controls on fares. However, member states can bar excessively high or excessively low fares.
- States retain the right to impose public service obligations on routes of regional importance or route restrictions where there are serious difficulties with congestion, or environmental problems.

ii. International agreements

The 1944 Chicago Convention established worldwide rules for commercial aviation. The United States had proposed the convention with the aim of establishing complete freedom of the air. Since at the time this would clearly have led to the complete domination of world air transport by US airlines, it was, not surprisingly, rejected by the other countries who opted for a system of bi-lateral agreements.

These bi-lateral agreements set out tight rules which cover all aspects of aviation relations between any two countries, including routes, fares frequencies, capacity, safety, security and ground services. The agreements involve the contracting states stipulating which of the various "freedoms" of the air they are granting to each other.

Following its own domestic deregulation, however, the US has sought more liberal bi-lateral aviation agreements with a number of individual countries, and maintains a constant pressure for such "open skies" agreements. In September 1992 the US and Holland signed an agreement which the US clearly views as an "open skies" bridgehead in Europe. Such moves are viewed with deep suspicion by European airlines. Bernard Attali, chairman of Air France, recently declared *"seen from this side of the Atlantic, open skies are rather like an American vision of Pax Americana".* [3]

The movement towards global "open skies" is most likely to advance through agreements between market blocs, e.g. between the EC bloc and the North America bloc. It is already a matter of discussion in the EC as to whether the Commission will negotiate air treaties between member states and third countries.

In 1990, a "Think Tank on Multilateral Aviation Liberalisation" was set up, sponsored by a private consultancy called Global Aviation Associates, and chaired by Hans Raben, former Director General of the Dutch Civil Aviation Authority, and involving Don Carty, Executive Vice President of American Airlines, along with a range of present and former airline executives, former high level members of the US Department of Transportation and international aviation "experts", with the aim of promoting global open skies. This group published a report called *Free Trade in the Air* in January 1991.[4] This report declares: *"The Think Tank believes that the best prospects for a passenger multilateral will be found initially in the North Atlantic market. A liberal agreement involving the United States, Canada and the European Community is a logical development of the objectives of the North American free trade areas and the Single Market in Europe. But it would be unfortunate if the scope of these negotiations were limited to North America and the Community..... Several countries in Asia and Australia have moved towards more liberal positions and some of these have advocated new multilateral policies. Australia, New Zealand, Japan and the ASEAN countries should certainly be amongst those invited to join negotiations for a new passenger multilateral, as also should any countries which have expressed interest".*

In Whose Interest? Two views of Open Skies

"all of the players nevertheless recognise that forces are moving the world inexorably toward the superior opportunities and benefits of open skies, and away from the mists and fog of regulation and protectionism that impede progress and compromise efficiency."
James W. Collison, Vice President of Corporate Affairs, in Delta Airlines: Globalisation of the World's Air Transport Industry: the North American, North Atlantic and EC Markets, speech to conference on Airlines, Airports and Aviation, May 28-29 1992, Smithsonian Institute, National Air and Space Museum, Washington DC

"The legislation is promoted by ideology, not the best interests of Canada. It is based on the wish of continental free trade, not the needs of many small and isolated Canadian communities. Finally, it caters to the greed of a small elite."
IAM/CUPE/CAW submission to Hon Jean Corbeil, Canadian Transport Minister, March 23, 1992

The Route to Open Skies

I. Deregulation of the internal market (or market bloc)

There are different degrees of deregulation:

1. ***Liberalisation*** The gradual relaxation of regulatory control for certain categories of fares, e.g. relaxation of charter rules and introduction of discount fares in various countries.	
2. ***Controlled Deregulation*** The gradual, controlled removal of route capacity and fare rules and the gradual introduction of competition according to traffic volumes of the regulated routes.	The EC Second Package The Andean Pact The EC Third Package, possibly, with only minimal controls on fares and minimum protection of public service routes. However, it is unclear how EC liberalisation will actually work out.
3. ***Total Deregulation*** The removal by schedule (fast or slow) of all control over routes and fares, allowing new airlines into the market and all-out competition in which the fittest survive.	US Deregulation

II. International agreements — "Open Skies"

On March 31 1992, Andrew Card, the newly-appointed US Transport Secretary, announced that the US was now offering to negotiate "open skies" agreements with all European countries, an initiative that could later be extended to other regions. The main elements of a US "open skies" agreement are:

- *Open entry and unrestricted capacity and frequency on all routes*

This offers US airlines the opportunity to flatten their less efficient competitors and the small airlines of nations that depend on tourism for their survival. The US megas deploy their capacity and market power in order to maximise their profits. Thus a US mega-carrier will switch an aircraft from a transatlantic route to a Latin American route at the slightest indication of superior profit opportunity, without regard to the impact on the quality of service in the country it has deserted, and with the intent of intensifying competition to which it has added capacity. If profits do not materialise as expected, the mega-carrier may hardly notice the financial impact: meanwhile a small airline may be forced out of business.

- *Double disapproval of fares*

Since the US is unlikely to disapprove any fares, this effectively means complete price freedom. This was recently illustrated in the case of the "open skies" agreement between the US and Chile by Ladeco's and LACSA's attempts to protest about American Airlines' unduly low fares. Their efforts were doomed from the start as the US open skies rules do not recognise predatory pricing as a valid criterion for complaint.

- *Open code-sharing opportunities*

This aims at seamless travel by co-ordinating end-to-end services by different airlines. Code-sharing is already widely used within airline alliances, though some countries view it as anti-competitive.

- *Self handling provisions*

US airlines are passionately dedicated to the right to handle their own ground services at foreign airports.

- *Non-discriminatory CRS systems*

There are already different sets of CRS rules. All of them claim to be non discriminatory. For clarification of this item, the world must await the publication of the US DoT's long-delayed revised CRS code of conduct.

Other elements include unrestricted route and traffic rights, i.e. the right to operate between any point in the United States and any point in any European country; liberal charter and cargo arrangements; and what are vaguely listed as "other pro-competitive provisions".

Adapted from "Closed Mind on Open Skies", Avmark Aviation Economist, June 1992

CHAPTER 3: FROM COMPETITION TO CONCENTRATION

- **Competition or Concentration ? — the US, Canada and Europe**
- **Globalisation — Alliances and Mergers**
- **Computer Reservation Systems**

Competition or Concentration ?

Deregulation was meant to bring competition to the airline industry. Instead it appears to be bringing about a rapid concentration in the industry and the domination of aviation by global mega-carriers.

In Canada and the US there were periods of increased competition before the industry began to concentrate. In the EC it looks like the industry may skip the initial competition period altogether.

The United States

In the United States an initial period of fierce competition was followed by industry concentration. This went against the predictions of the deregulators, but not of the unions:

"Cannibalism has become a strategic model."

Bernard Attali,
Chairman of Air France,
3 September 1992

In 1977, during the hearings of the House Subcommittee on airline deregulation Bill Scheri, Airline Co-ordinater of the IAM, recalls, the IAM argued that:

> *"when the free marketeers had had their day; when the upstart airlines and scam operators had conned, milked and bilked the industry into waste, bankruptcy and confusion, when all the dog fighting was over, there would be greater monopoly, not more competition, characterising the industry".*

But in the same hearings Alfred Kahn "father of US deregulation" rejected such criticisms:

> *"I do not honestly believe that the big airlines are going to be able to wipe out the smaller airlines, if only because every study we have ever made seems to show that there are not economies of scale".*[1]

Events have proved the deregulators wrong. According to Don Carty of American Airlines: *"Fourteen years of deregulation have driven home the importance of strong networks and economies of scale".*[2]

- In the first ten years of deregulation in the US more than 170 entrepreneurs received licences to start new airlines. Over 150 went bankrupt, were liquidated or never flew.

- Small new airline competitors have virtually vanished.

- In January 1992 the top four US airlines controlled 70 per cent of the domestic market.

It was the powerful established airlines which won the battle for domination of the US aviation market. Two key weapons in their hands were the control of networks through hub airports, and domination of marketing through computer reservations systems.

It was recently found to cost less to take a taxi than to fly from St Louis to Kansas City, for the 90 cent a mile cab fare was lower than the $1.00 a mile plane fare.

Controlling Hubs

The domination of airport hubs, which control route networks through hub and spoke systems, is the key to survival in the deregulated US airline industry. Since deregulation airport hubs have increasingly concentrated under the control of the mega-carriers.

- Before deregulation not a single US airport was dominated by one airline.

- Currently there are 18 major hub airports where one airline holds an effective monopoly (60 per cent or more) of slots. Northwest controls more than 80 per cent of the Minneapolis -St Paul market; Delta controls 89 per cent of the Atlanta hub; American and United hold 84 per cent of the giant Chicago O'Hare airport.

- Hubs account for 70 per cent of domestic air traffic in the US.

- The U.S. General Accounting Office (GAO) found that during 1988-90 fares were 27 per cent higher at concentrated airports than at unconcentrated airports.

- a 65 per cent increase in a carrier's market share on a route translates to a 6 per cent fare rise.

As more airlines are forced out of the industry prices rise again. According to the GAO: *"The GAO's work indicates that reconcentration and the erection of barriers to airline market entry, particularly at hub airports, may be leading to less competition and higher fares. Fares are higher at major airports where one or two airlines dominate the traffic, and fares are higher for travel to such airports from smaller communities".*[3]

Non discount fares are so high that the majority of passengers are forced to fly on discount fares, which involve burdensome restrictions, including non refundability of tickets, inconvenient stop-overs, and lengthy indirect flights routed through hubs. In this way air services for most passengers are usually substantially inferior to those offered under regulation.

Computer Reservation Systems

"If you look at what has happened in the North American airline business over the past ten years, the winners have been those with strong CRS operations."

Luke Mayhew, head of distribution British Airways (Financial Times, London August 1987)

The major US airlines invested heavily in computer reservations systems (CRSs). Industry experts believe that these huge systems which effectively control marketing through linking travel agents and airlines are one of the most critical weapons in competition between airlines. According to the US General Accounting Office, an airline which owns a CRS stands between 13 and 18 per cent more chance of selling its product through its system than does a competitor. 66 per cent of all revenue booked by travel agents in the United States is booked on either of two CRS systems — Apollo (owned by United, USAir and British Airways) or Sabre (owned by American Airlines).

According to the Economist Intelligence Unit:

> *"As consolidation has set in, it has become clear that the survivors are the big airlines with the best CRSs, controlling key hub markets and regional feeder services to them. American's Sabre and United's Apollo were always the dominant systems".*[4]

The powerful role in competition played by these systems is discussed more fully later in this section.

US DEREGULATION: AN ASSESSMENT

Professor Paul Dempsey, Director of the Transportation Law Program at the University of Denver recently summarised the experience of US deregulation, including the following points:

- **Under deregulation, the airline industry lost all of the money it made since the Wright brothers' inaugural flight at Kitty Hawk in 1903.**
- **After more than 150 bankruptcies and 50 mergers, we (the US) now fly the oldest and most repainted fleet in the developed world.**
- **In 1991, fully 30 per cent of the nation's fleet capacity was in bankruptcy or close to it.**
- **American, United, Delta and Northwest now control about two thirds of the market, up from 53 per cent just four years ago. This is an unprecedented rate of concentration.**
- **While most passengers now fly on a discounted ticket, the full fare has risen sharply under deregulation, more than double the rate of inflation. The discounts are now encumbered with onerous prepurchase, non refundability and Saturday night stay-over restrictions. They are therefore an inferior product to the passenger flexibility offered under regulation.**
- **Despite allegations to the contrary, average real fuel-adjusted ticket prices are higher than they would have been had the pre-deregulation trend continued.**
- **Although fatality statistics do not reflect it (thank God), the margin of safety has also declined.**

Paul Stephen Dempsey, Address before the Second Annual Conference on Airlines, Airports and Aviation, Washington DC, May 28, 1992

Canada

In Canada few lessons appear to have been learnt by the government from experiences across the border. Airline industry concentration has been even more dramatic.

In July 1987 the Canadian Union of Public Employees warned in their submission on deregulation (bills C-18 and C-19) to the Canadian Senate:

> *"Bill C-18, as it is presently constructed, will not realise any of its goals. In fact, it will lead to the reverse: greater industry concentration, less reliable service, higher average fares, diminished industry standards, reduced safety, employment loss and dislocation, and restricted regional development, just as it has in the United States."*[5]

- Since the first phases of liberalisation in the early eighties 7 airlines have disappeared through merger and 14 others through bankruptcy.
- Small independent airlines have virtually vanished.
- By 1989 the two large carrier families Air Canada (privatised in 1988) and Canadian International control 95 per cent of the Canadian domestic market.
- In September 1992 it was announced that Air Canada and CAI will merge to form a monopoly airline.

In 1991 a government panel considering the expansion of a runway extension at Pearson airport produced a document which admitted that:

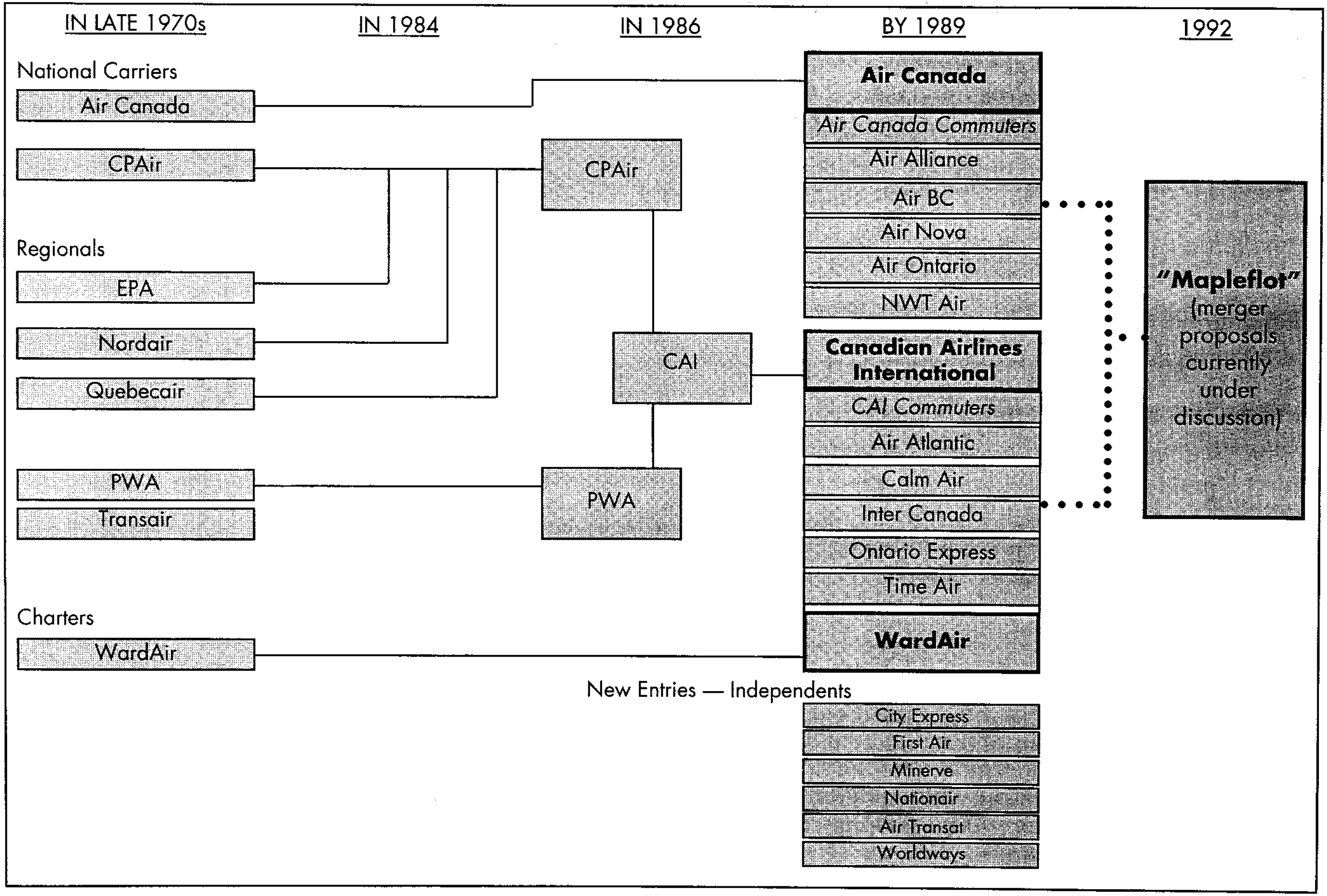
> *"forecasts did not predict the full dimensions of the regulatory reform either in term of airline mergers or the development of hub and spoke networks."*

In September 1992, Air Canada and CAI agreed to merge. It is projected that as many as 6,000 jobs will be lost through such a merger. Canadian unions point out that none of the options was the best choice for Canadian aviation.

"In all... cases, there will be a reduction of service to Canadians and substantial job losses. In one case we will have a deregulated monopoly airline while in the other cases we will not have a viable Canadian airline industry. The only possible winners will be the private airline investors, speculating on these take-overs, in some cases American. The losers will be the airline workers, the communities we serve, and Canada's future in the aviation industry.

"We do not believe that these are the only alternatives facing our industry. Rather, we believe that Canada can maintain two viable international/domestic carriers in a stable economic environment."[6]

AIRLINE CONCENTRATION IN CANADA



Europe

"Frankly, there is not going to be much difference between deregulation in the United States and liberalisation in Europe."

Sir Colin Marshall, Chairman BA, evidence to (UK) House of Commons Transport Committee, Developments in European Community Air Transport Policy, Vol 2

The European Community claims that it intends to avoid the US model deregulation. It has based its policy on the need to act in four main areas of action, liberalisation, harmonisation, infrastructure and external policy. Yet it is only on the first of these — liberalisation — that the EC has moved forward.

As the ITF pointed out in a statement submitted to the EC on 17 January 1992:

> *"Despite the reassuring statements of the Commission, the Third Package looks very much like US style deregulation....Unless proper measures are taken to provide sufficient infrastructure and to promote harmonised standards in the safety and social fields, the third package, as it now exists, will produce less competition, inferior air transport services, declining safety standards and worsened working conditions."*[7]

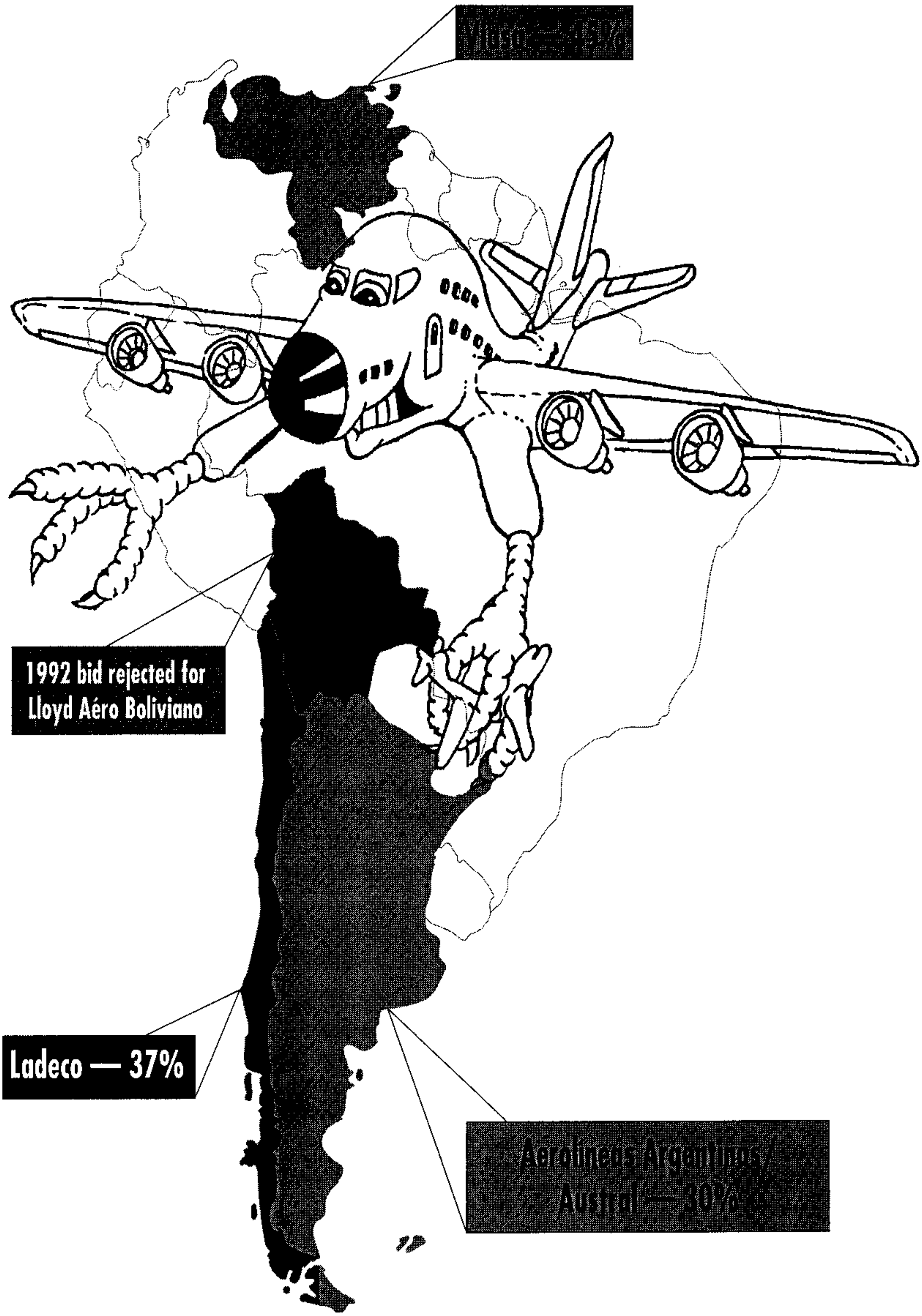
Concentration has already occurred within individual member countries:

- In 1989 in Holland KLM acquired control of Martinair and Transavia. Air Holland went into liquidation.
- In October 1991 the Belgian carrier TEA went into liquidation; Sabena is now merged with Air France.
- In January 1990, Air France bought up UTA and with it gained Air Inter to control 97 per cent of the French domestic market.
- Even in the UK, which has the largest and most diverse airline industry in Europe, in 1988 British Airways bought out its major domestic competitor British Caledonian. In October 1992 BA bought Dan Air. BA accounts for more than 70% of UK scheduled domestic and international passenger traffic.

Globalisation

As competition becomes globalised, airlines are moving towards the creation of global mega-carriers. Airlines are involved in expansion both through mergers and major equity links, and through alliances with other carriers. Alliances are a form of co-operation between airlines which fall short of major equity links (although some swapping of shares may be involved). It is easier for airlines to move in and out of such deals than with mergers. Airlines enter and leave such alliances when it suits them. Alliances have been likened to "casual dating" compared to the "marriage" of a merger. Certainly alliance loyalties can switch very quickly. Former alliance members BA and UAL are now bitter rivals on transatlantic routes.

Iberia's Empire



The next stage of European liberalisation will almost certainly involve some further concentration into European mega-carrier mergers or alliances, such as the Air France — Lufthansa alliance, and the European Quality Alliance which links SAS, Austrian Airlines and Swissair. Other alliances link airlines in different market blocs such as the alliance between Delta Airlines, Swissair and Singapore Airlines, in an attempt to provide worldwide seamless travel.

Alliances can range from loose joint marketing arrangements to more comprehensive forms of co-operation. The first tri-lateral alliance was formed in 1989 between Delta Airlines, Swissair and Singapore Airlines, and involves the following elements:

- **Cabin crew exchange programmes**
- **Joint participation in frequent flyer programmes**
- **Sharing of technical and maintenance data**
- **Co-ordinated schedules and through-checking of passengers (seamless travel)**
- **Joint "around the world" fares**
- **Shared ticket offices, airport terminals and check-ins**
- **Combined volume fuel purchases**
- **Priority ground handling arrangements**
- **Co-operative agreements eg the servicing of Delta Airbus A310 aircraft bought from Pan Am, by Swissair**

"The political momentum of free air transport markets will spread around the world and...create fertile ground for the growth of true global airlines — carriers with multinational ownership and international strategic hubs."

Sir Colin Marshall, British Airways, Interview with *UK and US* magazine of the British-American Chamber of Commerce, 1989

Many European airlines see European mergers and alliances as a strategy to meet competition from US carriers. As Pierre Godfroid, Chairman of Sabena, says: "Let the market go — if tomorrow Lufthansa and Air France want to merge, I strongly recommend to allow that, to face the day after tomorrow's competition from American Airlines and United Airlines".[8]

Yet, at the same time carriers increasingly believe that their survivial requires not only a dominant position within their own market bloc, but needs mergers and alliances with airlines in other blocs to ensure their access to worldwide routes and markets. Deregulation, privatisation and the erosion of limits on foreign ownership are all helping in the process of creating global airlines.

West European airlines are already looking towards Eastern Europe with Lufthansa's absorption of Interflug, Air France's link to CSA, BA's venture into Air Russia and a number of European carriers bidding for shares in Malev.

"there will be only five major carrier groupings in the global aviation market in the mid 1990s."

Jan Carlzon, SAS

Asian links are being forged with Air France's alliance with Vietnam Airlines, and KLM's links to Garuda in Indonesia, both of which may lead to equity stakes. British Airways has expressed strong interest in the privatisation of Qantas.

Iberia is developing its own Latin American empire with the purchase of Aerolíneas Argentinas in Argentina (30 per cent), Viasa in Venezuela (45 per cent), Ladeco in Chile (37 per cent) and possible investments in other Latin American airlines.

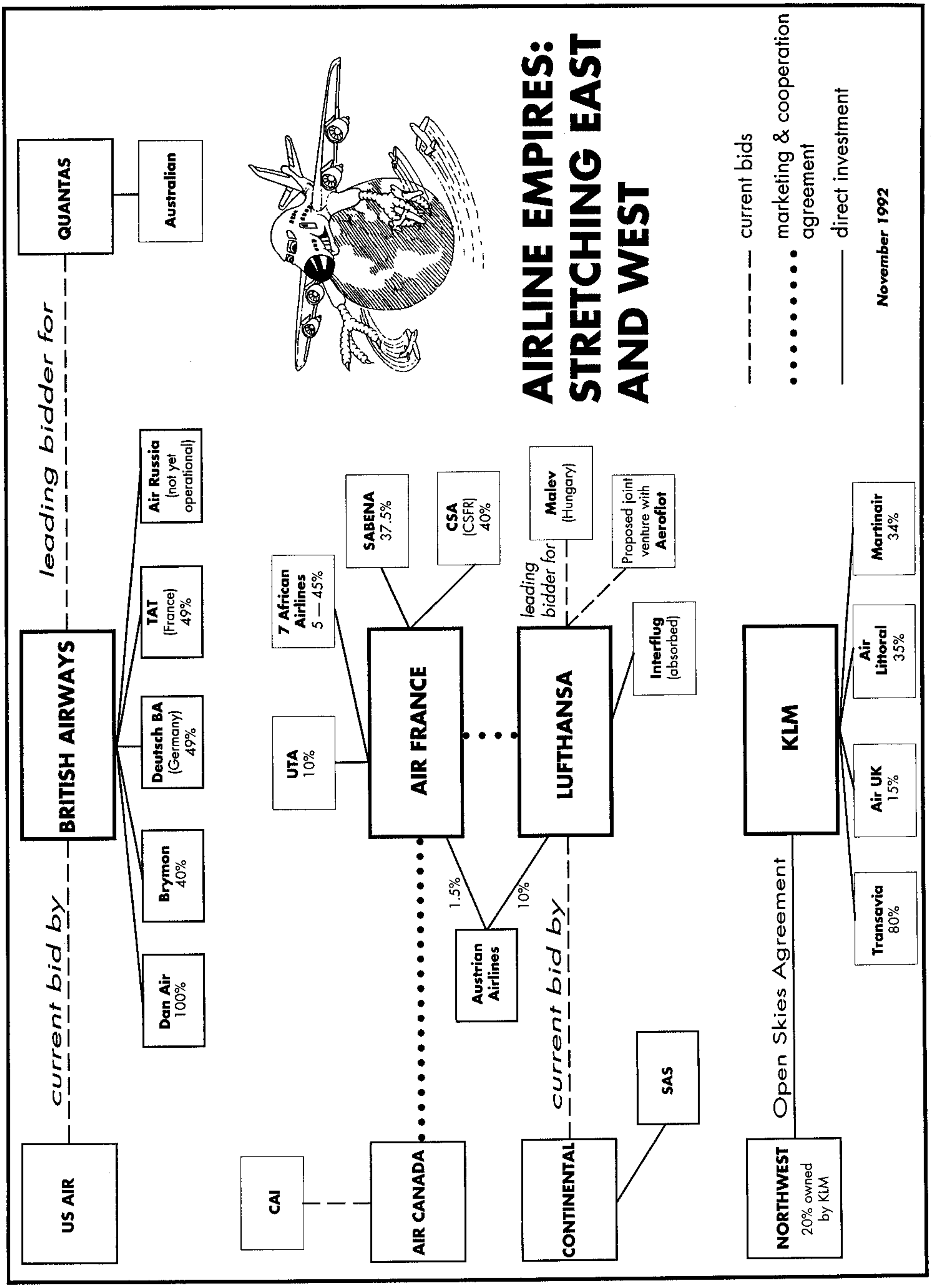
European carriers see links to US carriers as even more important. SAS has a rather disastrous 18.4 per cent stake in Continental Airlines. Swissair has a longstanding alliance with Delta and Singapore Airlines, including a 5 per cent equity swap (see box). KLM holds a 49 per cent stake in Northwest Airlines (though with only 25 per cent voting stock) and, with a new US-Dutch open skies agreement, now appears to be moving towards a "seamless" merger of the two airlines' operations.

The biggest equity deal of all has been BA's proposed buy-in to USAir. If the US government gives its go ahead to the deal, the combined operation will link the world's biggest international air network with the third biggest US domestic network. BA have already stated that there will be immediate full integration of pricing and inventory control. Within four years, from a passenger point of view, the operation will look like one giant airline when their aircraft fly under the common colours of a new "global master brand". As Lord King readily proclaimed after signing the purchase of USAir shares: "This deal will pave the way for a global airline group".

An International Guessing Game

The whole aviation industry appears to be engaged in an international guessing game as to how many global airlines will dominate civil aviation as a whole, or in particular markets, in the future. Guessers and guesses include[9]:

- **James Callison (Delta Airlines): within a few years there will only be four or possibly five airlines in the US**
- **Bernard Attali (Air France): there may be only three or four major carriers in Europe when deregulation is completed**
- **The ILO: European aviation will be dominated by five to seven mega-carriers**
- **Colin Marshall (British Airways): there will be no more than 12 global airlines by the end of the decade**
- **Jan Carlzon (SAS): there will be only five major carrier groupings in the global aviation market in the mid 1990s**
- **Faculty of Commerce and Business Administration, University of British Columbia: it can be concluded that five or six global airline networks are likely to be formed within a decade**
- **Aviation specialists Avmark : world air travel will be dominated by no more than ten airlines**
- **The OECD: By 2020 the airline industry will be dominated by five companies: two US-based, one Europe-based, and two Asia-based**



AIRLINE EMPIRES: STRETCHING EAST AND WEST
current bids
marketing & cooperation agreement
direct investment
November 1992
US AIR
current bid by
BRITISH AIRWAYS
leading bidder for
QUANTAS
Australian
Dan Air 100%
Brymon 40%
Deutsch BA (Germany) 49%
TAT (France) 49%
Air Russia (not yet operational)
CAI
AIR CANADA
AIR FRANCE
UTA 10%
7 African Airlines 5 — 45%
SABENA 37.5%
CSA (CSFR) 40%
Austrian Airlines
1.5%
10%
CONTINENTAL
current bid by
LUFTHANSA
leading bidder for
Malev (Hungary)
Proposed joint venture with Aeroflot
Interflug (absorbed)
SAS
NORTHWEST 20% owned by KLM
Open Skies Agreement
KLM
Transavia 80%
Air UK 15%
Air Littoral 35%
Martinair 34%

Computer Reservation Systems

Airlines have poured billions of dollars into developing computer reservation systems (CRSs). Through advanced communications technology they have created, through the CRS, a means to control the way travel is packaged, priced, marketed, sold and delivered to passengers anywhere in the world.

A CRS links together airlines and travel agents by computer. Airlines have developed elaborate fare structures and accompanied them with promotions. By hooking on to a CRS travel agents can search for the cheapest fares, or ask for specific departure times, or the fewest stops. Bookings can then be made and tickets issued, alterations and last minute changes are easily handled. There are further links to car rentals, hotel reservations and onward transport by rail, ship or road. The amount of record keeping required is monumental and needs the most highly developed computer software and hardware technology.

US airlines were the first to develop CRSs. The two largest US-based systems are Sabre (owned by American Airlines) and Corvia's Apollo (owned by United, USAir and British Airways).

Europe developed its systems largely as defence against American CRSs, systems which it was feared would take over the European market. In1986 European airlines commissioned a study for a single European CRS, but in fact two rival systems developed: Amadeus (owned by Lufthansa, Air France and Iberia) and Galileo (owned by 11 European airlines plus United).

Asian carriers have developed their own CRS called Abacus (Cathay Pacific, MAS, Royal Brunei, Philippine Airlines, Singapore Airlines and ANA).

CRS: Critical Weapons

What might seem to be a useful bit of technology which primarily improves the scope of flight and travel information available for passengers, in fact plays a key role in the emergence of airline mega-carriers. It was the development of CRS systems by the established airlines that effectively drove the low cost carriers in the U.S. out of the skies, and CRSs will be critical in the battles between airlines for dominance of other aviation markets. The CRS has a vital influence in a number of areas affecting distribution:

- ***Selling tickets.*** An airline must hook up to a CRS to get its tickets sold. The majority of the world's airline tickets are now sold through travel agents using this technology. CRS owners have been able to use their systems to strengthen their competitive positions even more. Studies in the US showed that 70 - 90 per cent of airline bookings on a CRS are made from the first display screen (50 per cent from the first line), even though a major aviation market will have up to twenty screens of information. CRS owners, therefore, tried to bias the presentation of flight information so that their own flights showed on the first screen, while those of their competitors would be further back in the database. Flights which required connections would be misrepresented as direct flights. These and other abuses in the presentation of information have been the major target for measures by regulatory bodies.

"Certain competitor (CRS) systems are used like war machines... Last March and April, one single Dallas Agency hooked up to a certain 'hosted' system made 1,152 shadow bookings on Air France. We pinpointed the agency in question among thousands simply because many of the bookings were made in the names of Saddam Hussein and George Bush. Unbeknownst to the originals, to the best of my knowledge."

Speech by Bernard Attali, IATA Symposium, Paris, 3 September 1992

- ***Yield Management.*** A CRS enables an airline to make more money from each aircraft seat. The airlines sometimes call it inventory control. This can be an extremely complex business when, for example, almost 30 different fares are sold on each transatlantic Boeing 747. Airlines struggle daily to cut prices enough to sell seats but keep them high enough to make money. The information from a CRS enables the carrier to switch wide-bodied jets quickly to new routes if demand rises and decide when to offer upgrades. Carriers are able to change fares daily or even hourly in response to changes in passenger demand and to maximise profit.

- ***Marketing Information.*** A CRS can collect, store and analyse vast amounts of critical marketing data concerning traffic, yields, passenger demand etc. Market information generated from the systems can be used to target fares discounts and frequent flyer bonuses. A CRS can be used to evaluate longer term market conditions and identify trends.

- ***Fees.*** The airlines which own CRSs charge fees to other airlines who wish to join the system. According to the US General Accounting Office United and American Airlines earn more than $300 million per year from weaker airlines, beyond the cost of providing the service. It is said that airline chief executives would rather sell their airlines than lose their reservation systems.

Regulating CRS power

United States

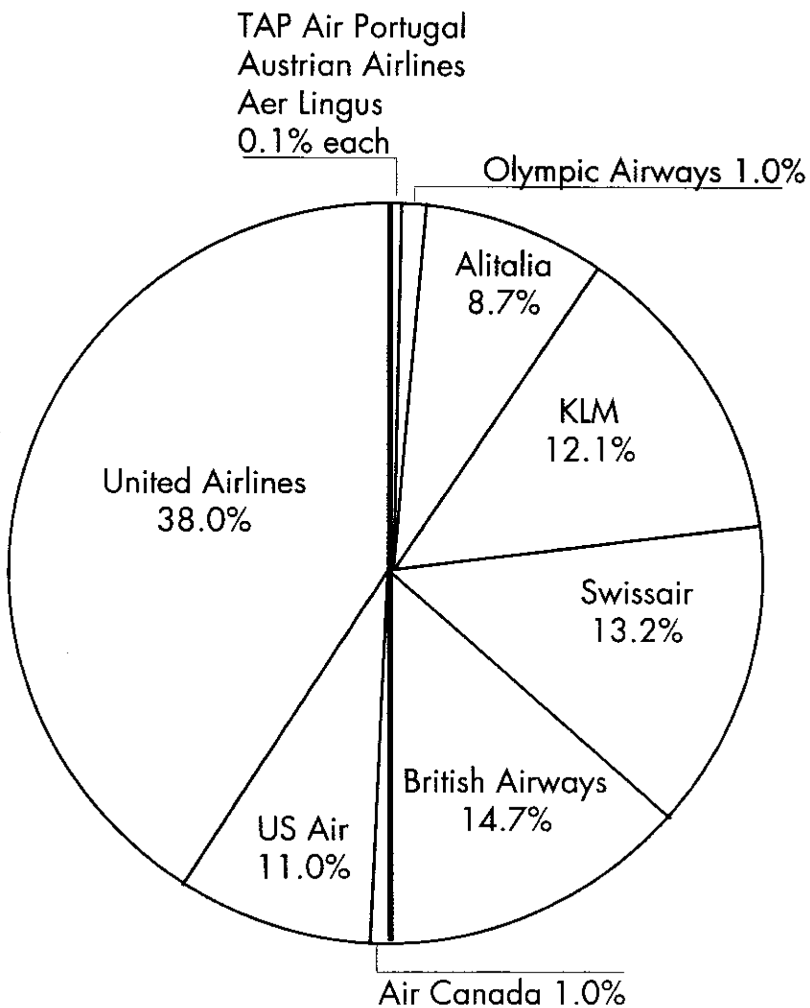
The power of CRSs proved so strong that the US government reluctantly abandoned its "laissez faire"doctrines to bring in some regulation against unfair advantages gained from CRS ownership. In 1984 one of the last acts of the Civil Aeronautics Board was to produce a CRS Code of Conduct. The code aimed to prevent such abuses as:

- refusing to list competitors' flights in CRS displays
- giving higher display priority to system owners' flights
- charging discriminatory fees to subscribers
- extracting confidential commercial information from systems

These rules, faced by new advances in technology and the skill of the programmers, have not proved very effective and the US Department of Transportation is currently revising its rules.

AIRLINE RESERVATION SYSTEMS

Galileo International



System	*Owned by*	*Approx. market share*	*Approx. value*
Worldspan	TWA/Delta/Abacus	5%-10% of Europe/ 10% of US	$500m
System One	Continental/EDS	5%-10% of Europe/ 10% of US	$500m
Sabre	American Airlines	5%-10% of Europe/ 44% of US	$1.5bn-$2bn
Galileo	11 US/European airlines	40% of Europe	$400m
Apollo	11 US/European airlines	30% of US	$1.1bn
Amadeus	Lufthansa/Air France/ Iberia	50%-60% of Europe/ 5%-10% of US	$600m+
Axess	Japan Airlines	60% of Japan	$1bn+
Infini	All Nippon Airlines/ Abacus	30% of Japan	$500m
Abacus	Five Asian airlines/ Worldspan		up to $650m

Europe

In March 1988 the European Conference on Civil Aviation (ECAC) drew up a code of conduct which aimed to:

- guarantee that air travellers gained accurate and unbiased information
- ensure airlines have the right to be displayed in the systems
- provide access to CRS generated commercial data
- safeguard the interests of travel agents in dealing with system owners
- prevent distortion of competition

Studies in the US showed that 70 - 90 per cent of airline bookings on a CRS are made from the first display screen (50 per cent from the first line)

The ECAC Code adopted what it called a "prescriptive approach" in contrast to the "minimal interventionist approach" of the US, and laid out specific rules for screen displays of flight information.

In July 1988 the European Commission drew up a Council Regulation (EEC2299/89) which is broadly similar to the ECAC code, backed up with the power to impose fines on airlines violating the code. The ECAC and EC codes are to be merged together.

The Global CRS

There have been moves towards merging CRSs to form super CRS systems. A number of co-operation deals exist between CRSs, such as between the US-based Worldspan system and Abacus in Asia, which includes a 5 per cent equity swap. In September 1992 Worldspan forged a further link with the major European CRS Amadeus. A merger between Sabre and Amadeus foundered in October 1991. In March 1992 Apollo and Galileo merged to form Galileo International the first global super-CRS.

The competitive advantage given to airlines which own major shares of CRSs is reckoned to be so great that there are calls to ban airlines from CRS ownership.

Unless this happens, many people in the aviation industry believe that mergers between CRS systems will go ahead of airline mergers in determining which global airline alliances will form the global mega-carriers.

Each CRS carries information on hundreds of airlines.

- **Sabre the largest CRS takes bookings for 1.6m flights daily and deals with twenty times that many enquiries on 740 airlines.**
- **Amadeus links 31,500 terminals in over 12,000 travel agencies in Europe, along with almost 19,000 airline terminals**

PART 2:

THE IMPACT ON WORKING CONDITIONS

CHAPTER 4: WAGES AND LABOUR COSTS

- **Competition puts pressure on labour costs**
- **Wages, working conditions and jobs under attack**
- **Management Strategies**

Labour Costs

When market regulation is lifted and competition becomes very intense, lowering costs becomes a vital part of airline survival. Major operating cost items include fuel costs; maintenance and overhaul costs; depreciation and amortisation (investment losses); station and ground expenses; passenger services; ticketing, sales and promotion; and administration. A significant part of some of these costs is made up of staff salaries. Airlines view labour costs as particularly important because:

"As a major cost item that is under direct management control and in which significant savings can be achieved relatively quickly, they (labour costs) have come under pressure from airline managements needing to improve their competitive positions."

Structural change in civil aviation: Implications for airline management and personnel, ILO 1988

- Labour costs frequently account for around one third of operational costs.
- Unlike other operational costs such as fuel prices, labour costs are perceived to be under direct management control.

Of course, when airlines compare their labour costs they only account for a part of what makes up the whole social wage. Countries whose airlines compete in a global market have widely varying levels of social and welfare provision, from hospitals to child care services, which have a direct impact on pay packets and the labour market. Canadian unions opposing an open skies agreement with the U.S. noted how this can also affect other cost elements: "Canadian carriers face significant disadvantages as compared to U.S. carriers...(including) fuel costs which are much higher in Canada due largely to federal and provincial taxation (these taxes in turn help to finance a health and social security system which is much different than in the US)".[1]

Structure of typical airline operating costs

Functions	%of total	Pay	Fuel	Sales Commission	Landing charges etc	Depreciation	Materials	Communications	Other
Flight operations	27	4	13		8				2
Maintenance and overhaul	12	5					5		2
Depreciation/ amortisation	8					8			
Station costs	17	5							12
Passenger services	10	6					1		3
Ticketing, sales, reservations, promotion	18	2		9				3	4
General and administration	8	4						1	3
Total	100	26	13	9	8	8	6	4	26

Source: Wheatcroft S, and Lipman G, EIU European Liberalisation and World Air Transport, Special Report No 2015, May 1990

Wages and Conditions

United States

The experience of American workers under US deregulation has shown that an initial period of intense competition can have a devastating effect on wages and conditions. Fares wars in the US have to a large extent been "wages wars" fought by carriers fiercely competing against each other to achieve the lowest labour costs. Wages and conditions, which had been fairly uniform prior to deregulation, started to vary widely between airlines. The gap between different categories of aviation employee also grew wider.

In 1991 approximately 55,000 US and Canadian employees, or nearly one in ten workers in the North American aviation industry, lost their jobs.

The core strategy of some US carriers, such as People Express and Continental, in the period immediately after deregulation, was to challenge the established majors by running cheap labour airlines. New entrants paid as little as half the wages of the established airlines. The established airlines responded by drastically cutting their own staff costs and raising productivity.

In the event this strategy failed — low wages proved a less important factor in airline competition than the control of airport hubs and computer reservation systems. The strategy also broke down any time that the labour market changed. For example, in 1989 Continental had to raise the wages of its captains by 48 per cent to keep them in the company. Nevertheless, cost-cutting continues to seriously erode wages and conditions of workers throughout the US airline industry. By 1990 labour costs had dropped to 37.8 per cent of operating costs from 41.5 per cent in 1978.[2]

Canada

Under Canadian deregulation two carriers have come to control 98 per cent of the market. These two carriers also operate a range of low cost subsidiary carriers, to which they have shifted a number of their operations. A small number of low cost charter carriers, such as Nationair, are also using a cheap labour strategy. If Canada enters an "open skies" agreement with the US, it will place Canadian labour costs in direct competition with US labour costs and put even more pressure on wages and conditions.

In 1991 around 19,000 European airline jobs disappeared. The AEA Secretary General Karl-Heinz Neumeister predicts that airlines will continue to cut jobs in 1992. The European figure does not include the 1,300 jobs shed in Poland in 1991 by LOT which also plans to cut the workforce further to reach passenger/ workforce ratios more comparable to western airlines.

According to Transport Canada, the average annual real wage for Canadian airline employees declined at the rate of 1.1 per cent per year for the 1984-1990 period. Combined with productivity gains, this has meant that the amount the major carriers have spent on labour has declined from more than 41 per cent of non-fuel operating expenses in 1984 to about 35 per cent in 1990. Flight attendant average real income in 1991 was 13.4 per cent less than in 1983, and 6.1 per cent less than in 1987.[3]

Europe

In Europe, where most airlines at present remain state-owned, airlines have been protected from the full blast of market forces. This will change in January 1993 with the introduction of the European Community's third package of liberalisation measures. This, while providing economic liberalisation, has failed to provide any harmonised social measures to protect minimum working conditions to accompany its final package of liberalisation measures.

In a liberalised European air market low cost entrants may not be as big a factor as they were in the US after deregulation. Existing charter airlines, most of which already enjoy a significant cost advantage over the major scheduled carriers, will undoubtedly compete for scheduled services against the main existing national carriers. These companies will in turn set up their own low cost subsidiaries to serve particular market sectors. Nevertheless the majority of European scheduled carriers see the most potential competition coming, not from other Europeans, but from the major US airlines with their huge and still protected domestic market base and generally lower operating costs, as well as from much lower cost carriers based in the Far East.

"Which airline chiefs lost their jobs directly because of their company's disastrous performance ? Other than those whose airlines vanished — Eastern, Air Europe, Pan Am, Midway, TEA — it'd be hard to think of anyone who paid the price."

Editorial, The Skies in 1992, published by Airline Business

European carriers have focused primarily on controlling rises in costs rather than trying to achieve absolute reductions. This has been done mainly by reducing staffing levels. In 1991 members of the Association of European Airlines reduced their workforces by 3 per cent, the largest year-on-year reduction on record.[4]

Australia

In Australia, a very fierce fares war triggered by the initial period of deregulation has had a much less dramatic impact on jobs and conditions. These still do not vary widely between airlines. This can largely be attributed to the fact that only one low cost new entrant entered the market (and quickly collapsed) and that deregulation was implemented by a Labour government which did not consider the breaking of unions an objective of deregulation. Nevertheless, even in Australia, the effects of competition are starting to be felt as much greater employer pressure is being put on unions to reduce labour costs in the 1992 round of enterprise negotiations. There may be further changes in employer-employee relations as the two major carriers, state-owned Qantas and Australian, are set to merge with each other and become privatised.

Management Strategies

Airlines have tried to lower labour costs in a number of ways. These include:

Reducing wages and other benefits
Many airlines have implemented wage freezes, deferrals of pay increases and even wage cuts. In the U.S., in response to pressure from low cost non-union new entrants, some existing carriers tried to instantly convert themselves into low cost non-union carriers. At Continental Airlines in 1983, the new owner, Frank Lorenzo, slashed wages by 50 per cent. In 1988, Lorenzo's Eastern Airlines demanded wage cuts of 47 per cent, triggering the bitterly fought Eastern Airlines strike. 1992 has seen a number of US airlines seek wage reductions. Continental Airways demanded employees take a ten per cent wage cut; USAir demanded a 20 per cent wage cut; and Northwest sought $500m of concessions from the workforce. American Airlines and Alaska Air have cut their health care programmes. In Europe, such measures have not been so drastic. Nevertheless, in 1992 Lufthansa is deferring wage increases and is introducing a new system for calculating shift pay. British Airways is cutting pay for regional staff on short haul routes and in 1993 plans to cut holiday pay supplements. Swissair staff have also foregone pay rises.

"Our budget review process for 1992 was one of the most rigorous ever. We began analyzing our schedules, looking for ways to increase utilization of our assets in the air and on the ground. We examined the benefits of outsourcing, and established contractor-operated reservations centers which have already yielded important cost savings. We took a hard look at health care programmes and established programs which have allowed us to rein in the explosive growth of these expenses."

Donald J. Carty, Executive Vice President, American Airlines, speech at Scotia McLeod's Sixth Annual Canadian Airline and Aerospace Investment Conference, June 3 1992

Two-tier wages
Many US airlines, and in particular established carriers like Delta and American Airlines, lowered wage bills by negotiating two-tier wage deals (lower wages for newly hired employees) with their unions. In 1984 American was the first airline to institute a two-tier wage structure. In 1986 during an improvement in the economy unions were able to scrap some of these deals. Nevertheless, today more than half of American Airlines' employees are on the B scale. In Europe, Lufthansa is the only airline, so far, to have negotiated a two-tier wage system.

Lump sum payments/ stock-sharing
Airlines, such as American, Northwest, Pan Am and United, have on several occasions awarded lump sum payments, bonuses, profit-

sharing and stock-sharing to employees instead of raising the basic wage (see box — Wage Investment Programmes). These payments are left out in calculating future wage increases and benefits.

Flexibility and more intensive working practices
Airlines have imposed more flexible work rules, introduced cross-utilisation of staff, multi-skilling and multiple tasking. People Express, the first new airline born under deregulation, introduced ultra-flexible working practices. When flying crew were not up in the air, for example, they became check-in staff. In 1990 Aer Lingus introduced multi-skilling and almost total integration of craft skills. Overall the airline reduced pay costs from 37 per cent of total costs to 33 per cent within two years. SAS is importing a "lean production" method from the Japanese auto industry which involves a radical overhaul of traditional working practices to end strict demarcation of work duties.

Changes in shift patterns, longer duty hours, and lower staffing/ crewing levels have all meant aviation employees working harder. Cabin crew in many airlines are under strong pressure to extend duty hours as new long range aircraft, such as the B-747-400, are introduced. The SAS has told ground staff to cut turn around times on MD-80s from 25 minutes to 15 minutes. The airline flew staff representatives to Dallas to see how Southwestern demands average turn times of ten minutes on domestic turnarounds.

Increased use of part-time and temporary employees
In the US deregulation has led to an increase in seasonal and part-time employment. The proportion of such jobs trebled from 4.15 per cent prior to deregulation, to about 13 per cent of the industry's workforce by 1986.[5] While stable full-time jobs in established airlines have been lost, new jobs created in new entrant airlines have frequently been part-time and temporary. Almost 18,000 of the 31,500 new jobs created by 1986, were filled by part-time employees. In 1992, Delta Airlines based a major part of its planned cost cutting programme on the conversion of full-time jobs to part-time status. In Canada, Air Canada's collective agreement of 1986 allowed the airline to have up to 35 per cent of its staff under part-time employment contracts.

In 1990, British Airways set targets for raising the proportion of its part-time staff at its handling services at US airports of 25 per cent in 1990, 31 per cent by 1991, 36 per cent by 1992 and 41 per cent by 1993.

In Europe part-time and seasonal employment is commonplace among cabin crew and maintenance staff. Swissair and Air France recruit students as seasonal cabin crew. According to the ILO, part-time employees account for between 12 and 20 per cent of the workforce of European carriers, mostly flight attendants.[6] In September 1989 the Portuguese cabin crew union SNPVAC went on strike against TAP because of its practice of hiring cabin crew on six month temporary contracts which were constantly renewed.[7] Temporary workers received 20 per cent lower wages than regular crew. According to the ILO: "European flight attendants may expect terms of employment to change as airlines increasingly employ part-time staff, and in extreme cases convert part or all of their flight attendant workforce to non-renewable five-, eight-, or ten-year contracts in order to keep the workforce young and so reduce long term liabilities in the form of high seniority pay, pension costs and medical expenses".[8]

"The aim of the programme is for SAS airline to meet the freer competition which will result from liberalisation of European civil aviation. SAS airline will eliminate 3,500 jobs, 1,100 in Denmark, 600 in Norway, 1,400 in Sweden and 400 outside Scandinavia."

SAS 1991 Annual Report

Recruitment and training

At the same time as making employment more casual, airlines have reduced their investment in staff training, and lowered recruitment standards in many areas.

Contracting-out

Airlines have also sought to contract-out a number of services. This is an important trend which is examined in more detail in chapter 6.

Job cuts

Job security has been a major casualty of airline deregulation. Jobs have been lost as the Darwinian laws of deregulation led to airline collapses both among numerous new entrants and among venerable old-timers like Pan Am. Current job losses have not only been caused by the current recession, but are part of the cut throat competition by airlines to drive down costs. British Airways, the most profitable airline in Europe, has laid off more workers than any other airline in Europe. Jobs have also been casualties of fares wars. Delta's recent lay-offs have been blamed on "competitive struggle, largely characterised by deep discount fare promotions". Mergers have also caused job losses as carriers have sought to cut costs through economies of scale, and what airlines like to call the "synergies" achieved by such deals.

"Many cutbacks reported in the past two years were made to meet the competitive challenge of a globalising economy."

National Transportation Agency 1991, Annual Review, Canada

Blaming Labour

In a speech delivered on January 23, 1991 in Washington DC, former US Transport Secretary Skinner said airline industry troubles are attributable to the fact that "most airlines have not been able to bring their labor costs under control".[9] He is wrong. Airlines in the US have substantially reduced their labour costs[10]:

- **Real wages in the US airline industry have fallen. Allowing for inflation, flight attendants' average monthly earnings dropped about 15 per cent from 1984 to 1989. Pilots lost 4 per cent. Airline workers went from being the third highest paid workers in 1979 to seventeenth in 1988.**

- **Work loads also increased. The number of mechanics per plane at the major airlines fell from 18.8 in 1982 to 16.9 in 1987. While the number of passengers carried by the majors increased by 44.5 per cent from 1984-1989, the number of flight attendants rose only 29.1 per cent and ground workers by 35.9 per cent.**

- **In 1978 US labour costs were 41.5 per cent of operational costs. By 1990 they had dropped to 33.8 per cent.**

A casualty list of some of the thousands of airline jobs lost over the last few years

Bankruptcies and airline collapses

- 36,000 jobs lost from the collapse of Braniff, People Express, Frontier and Continental alone in the first years of US deregulation
- 16,000 jobs lost in the collapse of Pan Am, December 1991
- 3,500 jobs lost in the collapse of Air Europe, the most promising new entrant airline in Europe, March 1991
- 1,100 jobs lost in the collapse of Compass Airlines, the only new entrant born out of Australian deregulation, April, 1992

Airline alliances and mergers

- 3,000 job losses announced after the Air France merger with UTA, January 1991
- 3,200 job losses planned at Sabena as part of a two year restructuring programme coming out of the Air France-Sabena merger
- 6,000 job losses announced out of the Air Canada-Canadian Airlines merger. 2,700 jobs were lost at Wardair after it was bought out by PWA, the parent company of CAI, in 1990
- An unspecified number of jobs will be lost due to the Qantas-Australian Airlines merger and the BA-USAir merger

Cost cutting

- 4,600 jobs at British Airways (1991)
- 7,000 jobs at USAir (1991)
- 890 jobs at Continental Airlines (1991)
- 900 jobs at Air Canada (1991)
- 465 jobs at Canadian Airlines (1991)
- 1,250 ground staff job losses announced in American Airlines, February 1992
- 4,000 job losses announced by Delta for 1992
- 6,000 job losses by the end of 1994, announced by Lufthansa
- 3,000 job losses at Iberia before the end of 1992
- 6,000 job losses announced by SAS for 1992
- 1,300 job losses at the Polish carrier LOT in 1991 with more to come
- 900 ground staff job losses announced by JAL for 1992
- Unspecified job cuts for 1992-93 announced by United

«The IAM is not fond of entering these Wage Investment Programmes. At this point we haven't found any alternative to them, because the bottom line is saving the jobs of our members. Like all the others we had no real choice with this scheme».

William Scheri, Airline Co-ordinator, IAMAW, ITF News, September 1992

Wage Investment Programmes

Wage Investment Programmes or Stock Sharing Programmes have been a prominent feature of labour relations in the United States under deregulation. The experience for unions has in general not been good. In general most WIPs have shared at least some of the following features:

- They are offered to unions only when airlines are facing financial crisis or bankruptcy. They are almost always presented as a no alternative ultimatum in the face of company collapse.
- They are offered when companies urgently need to raise capital and reduce labour costs. They, therefore, generally involve major financial concessions by employees.
- Employee share holdings have generally been at around 20 per cent eg, Eastern (25 per cent), Western (10 per cent) Pan Am (30 per cent), Republic (15 per cent). The current TWA programme is unprecedented in giving unions a 45 per cent holding.
- They rarely give substantial decision-making power to employees. Managements are generally reluctant to share information and real authority. They can be closed down by management at any time.
- They do not guarantee that airline, or airline assets, will not be sold off. They do not necessarily prevent job losses or anti-union management behaviour.

WIPS change the structure of employee earnings. When employees receive shares instead of wages it effectively:

- increases the amount of wage that is variable
- increases the amount of wage that is based on ability to pay
- decreases the amount of wage that feeds into the cost of benefits
- decreases the amount of wage which forms the basis of future pay increases.

CHAPTER 5. SQUEEZING SAFETY

- **safety margin under threat**
- **maintenance**
- **ageing fleets**
- **flight crew**
- **regulation**

The safety margin

It is difficult to come up with adequate measures of air safety. Thankfully, compared to other modes of transport, there are few fatal airline accidents in commercial aviation. The number of passenger fatalities per 100 million passenger-kilometers rose slightly to 0.04 in 1991 from 0.03 in 1990, but this is a small deterioration within a broad picture of improved air safety which extends over the last twenty years.

"Boeing recommends flying its aircraft only 12 hours daily. Last summer, Aerolíneas Argentinas flew them 15 hours a day. Also the planes are only kept at the maintenance base for four hours. It is impossible to maintain the planes in good condition in that time. As a result, there were 25 small incidents, not major but stretching the limits of safety, including: five engine fires, with consequent evacuations, and three or four larger emergencies, including hydraulic problems."

Leo Malz, AAA

However, the pressure on aviation infrastructure and personnel is growing as air traffic increases. In particular, the burden on air traffic control facilities in many countries has reached crisis point. While the rate of accidents is in decline, the number of flights is increasing at a greater rate. An editorial in Aerospace World noted in March 1992: "If, as all forecasters seem to agree, air traffic doubles by the turn of the century, at the present rate, the press will be reporting a major commercial aircraft accident every month". A 1990 forecast by Boeing predicts that jetliner accidents will increase to 20 annually by 2005, compared to a worldwide average of 15 a year during the 1980s.[1]

Deregulation has added to the safety pressures in civil aviation. As part of an economic approach which aims to minimise government intervention, it does little to encourage government investment in infrastructure or safety monitoring (the United States has still not regained the number of air traffic controllers lost from the mass sackings of the August 1981 air traffic controllers' strike). Airline operational safety standards have come under threat from new intense pressures of competition.

The airline industry argues vigorously that safety is never compromised by commercial pressures. The reality of course is that safety involves a wide range of significant operational costs, including the thoroughness and frequency of maintenance checks, the age of the aircraft, the training levels of employees, the working hours and fatigue levels of both ground staff and air crew. All of these come under fierce pressure in an intense climate of competition.

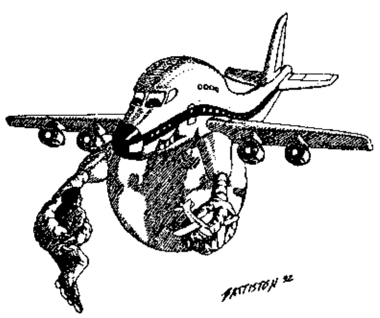
Under particular pressure is the safety margin. The safety margin is the difference between sticking strictly to minimum legal safety standards and the application of every reasonable safety check. For example, professional mechanics, aware that lives depend upon their work, will generally do far more than ensure the aircraft meets minimum standards. In the experience of airline employees, this is the margin that the airlines have cut back.

Maintenance

The experience of deregulation in the US has shown how airlines, desperate to cut costs, have sold off repair facilities and ground support equipment essential for mechanics and cut the number of mechanics even though they were expanding their operations. Between 1978 and 1984 the combined output of the four largest US trunk carriers (American, Eastern, TWA and United) increased by 14 per cent. During the same period, their combined maintenance employment fell ten per cent. At one carrier, United, it fell an estimated twenty per cent.[2]

- Between 1982 and 1987 the number of mechanics per aircraft dropped by as much as 30 per cent.
- Spending on commercial aircraft maintenance declined by almost 18 per cent between 1980 and 1984.
- Before deregulation inadequate maintenance and inspection were cited as a contributing factor in only 28.5 per cent of accidents. After deregulation these contributing causes jumped to 35.6 per cent.
- According to the General Accounting Office, the FAA has failed to provide adequate aircraft inspections.

One way airlines have cut costs is by centralising maintenance work at major hubs. This reduces the frequency of inspections. Moreover it is at hubs where the pressure is greatest to minimise lay-over time. According to Bill Scheri, Airline Co-ordinator of the IAMAW: "Carriers have cut staffing at down line stations, thereby requiring aircraft to be operated in many instances as much as four consecutive cycles before they reach a location to have maintenance performed. Prior to deregulation, carriers had mechanics staffed at virtually every city they operated into, with the exception of locations where they only had one or two flights per day".



The Federal Aviation Administration has also been helpful to airlines wanting to speed up maintenance checks. According to Scheri: "(In May 1989) the FAA granted one of our major carriers relief in performing periodic service checks, which was required at a minimum of every two days. FAA has now extended these periodic service checks to a minimum of every four days. Periodic service checks require a walk around of the entire aircraft to check for structural damage, fluid leaks etc. Elimination or between-time extension of these types of inspections are precisely what IAM mechanics are

A Mechanic's Story

Bill Heffernan found out about deregulation and safety the hard way. He was fired from his job as a licensed mechanic for refusing to allow a plane to take off when it was unfit to fly. Heffernan was fired by Frank Lorenzo's Eastern Airlines on March 11, 1988. What the company describes as his "serious violations of company rules" consisted of entering maintenance discrepancies in the Aircraft Maintenance Logbook that delayed a flight for over an hour while repairs were effected.

The discrepancies identified affected the air worthiness of the aircraft. The missing items were legally required to be in place by the Federal Aviation Administration. As an FAA licensed mechanic, Heffernan was legally bound to report the faults. In testimony before the US Congress, Heffernan stated: "Today Eastern, under the direction of Frank Lorenzo's Texas Air Corporation, puts tremendous pressure on mechanics to discourage any action which could cause an aircraft delay. For example maintenance foremen get bonuses for on time departures. I am a victim of this pressure philosophy".

Heffernan, a member of the IAMAW, believes he was fired because he had been in contact with FAA inspectors. He was questioning the fact that Eastern were allowing unqualified personnel to conduct maintenance inspections and then getting licensed Maintenance Foremen to sign off the aircraft even though they had not inspected it.

concerned about, because of the enormous amount of ageing aircraft in the industry".

In the United States air accident and fatality figures declined both before and after deregulation. However, in the first years after deregulation, serious questions were being raised about safety standards. Near mid-air collisions jumped from 311 in 1982 to 830 in 1986. In 1987 major airline crashes hit a 13 year record. In 1989 the industry suffered the highest number of accidents since 1968. This lapse in safety performance was widely felt to be directly linked to the effects of deregulation, and led to growing calls for re-regulation. Additional resources were hurriedly pumped into the Federal Aviation Administration (FAA) which is responsible for monitoring operational safety. Fears that airlines were cutting corners on safety appeared to be borne out when the FAA, with additional staff, conducted in depth inspections of a number of airlines. In 1984 the FAA disciplined 16 out of 43 carriers, after finding major safety violations, including extensive use of unqualified pilots and falsification of maintenance logs.

Pan Am, American and Eastern Airlines have been fined a total of

$13m for violations of safety regulations. But these fines had little effect in face of the commercial pressures on the airlines. Spencer and Casells note: "Even as the fines were being levied, some airlines cut their maintenance staffs to reduce costs. The airlines themselves began to complain and sue one another, alleging that the used aircraft they had purchased had not been properly maintained".[3]

Ageing Aircraft

A major cost in the airline industry is the aircraft fleet itself. Here too the cost pressures of deregulation in the US are there to be seen. The United States has the oldest fleet in the developed world. The economic design life of a typical aircraft is around twenty years. Aircraft corrosion and structural fatigue have been a factor in at least 36 aviation accidents in the US since 1983.

- By 1989, 32 per cent of the US fleet was more than 20 years old. The US General Accounting Office predicts 64 per cent will be so by the year 2000.
- At the time of its collapse in December 1991 the average age of the Pan Am fleet was 18 years; TWA's was 17 years; United's was over 12 years.
- In December 1991 the average age of aircraft in the world's (IATA) airlines,including the ageing Latin American and African fleets, was 10.9 years.
- In 1991 the average age of the aircraft fleet was 9.8 years in British Airways; 8.6 years in Japan Airlines; and 4.7 years in Singapore Airlines.

Flight Time Limitations

Laws limiting flight and duty hours of pilots and cabin crew are aimed at preventing dangerous and excessive fatigue among flight crew. However, these limits are important cost factors for airlines, influencing what length and frequency of schedules they can operate, and how many crew they have to use.

Many European cabin crews unions report that with the onset of liberalisation of aviation in Europe, airlines which had previously scheduled substantially below the legal maximum limits are now scheduling right up to the law and in some cases breaking it. As part of its new cost cutting programme Lufthansa is insisting that domestic flights within Lufthansa Express will not be covered by the existing Lufthansa industrial agreement on flight and duty times. Instead Lufthansa Express will fly to the legal limits.

Not only safety margins are under attack, but safety laws themselves. As deregulation draws closer in Europe, airlines and governments have allowed competition to become a consideration in the setting of safety rules.

Europe-wide Rules

The Joint Aviation Authorities (JAA), the regulatory body which sets safety and air worthiness standards in Europe, has been drawing up new Europe-wide flight limitations rules (JAA Ops chapter 11) which will replace all existing national FTL regulations in Europe, including those in EFTA countries.

Airline pressure on the JAA has been intense. While the new rules are meant to ensure the same conditions or a "level playing field" for all European carriers, the European airlines now argue that they are in competition with US carriers which are under no laws regulating flight and duty times. As a result of airline pressure, the current JAA proposals for flight time limitations have significantly reduced safety standards from those in most existing European national schemes. Airline pressure pushed these standards to such a low level "as to pose a real threat to aviation safety"[7] resulting in the international pilot organisations (IFALPA, Europilot, and the European Cockpit Association) coming together with the ITF to issue a joint statement threatening a European-wide union campaign against the proposals. Discussions are continuing on this question in the JAA and in the European Community.

During 1990 the UK Civil Aviation Authority modified its outdated existing CAP 371 regulations on flight and duty times. Most safety experts advised much stricter limits, but the airlines were worried about intensifying competition under imminent European deregulation. One carrier, Britannia Airlines, wrote to the CAA: "As a Nation we must not do anything now that will place us at a disadvantage with Europe, once deregulation is in force".[4]

Against the advice of the most authoritative safety body, a first CAA proposal for tighter duty hour limitations was withdrawn after intense pressure from the airlines. According to the UK Transport and General Workers' Union: "Airline companies see CAP 371 as a major labour cost.....The CAA initially proposed that the limit of flight duty worked within any four consecutive weeks should come down from 200 hours to 160 hours duty. The Royal Air Force Institute for Aviation Medicine wrote to the CAA that this was not low enough, and that the limit should come down to 120 hours.[5] Yet after pressure from the airlines the CAA actually raised its proposed limit. In the new CAP 371 limits were set at 190 hours for flight deck crew and 210 hours for cabin crew".[6]

On 27 June 1990, TGWU cabin crew members from all major UK airlines lobbied the Houses of Parliament concerning the influence of commercial pressures on the Civil Aviation Authority.

- US flight attendants have campaigned over many years for legal protections for cabin crew flight and duty times. In August 1992 such protections successfully passed the Senate as part of the transportation appropriations bill. In September 1992 they were dropped after President Bush threatened to veto the whole appropriations bill if such measures were included.

Safety Inspections

Economic regulation should require stronger government safety regulation. The increased pressures of competition make it impractical to leave safety to industry self-regulation. Experience has shown that commercial pressures push airlines to work right to the legal safety limits, and not infrequently to break these limits. More resources, therefore, need to be allocated to the monitoring and enforcement of safety regulations. Yet the very opposite appears to have occurred.

In the United States after deregulation the number of FAA inspectors was reduced due to spending cuts. The number of inspectors was raised in 1984 after serious concerns about the safe condition of aircraft. However, a report released by the US General Accounting Office on 6 February 1992, says that the Federal Aviation Administration is still failing to meet its inspection mandate. According to GAO Transportation Issues Director Kenneth M. Mead, Federal investigations of several air crashes in the 1980s found that "Ineffective inspections were a contributing factor".[8]

The Flight Attendant's Story

"Then came deregulation. We all know how that has affected us, as the competition increased many carriers looked around for some even more ingenious ways to increase productivity. There was one crew, already exhausted from a 28 hour duty period and due to fly from Philadelphia to Europe, who refused to fly. The flight attendants said 'Look, there is no way we are going to be able to hang on for another 14 hours or so. We are tired. We can't complete our jobs safely'. They were harassed; they were intimidated; they were promptly fired, all 12 of them out there in the hangar. One of the flight attendants pursued her case with the help of her union and was reinstated, but she said, 'Nothing can ever replace the trauma of being fired in the middle of the night in a hangar for doing what you think is safe and going to be for the safety of the passengers'."

Condensed from a presentation by Ms Noreene Koan, National Air Safety Committee, Association of Flight Attendants, AFA International Health Conference proceedings, Nov 12-14, 1990, Washington, USA.

The Air Ontario Dryden disaster — a deregulation crash ?

In 1985 Canadian unions warned the government that deregulation would threaten safety standards: "Under deregulation, the Department of Transport will, of course, continue to monitor and enforce the same minimum standards, but as 'efficiency' and profit become all important, the self policing aspect of the industry will fade. Capital will be forced to trade as closely to the marginal line of safety as the enforcement agency will permit".

On 10 March 1989, an Air Ontario F-28 jet crashed at Dryden, Ontario, killing 24 people including three crew members. A Commission of Inquiry into the accident was conducted by Justice Virgil Moshansky. The Moshansky Commission found that Air Ontario was run as a low cost feeder airline by Air Canada. Keeping costs low meant operating right to the safety limits, and frequently in breach of safety procedures. This policy resulted, according to the Commission from "the real concerns created by deregulation regarding profitability".

The Commission found that Air Ontario's lack of regard for safety included:

- bad management, lax on safety procedures
- inadequate operations manuals and operational guidance for employees
- inadequate training
- inadequate and illegal maintenance procedures
- lack of spare parts

The Commission also found safety monitoring by Transport Canada to be inadequate, including the criticism that: "Transport Canada managers appeared in some instances to be most susceptible to industry demands to overturn safety-related regulatory amendments". The Commission noted the chronic lack of resources given to Transport Canada for safety monitoring.

The conclusion of the Commission was that deregulation and government cuts on safety monitoring had played a significant part in both the Air Ontario crash and wider aviation safety standards in Canada:

"The effect of Economic Regulatory Reform, combined with deficit reduction...created a synergy that, in my opinion based on the evidence before this Commission, had an adverse impact on the effective application of safety standards".

Source: Submission to the National Transport Act Review
Canadian Union of Public Employees, June 1992

In the United Kingdom, on the eve of European liberalisation, employment in the Civil Aviation Authority is lower than it was ten years ago, despite a 50 per cent increase in workload. The authority's Safety Regulation Group is looking into whether the industry itself could undertake more self regulation on safety matters. The CAA aims to remain a low cost government agency.

In Canada Economic Regulatory Reform (deregulation) was enacted in 1985 and dramatically increased the workload of regulatory inspectors. In May 1986 an internal task force of the regulatory body Transport Canada recommended a staff level of 1,200 in the aviation regulation branch. A June 1987 internal review concluded that: "Aviation Regulation could not assure (Transport Canada) senior management that the air carrier industry was operating in compliance with safety standards". Prior to deregulation, the air carrier operations section had 30 Air Carrier Inspectors (ACIs), with an identified need of 11 more. In 1992 the section had a total of 25 ACIs.

In 1992 the Moshansky Commission investigating the Air Ontario crash (see box) concluded that: "By the end of the hearings of this Commission it became obvious that during the latter half of the 1980s the Aviation Regulation Directorate of Transport Canada became increasingly less able to cope with the certification inspection, and surveillance work loads being generated by the air carrier industry".[9]

CHAPTER 6. THE CORE AIRLINE

- **contracting out**
- **the "people-less" airline**
- **subsidiary airlines/regional bargaining**

Contracting Out

In recent years a number of airlines adopted such concepts as "total travel" which involved them in broadening investment into a range of travel activities, such as hotels and car rentals. Now the trend is in the other direction. Airlines are divesting themselves of non airline businesses and are retreating into the "core airline". The core airline concentrates strictly on commercial aviation operations.

"unless the unions exercise restraint in pay talks....we will be left with no alternative but to increasingly organise corporate activities outside the existing Lufthansa cost structure."

Former Lufthansa chairman, Heinz Ruhnau, quoted in Interavia Aerospace review, July 1990

For some airlines the core airline concept goes beyond dropping other travel activities. Airlines are looking at putting out a whole range of traditional aviation work to subcontractors as a major means of cutting costs. Areas which airlines are already involved in subcontracting include:

- maintenance and overhaul
- cleaning of aircraft
- loading and baggage handling
- catering supplies
- security

Subcontractors bid against each other to gain the contracts to provide these services, forcing down wages and conditions, and inevitably the standard of service they are able to perform.

While the main purpose of subcontracting is to reduce costs, it can also be a handy way to get rid of sections of unionised workers. As Airline Business noted: "On the face of it creating a separate company for say, maintenance, and selling it to a partner outside the industry, could be an attractive option......and taking it outside the main airline's union structure could help cut costs".[1] According to the Canadian union CUPE, Air Canada aims "to replace some union jobs, such as baggage handlers with non union personnel. Subcontracting to lower-paid, non-unionised workers has already resulted in annual cost savings of $25 million".[2]

British Airways has already tendered out aircraft cleaning, and transferred security to an independent contractor. BA also sold off its engine overhaul operations. Bought-in heavy maintenance is already widespread. Cathay Pacific and Virgin Airlines have all their engineering work provided by contractors.

In August 1992, KLM spun off its maintenance ground equipment division into a wholly-owned subsidiary, KLM equipment services BV. The unit is the fourth KLM division to become an independent subsidiary under current cost cutting programmes. The data entry, fire service and staff canteens have undergone the same treatment. All 200 existing staff in the new subsidiary will be granted current KLM wages and conditions. This will not be the case for new staff.

SAS has announced it wants to contract out all non-core activities, such as cleaning.

The World Bank has urged airlines in developing countries that even if their labour is already cheap it can be made even cheaper through subcontracting. The Argentinian union UPADEP (Unión Personal Aeronavegación de Entes Privados) has warned that airlines such as Viasa and Lan Chile have been closing branch offices in Argentina and contracting out to local agents. In India subcontracting has become so widespread that it was the main issue of discussion at a conference of all aviation unions held in July 1991. The dismissal of directly-employed unionised baggage handlers by Thai International at Delhi airport in favour of non-unionised contract workers led to a long running dispute with unions during 1990-91.[3]

"There has been plenty of re-structuring, re-organisation and cost saving throughout the industry. What is now required is de-structuring — taking apart the structures which now exist, separating the tasks, and creating within those structures an atmosphere of competition and enterprise...

"Contracting out a specific task for a specific term by competitive tender to a dedicated supplier enables the customer to retain a high level of control and continued efficiency, while retaining for itself the right to revert in-house or change the subcontractor...

"Much of the saving arises from removing the staff from the traditional airline environment, with its central industrial relations bargaining and its historic terms and conditions, work practices, seniority grades and pay rates."

Peter Smith, executive chairman of Serco, a subcontractor of aviation services such as air traffic control and aviation security, "Think Tank Airlines" Airline Business, June 1992.

The "people-less airline"

There are those in the airline industry who have proposed taking the core airline concept even further. Alistair Pugh, former vice chairman of British Caledonian Airways, and currently a consultant to Goldman Sachs International, has promoted the idea of moving towards the "people-less airline". Pugh believes that "there are no more than 10 essential core activities which an airline must perform itself.....An airline can be an airline without employing pilots, but it may have to employ cabin staff. Flight operators could be supplied by aircraft lessors, for example. A flight operations department can be set up as long as the contractor can attract skilled people, maybe on an agreed transfer basis from the airline....

Even if the airline retains its own cabin attendants, check in agents could easily be contracted from outside provided they are highly professional. Clearly a high level of expertise and commitment is needed among contracted staff; they may be required to learn about three different airline operations, or even to change uniform three times a day."[4]

In the budget review process of 1992, "We examined the benefits of outsourcing, and established contractor-operated reservation centres which have already yielded important cost savings."

Donald J. Carty, Executive Vice President, American Airlines, speech to Scotia Mcleod's Sixth Annual Canadian Airline and Aerospace Investment Conference, Toronto, Canada, June 3 1992

Airport Security: "Costing" Lives

Airport management has aimed to fragment airport functions, to minimise costly public service obligations and to contract out as many services as possible. An effective security system requires co-ordination not fragmentation.

The tendering out of airport services such as catering and cleaning to private contractors...is in direct contradiction to the vital process of building a security culture. A security culture requires a stable ancillary workforce who have an additional sense of responsibility to their jobs, whereas private contractors operate under a different culture of low pay, low morale and high turnover.

Private contractors do not have the resources to properly vet their employees. Journalists have demonstrated how easy it can be to gain access to restricted airport areas. In every case they have done so by getting jobs with contract companies using false references.

Contract companies win tenders for such airport services as catering and cleaning by putting in the lowest bid for them. They will not, therefore, willingly take on the extra financial burden imposed by a security culture, such as training for staff......As one security officer put it: "Airports are now run as private businesses, not public services. Passengers only get as much security as is considered commercially viable. Passenger security, which means passengers' lives, is being costed against profits. This is literally 'costing' lives".

Extracts from "Costing Lives: Commercial Interest and Aviation Security", Transport and General Workers' Union, UK, 1990.

The subsidiary airline

A growing number of airlines are looking at another kind of decentralisation of their operations. They are seeking not only to become global mega-carriers through worldwide alliances and mergers, but are also ready to set up low cost subsidiaries capable of competing against the cheapest new entrant carrier. Major carriers have been buying up, or setting up, small carriers and then transferring operations to them. In some airlines this is an ad hoc means of shifting a few operations from high cost parts of the airline group to lower cost parts. In others it has become more systematised towards the creation of decentralised bargaining units creating separate bargaining structures for intercontinental and regional operations.

The shifting of operations from the main carrier to a low cost subsidiary has happened to a limited extent within a number of other airlines. Iberia has switched certain scheduled routes between tourist areas of Spain and Paris and London to its charter subsidiary Viva Air. Viva has operating costs 40 per cent lower than Iberia. JAL announced a re-organisation plan in June 1992 which will involve some international routes being transferred to lower cost subsidiaries such as Japan Asia Airways and Japan Air Charter. Lufthansa is making similar use of Südflug, which has been formed as a daughter company of Condor, which is itself wholly owned by Lufthansa. Südflug operates charter services on behalf of Condor with staff employed under pay agreements lower than those of Lufthansa. In 1992 Lufthansa put out its cargo division into a separate air freight company. The carrier saved 30 per cent in cockpit costs after re-negotiating contracts with Lufthansa freighter pilots who were transferred to the new company, by extending their working hours.

Regional bargaining: "different labour agreements for different markets"

Under deregulation the Canadian aviation industry has concentrated into two large parent companies, Air Canada and PWA (owners of Canadian Airlines), which have become holding companies for a number of subsidiary airlines. Canadian unions say the two main carriers are dividing the industry into two tiers, with a division between domestic or regional operations and major or international operations. Unionisation is weaker or non-existent in these regional subsidiaries, while pay is lower, working practices are more flexible and frequently less safe, as at Air Canada's subsidiary, Air Ontario (see chapter 5). According to CUPE:

"Increasing amounts of domestic flying are being transferred from the 'major' airlines (Air Canada and Canadian Airlines) to the 'regional' tier of carriers, where our members are generally less well paid and face quite different working and operating conditions."[5]

British Airways has a strategy of buying stakes in small carriers in strategically important countries. When forced by German law to set up a new "German-owned" company to take over its old Internal German Service (IGS) operations in 1989, BA set up Deutsch BA, with a 51 per cent holding from German banks. The new airline used the opportunity to employ staff with lower labour costs than IGS and to keep out unions. BA bought up the German domestic carrier Delta and transferred its operations to Deutsch BA. Deutsch BA is to be used to compete against Lufthansa in the domestic German market, which in turn puts more pressure on Lufthansa to lower its domestic operating costs. In September 1992, BA bought 49.9 per cent of the French regional carrier TAT, which will compete with Air France. BA itself is plagued on some European routes by lower cost competitors such as British Midland (owned 40 per cent by SAS), Air UK (owned 15 per cent by KLM) and on transatlatic routes by Virgin Airlines.

In June 1992 BA set up a new subsidiary company called British Airways Regional. This move effectively introduced regional bargaining within a two-tier structure with different employment conditions for regional and intercontinental operations. The new subsidiary is to handle all European operations out of BA's UK regional bases at Manchester and Birmingham. The new company does not expand the airline's European network, it simply takes short haul operations out of existing BA operations. It re-employs the same staff in the new company, but on new contracts with lower pay and with other benefits reduced.

In September 1992 the geographic scope of the lower cost BA Regional was extended to new transatlantic services between Manchester and Birmingham and Newark and Los Angeles and taking over from British Airways its Manchester to New York service.

In October 1992 BA re-organised its Gatwick Operations into a new company, demanding employees take pay cuts of up to 35 per cent.

Lufthansa tried to introduce a fully fledged two-tier structure splitting domestic and international operations, with the setting up of Lufthansa Express. However, German unions successfully prevented Lufthansa operating Lufthansa Express as a separate subsidiary. Though a number of inferior conditions for these domestic operations had to be conceded, Lufthansa Express remains as a division of Lufthansa and employees remain within the main Lufthansa bargaining unit. As the ÖTV commented after their negotiations in August 1992: "Lufthansa Express will remain a part of the company. We have thus been able to prevent the flagging out of an important part of the business. As regards workers' rights this means uniform collective agreements".[6] Unions have resisted similar moves at SAS to split off domestic and international operations, despite the insistence of the SAS management that "we must have different labour agreements for different markets".[7]

CHAPTER 7. THE INTERNATIONALISATION OF EMPLOYMENT IN CIVIL AVIATION

- **the global relocation of aviation work**
- **cross border employment**

As the airline industry becomes increasingly globalised, airlines are thinking and planning in terms of worldwide operations, employing a global workforce. As the London Financial Times put it in an editorial (September 10, 1992) "Ultimately the newly merged global carriers would benefit greatly from being true multinationals, sourcing their staff, aircraft and air services freely from around the world".

Labour costs in Far Eastern airlines are estimated to be 19 per cent of total costs compared to 36 per cent in Europe and 34 per cent in the US. A pilot in the Polish carrier LOT earns a fifth of the salary of the average western European pilot. According to Airline Business, overall, East European airline salaries average $4,000 against $53,000 in western Europe, and East European airlines would enjoy a saving of $269m per year over a western counterpart.[1] This is one strong motivation for western European carriers seeking investment in East European airlines, such as Air France's link to Czech-Slovak CSA and other west European airline bids in the current privatisation of Malev.

With a global labour market increasingly at their disposal, the availability of cheap labour in Eastern Europe and the developing countries has become of increasing interest to airlines seeking to reduce labour costs. Aside from mergers airlines are finding other ways to take advantage of the global labour market. These include the international relocation of ground based activities and cross border employment of aircraft crews.

The Global Relocation of Work

Airlines from industrialised countries have already found that it is now relatively easy to assign some of the tasks involved in running an airline to be undertaken in countries where costs, especially labour costs, for this work are cheaper.

Globalising service operations

Improvements in global telecommunications means that airlines are able to look at any country for information processing and data entry work. For example:

- In May 1983 Americans Airlines closed its data entry operations in Tulsa, Oklahoma. The company set up an office in Barbados employing 200 staff to take over the work, using a satellite link with the Tulsa data processing centre.

- Swissair has a joint venture with IBM and Malaysian Airways based in Kuala Lumpur to develop software for the airline. Some of its data and inventory control has been transferred to Swissair Bombay. The airline's accounts work has also followed to India. As General Manager-Controlling Philippe Bruggisser cheerfully puts it "some jobs can be done anywhere".

- Cathay Pacific has located its airline information processing in Guangzhou in China, rather than in Hong Kong, citing spiralling wages and rentals in Hong Kong as the reason.

- Singapore International Airlines (SIA) is considering moving its accountancy and computer departments to India.

The Global Repair Shop

There is also a major shift of aircraft maintenance work towards low wage countries. According to Richard Kost, president of the Aviation Maintenance Foundation International, one half of all the world's heavy maintenance on all the world's aircraft will be performed at mega-maintenance bases in Asia, most particularly in China, the Philippines and probably Indonesia as main locations.[2] Indeed a wide range of countries (see box) are offering cheap facilities. These include:

- Mexico. In December 1991, a Hong Kong-Mexican venture announced plans to invest US$200m in building a 4,000 worker 30 hectare repair centre at Tijuana, close to the U.S. border. Industrial plant wages in Tijuana are as low US$0.80 per hour.

- Hungary. A prospectus by Line Up Aviation Ltd, a company involved in the international recruitment of aircraft engineers, which explained, "The over-riding factor in Hungary's favour at the present its low labour rates for available skills". In 1991 Lockheed and Malev announced the setting up of a joint heavy maintenance facility in Budapest.

In the United States, the process of shifting aircraft maintenance and production overseas was accelerated in December 1988 when the FAA, under pressure from the airlines, revised Federal Aviation Regulation (FAR) 145 to permit any foreign country to apply to the FAA for a repair station certification. According to the IAM, "This is a tactic by the US government to export US airline union members' jobs overseas, in search of lower labour costs and satisfaction of corporate greed. However, whether out of malice and greed or ignorance, the net effect of the US FAR 145 decision is to downgrade the labour standards and worker compensation of all major global airline carriers, no matter their country of origin.......the highest labour standards will be pit against the lowest ones".[3]

The Global Repair Shop

Planned and recently-opened/expanded maintenance facilities

Region	Facility	Owners/Developers
Alabama, USA	Pemco	new Pemco Aeroplex facilities
Alaska		Alaska Airways facility, completion probably after 1996
Bangkok		Thai/SAS
Beijing, PRC		CAAC/Lufthansa
Budapest		Lockheed/Malev joint venture planned
Cebu, Philippines		MDC/Philippines facility
Guadalajara, Mexico		Mexicana new facility
Guangzhou, PRC	GAMECO	Lockheed/China Southern/ Hutchinson
Hong Kong	HAECO	planned Swire Group Chel Lap Kok facility
Indianapolis	United	planned $1billion facility
Jakarta, Indonesia		newly opened Garuda facility
Kuwait		KAC facility to be rebuilt
Tijuana, Mexico	Matrix Aeronautica	planned $100m facility, Denbridge Ltd, Hong Kong
Munich, Germany		newly opened Lufthansa facility
Seattle, USA	Tramco	newly extended facilities
Seoul		Asiana facility
Shannon, Ireland		Shannon Aerospace (GPA Swissair, Lufthansa)
Shenzen, PRC	SAMB	Shenzhen Airport Maintenance Base to open in 1994
Singapore	SASCO	Singapore Airlines/Japan Airlines new facility built, not operational
Tanzania		new facility built, not operational
Thailand	Khon Kaen	new Thai International/ Aerospatiale/ Deutsch Airbus facility to specialise in Airbus overhaul
Taiwan		new Eva Airways facility
Texas	American	$400m facility
Tucson	Lockheed	new $21m facility

Source: Aerospace World, April 1992, and other information.

Cross border employment among aircraft crew

A second phenomenon is cross-border employment of crews, especially cabin crew, although pilots are also affected.

Airlines have employed small numbers of cabin personnel, such as interpreters, who are nationals of other countries, for some time. Unions have never objected to the use of specialist staff for the genuine language and cultural services of important sections of passengers on certain routes.

In recent years, however, union concern has grown that as airlines globalise they will also globalise the workforce and seek the cheapest labour in the international labour market. There is a fear that practices may grow up among airlines which resemble the exploitation of Flag of Convenience seafarers with which the ITF is only too familiar. Statements made by industry leaders tend to confirm this fear.

In May 1992 the ITF conducted an international survey of cross border employment among cabin crew. This defined cross border employment as the practice of employing cabin crew members (or other staff carrying out specialist duties in the aircraft cabin, such as interpreters) whose employment relationship is determined in a country other than that in which the airline is based. The survey found that the main problems linked to this practice involved, in the case of foreign nationality cabin crew members:

- unequal contract and employment rights
- unequal pay and conditions
- differences in training and duties
- differing collective bargaining structures
- lack of union rights

and in the case of the domestic nationality cabin crew members:

- the undermining of terms and conditions
- displacement by cheaper foreign nationality crew

The basic problem, of course, lies not with the nationality of the crew, but the employment conditions under which they are employed.

While in most airlines the use of cross border employment so far is still limited, in some it has become a significant element of cabin crew employment. In 1988 British Airways employed very few non-British cabin crew. In 1992, the ITF survey shows that ten per cent of British Airways cabin crew are foreign based. According to the UK Transport and General Workers' Union: "On some routes BA are trying to increase the OBC (overseas based crew) crew complement to six in a 747 complement of fifteen". Most of these crew are on inferior pay and conditions, and many are without union recognition.

In Japan, JAL no longer attempts to conceal that it views the employment of cheaper Asian cabin crew as a way of lowering costs. According to the Japanese Confederation of Aviation Labour, the

"Nations, even apart from registration revenues, may find it desirable to give national status to foreign-owned aircraft based in, manufactured in or substantially serving their territories....Flags of Convenience are commonplace in international shipping."

Bert Rein, partner, Wiley Rein and Fielding, speech to Airline Business Conference, London, June 1992

A "stateless" cabin crew workforce.

United Airlines (UAL) has been trying to set up a "stateless" cabin crew workforce, in order to escape national laws on benefits and conditions. UAL has been recruiting cabin crew in Paris and in other European capital cities for its Paris base, which operates transatlantic routes and routes between European cities.

Under the UAL scheme applicants are offered contracts under American law which will be signed in Paris, but fictitiously established in Chicago. Most of the employees will be French, will have been recruited in France, and will be working from Paris. However, according to the contracts the "establishment" to which they are attached is nothing more than the aircraft on which they will fly (registered in the US). According to the French cabin crew union, the ITF-affiliated SNPNC, the scheme aims, in this way, to avoid having to pay any of the social benefits to the workforce, required under French law.

The US cabin crew union, the ITF-affiliated Association of Flight Attendants (AFA), says that such cross-border employment also seeks to escape obligations to existing crew in the US. By recruiting new hires in Europe, the company seeks to escape the existing seniority system protected in the existing agreement by US labour law. The AFA decided to force the legal issue. On 22 June 1992, the AFA filed a suit against the company in the Federal Court in New York. On July 16 the court issued a preliminary injunction restraining UAL from filling vacancies at its Paris base.

The AFA also points out that, while the Paris crew will be covered by the terms of its US collective bargaining agreement with the AFA, this is only because conditions for US cabin crew are substantially inferior to those of French cabin crew. Unsurprisingly, the company does not offer the terms and conditions of the AFA contract to its Thai crew based in Bangkok.

wages of these crew is according to the local rate of their own country which is often far lower than that of the Japanese crew. They have different working conditions from the Japanese crew for holidays, and retirement, and limited promotion opportunities. These crew do not have union representation and Japanese unions are not allowed to bargain on their behalf. JAL is about to raise further the number of foreign crew it employs. According, to Asian Aviation, June 1992: "JAL will switch emphasis in the hiring of cabin crew personnel from Japanese to lower cost foreign attendants, whose numbers will be increased from 450 currently to 1,600 by 1996, when one third of the cabin attendants on international flights will be foreigners". JAL has just been offered the services of up to 500 Russian pilots and flight engineers. JAL has currently 82 foreign cockpit crew members on its roster and plans to increase the number to 300 over the next couple of years.

The supply of at least some of the cabin crew and pilots to JAL is being contracted to World Flight Crew Services, based in Herndon, Virginia, USA, which is one of a number of new companies to spring up specialising in providing an international pool of pilots and cabin crew for airlines.

Wet Leasing

The practice which comes nearest yet to introducing "flags of convenience" to aviation is the "wet leasing" of low cost aircraft and crews. Wet leasing - the contracting of aircraft and crews is not something new. It has not generally presented much of a problem, since these aircraft and crews have been hired at the prevailing market rates , although unions have noted that some cheaper airlines have been used to undermine strikes such as the Canadian carrier, Nationair during a strike at UTA in France.

"We have no details of the contarcts for these planes and crew. Crew and aircraft are put up for hire like stateless mercenaries. Nor do we know about the history of the particular air craft, how many hours they ahve flown, what kind of inspections they have had, or any previous mechanical problems. We do not know if they meet international air worthiness and safety standards, and the government does not seem very bothered"

O. Atay, Hava-Is, November 1992

However, the sudden availability of the huge fleet capacity along with poorly paid air crew and technicians belonging to some of the former divisions of the old Soviet Aeroflot airlines, through cheap wet lease contracts , is presenting a new threat to aviation conditions. This particularly the case in countries which are over-scrupulous in enforcing international aviation safety standards.

Former Soviet aircraft, complete with flight deck and cabin crews and accompanying maintenance technicians have turned up in Turkey, flying routes for Sultanair. The crew are reportedly paid at around one sixth the wages of Turkish workers in other airlines . Turkish unions in other carriers complain that this has already put new pressure on their conditions.

Uzbek Airlines seem to be particularly active in this field. According to Captain Feroze Aftab of the Pakistan Airlines Pilots' Association: "Pakistan International Airlines are leasing aircraft and crew from Uzbek Airlines. These crew are paid a fraction of our wages. They have no union representation. We do not know what hours they fly. This practice exploits them and totally undermines the conditions of the Pakistani crew". In December 1992 two Uzbeck Airlines TU-154 aircraft were contracted with their crews to strike-break a pilots strike in Indian Airlines.

PART 3:

THE TRADE UNION RESPONSE

CHAPTER 8. DEREGULATION AND TRADE UNIONS

- **anti-union laws**
- **tri-partism abandoned**
- **collective bargaining**

Anti-Union Laws

Deregulation and anti-unionism are closely linked in the doctrines of economic liberalism. Unions are viewed as an unacceptable restraint on the free play of market forces. It is therefore not an accident that the same governments which have been to the fore in introducing deregulation and privatisation have also headed a wave of anti-trade union legislation. In some cases governments have aided and even encouraged anti-unionism by employers.

Deregulation and privatisation and the introduction of intense competition to the industry has fundamentally altered the industrial relations culture in aviation. From India to Argentina, ITF affiliates have been forced into major struggles to maintain union rights and and to defend jobs and conditions.

"The Deregulation Act, if it was nothing else, was the greatest anti-labour act passed by the US Congress."

Frank Borman, former Eastern Airlines boss, 1982

In the United States the new climate of anti-unionism was led by the government itself. When air traffic controllers went on strike the ruthlessness of the Reagan administration's response was not only a means of ending the dispute, but of sending a signal to all airline employers. As Cassells and Spencer point out:
"...the August 1981 firing by the Federal government of 11,000 striking air traffic controllers and its adamant refusal to rehire them altered the attitudes of unionised employers sharply away from accommodation to unions toward outright opposition or even hostility."[1]

The UK, a pioneer of airline and airport privatisation under the Thatcher government, also led the way in enacting a whole series of anti-union laws in the 1980s which placed unprecedented restrictions on trade union rights, including giving employers the right to sue unions if they took part in solidarity strikes and political strikes (such as strikes against privatisation and deregulation laws) and to seek the seizure of the union's assets.

The Indian government is pushing forward plans for the deregulation and privatisation of Indian aviation. The government is also putting under threat trade union rights and legislation protecting employment rights. The unions say these moves are to reassure potential foreign investors. Currently under threat is the Industrial Disputes Act which protects workers from arbitrary dismissal. In addition the government has set up the Ray Committee, which aims to control all wages bargaining in the public sector under a National Wages Commission. According to Jagdish Lal, Co-ordinator of the All India Co-ordination Committee of Aviation Trade Unions (AICCATU), the government aims to undermine job security and squeeze wages in aviation and other public sector industries.

The government has found it difficult to push ahead with its plans for privatisation because of well organised political and trade union opposition. A leaflet entitled "Fight Against Privatisation of the Civil Aviation Industry" published by the AICCATU warns Indian workers: "Under privatisation, the national airlines will lose their national identity and will become subsidiaries".[3]

The ITF sponsors an active Civil Aviation Trade Union Leadership Programme with Indian unions. In 1991 a series of regional seminars were held on the themes of privatisation and the contracting out of services. Seven "training camps" were held involving more than 200 civil aviation trade unionists from Bombay, Calcutta, Delhi and Madras. The seminars resulted in improved co-ordination between Indian unions.

In June 1992, union opposition to government privatisation plans came to a head with a nationwide strike involving employees in banks, insurance and civil aviation. The protest was actively supported by an estimated 15 million workers. The protest brought chaos to Air India and Indian Airlines flights in all major cities as ground staff technicians and even control tower employees stayed away from work. Unions say the strike is only the first "salvo" in their campaign to stop privatisation.

Australian unions have maintained an accord with the Labour government which has meant that airline deregulation has not become the anti-union exercise that it was in the United States. However, coming elections may drastically alter this situation. The opposition party, which many believe may win the elections, has pledged more sweeping deregulation measures and drastic curbs on trade union rights. New Zealand enacted stringent anti-union measures with its 1991 Employment Contracts Act. The law effectively removes all legal provision for, and recognition of, trade unions in the industrial relations process. One of the first times the new laws were used was by Air New Zealand which sacked 130 ground stewards (catering staff) and replaced them with non union workers. According

"*No carrier can declare war on its workers and successfully re-organise.*"

William L Scheri, Airline Co-ordinator, International Association of Machinists and Aerospace Workers, *The Bankruptcy Battleground: Labor's War and Peace with the Unholy Alliance*, Conference on Airlines, Airports and Aviation, Smithsonian Institution's National Air and Space Museum, University of Denver, Denver Colorado, May 29, 1992

Workers' rights for sale

As governments around the world offer their airlines for sale they have sought to attract buyers by offering them the bonus of a workforce with minimal labour rights.

- **The Greek government is selling off workers' rights as part of its privatisation programme for Olympic Airways. In 1991 a new legal ruling declared that in the event of a company-wide strike at Olympic, the unions must make 2,000 employees per shift available to the airline management. J. Georgeopoulos, president of the Licensed Airline Technicians' Union (ETEM&P), says: *"At Olympic the legal right to strike is now only nominal.... These attacks are paving the way to the abolition of vital workers' rights achieved through decades of struggle."*[4]**
- **In the Philippines the government has passed a privatisation law, Proclamation 50, which enshrines the right of any purchaser of a privatised company to cancel union contracts and nullify any existing employee agreements. Section 27 of the law, under the heading Automatic Termination of Employer-Employee relationships, states that no employee, "shall retain any vested right to future employment in the privatised or disposed corporation. Mario Santos, president of the Philippine Airlines Employees' Association, says: *"This is an anti-worker law that can instantly sweep away all the union* gains we have made over years of struggle and negotiation."[5]**

to Fred Anderson, Secretary of the Flight Attendants and Related Services (NZ) Association, "The legislation is basically an attempt to de-unionise the workforce. This was never more evident than at Air New Zealand ...The new legislation makes direct supporting action liable to tort action. We can only strike if we are renewing our employment contract".[2]

Over many years unions in the aviation industry have been frequently involved in bi- and tripartite discussions with government and employers over industrial strategy. Government hostility towards unions now makes this tripartite approach more difficult. Airlines have also taken this rejection of joint cooperation into international bodies. At the ILO Meeting of Experts in Civil Aviation in Geneva in October 1990 airline employers were so intransigent in their refusal to accept any substantive trade union proposals into the conclusions of the meeting that the workers' group were forced to reject the conclusions. In the European Community employers initially strongly resisted the setting up a Joint Committee on Civil Aviation, although since its establishment in 1990, it has been an important forum for discussion.

Collective Bargaining

Workers in the civil aviation industry have traditionally shared a number of characteristics:

- high status and good job security
- a large proportion of skilled workers, often involved in handling innovative technology
- a significant number of occupational categories (e.g. pilots, aircraft engineers, flight engineers, ATCs) which are hard to enter, require high training standards and a professional licence.

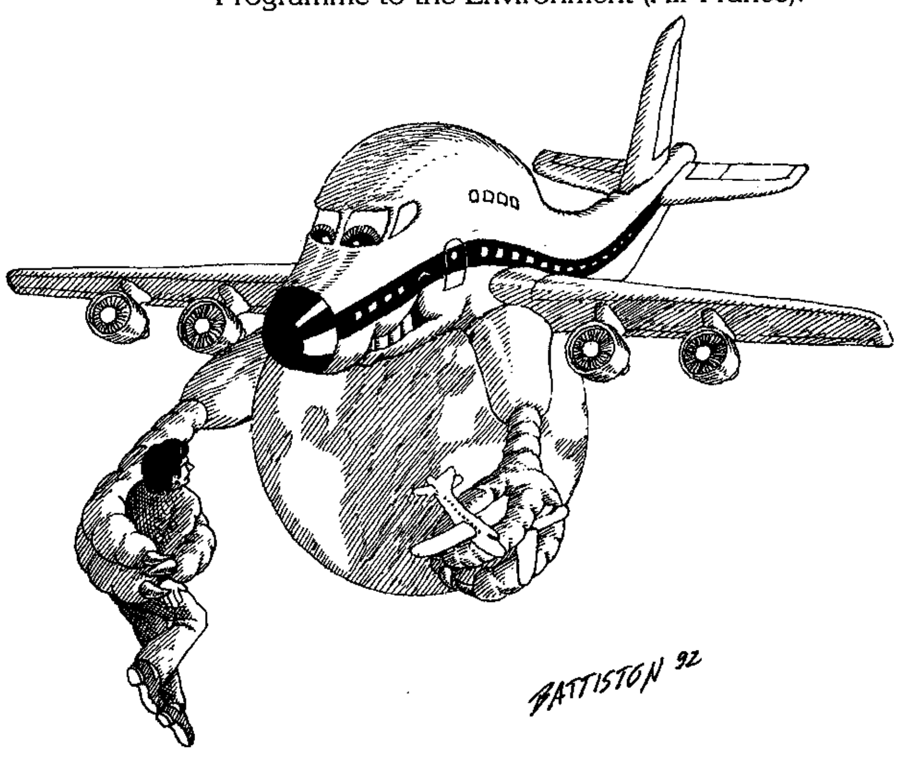
Generally there has been a high degree of unionism and relative industrial peace in the industry both in the large number of countries with state-owned airlines and in the United States where private airline operations were heavily regulated by the government. Deregulation and privatisation turned around the whole industrial relations culture inside airlines, where the pressure to cut costs now defines every aspect of industrial relations.

"The lessons of deregulation show that carriers which sought short term agreements and concessions from unions to lower labour costs are either long gone or hanging on by the skin of their teeth. Those airlines which joined the unions to create long term agreements which maintained or increased employee wages and benefits have all grown dramatically."

Trouble ahead for airline labour relations, Mark Pilling, Interavia Aerospace Review, November 1990

Unions in British Airways found themselves negotiating with the much tougher management of a privatised airline after 1987. The British Airways cabin crew union found itself split with the setting up of a breakaway union in 1989. The union likened the situation to that of the British mineworkers' union which had suffered such a split with the encouragement of government and employers. In Deutsch BA unions have been kept out altogether.

Other European airlines which have not yet privatised have nevertheless adopted tougher commercial management techniques. Several imported professional management consultants. Professional consultants such as Mackinsey's (US) and Indevo (Sweden) found themselves with a host of new airline clients. Airline employees found themselves with a host of slickly presented cost-cutting campaigns: Sprint and Closing the Gap (BA); Move (Swissair); Adjustment Programme to the Environment (Air France).



In the United States airline deregulation brought bitter industrial conflict to what had been a relatively peaceful industry. The most anti-labour employers were those more interested in speculation than in building an airline industry. As Cassells and Spencer note:

"in reality organised workers, not the management were the real stabilising element of the firm in this age of virtual whimsical buying and selling of corporate assets."

The new anti-union employers were epitomised by Frank Lorenzo who took over Continental Airlines and Eastern Airlines. In 1983 Lorenzo turned the bankruptcy courts into a union busting agency after he declared Continental bankrupt and abrogated all union contracts.

Experience has taught the airlines and their creditors some lessons. Bill Scheri, Airline Co-ordinator of the IAMAW, detects a change in approach by the airlines. In the Pan Am and Midway bankruptcy proceedings there was some attempt by creditor committees to work with the unions. TWA is currently working closely with the unions. According to Scheri, "TWA realised that these agreements with creditors were virtually worthless if labour peace could not be achieved.... In the last nine years airline bankruptcy has thus evolved from being a battleground upon which the debtor is intent upon destroying its unions to a summit where all interested parties can resolve their differences and achieve the airline's revival".

Chapter 9 : Globalisation — The Trade Union Response

- **Key Questions**
- **Air Transport Policy**
- **Aviation Safety, Training, Licensing**
- **Airline Globalisation Strategies**
- **New Trends in Employment and Industrial Relations**
- **Trade Union Organisation in a Globalised Industry**

Introduction

It is not enough to analyse what has happened to the airline industry or to estimate what may happen to it in the future. Faced with the unprecedented changes which are taking place, the ITF's Civil Aviation Section must also begin the task of devising a comprehensive and coherent strategy to enable affiliated unions to maximise the benefits and minimise the costs for aviation workers.

This is not an easy task. At least at first sight, the interests of different groups of workers in different international airlines may not coincide. Indeed, they are more likely to conflict as individual airlines or airline groupings enter a more competitive and aggressive phase in the industry's history. There is a serious danger that unions in different countries may react to the new situation by competing with each other for jobs; each offering more attractive concessions to their employer in the hope of retaining market share, business and employment. Such conflicts already exist at national level where airlines already compete, so the opportunities for international conflicts are many times greater.

In the longer term, of course, the only winners from such inter-union conflict will be the airlines. The only losers will be the workers themselves and their trade unions. The challenge for the ITF Civil Aviation Section is to overcome the differences which exist, to focus on the longer term need to forge stronger international solidarity links between unions and to establish a set of clear, understandable and achievable policies together with the methods and machinery necessary to see them put into practice.

Such a trade union strategy can obviously not be finalised during a few days' conference discussion. Not only will the process need careful debate, but it will also require unions to re-examine many of their traditional attitudes, policies and priorities. Given the complex democratic structures of the unions involved, this will take some time, but it must be done.

Unions must not only approve a trade union strategy, they must also provide the commitment in terms of people and resources to make it work. If the decisions taken by the conference are to be more than empty words, therefore, it is vital that they are referred back to the appropriate decision-making bodies of the unions concerned for discussion and ratification.

What the Civil Aviation Section Conference can do, however, is to begin the process of policy development by focusing attention on the key questions. This will then enable the unions themselves to start to work out a framework for better cooperation in the future and to set in motion the necessary process of reviewing policies and procedures both within national unions and within the ITF itself.

This chapter of this document therefore raises key questions and points for discussion. It is intended that they form the basis for some preliminary conclusions. Ratification of the conclusions, their further development and practical implementation will obviously need to take place over a much longer time period.

Key Questions

For all of the topics listed below, and indeed for all of the issues raised in this paper, delegates to the conference are invited to pose the following four key questions :

A. Does the topic present real problems/opportunities for unions?

B. Are new policies/attitudes/structures needed to deal with the problems?

C. What should be the key points in a trade union strategy?

D. What role should be played by ITF affiliates, by the ITF and by other bodies?

Existing policy

In some fields covered by this document, existing ITF civil aviation policies (or draft policies) already exist. Where this is the case, a reference is made to the relevant existing policy document. Copies of these will be available on request at the conference. This Conference's task is to update such policies where they are inadequate, to adopt new ones in areas where none exist, and to draw them together into a comprehensive statement of ITF policy on all matters affecting the globalised aviation industry.

Major Topics

The rest of this chapter deals with points for discussion and questions. Five major topics are treated as follows:

A. Air Transport Policy

B. Aviation Safety, Training, Licensing

C. Airline Globalisation Strategies

D. New Trends in Employment and Industrial Relations

E. Trade Union Organisation in a Globalised Industry

Each topic is dealt with in three sections :

General Comments by the ITF Secretariat;
Existing Policy;
Points for Discussion

These topics are not meant to be exhaustive. Delegates are welcome to contribute further questions. They are also of course welcome to contribute answers.

A. Air transport policy

Comments

Major changes are taking place in the national and international economic regulation of air transport. US deregulation, EC liberalisation, open skies agreements and cabotage, privatisation of state owned airlines and attempts to inject more competition into most international services all have important implications for the regulatory system.

The traditional reaction of most ITF unions has been to oppose these developments. Many of them, however, appear today to be virtually unstoppable and probably irreversible. Unions are therefore forced to examine whether new and more flexible policies towards the different regulatory systems are needed.

Of prime importance will be how governments behave in the future. The international aviation community is now currently involved in a major examination of the existing system of bilateral aviation agreements between states which grew up out of the 1944 Chicago Convention. An ICAO Air Transport Colloquium held in April 1992 focused attention clearly on the idea of a multilateral economic regulatory system. A 4th World Air Transport Conference is now planned by ICAO for the end of 1994 to continue discussion of this topic and a group of government and airline experts has been appointed to study whether the current system needs to be modified.

It is vital that the ITF and its affiliates have a well thought out position on the future of economic regulation in the industry to counterbalance those put forward by employers and consumer organisations. Such a policy, once agreed, will also need to be pursued energetically by affiliates with their own governments as well as by the ITF in the various international institutions. In this field as in many others, it is vital that the ITF and its affiliates are seen to be speaking with the same voice.

Recent Policy Statements

Resolution 14 (Airline Deregulation) adopted by the 35th ITF Congress (Luxembourg 1986)
Trade Union Statement on EC Third Package of Aviation Liberalisation Measures, February 1992
Conclusions of the Asia/Pacific Civil Aviation Committee meeting, Chiang Mai, December 1990.

Points for Discussion

A.1 What should be the advice of the ITF and its affiliated unions to governments and international organisations on future attitudes towards:

- Deregulation of domestic aviation
- Liberalisation within regional groupings (e.g. EC, NAFTA)
- Bilateral or multilateral open skies policies
- Implications of trade negotiations (e.g. GATTs) for aviation
- Moves away from bilateral towards multilateral agreements
- Government rules on foreign ownership/control of airlines

A.2 What other areas affecting the regulation of air transport should ITF unions concentrate on in the future?

A.3 What social or other "accompanying measures" should the ITF request governments to insist on if they are determined to move towards greater liberalisation?

A.4 In which areas and under what conditions is it realistic to think about moving towards re-regulation?

B. Aviation Safety, Training, Licensing

Comments

Despite claims that they are separate issues, it is clear that economic liberalisation has an impact on technical aviation safety standards. Tougher standards are needed if global airlines are not to be forced into cutting safety margins by the pressure of greater competition. Training of personnel will become more important as new airlines come and go and more use is made of temporary, part time and contract workers. Governments and international and regional organisations will need to target priority fields both for the development of tougher standards and for more effective ways to enforce those standards on airlines whose link with any single country may be difficult to establish and which may rely much more than today on leasing aircraft and crews.

Some authorities are aware of this and are in the process of developing regional standards. In ICAO, ITF efforts to secure international licensing standards for cabin crew have so far been unsuccessful. Trade union involvement in the development of new standards is of the highest importance, and most authorities are more than willing to listen to us. However, as experience with the JAA in Europe has already shown, this requires unions to make available to the ITF people with high quality expertise in the field under discussion and with sufficient time free of union or other duties to enable them to do the job properly. Unions must also be prepared in most cases to finance the participation of such experts. The ITF simply does not have the budget to do so. At present the burden of this work falls on a very small number of highly active unions. It would be better if the work could be spread more evenly. If unions undertake to assist with such international representation, however, they must make it clear to their representatives that this work takes priority over national duties.

Recent policy

ITF policy statement on cabin crew licensing (CCTC, March 1991)
ITF policy statement on flight time limitation (Section Committee, April 1991)
ITF statement on vesting of privileges in approved maintenance organisations (Section Steering Committee, January 1992)

Points for Discussion

B.1 What are the highest priority safety/training/licensing issues on which the ITF and its affiliates need to concentrate attention in the light of recent trends towards globalisation?

B.2 What new international or regional institutions or systems need to be developed to ensure the effective enforcement of safety standards in a globalised aviation environment?

B.3 Are ITF unions able and willing to provide and finance properly qualified experts to assist the ITF in representing union views to international and regional organisations and in developing standards, guidance material etc.? If not why not?

C. Airline Globalisation Strategies

Comments

Despite numerous confident statements made by commentators about the future of the industry, the truth is that no-one really has any idea what is going to happen over the next few years. In fact what does happen will depend heavily on decisions made by a few key governments and airlines as well as on the behaviour of airline customers and workers. It is important that the Civil Aviation Section should develop clear views and preferences about the various different types of globalisation strategy currently being used or considered by airlines as well as the necessary preconditions and safeguards which should accompany them.

An outright policy of opposition to all forms of globalisation is unlikely to be taken seriously by decision makers in the current economic and political climate. What is needed is a carefully judged policy based on the principles of fair and equal competition, respect for trade union rights and social standards. Such a policy is likely to command a lot of support from governments, particularly in the developing world, who are very unenthusiastic about the idea of globalisation even if they accept that it is unavoidable.

Existing Policy

None

Points for Discussion

C.1 What attitude should the ITF and its affiliates take and what conditions should it lobby governments and regional/international bodies to impose on airline globalisation strategies such as :-

- Minority equity stakes/swaps
- Marketing/code sharing/CRS sharing agreements and alliances
- Majority foreign ownership (or effective foreign control)
- Other forms of inter-airline cooperation.

C.2 What conditions should governments impose on airlines seeking these arrangements?

D. New Employment and Industrial Relations Trends

Comments

Most ITF affiliates have already felt the consequences for jobs, working conditions and sometimes even trade union organisation of the process of deregulation, liberalisation and privatisation of airlines. In the majority of cases, the result is job losses and the worsening of working conditions. Globalisation will intensify these effects.

This experience naturally makes employees and their unions deeply suspicious of airline management proposals for restructuring. As in the regulatory sphere, however, a policy of outright opposition on its own is unlikely to succeed unless it is backed up by intelligent argument, convincing alternatives and, as a last resort, industrial strength. Unions will also naturally need to look at ways of minimising the effects on jobs, wages and conditions and trade union membership. If job losses are inevitable, they will concentrate on minimising the social consequences for the workers involved. All of these alternatives require, however, the continued existence of substantial bargaining power on the union's side, and that means the continuation of strong trade union organisation.

The very nature of globalisation means that ITF unions will no longer be able to develop or implement strategies without taking account of the effects which their policies will have on (or the extent to which their policies may be affected by) civil aviation unions in other countries. It is therefore of the utmost priority that a common framework of policy should be established now between ITF unions and that an efficient system for fast communication and consultation between them should also be developed.

Recent Policy

Resolution on Contracting Out of Airline and Airport Services (Section Committee, April 1991
ITF draft guidelines on cross-border employment (CCTC, May 1992)

Points for Discussion

D.1 What policies should the ITF and its affiliates develop to deal with the following developments:

- Rationalisation and restructuring of jobs following airline links
- Airline demands for wage/benefit concessions in anticipation of or following international airline links
- Contracting out of existing airline work to outside companies
- Cross-border employment of aircraft crews
- Transfer of maintenance work to foreign stations
- Transfer of sales/ticketing/office jobs to other countries via telecommunications/computer links
- Attacks on trade union organisation and membership

D.2 What other developments have been experienced or are foreseen as a consequence of globalisation and what should trade unions and the ITF do about them?

D.3 What are the employment and industrial relations consequences of airline globalisation for other civil aviation undertakings, for example airports and air traffic control centres?

E. Trade Union Organisation and the Global Airline

Comment

Some civil aviation unions have begun to argue the need for major changes in the way they conduct their own affairs to cope with the consequences of globalisation. It seems likely that international relations between aviation unions will become increasingly important to the day to day conduct of their business in the future. Assuming that the unions concerned do not want to create new structures and that the problem of the small minority of unions which are not members of the ITF can be resolved, this also will mean a considerably strengthened role for the ITF Civil Aviation Section.

It must be stressed that the ITF Civil Aviation Section is not just the ITF Secretariat. Already in the period since the Florence Congress, steps have been made to strengthen the section's structure and to involve more unions in its work. Whereas before 1990 the section generally met only once between Congresses with occasional meetings of the technical committees, we have now instituted annual section committee and technical committee meetings. The financial and personnel resources of the ITF Secretariat are limited and the demands imposed on it by the international nature of the civil aviation industry are inevitably much greater (in relation to other transport modes) than aviation unions' contribution to the ITF's General Fund income. If the workload on the ITF Civil Aviation Section is to increase (and this seems almost inevitable), two approaches are possible: (a) securing additional financing and/or human resources for the ITF Secretariat from civil aviation unions; or (b) finding ways of sharing more work out between the ITF Secretariat and various unions.

At present, there is a wide variation in the degree of involvement and commitment of unions to the international work which the ITF is carrying out. Some unions attend meetings regularly, supply the Secretariat with information, keep in regular contact, and provide assistance in representing the ITF to outside organisations whenever requested and at their own expense. The fact that these characteristics are not shared by all ITF affiliates can easily be seen in the poor response rate to the first annual working conditions survey circulated for this conference.

There is general agreement also that unions associated with each developing global airline grouping will need to get together regularly. There are, however, some important and maybe difficult questions to answer about the objectives of such meetings, how they should be organised and who should attend them.

These critical remarks are needed if a realistic discussion on future union and ITF activities is to take place. It is one thing to make speeches about international solidarity and about giving a higher priority to international affairs. It is another to actually allocate the people and money necessary to make it happen. If we end up with one but not the other unions will have imposed massive new tasks on the ITF Secretariat without providing the means to carry them out. This is, to put it bluntly, unacceptable.

In making proposals for new areas of trade union activity, new structures, committees, meetings, publications, information systems etc., therefore, delegates are asked also to give very careful consideration to the practical financial and human resources problems which will be posed by what they are suggesting, and to make proposals also about how to solve them.

Recent policy

None

Points for Discussion

Global airlines — union structures

E.1 To what extent are new structures for international cooperation needed to cope with globalisation?

E.2 What priority are unions prepared to give to such structures compared to their normal domestic activities?

E.3 Should such structures attempt to be global or should they be restricted initially to regional groupings (e.g. European Community)?

E.4 Who should be responsible for servicing and convening meetings for specific global airline groupings? (e.g. ITF Secretariat, the «home» country union; groups of unions?)

E.5 Who should finance these activities? The unions themselves? The employer? (what likelihood is there for agreements to be negotiated with employers to provide facilities, time off, travel expenses etc for multinational meetings/structures?)

E.6 How often should they meet and who should be invited to such meetings? (Full time union officers only? Officers plus shop stewards/ works councillors? What about including non-ITF unions including "autonomous" unions where they exist?)

E.7 What would be the objectives of such meetings? (Information exchange, coordinated industrial action, collective bargaining?)

The ITF's Role

E.8 How can the role of the ITF Civil Aviation Section be strengthened to take account of these new developments? e.g.
- Encouraging affiliation of new unions
- Ensuring full and prompt payment of affiliation fees by existing unions
- Special contributions for specific projects
- Secondment of personnel to the ITF for specified periods
- Sharing of organisation/representation tasks by particular affiliated unions

E.9 What should the ITF Civil Aviation Section's top priorities be in the future? e.g.
- Organising meetings
- Preparing information bulletins, studies, surveys
- Making up to date information available electronically
- Fostering exchanges between unions in different countries involved in the same group
- Trade union education and organisation

Trade Union Action

E.10 How can international solidarity in response to globalisation and liberalisation be best organised? Can international industrial action be co-ordinated against particular airlines/airline groupings? What are the obstacles and can they be overcome?

E.11 What other types of trade union action are possible? e.g. press campaigns; lobbying of national and regional parliamentary bodies; rallies/demonstrations; leafleting at airports etc. How can such activities be organised, co-ordinated and financed?

Chapter 10: Conclusions of the Discussion on the Globalisation of the Civil Aviation Industry and its Impact on Workers

Agenda item 3: ITF Civil Aviation Section Conference, London, 11-13 November 1992.

1. The ITF Civil Aviation Section Conference, meeting in London from 11 to 13 November 1992 believes that, in the light of the information provided in the background paper and of the reports made by delegates, there is now an urgent need for the ITF and its civil aviation affiliates together to initiate a worldwide campaign around the theme «The Global Airline - Labour's Response».

2. The campaign should raise awareness of the trade union issues raised by the globalisation of the CA industry and be designed to enable affiliated unions to maximise the benefits and minimise the costs for aviation workers.

The campaign should contain the following elements:-

A. Establishing a policy for the re-regulation of civil aviation

3. The Section Steering Committee should be charged with the task of working out, in close consultation with affiliated unions, a comprehensive, coherent and constructive policy approach to the regulatory system governing the aviation industry. This policy should aim at reversing the trend towards the uncontrolled application of market forces to the industry, without losing sight of the ITF's longstanding opposition to deregulation. It must, however, take account of the new and seemingly unstoppable expansion in international links between airlines bringing with it the prospect of concentration of the industry in the hands of a few dominant mega-carriers. The Section should draw upon the help of sympathetic outside experts and should develop better links with consumer groups and other potential allies.

4. The policy should pay particular attention to :

a) The preservation of states' national sovereignty over air transport;

b) The essential public service role of aviation;

c) Maintaining a high quality of service to consumers (reliability, frequency, speed);

d) Aviation safety;

e) Safeguarding trade union and collective bargaining rights;

f) Employment security,

g) Safeguarding aviation workers' wages and working conditions.

5. The policy should be used by national affiliates in raising the awareness of their members in the industry and in campaigning activities with national media, politicians, and aviation regulators. It should also be used by the ITF in lobbying international institutions including ICAO, ILO, the IMF and the World Bank.

6. Governments and international and regional bodies should be asked to insist on the observance of the strictest possible safeguards including consultation with aviation workers' trade unions as well as guarantees on trade union and collective bargaining rights, wages and working conditions before agreeing to any international airline links or mergers.

B Developing trade union strategies to minimise the negative effects of globalisation on workers

7. The Section should continue to build on existing policies and to develop new guidelines and bilateral and multilateral agreements between unions designed to combat any negative employment and social effects of airlines' globalisation strategies and in particular airline attempts to weaken trade union organisation and to make use of «social dumping».

Such policies should cover issues such as:-

a) Trade union rights for all aviation employees - whether directly or indirectly employed and whatever their nationality or home base;

b) Internationally co-ordinated trade union organising campaigns in non-union areas including newly established subsidiaries of existing airlines;

c) The cross border employment of aircraft crews;

d) Contracting out of «non-core» operations to firms with inferior conditions and union rights, whether independent or linked to the airline;

e) The leasing in or aircraft and/or crews from countries with substandard wages, working conditions or trade union rights;

f) The transfer of ground operations such as maintenance, ticketing, administration to countries with substandard wages, working conditions or trade union rights;

g) A framework for resolving potential conflicts of jurisdiction between ITF affiliated unions in different countries;

h) New tactics for international solidarity action designed to overcome existing national legal constraints on secondary action.

C Improving trade union organisation within the global aviation environment.

8. The ITF and its affiliated aviation unions should take steps to:

a) Establish information exchange networks between ITF unions in different countries particularly those working within the same airline grouping. The ITF Secretariat should also produce more regular detailed information bulletins on globalisation and unions should report all relevant information on a regular basis to the ITF, preferably by fax or electronic mail and should ensure that the ITF receives all relevant regular publications, press releases and other union materials.

b) Encourage regular exchanges of trade union representatives between countries in which the same airline or airline grouping is operating;

c) Organise regular meetings between unions within particular airlines and airline groupings to exchange information and devise common bargaining and organising strategies. Such meetings should where possible be convened and coordinated by the «host» country trade union(s). Special attention should be made to maximising the financial and structural opportunities for supporting such meetings which exist in the European Community and elsewhere. The ITF Secretariat should be informed about and invited to such meetings and regular reports on them should be submitted to the ITF.

d) Encourage the setting up of international company councils bringing together union and management representatives in specific airlines and airline groupings. Unions in the home base of each multinational airline should first approach their employer proposing the establishment of international company councils including proposals for servicing and financing its activities and report to the ITF on progress.

D. Co-ordinating trade union action

a) The Section Steering Committee should meet as early as possible to plan a programme of international trade union action designed to concentrate attention on the consequences of the global airline. This programme should include tactics such as strikes, leafleting, badges, pickets, etc. and should focus particularly on airlines which adopt aggressive anti-union attitudes.

b) The ITF and its affiliates should provide education and technical assistance to unions at national level particularly aimed at improving communication campaigning and organisational skills. The ITF's regional activities in relation to the civil aviation industry should be strengthened.

c) ITF civil aviation affiliates must be prepared to co-operate fully in the implementation of this campaign, making available the necessary additional resources in terms of people, money and information. The ITF should prepare a list of contact names and addresses to enable fast communication between officials of unions responsible for collective bargaining in specific airlines and airline groupings as well as in other civil aviation employers (airports, contractors, aviation authorities). Unions should be prepared to reply speedily, preferably by fax or telephone, to requests from the ITF for specific information on individual companies.

E Ratifying the Conclusions

The implementation of this campaign will require substantial changes in national unions' priorities, some of which will have implications for finance and human resources. For them to be successful, it is vital that they have the full backing of the governing bodies of the various unions concerned. The Conference therefore calls on all affiliated unions to submit these conclusions to the appropriate union governing body for endorsement and to inform the ITF Secretariat when such endorsement has been secured and of any comments or reservations which have been made. A list of unions which have ratified the conclusions should be circulated regularly to all affiliates.

London
13 November 1992

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CHAPTER 8

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2. *Union busting at Air New Zealand*, ITF News, November 1991.

3. *Fight Against Privatisation of (the) Civil Aviation Industry In Defence of Job Security, Improvement in Emoluments and Service Conditions*, All India Coordination Committee of Aviation Trade Unions (AICCATU), New Delhi, 1992.

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Appendix 1

Job Casualty List Update

The following job loss announcements were made by airlines during October 1992 - 1993

- 1,600 jobs lost from Dan Air (UK), October 1992
- 1,000 jobs to go at Swissair by the end of 1993
- 4,000 job losses in Mexicana, December 1992
- 1,000 job losses announced at Aer Lingus
- 500-1,000 job losses planned at American Airlines
- 1,000 job losses announced at Sabena, December 1992
- 1,000 job losses at Aeromexico, December 1992
- 1,000 job losses planned in Northwest Air, announced in January 1993
- 1,500 job losses announced at Aerolíneas Argentinas, December 1992
- 1,500 job losses expected at TAP by the end of 1993
- 2,800 jobs shed at United Airlines, announced January 1993

Appendix 2

Extracts from ITF News, December 1992

UNIONS MEET THE CHALLENGE OF AIRLINE GLOBALISATION - *ITF Civil Aviation section conference, London 1992*

The 1992 Civil Aviation Section Conference marked a historic point in the development of the Section. It was the largest ever section conference with 110 delegates representing 59 unions from 34 countries.

In addition to the usual wide-ranging business agenda, a whole day was set aside for a comprehensive international union forum on the topic of *The globalisation of the civil aviation industry and its impact on aviation workers.*

Preparations for this forum included an address to the conference by Professor Paul Dempsey, a US expert on globalisation and deregulation, and the publication of a 90 page report by the ITF along with the first ITF International Survey of Working Conditions in Civil Aviation.

It was a historic meeting which resulted in a major debate and decisions which will have major significance for the future of union organisation in the industry.

Of particular significance was the conference's decision that unions in different countries organising in the same airline or airline grouping should set up international airline councils, with the aim of devising common collective bargaining and organising strategies.

Unions also pledged closer co-ordination and more imaginative tactics in international support for workers in specific airlines, whose conditions come under attack from globalisation strategies.

Certain disputes will become priority targets for international action. Strong support was voiced for British workers whose wages and conditions are currently threatened by the attempt by British Airways to set up a low cost subsidiary at Gatwick as part of its globalisation strategy (see **ITF News,** November 1992).

David Cockroft, ITF Assistant General Secretary says: "This has been the most important aviation conference ever held by the ITF. The decisions made show unions understand that a globalised industry requires a global union response. This requires more than rhetoric by unions, it requires new organisational priorities, and different ways of working which put international union co-ordination right to the fore of trade union action."

Below we report on highlights of this important event for aviation unions.

"We have the choice between being spectators or actors"

Extracts from the keynote speech by David Cockroft, ITF Assistant General Secretary

This conference is a historic meeting for many reasons. It is the largest conference of its kind we have ever held. More delegates from more unions are represented here than at any other aviation conference we have held in the past.

The reason for this is not hard to see. Hardly a day passes now without a new international merger or alliance being announced, usually accompanied by large scale job cuts, demands for wage and benefit concessions or both.

Never before has the international nature of the airline industry been brought so clearly and directly home to the unions representing the industry's workforce.

Despite the record losses recorded by most airlines last year, future world scheduled passenger traffic growth is forecast to grow by more than four per cent this year rising to over six per cent by 1993. The crisis is therefore financial and temporary, not structural and permanent. There is no need to worry about the airline industry as a whole going out of business, only about who will be the winners and who the losers.

Much of the industry's current precarious situation can be traced back to the effects of deregulation, effects which our unions predicted with chilling accuracy more than a decade ago.

What we are confronted with today, however, aspires to go one vital step further than deregulation and eliminate the restrictions imposed by national frontiers. The ultimate objective of many airline managers today is to achieve the removal of all barriers and to give themselves total freedom to operate in a global market, including the freedom to exploit a global labour market.

This globalisation process has already started and we have the choice between being spectators or actors in the process. If we are to act, however, it can only be on a global basis.

If we are weak and divided in our response to the attacks which are now being launched on our members virtually every day; if we play the airline game of accepting the principle of uncontrolled competition and of a downwards spiral of ever lower wages and working conditions and ever more job cuts in search of a marginally higher market share then we shall be signing the death warrant for trade unionism in what is one of the best organised industries in the world and one of the very few well organised industries which is still growing. Our unions live in the real world. They know they need to make compromises.

But they also know that every friendly negotiating session, every consultation meeting with an employer to be effective must be capable of being backed up, as a last resort, by action. We must have and we must retain the ability to take effective industrial action including strike action against airlines when all other avenues fail.

As airlines' ability to avoid or weaken the effects of such action through their growing global links grows so too must our ability to forge stronger global links between unions.

This, in my view, is at the heart of the debate on globalisation of the industry.

We must have the capability to fight and to do so internationally. International Solidarity has to become much more than just a slogan or the occasional act of sympathy of a strong union for a weak one. It must become part of the everyday work of trade union officials, shops stewards and works' council members.

International meetings have to become a normal part of the daily organising and bargaining timetable of our unions and not an optional extra to be fitted in if there is enough time or money to spare.

Campaigns must be planned, coordinated and executed jointly by unions organising within the same airline or the same airline group in different countries and in such a way as to minimise the exposure of unions to legal attack.

International solidarity is not and can never be a substitute for action at the national level but it can be a powerful additional tool and one which is all the more powerful for being unexpected.

Above all our job here is to send a clear message both to governments and to aviation employers that we are prepared to fight back, and fight back hard, using any weapon that works — both traditional ones and some new ones as well. Aviation trade unions will not be kicked around any longer.

Prof. Dempsey – union response is of "immense importance"

"Since deregulation the US airline industry has lost all of the money it made since the Wright brothers inaugural flight at Kitty Hawk in 1903. In 1991 fully thirty per cent of the nation's fleet capacity was in bankruptcy or close to it. After more than 150 bankruptcies and 50 mergers the US now flies the oldest most repainted fleet in the developed world."

This was how guest speaker Paul Stephen Dempsey, Professor of

Law and Director of the Transportation Law Programme at the University of Denver, summed up the experience of 14 years of US deregulation. Professor Dempsey formerly served with the US Civil Aeronautics Board and the Interstate Commerce Commission. He is author of several books on the airline industry, including his latest, Airline Deregulation and Laissez Faire Mythology (Quorum Books, 1992).

Professor Dempsey described how three airlines: American, Delta and Northwest now control about two thirds of the US market. This unprecedented level of concentration is reinforced by the dominance of a few airlines of key airport hubs. Professor Dempsey is one of the only economists to have analysed real airline fare trends. He described how, despite the claims of deregulation supporters that consumers had benefited from cheaper fares, average real fuel-adjusted ticket prices are actually higher than they would have been had the pre-deregulation trend continued.

Dempsey warned that the concentration of the industry into a few large mega-carriers was not resulting in industry stability as airline competition was now widening into global competition.

Dempsey claimed the solution lay somewhere between the US regulatory regime established in 1938 and the contemporary environment of laissez-faire market Darwinism.

He observed that the only organised constituency capable of challenging uncontrolled market forces appeared to be trade unions. "The consumer is confused and consumer groups are not operating on a global scale. It is of immense importance that such a global debate as this is taking place between trade unions, and that you are co-ordinating a global response."

Copies of the paper: *Globalisation and Cartelisation in Aviation*, produced by Professor Dempsey for the ITF Civil Aviation Section Conference, are available on request from the ITF Secretariat.

Regional reports

Eastern and Central Europe

"Our civil aviation unions are now facing new and previously unknown problems," B. Kracmer (Civil Aviation Trade Union, Czech and Slovak Federated Republic, CSFR) told delegates in a historic first ever presentation by an Eastern European union to a Civil Aviation Section Conference,

"Privatisation, which is taking place in Czechoslovak industry, is giving rise to changes in ownership and rising levels of unemployment."

He also reported fundamental changes taking place in social legislation, including labour laws, now overlaid by new problems of sovereignty connected with the splitting of the country into two republics.

Western Europe — no safe haven

"European liberalisation means that Europe is no longer a safe haven for aviation," reported René Valladon (Force Ouvrière, France), "European airlines will now be far more vulnerable to global competition".

In the preparation for liberalisation airlines were seeking mergers and cutting costs, with large job losses. However, unions were not accepting things entirely passively. There had been recent strikes at Sabena and Air France and a major dispute was brewing at British Airways.

Valladon pointed out that widely varying union rights, living standards and labour costs in different European countries will not make any Europe-wide bargaining strategy easy to reach. Nevertheless European unions must co-ordinate if they are to effectively face the difficulties that lie ahead.

North America— end of national carriers?

"It is increasingly difficult to discuss the US airline industry in conventional national or regional terms,"

reported Joe Guerreri (legal counsel, IAMAW, United States).

Guerreri reported that European carriers were rushing to stake claims in US carriers. At the same time American, Delta and United are opposing the BA-USAir deal and pressuring the US government to win bilateral concessions from the United Kingdom to open up Heathrow and Gatwick airports.

"If the BA-USAir deal goes ahead it is envisioned that the two carriers will co-mingle operations to give passengers the impression they are indeed flying on the same airline under combined managements. Northwest has announced it may begin to share ticket offices and ground crews, and design a common logo with KLM, to meld the identities of the two carriers. Experts are now asking: are we witnessing the end of the national carrier?"

"In order to survive globalisation, the world's labour organisations must forge closer ties and greater solidarity then ever before."

Asia-Pacific— No "flags of convenience"

"Unions must co-ordinate through the ITF to prevent Flags of Convenience becoming part of the aviation industry," H Kato (JCAL, Japan) told the conference, reporting the increased employment by Japan Airlines of cheaper foreign cabin crew, under inferior conditions and without any union representation.

Kato reported how different countries in the region were preparing to take advantage of the fastest growing aviation market in the world.

"The Australian government has announced the second wave of deregulation creating a common aviation market in Australia and New Zealand."

Kato reported how New Zealand and Australia had already privatised or were in the process of privatising their airlines. In New Zealand this had been accompanied by an unprecedented attack on union rights with the Employment Contracts Act.

Philippine Airlines had recently privatised and the Indian government was only being restrained from pursuing privatisation by militant union resistance.

In cheap labour countries such as India and Bangladesh airlines were trying to get even cheaper labour through subcontracting and with government offensives against legal labour protections.

Latin America— "new conquistadors"

"Argentinian aviation has been systematically plundered since privatisation," reported Alicia Castro (AAA, Argentina). The carrier was now in a state of disguised bankruptcy.

Castro pointed out that "Iberia, like a modern day conquistador, has effective control of the national carrier Aerolíneas Argentinas and the domestic carrier Austral, which it had turned into domestic feeders for Iberia operations. Iberia is gaining regional dominance in Latin America through its buy outs of other airlines such as Viasa (Venezuela) and Ladeco (Chile)".

In Brazil the government operates deregulation or "flexibilisation" of air transport. This brought privatisation along with damaging fares wars.

"Air transportation was ransacked with the privatisation of Vasp," according to Jim Pereira (ACVAR, Brazil), "Nowadays Vasp looks like a company close to breakdown, sacrificing some aircraft in order to keep others in the air, laying off many workers, and with passengers facing frequent delays and cancelled flights".

Africa— airlines face extinction

"Many airline in Africa are heading for extinction because of lack of equipment. They simply cannot afford to re-equip with the latest generation of cost-saving and fuel-efficient aircraft. It is slowly becoming clearer that many governments are considering deregulating and privatising airlines," Ken Chipato, (NAWU, Zimbabwe) told the conference,

"When this happens many airlines will be in difficulties. The mega-carriers will take the largest share of the cake, while workers in the state-owned airlines will find themselves out of a job".

Appendix 3

The Global Airline -

Equity Stakes, Shareholders, Marketing/Cooperation Agreements and Current Indicated Bids.

The Global Airline -

Equity Stakes, Shareholders, Marketing/Cooperation Agreements, and Current Indicated Bids.

Airline	Equity stakes in other airlines	Shareholders	Current indicated bids and/or mergers (1) Alliances under negotiation (2)	Marketing/ Cooperation Agreements
Air Canada	Continental Airlines 27.5% (equity stock) and 24% (voting stock)		(2) Lufthansa	Air France Air Jamaica Air New Zealand Austrian Cathay Pacific CSA (Czechoslovakia) LOT-Polish Royal Jordanian Sabena Singapore TWA United USAir
Air France	Aeromaritime 49% Air Charter 49% Air Djibouti 32.29% Air Guadeloupe 45% Air Inter 36.54% Air Madagascar 3.48% Air Mauritius 12.77% Austrian 1.5% Cameroon AL 25% Euro Berlin France 51% Middle East Airlines 28.49% Royal Air Maroc 3.97% Sabena 37.5% TAT 35% Tunis Air 5.58% CSA (Czechoslovakia) 40% UTA 100%	State holding 99.4%	(1) Vietnam Airlines	Lufthansa Canadian Airlines US Air Air Canada Aeromexico
Air Jamaica		State holding 100%		Air Canada

Airline	Equity stakes in other airlines	Shareholders	Current indicated bids and/or mergers (1) Alliances under negotiation (2)	Marketing/ Cooperation Agreements
Air New Zealand		Brierley 35% Qantas 19.9% American 7.5% JAL 7.5%		Asiana Japan Air Lines Qantas SAS Air Canada American British Airways Lufthansa Canadian Airlines Cathay Pacific Continental
Aeromexico	Aeroperu 70%	Icaro Group 55% APSA 25% Bancomar 20%	(2) Mexicana	Air France Lufthansa
Alitalia	Malev 35%	IRI 89.56%		Canadian Airlines Iberia United US Air
All Nippon Airways	Austrian Airlines 9%	Hokkaido PC 14%		SAS Sabena US Air Austrian American
American Airlines	Air New Zealand 7.5%		(1) Canadian Airlines (CAI)	Air New Zealand Malev Hungarian Qantas All Nippon Airways LAN Chile Canadian Airlines Cathay Pacific

Airline	Equity stakes in other airlines	Shareholders	Current indicated bids and/or mergers (1) Alliances under negotiation (2)	Marketing/ Cooperation Agreements
Ansett New Zealand	America West 20% Ladeco Chile 25%	Ansett Tran. Inds. 100%		Continental Airlines
Asiana		Kumno Group 57.1% Korean Dev. Bank 28.6%		Air New Zealand
Australian Airlines		Qantas 100%		United
Austrian Airlines		State holding 51.9% Swissair 10% All Nippon Airways 9% Lufthansa 10% Air France 1.5%		All Nippon Airways Aeroflot Air Canada European Quality Alliance (EQA):- SAS Swissair Austrian British Midlands
British Airways	Air Russia Brymon 40% TAT European 49% US Air 20% (voting stock) Deutsche BA 49% Dan Air 100% Qantas 25%		(1) Philippine Airlines	Royal Jordanian Air New Zealand LIAT - Caribbean Sabena Ansett (Australia)
Byelorussian Airlines				Aer Lingus Airlines
Canadian Airlines		PWA Coporation 100%	(1) American Airlines	Aeroflot American Lufthansa Air New Zealand Air France China Airlines SAS Japan Air Lines Qantas Alitalia Air Liberte

Airline	Equity Agreement	Shareholders	Current indicated bids and/or mergers (1) Alliances under negotiation (2)	Marketing/ Cooperation Agreements
Cathay Pacific		Swires Group 51.85% HKSB 17% CNAC Beijing 5% (a total of 22.5% of CP is owned by Beijing based companies).		Air New Zealand Japan Air Lines Malaysia Airlines Garuda Indonesia American Air Canada Lufthansa Qantas
China Airlines (Taiwan)				Canadian Airlines TWA
China National Air Corporation (Beijing)	Cathay Pacific 5%			
Continental Airlines		Continental Holdings Air Canada 27.5%		Ansett New Zealand Air New Zealand
Ceskoslovenske (CSA)		Stae holding 60% Air France 40%		Air Canada
Delta Airlines	Swissair 5% Singapore Airlines 5%			
El Al Airlines	North American Airlines 24.9%	State owned		
Finnair		State holding 70% SAS upto 7.5%		Aeroflot Lufthansa SAS * Swissair * Austrian * *(Left over from involvement in EQA)

Airline	Equity stakes in other airlines	Shareholders	Current indicated bids and/or mergers (1) Alliances under negotiation (2)	Marketing/ Cooperation Agreements
Garuda Indonesia Airlines		State holding 100%		Lufthansa Cathay Pacific KLM Sabena
Iberia	Viasa Venezuela 45% Aerolineas Argentinas/ Austral 30% Ladeco Chile 37%	State holding 99.8%	(1) Lloyd Aereo Bolivano (1) Dominica de Aviacion (1) Lineas Aereas Paraguayas (1) Lan Chile	Alitalia
Japan Air Lines	Air New Zealand 7.5% Hawaiian Airlines 14.7% DHL Corporation 5%	TMFI 2.87% Ind. Bank of Japan 2.8% FMLI 2.72%		Canadian Airlines Air New Zealand Cathay Pacific Lufthansa KLM Aerolineas Argentinas Iberia Ladeco - Chile VIASA
KLM Royal Dutch Airlines	ALM Antillean Airlines 40% Northwest Airlines 20% Air UK 15% Martinair 34%	State holding 38.2%	(1) Malev (1) Garuda Indonesia	Garuda Indonesia Mexicana JAL Air Nippon Cargo
Korean Air	Philippine Airlines	Hanjin Group 100%		
LAN Chile		Icarosan 51% SAS 35%		American Qantas
LIAT - The Caribbean Airline		Trinidad & Tobago 15% Barbados 14% Antigua & Barbuda 10% St Lucia 10%		British Airways
LOT Polish Airlines		State holding 100%		Air Canada
Lufthansa	Cargolux 24.5% DHL Corporation 5% Euro Berlin 50% Sun Express 40% Austrian 10% Lauda Air 26.5% Luxair 13%	State holding 51%	(1) Malev (2) Air Canada	Air New Zealand Cathay Pacific Japan Air Lines Air France Canadian Airlines Finnair Garuda Indonesia Aeromexico

Airline	Equity stakes in other airlines	Shareholders	Current indicated bids and/or mergers (1) Alliances under negotiation (2)	Marketing/ Cooperation Agreements
Malaysia Airlines		State agencies 64.89%		Thai Airways Cathay Pacific
Malev Hungarian		State holding 65% Air France 35%		American
Qantas	Air New Zealand 19.9% Australian Airlines 100%	State holding 51% Local investors 24% BA 25%		Canadian Airlines American Singapore Cathay Pacific Air New Zealand Thai LAN-Chile
Royal Jordanian Airlines		State holding 100%		Air Canada British Airways
Sabena		State holding 54.72% Air France 37.5%		All Nippon Airways Air Canada Garuda Indonesia Thai Airways British Airways Aer Lingus United
SAS Scandinavian Airlines System	British Midland 40% LAN - Chile 35% Swissair Up to 7.5% Finnair Up to 7.5% Continental Holdings 16.8%† Linjeflyg 100%	ABA 42.85% DDL 28.57% DNL 28.57% and EQA:- Swissair Austrian British Midlands		Thai Airways Canadian Airways Air New Zealand All Nippon Airways See European Quality Alliance

Note: † US$ 116 million investment written down to zero but retains 3 seats on the board. Is considering re-joining the current bidding for Continental.

Airline	Equity stakes in other airlines	Shareholders	Current indicated bids and/or mergers (1) Alliances under negotiation (2)	Marketing/ Cooperation Agreements
Singapore Airlines	Delta Airlines 5% Swissair 5% JES Airlines 49%	State holding 54.27% Temasek Holdings Swissair 5% Delta Airlines 5%		Air Canada Qantas
Swissair	SAS Up to 7.5% Delta Airlines 5% Austrian Airlines 10% Singapore Airlines 5% Air Nigeria 20%	Singapore Airlines 5% SAS up to 7.5% Delta Airlines 5% EQA		EQA:- SAS Austrian British Midland
TAP-Air Portugal		State holding 100%	(1) VASP Brazil	TAAG Angola Varig
Thai Airways		State holding 100%		SAS Sabena Malaysia Qantas
TWA		Icahn		China Airlines Air Canada
Uganda Airlines		State holding 100%		Air Botswana
United Airlines			(1) Philippines Airlines	Alitalia Australian Airlines Sabena
US Air		USAir Group 56% British Airways 20%	(1) Air Canada (1) Continental	Air France All Nippon Airways Alitalia Air Canada
VARIG Brazil		Ruben Berta Foundation 54.9%		TAP-Air Portugal
VASP Brazil		VOE Canleda 60% Sao Paulo State 40%	(1) Trans-Brazil	Aeroperu Avianca (Colombia) Ladeco - Chile VASP- Brazil