

Cutting Labor Cost in the Aviation and Maritime Industries: *The Changing Crew Management Landscape*

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ABSTRACT

This article illustrates the changing crew management landscape of cockpit and cabin crew members in the aviation industry. It establishes a broad understanding of the current problem and compares it to historic and current developments in the maritime industry. By comparing both industries, valuable clues regarding stakeholder involvement and influence and possible future developments can be discovered. Results show that both industries are now, or have been, approaching labor cost as a controllable cost in order to reduce the total operating cost. In both industries, this is enabled by non-conclusive legislation which fails to set strict regulation regarding labor contracts and employee nationalities. This has resulted in new employment methods on an international scale which enables companies to evade national law and reduce labor cost significantly. Attempts to stop companies from utilizing legislation outside their home country in order to reduce costs have failed to achieve their goal in the maritime industry. This provides some perspective for the aviation industry, as similar transnational bargaining platforms have recently been introduced. The effect of these initiatives is yet to be seen.

Introduction

After decades of cartel agreements and heavy regulation, the international aviation industry has undergone radical changes since the late 1970s. International liberalization has led to increased competition throughout the industry as a result of the removal of market entry barriers and the rise of a new business model; the Low-Cost Carrier (LCC) (Burghouwt, Leon, & Wit, 2015) (Doganis, 2010). This in turn increased pressure on airlines to operate more cost efficiently in order to remain profitable. Labor cost typically accounts for the second largest expense of an airline and therefore potentially provides large saving opportunities (Haywood, Jhunjhunwala, Vicq, & Levine, 2016). Holloway (2008) even argues labor costs have become one of the most controllable costs an airline has. This is a major change from the past, where due to low competition, airline managers never approached labor as a controllable cost (Doganis, 2010).

The maritime industry historically has been an industry where shipping companies have

approached labor cost as controllable for a long time. By using so called open-registries, ships could be registered in countries, other than the home country of the company, where regulation regarding the nationality of crew was not limiting (Shaw, 2016). This led to resistance from multiple stakeholders, including trade unions and regulatory bodies. Ultimately, nothing was done to prevent the use of open registries and it is now widely accepted throughout the industry.

The acceptance of the maritime approach potentially provides some perspective for the aviation industry, where the discussion is in a very early phase. In order to find out what the aviation industry can learn from the maritime sector, a similarity study was made, comparing stakeholder reactions and historic events. The main research question that is set out to be answered therefore is:

“Which similarities in stakeholder reactions and historic events can be found between the aviation and maritime industries and what perspective does this provide for the future of crew management in the aviation industry?”

In order to answer this question, a theoretical framework was created in order to illustrate the historic developments in both industries. This included regulatory changes, stakeholder reactions and actions. The research question will be answered by means of several sub questions:

- What enabled shipping companies to use the existing regulatory framework in order to reduce labor cost?
- What were stakeholder reactions and actions?
- Which crew management practices in the aviation industry have recently become apparent?
- What are the similarities between these early developments?
- What can the aviation industry learn from the maritime developments?

Cutting Cost in the Maritime Industry

The aforementioned use of open registries by shipping companies from all over the world has been facilitated by legislation that turned out to be non-conclusive. Panama was the first country to remove any barriers regarding the nationality of a shipping company to register a ship under the Panamanian flag (Piniella, Igancio Alcaide, & Rodríguez-Díaz, 2016). Amidst the chaos of World War I the Panamanian flag remained neutral and it therefore was very useful to avoid a lot of political issues. Besides the political argument, open registries provided shipping companies with favorable regulations regarding labor and overall costs (Bergantino & Marlow, 1998).

The state of registration of any ship determines the applicable law to, amongst others, labor contracts and tax payments. These aspects could easily be made attractive by any nation that wanted to create an open registry. As there was no real regulation prohibiting shipping companies to use these constructions, the United Nations Convention on

the Law of the Sea (UNCLOS) of 1982 set out to ban the use of open registries once and for all, by accepting Article 91 on the nationality of ships. The article stated that “*Ships have the nationality of the State whose flag they are entitled to fly. There must exist a genuine link between the State and the ship*” (United Nations, 1982). Since there is no international consensus about the “genuine link” between state and ship, open registries can still be used and the article failed to achieve its objective (Leggate, McConville, & Morvillo, 2005) (Blanpain & Dimitrova, 2010).

In a study performed by Bergantino and Marlow (1998), ship owners were asked to identify the most important aspects influencing their choice for an open registry. Over 25% of the ship owners identified crew cost as the most important aspect, followed by control and the availability of labor.

The crew cost benefits arise from, amongst others, the favorable regulation regarding the nationalities of crew members. Through most open registries, shipping companies are allowed to employ crew members from countries with significantly lower cost of living and thus lower remuneration standards (Alderton & Winchester, 2001). Additionally, employment methods other than direct employment are very common in the industry. As supply of seafarers changed from national labor markets to countries with lower cost of living, manning agencies, also referred to as temporary work agencies, became “*an integral part of the system and an intermediary between seafarers and shipping companies*” (Progoulaki & Roe, 2011). This also contributed to the fact that most seafarers around the world are left without security of an income, as contract lengths are most of the time on a single voyage base only (Progoulaki & Roe, 2011). As a result of the massive financial benefits that could be achieved through open registries, their market share in the total net tonnage shipped has increased to more than 55% over the past decades (Knoema, 2016).

Stakeholder Reactions in the Maritime Industry

Understandably, there were stakeholders in the maritime industry that heavily opposed the use of open registries. A wide variety of concerns were expressed by, amongst others, trade unions, governments and traditional registries. Most of these concerns were regarding environmental regulation, safety and working conditions (Blanpain & Dimitrova, 2010) (Gregory, 2012).

Traditional registries saw the number ships registered under their flag diminish, as a result losing a large amount of revenues whilst experiencing decreased employment from their respective country. Governments had to take action in order to increase the attractiveness of their labor markets and started offering discounts and premiums to shipping companies employing local seafarers (Waanders, 2017).

Trade unions, whose scope traditionally remains on a national level, feared a decrease in safety levels and accused open registries of encouraging detrimental working conditions. Due to the large degree of globalization in the maritime industry, a larger organization representing more than a single nation was required. The ITF was one of the first transnational collective bargaining initiatives of its kind (Lillie, 2004). By working together with over 700 affiliated trade unions, the ITF represented over five million workers in the transport industry (ITF, n.d.). The ITF, pressured by affiliated trade unions, started campaigns against open registries by creating a network of inspectors that checked shipping companies with non-ITF approved collective agreements (Lillie, 2004). Barriers were raised for non-compliant ship owners, resulting in a steadily growing number of registries and shipping companies with ITF approved collective agreements (Lillie, 2004). Interestingly, Lillie (2004) also argues not all nations were happy with these developments. Minimum wage requirements severely reduced the attractiveness of some, otherwise very cheap, labor markets. These different interests throughout the industry historically played a huge role in maintaining the open registries and is a part of the reason why ITF and other campaigns have failed to preclude the use

of them. On the other hand, these campaigns have led to improved working conditions, minimum wage levels and still continue to protect workers' rights on board ships (Llewellyn, 2013) (Dimitrova & Blanpain, 2010) (Lillie, 2004).

Crew Management in the Aviation Industry

Gittel & Bamber (2010) argue that the previously regulated aviation industry is a source for the high wages currently associated with traditional direct employment. This is substantiated by Peoples (1998), who argues that, before deregulation, trade unions' negotiated wages for their members were 14% higher than comparable industries. Due to the increased competition between various airline business models, airlines are looking for ways to decrease these premium wages. This change has led to resistance from airline personnel and even regulatory bodies, as some of the introduced practices are deemed to be "*on the verge of being deemed incompatible with European provisions concerning employment*" (European Parliament Research Service, 2016).

Interestingly, the practices airline have recently been using are very similar to the previously illustrated maritime labor cost reduction methods. International recruitment strategies are being used to employ crew members from countries with lower cost of living and at the same time, a reduction of traditional direct employment methods can also be observed.

A study performed by the Ghent University (2015) set out to identify differences in direct employment levels of cockpit personnel amongst six different types of airline business models. The study found that even though traditional network carriers still predominantly employ their crew through direct hiring methods, LCCs only employ 52.6% of their cockpit personnel directly. This indicates a shift towards new employment methods in order to reduce cost, similar to the maritime industry.

Although (direct) international recruitment has been accepted in the industry for a long time, the new employment methods have opened a completely new discussion. International recruitment strategies

combined with atypical forms of employment provide a large variety of options to reduce costs association with monthly remuneration and social security contributions, each of which revolves around lower cost of living and less restrictive regulation. It also severely increases the difficulty to apply legislation of a single country to an employment contract.

The regulatory framework that determines which law is applicable on airline crew contracts is set by the “home base” definition in Regulation (EU) No 83/2014 (European Commission, 2014). Home base means: “*the location, assigned by the operator to the crew member, from where the crew member normally starts and ends a duty period or a series of duty periods and where, under normal circumstances, the operator is not responsible for the accommodation of the crew member concerned*” (European Commission, 2014). This seemingly well-defined framework nonetheless leaves room for individual interpretation, as a French and Italian court have made opposing decisions about which law should be applied to a labor contract (EurECCA, 2016). The legal ambiguity results in grey areas in the existing regulatory framework which airlines are more than happy to utilize.

Similar Practices Have Similar Results

The ambiguous legislation that is facilitating grey areas in the regulatory framework and the effect it has on employment methods and strategies show two surprisingly similar industries. Stakeholder reactions in the aviation industry, although in a very early stage, are showing a similar development structure as well. Leading the offense against international recruitment and atypical forms of employment, by means of the undefined grey areas in the regulatory framework, are trade unions.

Several U.S. based trade unions have opposed the DOT decision to grant Norwegian special flight rights from Europe to the U.S. The unions are accusing Norwegian Air International (NAI), the Irish subsidiary of Norwegian, of evading Norwegian law by acquiring an Irish AOC in order to utilize Europe’s open skies agreement with the

U.S., as well as to be able to employ cheaper crew from Asian countries (Flightglobal.com, 2016) (Association of Flight Attendants-CWA, 2016). Air Line Pilots Association (ALPA) President Tim Canoll claimed “*ALPA will take appropriate action to overturn this decision and block the NAI business model from spreading*” and the U.S. labor group Transportation Trades Department even called on the U.S. president to reverse the decision (Flightglobal.com, 2016).

Moreover, similar to the development of the ITF, the aviation industry has seen the rise of one of the first transnational bargaining initiatives in the industry; EurECCA. Founded in 2014, EurECCA represents over 35.000 cabin crew members and is promoting better living and working conditions in Europe (EurECCA, 2017). EurECCA has released multiple statements regarding the home base definition and use of atypical forms of employment that encourage so-called “social dumping”. The opposition further fears a decrease in union representation which will result in reduced collective bargaining strength, contributing to the alleged decrease in working conditions associated with foreign crews (Harvey & Turnbull, 2015). Any measures to counteract the benefits of international recruitment and atypical forms of employment have yet to be introduced.

Conclusion

The comparison between the maritime and aviation industries has illustrated both industries are now, or have been, approaching labor as a controllable cost. By using employment strategies other than direct methods on an international scale, severe labor cost reductions are being realized. This in turn has led to resistance from trade unions and to a lesser degree governments and other regulatory bodies. Even though the maritime industry is a good example where the liberal ideology prevailed, the effect of campaigns and degree of protectionism in the aviation industry remains to be seen.

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