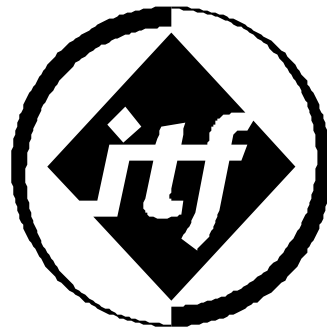


International Transport Workers Federation

Civil Aviation Section



ITF Survey: The Industrial Landscape of Low Cost Carriers

(Low Frills Airlines / Budget Carriers)

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Brief introductory guide to this report:

Definitions:

Throughout this report, the following definitions are used:

- Low Cost Carrier = No Frills Airline = Budget Carrier
- Network Airlines = Scheduled Airline = Full Service Carrier = Mainline Carrier

Content:

- Main findings (product and growth, union situation, employment and working conditions)
- Case Studies (BUZZ, Easyjet, Ryan Air, Southwest, and others)
- Possible Strategic Questions

Acknowledgements and sources used for this survey:

- ITF Survey (see below for participating unions)
- Full ECA Survey (European Cockpit Association, available at www.eca.org)
- Web Research
- Presentation by Prof. Doganis at IATA Airline Financial Summit 2002 (available electronically from the Secretariat on request)

Please note that all graphs and tables result from the ITF survey, unless mentioned otherwise.

We would like to thank all participating affiliates as well as ECA for their contributions.



Survey responses by unions listed by country and airlines mentioned:

Country	Union(s)	Airline(s) mentioned in responses
Australia	ALAEA, FAAA, TWU	Virgin Blue
Brasil	SNAA	GOL
Canada	CUPE	Tango, WestJet
Denmark	SID	
Dominica	WAWU	
France	CGT	Air Liberte
Germany	VerDi	Deutsche BA
Great Britain	TGWU	Easyjet
Ireland	SIPTU	Ryanair
Italy	FILT-CGIL	
Japan	JFAIU Koku Rengo	JAL Ways, JAL Express, Air Japan
Mexico	ASPA	
Netherlands	FNV, VNC	Transavia, Basic Air, BUZZ
New Zealand	AME, FARSA	Freedom Air
Norway	NCCU	
Portugal	SNPVAC	Yes Air, Euro Atlantic, Air Luxor
Spain	SITCPLA, UGT	Air Nostrum, Air Europe, Acbal
Sweden	HTF, STF	Godjet
Switzerland	Kapers	Easyjet
Turkey	Hava Is	TopAir, Anatolia Air, Alfa, Sun Express, Pegasus, Onur
USA	IAMAW, TWU	Southwest

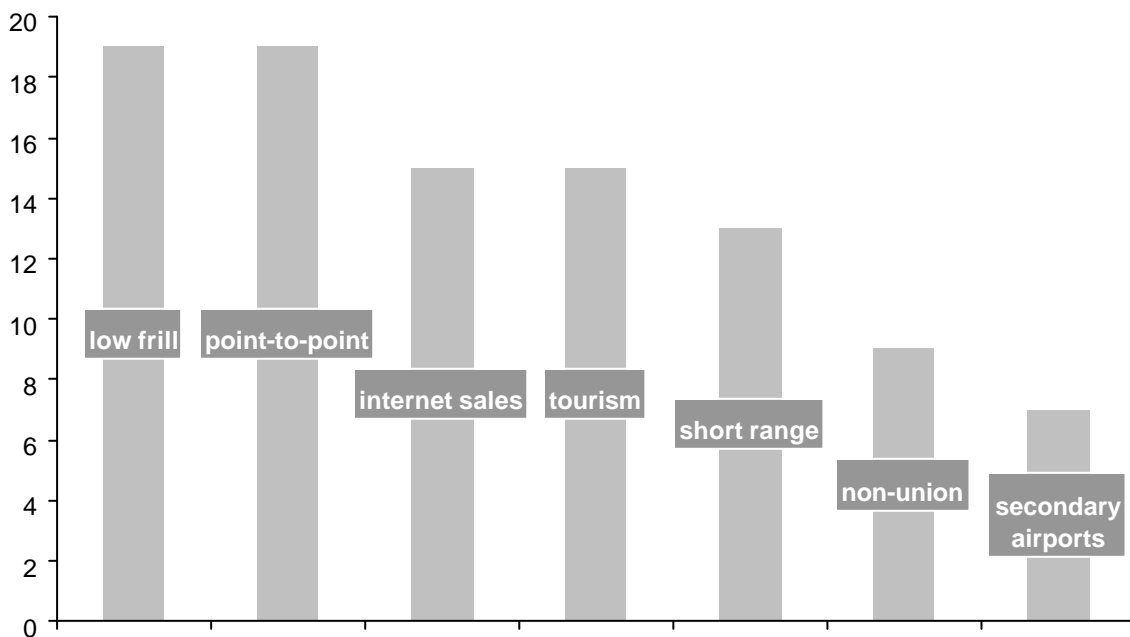


Product and growth perspective:

The main characteristics distinguishing “no frills” carriers from network airlines identified by participants are as follows. This is also mirrored by the ECA survey:

- Low frill/no frill operation (19%)
- Point-to-point operation (19%)
- Focus on internet sales (15%)
- Predominantly tourism flights (15%)
- Predominantly short range operation (13%)
- Non-union operation (9%)
- Use secondary airports (7%)

Main differences between existing carriers and low cost carriers reported by unions



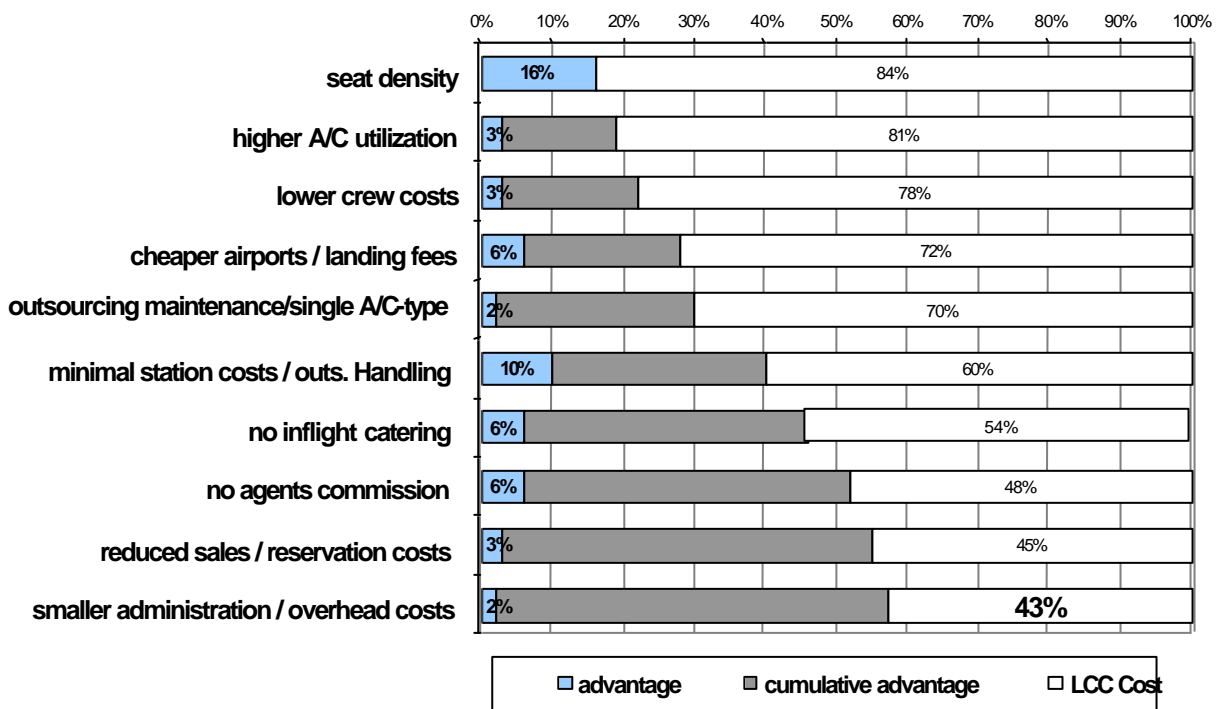


Other distinguishing features of low frills carriers include:

- Headline advertised rates generally below traditional airlines, frequent discounts offered.
- Flight changes (less flexibility than traditional carriers, up to the idea of “use it or lose it”).
- Largely ticketless operation, no interlining and no links with other airlines.
- Usually no free airport lounges.
- Higher aircraft utilisation.
- Uniform aircraft fleets and engines.
- Short/medium haul operation, many sectors per day.
- Stricter application of baggage allowances.
- No seat selection (“Go” allocates seating at check-in, not in advance).
- No frequent flyer program.
- Booking and purchasing by internet, hardly any contact with travel agencies.

According to the ITF’s survey, the majority of the low frills carriers perform their flight operations with their own aircraft, a minority use wetleased aircrafts. The majority of the low frills carriers have outsourced their ground duties, only a minority performs ground duties inhouse. The cost effects of some of those aspects are described in the ECA study, a separate study by Prof. Rigas Doganis produced similar overall cost advantages, but with slightly different distribution of savings for each element.

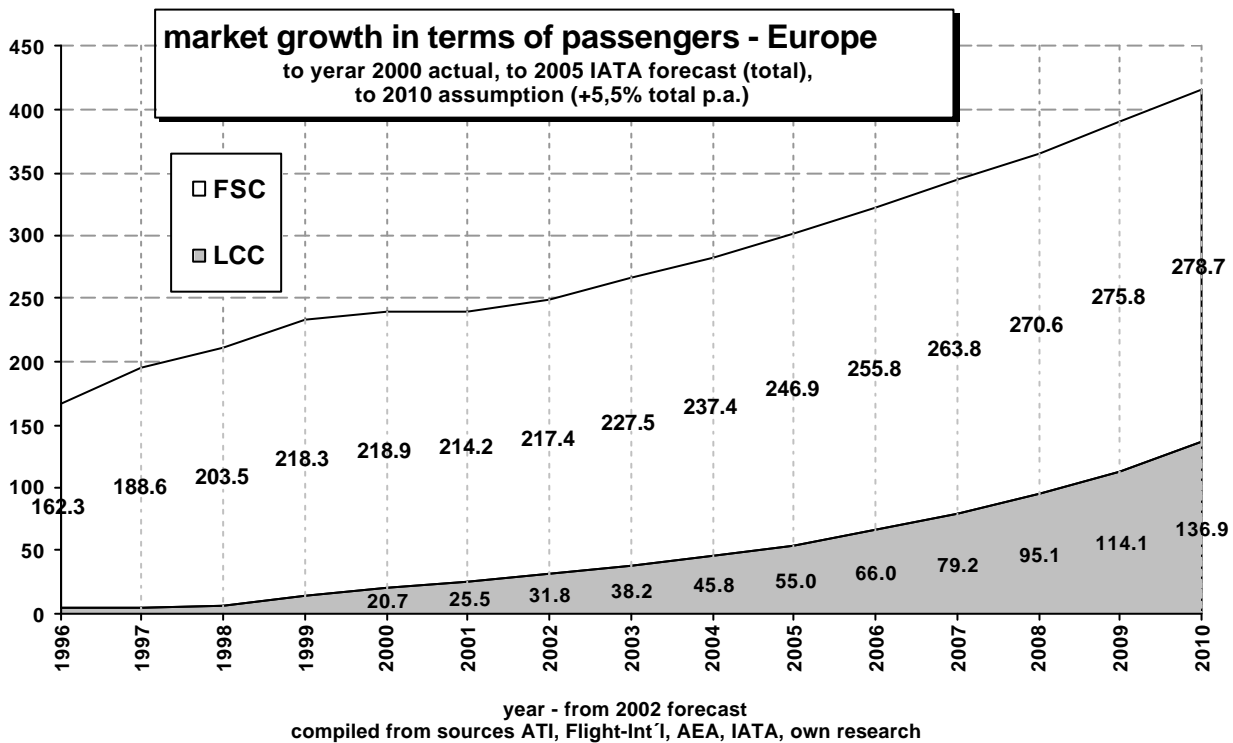
Cost difference between scheduled carriers and low cost airlines (ECA study)





According to the ITF survey, the majority of the newly emerging low frills carriers are gaining market share or stabilising, with only a small minority in decline. As the following graph shows, this is mirrored by the ECA survey as well. Professor Doganis estimates that the likely European market for the low frills carriers' business model would be around the order of 30 percent of total European revenue passenger kilometres.

Market growth perspectives scheduled airlines and low cost carriers (ECA study)



Note: FSC stands for "full service carrier" and LCC for "low cost carrier".



Ownership of Low Cost Airlines

According to the ITF survey, an equity relationship between low frills carriers and major scheduled carriers exist in about half of no frills airlines (48%).

Ownership of low cost airlines

Network Carrier	Country	No Frills Airline
Air Canada	Canada	Jazz
		West Jet
Air New Zealand	New Zealand	Freedom Air
British Airways	Great Britain	Deutsche BA (formerly)
		Go (formerly)
Iberia	Spain	Air Nostrum
JAL	Japan	Air Japan
		JAL Express & JAL Ways
KLM	Netherlands	Transavia
TAP Air Portugal	Portugal	Yes Air, Air Luxor
Varig	Brazil	Gol

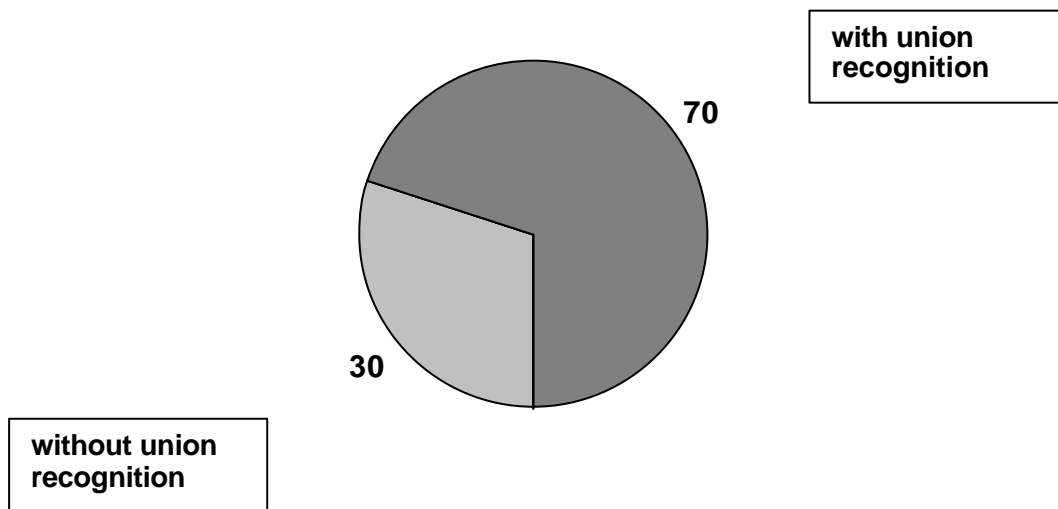


Union situation in low cost carriers

In a majority of low frills carriers, ITF affiliated unions have succeeded in gaining or retaining union recognition. In most of these cases, union recognition was gained by traditional means of organising. Individual unions also used legal rights where these exist.

In some cases, recognition is limited to one country or location, or covers only some categories of employees. In half the cases, more than one union represents employees, usually segregated according to job category. This issue is further developed on in the “case studies” below.

Union recognition within low cost carriers





Union recognition within low cost carriers

Airline	Country	Recognition
Buzz	Netherlands/Great Britain	✓
Deutsche BA (formerly)	Germany	✓
Jazz	Air Canada	✓
EasyJet	Great Britain	✓
Go	Great Britain	✓
Goodjet	Sweden	✓
JetBlue	USA	✗
Ryanair	Ireland	✗
Southern Winds	Argentina	✓
Southwest Airlines	USA	✓
Virgin Blue	Australia	✓
Virgin Express	Belgium	✓

It would also be interesting to know whether the airport employees and subcontract handling and maintenance agents that these companies rely on are themselves unionised. This can be explored on a case-by-case basis as the ITF strategy develops.



Employment and working conditions

The majority of the low frills carriers are currently hiring staff, while a minority are not hiring and a very small minority are reducing their workforce. This is also mirrored in the ECA survey. Just over half of the newly hired staff are coming from the aviation industry and have been employed by other airlines before. This means that many of them may have been union members in the past, and may have recognized the benefits of aviation unions.

At the same time, a majority of the comparable major scheduled carriers operating in the same countries are not hiring. After responding to the severe effects of the events of 11 September, which are discussed and evaluated in the ITF's report "Contesting the Crisis" (Cardiff University), there are currently no reported layoffs in any of the comparable major scheduled carrier, though many thousands of jobs have been permanently shed.

The survey revealed, perhaps surprising, that a majority of low frills carriers employ a mix of approximately equal numbers of workers on unlimited employment contracts to those on fixed term contracts.

In a majority of cases, the management of the low frills carriers succeeded in creating a special "company atmosphere", some kind of "corporate family feeling". They do that by "us against the others" feeling, as well as by company picnics and barbeques and other paternalistic methods.

In a majority of cases, management have not put profit sharing schemes in place. Perhaps this is due to the relatively high level of insecure employment.

With regards to overall salaries and working conditions, a huge majority of low frills carriers offer lower terms and conditions, showing a difference of between 5 and 40 percent compared to mainline carriers.

Only a minority offer conditions comparable to those at the respective major scheduled airline. We suspect this is the case when a new low frills carrier operation is established using an existing mainline carrier's workforce.

Examples where salary and working conditions in low cost carriers vary significantly from the equivalent of a major scheduled airline are shown in the following graph:

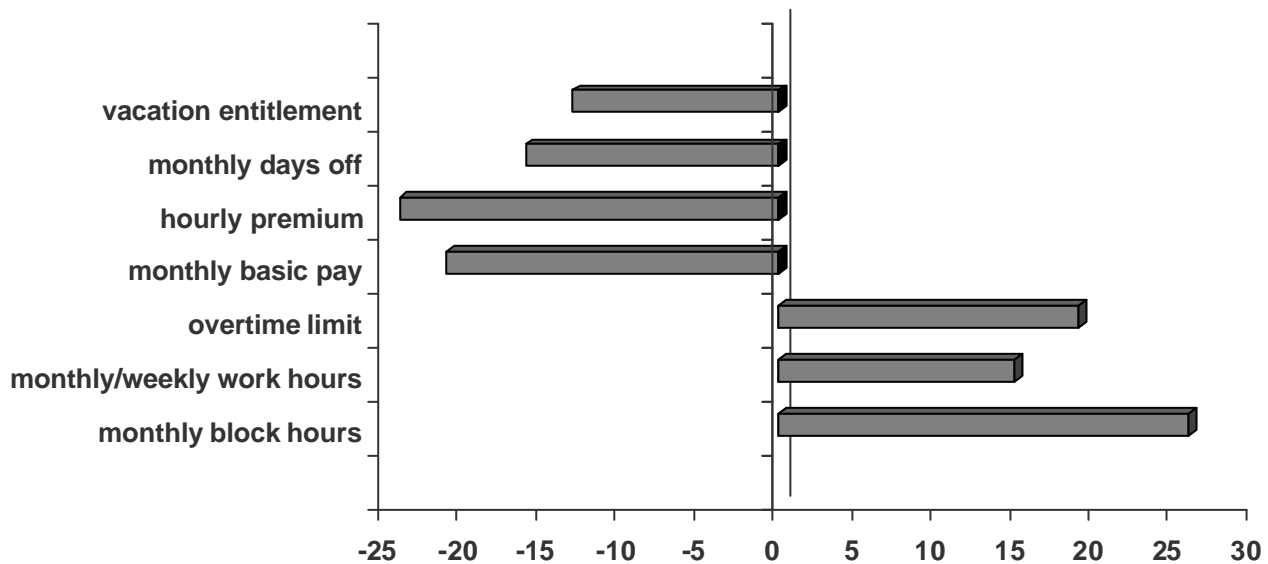


Differences in working conditions, compared to network carriers

		Range (percent)	Average +/- in %
1	Monthly block hours (air crew)	+10 to +35	+26% (*)
2	Monthly/weekly work hours (ground staff)	+10 to +20	+15%
3	Overtime Limit	-15 to +30	+19%
4	Monthly basic pay	-5 to -50	-21%
5	Hourly premium	-12 to -40	-24%
6	Monthly days off	-5 to -20	-16%
7	Vacation entitlement	-5 to -20	-13%

(*) numerous unions stated that this is achieved, among others, by not having any limits other than the legal national limits set by the civil aviation authority.

Differences in working conditions (percent):





Case Studies

Please note that these case studies have been reviewed and approved by the relevant affiliated unions, in some cases after follow-up interviews.

Europe

European liberalisation opened up the development of low-fare airlines. There are currently five low-fare airlines that are particularly active in developing European route networks, and/or operate from more than one airport hub:

Buzz. Owned by U.K.-based KLM, and an offshoot of KLM UK (originally Air UK) from which aircrafts and crews were transferred, Buzz started service in January 2000, and holds one of its major hubs in London Stansted. From October 2002, all KLM-UK-flights between London Stansted and Amsterdam will be taken over by BUZZ. KLM and KLM-UK will then concentrate their services London/Amsterdam from Heathrow and City. The airline keeps the number of rotations high to boost earnings per seat. Its fleet currently has BAe 146s, but is expected to standardise on a 150-seat category aircraft, probably the Boeing 737-300. In December 2000, KLM also launched its second low-fare airline, Basiq Air, based in Amsterdam. At Buzz, the ITF's Dutch affiliates have gained union recognition.

Go. Established by British Airways, but sold now. The airline started in May 1998 and is based in the United Kingdom, holding its strongest hub in London Stansted.

Go launched services with a fleet of five secondhand Boeing 737-300s on operating lease in mid-1998, and by mid-2002, Go's 737-300 fleet will number 27. Go has recently been purchased by Easyjet. At Go, the pilots' union has gained union recognition, but not the ground staff nor the cabin crews.

Virgin Express. Partly owned by Virgin Atlantic and reconstructed from a small traditional airline, Euro Belgian Airlines, which was bought by the Virgin group in April 1996. Richard Branson's Virgin still owns 51% of the airline, which flies 17 Boeing 737s. The collapse of Sabena, which provided 40% of Virgin Express' turnover with seat block purchases, forced it into the red for the second year running. Merger plans with DAT - Sabena's subsidiary and, under the name SN Brussels Airlines, its successor - were dropped after Virgin and DAT were unable to agree on valuations for the companies. The carrier is based in Brussels in Belgium and has its UK stronghold in London Stansted.

Ryanair. The forerunner of Ryanair was formed in 1985 but switched to a low-fare structure in 1991. The publicly traded company is based in Ireland and made history recently when it placed a record-breaking order with Boeing for 100 737-800s along with 50 options. According to a Doganis study, its market capitalisation is about 2.3 Billion Euro, putting it behind Lufthansa, Air France and British Airways, but in front of Alitalia, SAS, Iberia, KLM and Austrian. It is based in Dublin and holds strong hubs in Glasgow and London Stansted. At Ryanair, no union has



succeeded in gaining union recognition yet, mainly because of serious anti-union strategies applied by the company.

Easyjet. Started in 1995 and based in the U.K., the company is privately owned with 25 percent of the company publicly traded since November 2000. The company currently operates a fleet of 24 Boeing 737s and another 22 are already on order. According to a Doganis study, its market capitalisation is about 2.5 Billion Euro, putting it behind Lufthansa, Air France and British Airways, but in front of Alitalia, SAS, Iberia, KLM and Austrian, and low frills rival Ryanair. It holds its strongest hub in London Luton and has recently purchased Go and Deutsche BA. At Easyjet, the ITF's British affiliate TGWU has gained union recognition, partly by traditional means, partly by threatening legal action. At Deutsche BA, the ITF's German affiliate has gained union recognition.

Goodjet. The Swedish newcomer currently serves France only. It operates a variety of aircraft types, among them new A320 airbusses. It holds its strongest hub in Goeteborg and also uses airports near Stockholm and Oslo (not these cities' main airports). At Goodjet, Swedish affiliates have gained union recognition.

North America

In the US, after years of creating and destroying low frills airlines, just a few of those carriers, which had created pressure on existing airlines and their unions' collective agreements, survived. Southwest Airlines is the strongest of them by far.

Southwest Airlines. The airline is getting close to its 31st birthday, has out-lived carriers like Pan Am and TWA, and its post-September 11 market capitalisation of \$17 billion exceeds that of American, Delta and United combined.

While every airline speaks of corporate culture, Southwest is one of the few to have integrated it into its basic corporate structure, while its other essential element is its business structure, route structure, quick turnaround, and no-food, no-frills operation. The carrier has virtually invented the model for Europe's low-fares, short-haul, high-frequency start-ups. Thus, it is intended not to acquire another airline, in order to be able to grow internally, to fully control which people to hire, which airports to pick and which planes to operate. Almost every new recruit is greeted personally by them, and staff training programs encourage a humorous and informal approach to calm and charm passengers, for which Southwest has become renowned.

The issue of labour relations will be of increasing importance for the new management team as well. It is a challenge that would seem to be an easy one for Southwest, given its long history of industrial peace and image as a friendly employer. Yet its workforce, like those of every other US carrier, has been deeply aware of both the great leap upward in wages following the United Airlines pilots contract of 2000 and the labour turmoil since September 11. The airline is wholly



unionised, with every major worker group represented by a trade union. The airline suffered a brief strike in 1980 but has not experienced any labour disruptions since.

The "family spirit" is important within Southwest. This is the work of Colleen Barrett, one of the company leaders. *"The company is based on people, and that means if you hire right you get on the right track. We hire for attitude, for personality, not for industry qualifications or experience."* She spends hours a week corresponding and communicating directly with employees, writing to them on birthdays, anniversaries or during family emergencies and answering their correspondence. *"We teach everyone here that they have customers even if it's not the passenger. Management has a customer, too, namely the employees. Also, the important thing is keeping alive the warrior culture, reminding people that we have to stay focused on the customer. That is the way to stay alive. We have to remember how easily they [the majors] could have crushed us when we were a little company, and how they tried to crush us."...*

At Southwest, the 37,000 employees (incl. 7,600 cabin crew members in 7 US domiciles) are represented through three ITF-US-affiliates who have succeeded in gaining union recognition. They work closely together in the "Southwest Summit". According to their experience, bargaining began early in the process of evolution the airline in spite of it being difficult. As soon as the company has reached a critical mass, it will be much easier. The main focus is usually more on salary issues than working conditions.

JetBlue. While traditional airlines lost \$1.4bn (£890m) in the second quarter, JetBlue enjoyed a 36 per cent rise in net income to \$14.6m, its sixth consecutive profitable quarter. Passenger revenue rose 90 per cent to \$144.2m as its fleet doubled. JetBlue has grown so quickly by following the blueprint inked more than 30 years ago by Southwest Airlines, the self-styled "king of low-fare airlines" and a consistently profitable carrier. Ingredients include cheap fares, reliability, heavy use of aircraft, fast turnarounds and good customer service.

The C.E.O., Neeleman, acknowledges the debt to Southwest. *"We've absolutely taken pages from their book. We learned a lot about how to communicate and keep people excited. They have been very methodical about their growth."* The first tactic has been to differentiate JetBlue from commoditised, low-cost carriers. It offers a classy product: leather seats and television sets for every passenger, compensation for late flights, and play areas for kids at its main hub, JFK, New York. All tickets are one-way - rather than carrying restrictions such as overnight stays - and are mainly bought over the internet. *"Nobody sacrifices anything when they are flying JetBlue,"* he says. Like Southwest, JetBlue has tried to create a unique culture. Flight attendants are "crew members", the HR department is "People" and its uniform group is called the "appearance standards department". The first thing you notice at JetBlue's offices is the kissing. *"It's a huggy, fuzzy company,"* effuses Valerie Jenkins, a manager. *"Every employee greets everyone with a kiss. You don't get that anywhere else. If that's not who you are coming in the door, shortly afterwards that is who you will become. You will become upbeat. It's almost like you're floating."*

At a time when accusations of executive greed are rife, Mr Neeleman stands out. He holds no stock options and draws a salary of \$200,000. *"A fish stinks from the head. If they see me as a*



greedy person, I don't think they would feel good about the company. We feel like a family involved in a cause. It is what differentiates us." There are also economic reasons for keeping employees happy, says Michael Levine, a former airline executive and academic at Yale. *"The genius of Herb Kelleher (founder of Southwest) was not as an airline business strategist, but labour relations. He recognised that getting along matters a lot, as you can get hurt 100 ways. People at Southwest were willing to work on a more productive basis than other companies."*

JetBlue, like Southwest when it began, has no unions, keeping it free of contracts and work rules. Pilots are given incentives to fly more hours, so are more productive, flying about 80 hours a month against about 50 hours at United. Air crew are trained to multi-task, enabling flexibility in scheduling, and are expected to tidy aircraft to meet quick turnaround times. *"The flight attendants and pilots help clear the airplane. We tell the pilots, we know that's not your job (but they do it anyway). I don't think any of the unions would allow flight attendants to do that,"* says Mr Terry. That keeps wage costs low. Salaries and benefits are equivalent to 25 per cent of JetBlue's second-quarter revenues, compared with 47 per cent for United. But it is hard to sustain. JetBlue started with young employees, with little seniority. As it matures, wage costs will rise. Southwest now has some unions, and its wages represent about 34 per cent of revenues.

Latin America

Southern Winds, Argentina. The airline was established in the 90's, supported by Aerolíneas Argentinas (AR) during the first years. After three years, it grew independently due to the passengers and routes that AR abandoned. It was originally based in Cordoba (the second largest city in Argentina) and then started operations from Buenos Aires. The company pays the worst salaries and wages of the country. It operates 8 dash8, 6 CRJs and now they are starting international operation with 2 B767s with Icelandic license under an agreement with Air Atlanta from Iceland. In spite of the fact that Argentina was rated "Category II" by FAA recently, this agreement allows the company to operate in the USA. The Argentinean affiliate has union recognition and representation in the company. A Collective Agreement was negotiated but never signed, due to the company's refusal to agree to better conditions, closer to the rest of the airlines.

Asia Pacific

Virgin Blue, Australia. The Australian affiliate sent us their collective agreement which is available through the Secretariat on request. Salaries at Virgin Blue are less than what would normally apply to cabin crew domestically within Australia, the conditions are comparable to other airlines. However, it should be noted that in justifying the lower salary rates, Virgin relied heavily on their low cost status and that they were not a traditional airline. They are currently in contract negotiations with one of ITF's Australian affiliates.



Possible strategic questions

Strategies to respond to low frills carriers will need to take account of the following issues which will be considered at the forthcoming ITF low cost strategy conference.

- Many low frills carriers are unionised.
- Cost differentials with mainline scheduled carriers can stimulate organising and bargaining.
- Paternalistic and anti-union behaviour can be a barrier.
- Limited permanent workplaces can make organising and bargaining difficult.
- Transnational cooperation in bargaining and representation may be necessary or even decisive (i.e. Deutsche BA and Easyjet).
- The sector will face continuing uncertainty through consolidation which may also present organising opportunities.
- Established unionised workforces in subcontractors and airports may provide intelligence and support.
- There may be scope to utilise governmental competition policy to limit unfair or discriminatory charges that advantage low frills carriers.
- Employers of established airlines may have an interest in promoting common baseline conditions as a means of preventing social dumping.