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## THE CONSEQUENCES OF STRIKES IN AIRLINE INDUSTRY

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**Abstract:** Aviation industry is dependent on many different factors. Airline management has to follow and analyze the development of the global economy. At the same time they have to keep an eye on the well-being of the company stakeholders, especially the employees. Disruptions in airline operations are generally accompanied by losses due to incurred flight cancellations and disgruntled passengers. In some cases the airlines can disclaim the responsibility for the payment of compensations. But when the cause of the disruption are the pilots of the airlines fighting for better working conditions the airlines have to take full responsibility and pay all the compensations. The case of the Lufthansa pilots fighting for a rise in salary showed how vulnerable airline operations are to such disruptions. Fourteen strike actions of Lufthansa pilots within the years of 2014 to 2016 prove the difficulty of negotiating all the conditions to the satisfaction on both sides. Our paper presents an overview of the mentioned strike actions with quantification of upset flights and disgruntled passengers. The imbalance between strikes within different segments of passenger transport is highlighted. Losses of the company caused by strikes are compared to the anticipated costs for new higher wages. General conclusions are drawn for the airline industry and the operators who might encounter similar difficulties.

**Keywords:** airlines, aviation, strike

### 1. Introduction

Aviation industry and the airline performance may become affected by a number of factors that are dependent on each other and interconnected. Airlines just like any other company are directly influenced by microeconomic factors that can be based on the internal environment of an enterprise or are generated by elements directly related to an enterprise such as customers, suppliers etc. Macroeconomic factors arise in the external environment where businesses can not directly influence them, but they affect individual elements of the microenvironment. Thus the companies have to continuously monitor the developments in macroeconomics. This allows them to better understand the events and changes at the micro level [1].

In the microeconomic environment the monitoring of the behavior of customers, suppliers or competitors is an essential part of the company's activities. However, it is also necessary for the corporate management to keep an eye on the development inside of the company. Internal well-being, culture and mentality of employees can also have a positive or negative influence on the company's economic results, respectively. Rivalry between departments can cause achievement of strategic goals to be stifled at the cost of small internal wars and mutual proofing of who has a greater reach and whose goals will be met in the first place [2]. Another example of neglecting the needs of their employees are strikes, when long-term employee dissatisfaction and ignorance by the company's management leads employees to extreme steps. Strike is a sure way to attract attention and a guarantee that the demands of employees will actually be heard and will not be ignored.

An example of strikes in the aviation sector is Lufthansa, which has undergone a series of strikes by pilots and other staff. In our research, we examined how these strikes affected the company's economic performance and what steps Lufthansa had taken to calm down the situation eventually.

### 2. Short profile of Lufthansa

The Lufthansa Group is an aviation company with operations worldwide. Often addressed only by the "Lufthansa" name the company actually operates in many different segments with subsidiaries designated by appropriate names.

Deutsche Lufthansa AG has its own Executive Board which is responsible for managing the company's strategic goals and direction of development with the aim to increase company value sustainably. Members of Executive Board are appointed, advised and supervised by the Supervisory Board. The Lufthansa Group is organized into the business segments such as network airlines, point-to-point airlines, aviation services (comprising the segments such as logistics, MRO and catering), and additional businesses and group functions. The individual business segments are run as separate group companies, with the exception of the Lufthansa Passenger Airlines. They have their own profit and operating responsibility and are monitored by their respective supervisory boards, in which members of Deutsche Lufthansa AG's Executive Board are also represented. Some of the subsidiaries are for example Lufthansa Technik responsible for aircraft maintenance since 1995. The catering is operated by the group's own LSG Sky Chefs, and the Lufthansa Aviation Training as a separate company runs training centers for pilots and flight attendants. In addition to its main

passenger operation, Lufthansa Group has several airline subsidiaries. Those wholly owned by Lufthansa include:

- Lufthansa Regional – regional feeder airline, with Lufthansa CityLine as a German regional airline and Air Dolomiti for operations in Italy
- Austrian Airlines – the flag carrier airline of Austria based at Vienna International Airport
- Swiss International Air Lines – the flag carrier airline of Switzerland with leisure airline subsidiary Edelweiss Air
- Eurowings Group – low-cost or hybrid point-to-point airlines including German low-cost airline Eurowings, former low-cost airline Germanwings now only operating as a wet lease operator for Eurowings, Australia-based Eurowings Europe and Belgian flag carrier airline Brussels Airlines
- Lufthansa Cargo – German cargo airline [3].

### 3. History of strikes in Lufthansa Group

Strikes of the pilots in the German airline Lufthansa were becoming increasingly frequent in the last decade, especially since 2012. The most striking was the period from April 14 2014 until the year 2017, as during this period the pilots decided to execute the strike action 14 times. The whole situation around the strike started escalating up when pilots began to strike in order to receive better wage conditions. A large number of strikes took place in 2014, but they were not successful. Strikes continued in 2015 when further actions took place but with the same result as in 2014, that is without an agreement with company management. In 2016, the strike broke out on November 23 and lasted several days. Within these years, the airline booked economic losses due to the strikes. [4]

#### 3.1 Overview of the strike action in 2014-2016

The next chapter offers an overview of the strike actions in the years 2014-2016. It is interesting to look at the contrast between the number of canceled flight and the number of affected passengers when looking at different segments, that is short-haul, medium-range and long-haul flights. The same goes with the aiming of the strike actions geographically, whether the strike took place in smaller airports, or on major hubs. The contrasting numbers can be easily seen also in the Figure 1.

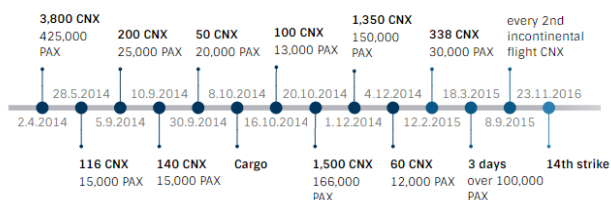


Figure 1: Timeline of strikes within Lufthansa Group in 2014-2016

Year 2014:

- 2nd to 4th of April: With a three-day strike, pilots virtually paralyzed Lufthansa. The sharpest outage in the group's history led to around 3800 flight cancellations, affecting 425,000 passengers.
- 29th August: Strike at the Lufthansa subsidiary Germanwings. There were 116 flights cancelled, affecting 15,000 passengers.
- 5th September: Pilots canceled short- and medium-haul Lufthansa flights from Frankfurt. A good 200 flights and 25,000 passengers were affected.
- 10th September: The pilot union is on strike at the Munich hub. 140 flights were canceled, more than 15,000 passengers were affected.
- 30th September: Strike of the pilot union Vereinigung Cockpit at the Frankfurt hub. 50 long-haul flights were canceled affecting 20,000 passengers.
- 8th October: The cargo subsidiary Lufthansa Cargo joined the strike actions. The two-day operation outage, however, had little impact on the company.
- 16th October: Germanwings' pilots were striking nationwide. 100 flights did not take place, it hit 13,000 passengers.
- 20th October: A strike on short- and medium-haul routes was extended to long-haul flights the following day. Lufthansa canceled over 1,500 flights on both days, affecting 166,000 passengers.
- 1st to 2nd December: Germany-wide strike hit 1,350 flights and around 150,000 passengers.
- 4th of December: Strike on long-haul and cargo routes of Lufthansa, 60 flights were canceled, 12,000 passengers were affected.

Year 2015:

- 12th to 13th of February: Two-day strike at Germanwings. 338 flights were canceled. It affected around 30,000 passengers.
- 18th to 21st March: Strike call in several stages. On the first day about 80,000 passengers on short- and medium-haul routes of Lufthansa were affected, on the second day 18,000 passengers on long-haul flights were affected as well as subsidiary's cargo flights, on the third day medium and long-haul flights were disrupted again. In May the negotiations begun.
- September 7th: After the Vereinigung Cockpit union has declared the negotiations for failed, the 13th round of strikes was planned for the September 8th and 9th. On September 8th a 16-hour strike on long-haul flights resulted in cancellation of almost every second intercontinental flight. On the following day the September 9th short- and medium-range flights were affected. Out of 1,520 scheduled flights 1,000 were canceled.

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Year 2016:

- November 23rd: The pilot strikes affect the short- and long-haul flights. Also in the following days the labor dispute would continue [5] [6].

### 3.2 The economic impact of strikes in Lufthansa

Losses caused by the strike of the German airline Lufthansa pilots in 2014 reached 222 million Euro. In 2015, the airline lost about 230 million Euro. One day of strike cost between 10 to 15 million euros. In 2016, strikes caused 4,581 cancellations during the time of collective bargaining, affecting approximately 389,000 passengers. In November 2016, the strike action reduced the company's profit during the 6-day strike by approximately 100 million Euro [7] [8].

### 3.3 The result of the pilots' strike

On 15th of February 2017, Lufthansa and the Vereinigung Cockpit pilot association adopted an arbitration proposal on a wage agreement. This included an increase in salaries of approximately 8.7% for the 5,400 company pilots. In addition, each pilot should have been paid an amount of between 5,000 and 6,000 Euro.

As a result of the bargaining the costs for crew salaries increased by approximately €85 million per year. The discussion between company management and the pilot unions were supposed to continue to come up with an alternative plan for cost reduction as part of the overall solution. Without the reduction of costs there would be a risk that 40 new aircraft would be occupied by crews that would not be included in the wage agreement.

The threat of strikes had a negative effect on passenger reservations and thus adversely affected the revenue beyond the direct cost of strikes. [9]

Trade union leaders initially demanded an increase in wages of 22 percent for their members over the following five years. The dispute between Lufthansa management and union leaders started as soon as in 2012. It intensified in 2014 when the pilots took action and organized a strike 14 times within 2 years, which caused to Lufthansa losses of over half a billion euros. According to the airline management the agreement did not cover all aspects of the conflict, such as the question of pensions, and therefore more strikes are not totally excluded.

### 3.4 Agreement on a new wage structure

On 21st December 2017, the Lufthansa Group and the pilot organization Vereinigung Cockpit signed agreements on all collective bargaining issues for Lufthansa German Airlines, Lufthansa Cargo and Germanwings, which were in accordance with the basic settlement reached in March 2017. They included new wage and collective agreements, as well as the pension and transitional arrangements, which would remain effective until June 2022 at least.

These collective agreements with the trade unions represent a long-term solution to the risk of strikes. [10]

### 3.5 Long-term solutions to strikes at Lufthansa

Lufthansa and the German trade union Ver.di signed on 7th February 2018 long-term wage agreements for approximately 28,000 ground workers employed by Lufthansa German Airlines, Lufthansa Cargo, Lufthansa Technik and LSG in Germany. The wage agreements provide for an increase of 4.9 to 6.1%. The increase depends on the adjusted profit margin before EBIT in individual segments with a guaranteed increase of at least 4.9% regardless of the margin reached. The pay agreement is valid for 33 months, from 1st January 2018 to 30th September 2020. [10]

### 4. Further analysis

Currently the situation at Lufthansa has calmed down. The period of unrest however created a great amount of financial losses. European legislation clearly prescribes how air carriers are obliged to replace passengers in case of significant delays or cancellation of flights.

#### 4.1 Calculation of losses

In certain situations, compensations to passengers may be avoided especially if the schedule disruption has been caused by circumstances that the carrier has been unable to predict or influence, such as, for example, hazardous weather conditions hindering the execution of air transport. However, a staff strike does not belong to such circumstances. A part of recorded losses from ceased transport operations comes from the financial compensations that the carrier had to pay to the passengers. The other part comes from the costs incurred to the air carrier, regardless of whether the operation took place, such as the costs for using the airport facilities, possession and maintaining of aircraft, etc. According to Lufthansa's annual reports, the cost of one day of strike actions ranged between 10 and 15 million Euro. It would be possible to add additional figures to these losses, but it is very difficult to quantify them. On the one hand these are the losses that the airline has sustained as a result of losing a part of the clientele to other carriers. In addition to the traveling public, the carrier may also lose public support, e.g. its traded shares may lose value.

An analysis of airline losses due to employee strikes was attempted in 1991 by DeFusco and Fuess [11]. They analyzed major US air carriers stock exchange data from 1963 to 1986, dividing this period into two phases. The dividing milestone was the year 1978, when a deregulatory act was adopted in the US that significantly affected air carriers and the entire industry. According to the findings of the authors regarding the period after 1978, effective strikes resulted in negative abnormal returns for struck airlines and positive abnormal returns for non-struck airlines. The ineffective strikes as studied on the case of Continental Airlines that went bankrupt resulted only in redistribution of wealth from Continental's employees to its shareholders.

## 4.2 Reasons for strikes

An example of Lufthansa shows how employees who work in different sections of a company or even in different subsidiaries can show unity. The pilots of Lufthansa passenger airlines, Lufthansa Cargo and Germanwings have joined together, and their actions later opened the space for the negotiating ground for ground staff.

The management of a company should know the setting of its employees. Another example from practice shows that employees are also willing to support colleagues in a completely different company, especially when they belong to the same union. In 2005 a walkout of employees and subsequent dismissing at the Gale Gourmet catering company led to a walkout of about 1,000 British Airways workers at Heathrow Airport, causing the cancellation of all British Airways flights for 24 hours. Approximately 100,000 passengers at Heathrow Airport and other airports were delayed. Also, Gale Gourmet was not able to supply British Airways with in-flight meals. In the end, British Airways estimated the cost of the strike to have been between £ 35M and £ 45M [12].

## 5. Conclusions

A strike in the airline industry is clearly unpleasant for all parties involved. The traveling public faces delays and cancellations of flights. The air carrier books high losses because it does not make any profit on the one hand, and in addition it has to pay refunds to the passengers. Further losses are incurred to the carrier due to the loss of trust from the traveling public and from investors.

The obvious reason for a strike is the neglect of the needs of the employees. Company management can anxiously track the development in the market and all the external factors influencing its business, but at the same time it might forget to keep track of developments inside the corporation and the mood of its own employees. Danger of dissatisfaction comes from other companies on the market as well, as the strike within a contractor's or a competitor's company can mobilize the employees of other companies into strike actions for reasons of solidarity, or because of their quest to secure the same benefits.

The strike actions within the airline business bring significant losses, and it is therefore necessary to start a dialogue in time, look for ways to avoid such actions and to find a compromise that would satisfy all parties.

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