

# Impact of financial crisis and unemployment



**ASSIGN  
BUSTER**

Airline labour has been severely affected by the global financial difficulties worldwide. The harsh economic conditions have resulted into reduction of job opportunities and work alterations. In 2009, the major UK airlines had to cut jobs opportunities whereby XL Airways a UK based airline employing about 1800 staff and Dalavia a Russian carrier with about 3000 staff stopped operations (Great Britain West Midlands Regional Committee, 2009, p.

2). Moreover, employees have experienced reduced working time with UK airlines implementing pay freezes.

Workers are being oppressed whereby they work without pay and be offered leave which is not paid. For instances, there was evidence in British airlines where employees were to work without pay for one month. The groups which are hardest hit by the restructuring of the Human resource policies due to the financial crisis is the cabin crew and to some extent the staff in the customer service.

Female workers heavily populate these occupations whereby though the policies may not be discriminatory, the restructuring will for sure have negative impacts on female workers as compared to the male workers.

Public safety is of great concern both nationally and internationally. Due to the increased terrorism threat, UK airport should strengthen its security measures and increase the airport policing (Great Britain Transport Committee, 2009, p. 416).

The cost of Sustaining airport security and airport policing have risen, hence it is a burden in this period the airports are experiencing financial crisis. The

agreement between the airports and airlines do not permit for increase in fees therefore the airports cannot transfer the costs to the airlines.

The airports are expected to cover the increased cost alone which is predicted that many of the regional airports their future will be jeopardised if the security issue remains unaddressed (Great Britain Transport Committee, 2009, p. 417). The UK airports industry is represented by a trade union known as The Airport Operators Association which commented on the proposals for introduction of AIP (Administered Incentive Pricing) presented by Ofcom which entails utilization of aeronautical and maritime spectrum (Great Britain Transport Committee, 2009, p. 216).

The Chicago Convention internationally mandated use of spectrum by aviation sector in 1949 (Great Britain Transport Committee, 2009, p. 216). This is another burden to the aviation industry whereby AIP has introduced a significant new cost. For instance, it is noted that a range of ? 800, 000 and ? 1, 100, 000 per year will be paid by an airport size of Birmingham (Great Britain Transport Committee, 2009, p. 216).

Evidence of financial pressure to the Aviation industry is indicated by the failure of XL hence the additional cost is a threat to the industry and this has been caused by the economic recession. Analysis

The aviation industry in the UK was without doubt heavily impacted by the recent economic crisis and it was evident with the dwindling passenger's numbers. The impact of the recent crisis would affect the entire aviation

industry from the airports to airlines. Financial losses due to meagre revenues from passengers and others services would be catastrophic to the aviation industry.

Most airlines will be forced to shut down or declared bankrupt, and for maintenance of airports it would also be an impossible task as they also depend on the traffic of passengers and charges from the airlines to generate revenues.

There is optimistic hope that the UK economy would recover and rebound from the crisis to post significant growth which in turn would translate to recovery in the aviation industry. As we have seen before there is positive correlation between economic growth and business boom in the aviation industry. Economic recovery would inject business confidence, increase individual demand to air travel due to improving disposal incomes and there would be a significant increase in passenger's traffic in Airports also. However it would be risky for survival to be optimistic and wait for the economic recovery.

Economic recovery depends on the government and the aviation industry cannot influence or determine the economic rebound in this case.

Similarly the aviation industry cannot predict accurately when the economic recovery will start to take effect and hence having “ hopes” without implementing certain policies to combat the crisis will be disastrous to their business. The aviation industry needs to undertake prudent measures during this period of recession to ensure the customers are motivated again to use the airline transport in order for the sector to survive.

“ In the early 1980’s economic recession and low or negative traffic growth seem to have encouraged many airports to pay attention to the already reasonable well- developed commercial side of their operations (Doganis, 1992, p. 61). This 1980’s model can be replicated with airports across the country to try and mitigate their risks and slow traffic flow of passengers. Many airports would have to suspend infrastructure or expansion development of the airports in order to minimise expenditure during the crisis and ensure they have enough financial reserves to cushion themselves during this period of time.

Similarly they can embark on value additional of their existing facilities like entertainment and other areas which can attract the attention of the existing passengers to spend a significant amount hence increasing the airport revenues. There is stiff competition in the airline industry as it is a purely competitive market. Price is the key element which could be used by airlines to coerce hesitant travellers to use their airlines by reducing their prices. This low price model is already used by budget airlines and it may be an advantage to them during this economic recession as more passengers will tend to use their airlines.

Major Airlines can also decrease their fare or offer extra services to their customers at the prevailing rates.

Due to the concept of the economies of scale it would also be easy for Airlines with a large fleet to implement policy of reducing fares. This is because airlines have very high operational costs and only those with a fleet can somehow enjoy the advantages of reducing fares. The most

recommended response to the financial crisis made by the trade unions covering UK airline employees is to implement a recruitment freeze.

Other measures to cut cost in order to avoid key staff lay offs consist of voluntary redundancy, pay freeze, failure to renew temporary contracts, voluntary retirement, not to transfer staff on probation stage into full time contracts, holiday leave without pay and also compulsory redundancy is recommended (Great Britain West Midlands Regional Committee, 2009, p.

3). Although it would be seen as drastic measures to freeze or reduce employment and cut back other unnecessary, expenditures it would be the only way to ensure costs are reduced and the staff is maintained while at the same delivering quality services to the industry.

Conclusion Aviation industry growth depends on the economic growth of the country. During economic recession all sectors tend to shrink and the aviation industry is always the hard hit casualty because it depends on passengers with slightly high disposal income which is always decreased during financial recessions. There are no guarantees that the future will look good although the industry need to be optimistic.

Traffic flow of passengers may continue to decline in the coming months or years due to the prevailing economic situation.

The dwindling traffic flow of passengers will affect the aviation industry and it will have no choice than to formulate and implement effective policies which would try to minimize their costs and at the same time attract the sceptical passengers. The measures discussed above can try to address the

problem but it would take more than those measures to ensure the business is sustainable.

## References

1.

Doganis , Rigas. (1992). The Airport Business. Oxon. Routledge 2.

Great Britain Treasury Committee, (2009). Budget 2009: Oral and written evidence. UK: The Stationery Office. Pp. 32-34 3. Great Britain Transport Committee, (2009).

The future of aviation: first report of session 2009. United Kingdom. The Stationery Office. Pp. 410-420 4. Great Britain Transport Committee, (2009).

The use of airspace: fifth report of session 2008-09. United Kingdom. The Stationery Office. Pp. 210-217 5. Great Britain West Midlands Regional Committee, (2009).

The effect of the economic downturn on the people in the West Midlands: first report of session 2009-10. United Kingdom: The Stationery Office. Pp. 3-5 6.

Vasigh, B & Tacker, T & Fleming, K.

(2008). Introduction to air transport economics. From Theory to Applications. United Kingdom. Ashgate Publishing Limited