

Financial Sustainability in the Aviation Industry: nice-to-have or need-to-have?

This is the third editorial under the IFALPA vision to Rethink-Reimagine-Reset the aviation industry. Although the airline industry has touted its profitability (albeit shrinking), only a minority of airlines accounted for those profits. Many carriers continue to generate losses, and often significant losses at that. This level of value destruction is not sustainable.

The COVID-19 crisis has highlighted the cost of financial systems that focus on value extraction as opposed to value creation. Value extraction looks like this: airline corporations send money out of the organization to enrich shareholders and executives rather than investing for future sustainability and competitiveness. This also includes avoiding costs and responsibilities by choosing to base their businesses in locations with the lowest levels of regulation, oversight, and protections.

The focus on value extraction disregards responsibilities for human costs associated with the markets served. Many companies justify their actions with declarations that they are creating jobs and growth. So, what's the problem?

The reality is that many of those new jobs, especially in the low-cost sector of the industry, are increasingly precarious forms of employment and bring undesirable social consequences. The negative consequences are lowered social and working conditions for crew, unfair competitive pressures, and potential impacts on safety decisions in the cockpit.

The carriers using these types of contracts rely on the ability to shift the real costs of employment onto taxpayers as a competitive advantage. Some proudly proclaim the "efficiency" of their actions. Much of the industry's growth is created by setting fares extremely low, to the point where cost of capital cannot be recovered. The resulting financial losses coupled with the destruction of quality jobs raises serious questions about the direction of the industry.

The International Labour Organization (ILO), a body of the UN, has advocated taking a "human centered" approach in their ILO Centenary Declaration of Work, 2019. It

emphasizes increasing investment in people's capabilities, in the institutions of work, and in decent and sustainable work. We believe more governments, organizations, and businesses will see this as the necessary path forward. <https://www.ilo.org/global/about-the-ilo/mission-and-objectives/centenary-declaration/lang--en/index.htm>.

The pandemic has demonstrated vividly what happens when corporations exercise more influence in society than individual citizens. Underfunding in critical infrastructure such as health care, senior care, disaster response, and transportation and supply chain infrastructure is deeply troubling.

The problems have been identified, how do we find the solutions? We should be wary of the removal of restrictions to accelerate global liberalization. As taxpayers, citizens, and workers we can see how tilted the unrestrained market has become. We should pay close attention to the lessons from the economic crisis of 2008. We can learn from the missed opportunities to regulate a financial industry that had lost its way. For an excellent synopsis of these issues please see Profits Without Prosperity by William Lazonick, <https://hbr.org/2014/09/profits-without-prosperity>.

The time to act is now. IFALPA will do everything in our power to ensure that our industry has proper financial oversight; ownership and control models that create value in society; and a competitive landscape that prevents waste resulting from unreasonable competition. We will strive for an industry that directs its resources toward securing the long-term sustainability of its businesses, its quality jobs, reasonable fares for consumers, and fair returns for investors.

Since deregulation, airline competition has brought many benefits such as reduced airfares, increased connectivity, and access to travel for more of the world's population. However, when competition hinges on shopping for weak regulations, regulators with no or low oversight, no tax responsibilities, and an assault on labour, both the industry and society lose.

A healthy, stable airline industry is a need-to-have, not a nice-to-have. It falls to governments to reign in destructive industry practices. We can build an industry that creates prosperity within its markets. IFALPA urges all stakeholders to join us in dialogue toward both recovery and the development of a framework for the long-term financial sustainability of our industry.