



Pacts for employment and competitiveness: case studies

Lufthansa AG

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ABSTRACT

Lufthansa has a tradition of concluding collective agreements on employment and competitiveness dating back almost two decades. Early agreements, however, were not directed at employment, but at employment conditions. In the early 1990s, the first of a series of ‘pacts for safeguarding competitiveness’ (Pakt für Wettbewerbssicherung) was negotiated. These agreements helped Lufthansa to get back on track through moderate personnel cost increases, increased productivity, a downward revision of the wage rate structure, a deferral of collectively agreed pay increases and the exceptionally long duration of collective agreements. During the restructuring process, elaborate communication and participation structures (most of which had been specially developed to aid the process) significantly contributed to communicating and legitimising the restructuring measures and the success of the whole process. Employee representatives were informed and consulted about steps to be taken. The trade unions and the works councils made suggestions and also had considerable influence on the contents of the agreements. During the 1990s, the Lufthansa group underwent a fundamental transformation from a largely State-owned company organised on similar lines to an administrative authority into a modern, lean, flexible and market-oriented privatised group. Overall, the pacts are regarded as a success, although there was some conflict over certain items, chiefly between the two representative trade unions.

INTRODUCTION

Deutsche Lufthansa AG (Lufthansa) was founded in 1926 and was re-established after World War II, in 1953. Lufthansa is Germany’s largest airline, and one of the largest airlines in the world. It is a globally oriented group with more than 250 subsidiaries and associated companies. The companies in the group are either in the air industry or supply backup in the tourist or airport ground handling business - for instance, airlines, logistics, maintenance, catering or IT service providers. Formerly majority-owned by the Federal Republic of Germany, Lufthansa is now a public company owned by about 490,000 shareholders. The parent company of the Lufthansa Group is Deutsche Lufthansa AG. It operates Lufthansa German Airlines in the form of an autonomously functioning but legally dependent profit centre. This is a reflection of the special importance of the scheduled passenger business in terms of resources, decision-making and core relevance. For all other business segments, Lufthansa AG exercises its leading role by acting as a holding company for strategic management.

In 1997, Lufthansa German Airlines was the largest company in the group, with a staff of some 28,000 and revenue of DM 15 billion (see Table 1). 12,000 staff were flight crew, 9,000 were flight attendants and over 3,000 were pilots, co-pilots or flight engineers. Meanwhile, Lufthansa Technik AG (engineering) employed more than 10,300 people, Lufthansa Cargo AG roughly 5,000 and Lufthansa Systems GmbH about 1,300 (annual averages). The new group structure led to a high degree of transparency in costs and results, and intensified contacts between the different units and their markets and customers. They transported 44.4 million passengers and 1,703,657 tonnes of freight and mail on 635,500 flights. The revenue for 1997 was as follows: passenger transportation, 72%; freight, 15%; aircraft maintenance, 6%; catering services, 2%; mail, 1%; travel services and commissions, 1%; sales from insurance business, 1% and other,

2%. Total employment at Lufthansa increased from 47,150 in 1987 to 63,645 in 1992. Between 1992 and 1998, it decreased every year except for 1996, and by 1998 it stood at 54,867.

BUSINESS INDICATORS, 1987-98 Table 1

Average number of employees			Turnover		Turnover per employee	Personnel expenses per employee	Profit on ordinary activities before taxation	Net profit for the year
31/12	Thousands	%	DM billion	%	DM thousand	DM thousand	DM million	DM million
1987	47,150		10,961		232	76	327	89
1988	49,056	4,0	11,845	8,1	241	80	522	82
1989	51,942	5,9	13,055	10,2	251	83	564	110
1990	57,567	10,8	14,447	10,7	251	83	36,1	15
1991	61,791	7,3	16,101	11,4	261	84	-560	-426
1992	63,645	3,0	17,239	7,1	271	92	-735	-391
1993	60,514	-4,9	17,731	2,9	293	90	75	-92
1994	58,044	-4,1	18,856	6,3	325	91	734	302
1995	57,586	-0,8	19,900	5,5	346	94	756	1,476
1996	57,999	0,7	20,863	4,8	360	99	686	558
1997	55,520	-4,2	21,610	3,6	390	99	1,749	1,077
1998	54,867	-1,2	22,654	4,8	413	102	2,432	1,431

Source: Lufthansa (Annual Reports)

According to management information, about 25% of Lufthansa's employees are trade union members. Three out of four union members are with the ÖTV, and one out of four are with the DAG. ÖTV organises ground staff and cabin staff. DAG organises cabin staff and cockpit staff. The composition of the works councils varies according to location and business area. Collective bargaining at Lufthansa has developed into a relationship of trust between management and employee representatives, and has been labelled 'trustful collective bargaining policy' (vertrauensvolle Tarifpolitik). Lufthansa is not subject to any sectoral collective agreement but concludes group and company agreements. The group agreements currently cover 20 companies, some of which are subject to special clauses. Until recently, there have been separate agreements with ÖTV and DAG. Furthermore, provisions usually distinguish between ground staff, cabin staff and cockpit staff. In 1997, DAG and ÖTV jointly negotiated a collective agreement for the first time. In future, one can expect either a bargaining cartel between the two unions or, in the case of a merger of the two unions, a single collective bargaining unit covering all employees except for pilots (who are very likely to negotiate their own agreements through their own trade union).

RATIONALES OF THE PARTIES

During the 1990s, the Lufthansa group underwent a fundamental transformation in structure and ownership. By 1991/92 Lufthansa found itself in deep crisis with severe financial losses being encountered. There were numerous reasons for

the crisis. Germany, like many other industrialised countries, was hit by a recession by which time a fundamental structural change had taken place in the air transport business. Excess capacity led to a collapse of demand during the Gulf War. The situation was made even more dramatic as the cartel of the International Air Transport Association (IATA), with its regulated system of prices and tariffs, became exposed to competition. The third stage of the liberalisation of the transport services in the European Union started in 1993 and was completed in 1997. Today, each EU airline is allowed to determine its own capacities and prices. Lufthansa, as well as its EU competitors, found itself in need of structural change. In contrast to the French and Southern European airlines, which followed the strategy of demanding and receiving public subsidies in order to finance price competition and contain social conflicts, the change process at Lufthansa was different; it included the three phases listed in Table 2.

PHASES OF RECONSTRUCTION *Table 2*

Phase 1 (1992-95)	Operative reconstruction
	<ul style="list-style-type: none"> • Stretching out depreciation • Selling of assets • Reduction in capacity • Reduction in workforce • Increasing productivity
Phase 2 (1993-96)	Structural reconstruction
	<ul style="list-style-type: none"> • Process-oriented optimisation • Reduction of stages of production • Business areas
Phase 3 (1994-99)	Strategic reconstruction
	<ul style="list-style-type: none"> • Completion of privatisation • Establishment of co-operation and partnerships in all business areas

Before the crisis, Lufthansa's organisation was monolithic and very similar to an administrative body with many levels of hierarchy. Lufthansa's personnel management style was similar to that in the public sector, with far reaching employment security and restrictive dismissals provisions. Reward structures very much resembled those of the public sector. In comparison to its competitors, especially British Airways, Lufthansa was said to have paid 25% higher wages.

Since the early 1990s, Lufthansa has gradually transformed and modernised its personnel management practices. The company has a personnel policy based on the following seven pillars: partnership-oriented collective bargaining, flexibility, employee participation, Lufthansa School of Business, employability initiatives, high quality leadership, and service quality. Personnel strategy is closely integrated in the overall company strategy. In the years since privatisation, Lufthansa has taken various measures to involve all employees in the company's success and to thereby enhance staff motivation. These include variable bonuses for senior managers, profit sharing for employees and share ownership, which at the time of writing covers some 30,000 Lufthansa employees. In total, they now own more than 5% of total equity.

PROCESS

Operative restructuring - 1992-1995

Prior to the crisis of 1991-92, the company had already concluded an agreement on issues of employment and competitiveness. The 3-year agreement, signed on 6 October 1990, aimed to safeguard and create jobs. The parties agreed that the expansion of Lufthansa should be achieved by internal growth only, and not by outsourcing or other activities. Furthermore, they agreed that the structure of personnel costs should be made more competitive. These involved a number of notable concessions by employees: a reduction in entry wage levels, employee concessions in grading, and suspension of the working time reductions collectively agreed in 1988, without any compensating wage increase.

The first phase of the restructuring process included the years 1992 and 1993 and may be summarised under the heading ‘consolidation and operative restructuring’. Drastic ‘fire-fighting’ measures followed, with the aim of reducing unit labour costs and adjusting personnel. The entire restructuring process after 1992 was accompanied by activities that may be termed ‘collective bargaining on employment and competitiveness’. Whilst there was no single ‘employment pact’, there was a series of activities during the whole transformation period that made up a continuous process of securing jobs and achieving competitiveness. These activities have been closely intertwined with the group’s overall business and transformation strategy (see Table 3).

PHASES OF RECONSTRUCTION AND EMPLOYMENT *Table 3*

Phase 1 (1992-95)	Operative restructuring
	<ul style="list-style-type: none"> • Reduction of unit costs • Reduction of workforce
Phase 2 (1993-96)	Structural restructuring
	<ul style="list-style-type: none"> • Independent business areas • Safeguarding of employment
Phase 3 (1994-99)	Strategic restructuring
	<ul style="list-style-type: none"> • Establishment of relational networks in all business areas • Employment growth

The goal of Lufthansa’s management in the restructuring process was to rescue and expand the company by achieving a competitive market position, and to thereby become permanently profitable and fit for survival. It was therefore a win - win approach, and not a policy not to threaten jobs, to make employees worse off, to undermine codetermination or to undercut collective agreements. The works council and the trade unions aimed to represent the interests of the workforce and ensure the maintenance of the maximum possible number of jobs at Lufthansa. A special task force of managerial staff, ‘Programme ‘93’, was set up and developed. It included 123 change measures, and was approved by the supervisory board during a special meeting on 31 August 1992. Some of these measures were as follows:

- Personnel reductions: by the end of 1994 the workforce was to be reduced by 6,000 (3,000 in 1993 and 1994, respectively), mainly by voluntary offers and increases in part-time employment, but also by redundancy where necessary. In 1992, Lufthansa had already reduced its workforce by 2,000;
- Reduction of operating expenses by DM 320 million in 1993 and a further DM 850 million in 1994. In order to achieve this, 30 measures were to be implemented immediately, a further 80 later; and
- Improvements in revenues of DM 700 million were to be achieved by aggressive price strategies and increased flexibility.

Phase one of the restructuring process was very much associated with workforce adjustments, i.e. reductions to be achieved in socially acceptable ways. Calculated in full time equivalents, the workforce was reduced from over 48,000 employees in June 1992 to below 40,000 in December 1994. Excess capacities were reduced, assets sold or released, and routes consolidated.

The negotiations of the 1992 agreement on restructuring (Sanierungstarifvertrag) were overshadowed by conflicts over Lufthansa's plans to establish Lufthansa Express as an independent company, operating on the German (and later also European) routes at competitive prices, costs and wages. The trade unions preferred a model according to which Lufthansa Express would be a division within Lufthansa.

During the negotiations, in early August 1992, the management board announced proposals which involved a month's cut in board member's wages. In mid-August 1992, DAG indicated a willingness to accept certain measures, including the abolition of the extra month's pay, provided that Lufthansa Express would not be disincorporated. ÖTV rejected the plans and said it would not agree working time extensions and substantial cuts in benefits. On 31 August 1992, Lufthansa concluded two parallel collective agreements with the trade unions ÖTV and DAG. Reportedly, the biggest problems in reaching the agreements arose not only between Lufthansa and the two unions, but also between the two trade unions. As regards wages, both parties agreed a twelve month wage freeze until 30 September 1993.

In order to support the implementation of the programme to safeguard competitiveness and to create adequate organisational and work structure, both sides agreed to establish joint structural groups (Strukturgruppen) along departmental lines (consisting of three employer and three employee representatives) by the end of 1994. The employee representatives were to be appointed by the group works council, after consultation with the social partners. On the employer side, two members of management and the head of personnel responsible for the department were to be appointed.

Generally the 1992 agreements met their objectives; total savings of DM 386 million were recorded in 1993. Targets for personnel reductions were also achieved. Personnel reductions between 1 February 1993 and 30 April 1994 were achieved by the following means:

- cancellation of contracts, including pay-outs (45%);
- unpaid holiday (11%);
- early retirement (18%);
- termination of contracts by the employee (5%);
- part-time jobs (3%); and
- non-renewal of temporary contracts (4%).

In mid-1994, the targets of phase one had been accomplished. Between June 1992 and June 1994, the workforce was reduced by 17% and costs per unit by 15%. Productivity had increased by 31%. The worst was over, and Lufthansa was fit for survival.

Structural restructuring - 1993-1996

At the beginning of 1994, with prior consent of the employer and shareholder representatives in the supervisory board, phase two of restructuring was initiated. Phase two focussed on the issues listed below; the overall aim with regard to personnel was the maintenance of employment. Lufthansa set itself a number of goals related to the revision of company structure, the most important of which were:

- the establishment of smaller units, which were closer to their product markets and easier to manage;
- the segmentation of the group into market-oriented business units;
- the establishment of permanently competitive cost structures; and
- continuous benchmarking processes against external competition.

Lufthansa adjusted itself to markets and competition and reoriented its strategy. The whole process of restructuring was conducted in an atmosphere of open communication. Phase three of the restructuring process was about reorganising Lufthansa's organisational structure and creating networks of international relationships, such as strategic alliances and co-operation. In the personnel area, the goal was to increase employment. After initial discussions and signs of impatience concerning the restructuring processes, the supervisory board unanimously voted for a strategic reorientation of the group. At this stage, some fears were voiced that a reorientation would endanger jobs, undermine codetermination rights and undercut collective agreements. According to management, the goals of phase three were:

- to make the company fit for competition;
- to safeguard jobs, to make the group profitable;

- to enhance financial participation of the employees in Lufthansa's success; and
- to prepare the employees for continuous improvement processes.

In 1995, the Lufthansa group was given a completely new structure. Important business areas (freight, engineering and data processing) became independent companies and business units within the Lufthansa group, responsible for their own earnings results.

Strategic restructuring - 1997-1999

In October 1997, Lufthansa became fully privatised. 37.5% of Lufthansa shares, including the former 35.7 stake held by the government, were sold to the public. Since 1 April 1997, Lufthansa's passenger business has been run as an autonomous business unit (Lufthansa German Airlines). This move was Lufthansa's response to the new competitive situation resulting from the liberalisation of air travel within the EU, new cut-price rivals and intensified downward pressure on fares. The aim behind the move was to achieve enhanced market orientation and greater flexibility. In May 1996, Lufthansa had launched its 'Programme 15', with the aim of cutting costs per seat-kilometre by 4% per year and implementing short-term retrenchment measures, to result in a total cost saving volume of DM 1.5 billion by the year 2001. Judging by the measures implemented so far, the cost saving objective may already have been achieved during 1999.

The DAG criticised the 1996 agreement with the ÖTV for its long duration, and demanded a higher wage increase. After lengthy negotiations and industrial action, DAG accepted the October 1996 deal on 9 April 1997, after ÖTV and DAG jointly reached agreement with Lufthansa on additional measures to safeguard employment. Furthermore, the Lufthansa-DAG deal provides for an increase in the profit-sharing bonus of DM 100 and an overtime pay rise for cockpit staff. Lufthansa, ÖTV and DAG agreed on the continuation of the existing collective agreement that maintains the status quo for cabin crew, as well as the existing general agreement on pay grades for ground staff, for another 3 years.

CONTENTS OF THE AGREEMENTS

Details of the various agreements are contained in Table 4. It shows that significant employee concessions were made in return for employment guarantees.

OVERVIEW OF MAJOR COLLECTIVE AGREEMENTS AT LUFTHANSA IN THE 1990s Table 4

1990	<ul style="list-style-type: none"> • Major salary adjustments for ground and cabin staff associated with the introduction of a two-tier pay structure • New working time structures for cockpit staff to increase productivity
1991	<ul style="list-style-type: none"> • 6 month suspension of pay scale increase for all staff, and compensation through lump sum payments instead
1992	<ul style="list-style-type: none"> • 12 month wage freeze for all staff • Working time annualised • Narrower salary structure for cockpit staff • Reduced salary development • For cabin staff, a new salary structure and a transition period with a 3-year pay freeze • For ground staff, adjustment of shift allowances made and overtime pay reduced • Models for socially acceptable workforce reductions
1994	<ul style="list-style-type: none"> • Provisions on the protection of acquired rights for staff being transferred to new subsidiaries • Postponement of salary increases by 6 months • Framework agreement on converting Lufthansa's State run pension plan into a more flexible company pension fund
1995	<ul style="list-style-type: none"> • Cabin staff may be paid according to a two-tier system, depending on country of origin. Stewards hired abroad are subject to the same employment conditions as those employed in Germany, except for wages, which shall be fixed according to the local going rate, even if both groups of employees are on the same plane. However, the share of stewards employed abroad may not exceed 10% of all stewards employed at Lufthansa.
1996	<ul style="list-style-type: none"> • 27 month agreement increases pay by 1.7%, plus lump sum payment • Additional measures to safeguard employment • Agreement on semi-retirement for the Lufthansa Group's employees in Germany from immediately when the Act on Semi-Retirement became law (<i>Tarifvertrag Altersteilzeit</i>)
1999	<ul style="list-style-type: none"> • Pay rise of 3.5% and a share of company profits for employees in the 1998 business year

1992 agreements

Turning to the individual agreements, details of the groundbreaking 1992 agreements are contained in Table 5. The 1992 Lufthansa-ÖTV agreement renewed (with a number of changes) pay agreements for ground staff, cabin staff and vocational trainees until 30 September 1993. Furthermore, framework agreements on working time were again put in force. It was also agreed that Lufthansa Express should become a division of Lufthansa AG. The two ÖTV and DAG agreements brought a number of changes for ground staff covering the suspension of the annual increment, the shift premium system and working time annualisation. As a consequence, overtime premiums were only to be paid if working time was not balanced out after up to 6 months.

PRODUCTIVITY AND COMPENSATION RELATED MEASURES OF THE 1992 AGREEMENT *Table 5*

	Productivity	Compensation
Ground staff	<ul style="list-style-type: none"> • Flexible annualised working time • Postponement of annual salary increase • Reduction of days-off • Flexible shift work • Increased use of productivity reserves 	<ul style="list-style-type: none"> • Introduction of supplementary performance-related pay elements • Slower gradual compensation increases
Cabin staff	<ul style="list-style-type: none"> • Flexibility concerning days off • Flight and rest time according to law • Reduction of days-off • Cost efficient rules for crew reinforcement on long-distance flights 	<ul style="list-style-type: none"> • New compensation structure • Phased compensation increases
Cockpit staff	<ul style="list-style-type: none"> • Re-organisation of contingency plans • Flexibility concerning days off • Intelligent part-time models 	<ul style="list-style-type: none"> • Market-oriented adjustment of compensation structures • Reduction in variable expenses for flight hours

For cabin staff, changes regarding compensation were most important. First, new grading and pay scales were introduced. Changeover to the new systems involved the following steps:

- a pay freeze (limited to 3 years);
- an annualisation of hours for the system of extra flight hours (Mehrflugstundensystematik);
- a reduction in the duration of vocational training (lower the basic pay for trainees); and
- the introduction of measures to support part-time work.

The implementation of the collectively agreed working time reduction (agreed in 1988) was suspended. For cockpit staff, a group agreement was concluded for the first time, which covered almost all Lufthansa companies. The agreement included new compensation structures, which in some cases reduced pay levels and introduced pay ceilings, amounting to future cost reductions of about 25%. Employees who had already reached (or exceeded) the ceiling before the introduction of the new system were not to be made worse off. For such employees, future pay increases were fixed at 50% of the collectively agreed increase. Group-wide minimum levels of employment conditions were to be fixed. Within the framework of these minimum rules, different employment conditions could be agreed at establishment level.

1994 agreements

The 1994 collective agreement, which was valid for 48 months from 1 June 1994, contained general employment security provisions. First, dismissals for economic reasons were to be avoided by measures to safeguard employment. If there was an employee surplus, the provisions of the collective employment protection agreement (Schutzabkommen) applied. If this was not satisfactory, the relevant parties had to negotiate measures (for example, a working time reduction) in order to maintain permanent employment. If there was really no other option than to make people redundant, the redundancy procedure had to take place according to the rules prescribed by the Lufthansa social plan.

The framework agreement on protection of existing employment conditions, the so-called 'Bestandsschutz' agreement, guaranteed that employees would not become worse off due to the process of reorganisation and would continue to enjoy the same standards after reorganisation. The 'Bestandsschutz' agreement was subsequently extended until the year 2000. In cases where group companies outside the dominant influence of Lufthansa became insolvent, Lufthansa committed itself to taking on affected employees and giving them a 5-year employment guarantee. For employees with contracts that cannot be terminated by giving notice (i.e. employees with 15 years' employment with Lufthansa), this job guarantee was unlimited.

The contentious issue of the State-run supplementary staff pension funds (Versorgungsanstalt des Bundes und der Länder, VBL), which resembled systems for civil servants, was seen as an obstacle to privatisation. The issue was resolved by federal aid of more than DM 1.0 billion and the use of DM 1.1 billion of Lufthansa's savings to transform the traditional system into a company pension fund. In 1996, immediately after the Act on Partial Retirement was passed, the negotiating parties at Lufthansa concluded an agreement on partial retirement (Tarifvertrag Altersteilzeit) for the group's employees in Germany.

1996 agreements

In October 1996, Lufthansa and ÖTV concluded a pay settlement that bound both parties for a period of 27 months, until 31 December 1998. The agreement included:

- an increase in wages and salaries of 1.7% from 1 April 1998;
- a lump sum payment equivalent to 1.7% for the period 1 October 1996 to 31 March 1998;
- 100% sick pay;
- a profit-sharing scheme; and
- an increase in the wage paid under the scheme for part-time work for older workers (Altersteilzeit) to 85% of the last net income.

Furthermore, a special collective agreement on employment (Beschäftigungssicherung und Förderung von Ausbildung) was concluded on 30 September 1996, which included provisions aimed at avoiding redundancies and taking on vocational trainees in 1997 and 1998 (upon successful completion of their training). The duration of the agreement was similar to the pay agreement. The agreement states in paragraph 2 (Beschäftigungssicherung):

For the period of duration of the remuneration agreement, the companies covered by the remuneration agreement commit themselves:

To avoiding personnel reductions by means of redundancy for economic reasons by measures which safeguard employment.

If, despite all measures to safeguard employment, and after all means of the Schutzabkommen collective agreement are exhausted, redundancies for economic reasons cannot not be avoided, the parties to this agreement agree to start negotiations in order to find adequate ways (e.g. qualification, working time reduction), i.e. agree measures with the aim of permanently safeguarding employment.

As regards vocational training, both sides agreed to maintain, and if possible to increase, the number of vocational training places.

1999 collective agreement

On 24 February 1999, a collective agreement was jointly concluded by ÖTV and DAG, providing for a pay rise of 3.5% from 1 March 1999, a lump sum payment of DM 440 for January and February 1999, and a share of company profits for employees from the 1998 business year. The wage agreement is valid for 13 months.

EFFECTS OF AGREEMENT

Lufthansa's 'pact for safeguarding competitiveness' (Pakt für Wettbewerbssicherung) was not a narrow or single activity, but included several agreements during the restructuring process. These agreements helped Lufthansa to get back on track via moderate personnel cost increases, increased productivity, a downward revision of the wage rate structure, a deferral of collectively agreed pay increases, and the exceptionally long duration of collective agreements. During the restructuring process, elaborate communication and participation structures (most of which had been specially developed to aid the process) significantly contributed to communicating and legitimising the restructuring measures and the success of the whole process. Employee representatives were informed and consulted about steps to be taken. The trade unions and the works councils made suggestions and also had a considerable influence on the contents of the agreements.

The following factors contributed to the success of the restructuring process and the employment measures:

- the fact that management strategy, personnel policy and labour relations, including the collective agreements, went hand in hand and were closely linked; and
- the fact that traditionally co-operative, consensual and relatively peaceful labour relations at Lufthansa smoothed the whole process of implementation.

Fritz-Heinz Himmelreich, managing director at the Confederation of German Employers' Associations BDA (Bundesvereinigung der deutschen Arbeitgeberverbände), stated that he regarded Lufthansa's 1992 deal (especially the clauses for company level variations from agreements) as a positive signal for adjustments in wage policy, made necessary by increasing and changing competition in the world economy.

Opinions among employees as to the alliance were mixed. According to ÖTV, the 1992 agreement at Lufthansa should not be regarded as a model to be replicated, but as a special case to help a troubled company survive. ÖTV board member Eike Eulen considered the establishment of the structural groups as a success and said the union was able to influence the contents of the agreement. AG chief-negotiator Herbert Gartz regarded the agreement as an option to solve Lufthansa's financial problems 'from within'. The then collective bargaining expert of the DGB (Deutscher Gewerkschaftsbund), Lothar Zimmermann, warned against using collective bargaining as a means of conducting restructuring processes in companies. He said that experiences teach that, as a rule, companies would not be saved and the importance of collective agreements would be diminished.

Although in general, labour relations at Lufthansa have been co-operative, problems emerged between the trade unions with regards to certain employee groups. During the restructuring process, it appeared to be very difficult to get the cockpit staff (who were highly organised, were acting in a tight labour market and as a result had a relatively high level of bargaining power) on-side. Discontent between older and younger employees also appeared within the cockpit staff, because of the two tier employment system. Older employees were able to maintain their benefit and pay levels while younger employees were hired at lower entrance levels and with different benefit packages. With time, however, management seems to have succeeded in achieving the 'mental change' it so much desired.

EVALUATION

The pay agreement of 1999 represents a clear turning point in collective bargaining at Lufthansa during the last decade. The deal can be interpreted as a result of both parties considering the reconstruction process following the 1991/92 crisis as being completed. Management regards the 1999 agreement as a matter of credibility, and thus allowed for adequate pay increases after years of sacrifice. Collective bargaining on employment and competitiveness in Lufthansa made a significant difference and contributed to the saving of the company. As Lufthansa has stated: 'Successful labour relations are underpinning Lufthansa's transition'. It has to be explicitly acknowledged that, although the transformation period

may thus far be regarded as successful, employees and management at Lufthansa are quite aware that business is a continuous process. Consequently, the struggle to secure jobs and achieve long-term competitiveness may never end.

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