

BUSINESS CASE STUDY

Ryanair and the Danish Model

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The European Union and the principle of free movement across borders

The European Union, love it or loathe it, was designed to bring economic and social benefits across Europe. The project aimed to break down the barriers that hinder the free movement of goods, capital, services and labour, thereby creating peace and prosperity for nations and regions. The result was a sharp increase in the mobility of labour and capital, leading to increased levels of economic activity, and improving social standards. Yet economic integration can also result in conflict, when established parties feel that their interests are threatened. This case study examines a disagreement that occurred between the Irish company Ryanair and the Danish trade unions, when Ryanair took advantage of the single market to set up a new base at Copenhagen airport.

Trade Unions and the “Danish Model”

To understand the conflict that occurred between Ryanair and the trade unions, we first need to consider the Danish labour market and welfare systems. Denmark is an example of a highly developed and regulated welfare state. The country implements the *flexicurity model*, which has gained widespread international attention. As is reflected in the word *flexicurity*, there are two fundamental features that characterize this model. Firstly, firms enjoy a degree of *flexibility* in hiring and dismissing workers, which makes it easier to reduce the number of staff in economic downturns. The result is a greater disposition to hire new staff in economic upturns. This flexibility in the labour market favours overall employment over individual job security. The second aspect of the *flexicurity model* involves *security*. The Nordic welfare states are renowned for their system of state sponsored welfare, providing free medical treatment, free education (even including a basic state-paid salary for every Danish student in tertiary education) and other generous benefits. If a worker is laid off and hit by unemployment, he or she receives considerable unemployment support

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and opportunities to upskill through training courses. As a consequence of these generous benefits and its large state sector, Denmark is said to have the highest tax pressures in the world. In fact, foreign visitors will usually experience Denmark as a rather expensive country.

The Danish Model of the labour market is governed by strong trade unions and employers' associations who centrally set the rules of the market. In Denmark there is no single minimum wage which applies to all workers. Instead, salaries, benefits and working conditions are negotiated on an industry-by-industry basis by trade unions and employers' associations. The resulting agreements apply to all firms and workers in that industry, even those who are non-members. For example, if a new base salary has been agreed for an industry, an employer will need to adjust salaries for all workers, not just those in trade unions. As far as possible, the state will not get involved in these negotiations and will only intervene if the parties cannot reach an agreement on their own.

Although the Danish Model is characterized by a high degree of cooperation, problems can occur. For example, sometimes employers are unwilling to join a collective agreement. In such cases, when a company persistently refuses to sign, a trade union may eventually threaten to call a blockade against the firm. As a formal procedure, the trade union will issue a warning demanding that the company signs the collective agreement, and will simultaneously fix a deadline for this to happen. After this deadline, the trade unions can legally initiate a strike. For a firm, the implications can be substantial: not only do the employees of the affected firm have the right to take industrial action, also employees of other firms can obstruct the company's operations through so-called *strikes in sympathy*. Notably, unionized workers can strike against a company even when they are not employed there. As a result a strike-hit company can, for example, be prevented from receiving supplies or services from third parties. Third party employees can physically prevent consumers from accessing the strike-hit company, also when the company's own employees are not on strike. The ability to call strikes in sympathy is thus a powerful device in the hands of the trade unions, as they can create substantial problems for firms unwilling to sign

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the centrally negotiated collective labour agreements. Given the often drastic consequences of industrial action, most firms prefer to subordinate and underwrite the collective agreements.

Ryanair comes to Copenhagen

With ongoing globalization, the airline industry is growing rapidly. The American aircraft producers Boeing predict that by 2034 an additional 500,000 pilots and an equal number of technical maintenance personnel will be required worldwide (see <http://www.boeing.com/commercial/market/long-term-market/pilot-and-technician-outlook/>.) This expansion offers interesting growth opportunities for airline companies and airports, if they are competitively positioned.

Ryanair is a major player in the European airline market, having undergone a massive expansion since its arrival in the 1990s. Like other low-cost carriers, it has a network of regional bases in different locations where it maintains support facilities and a number of aircraft (around one to five depending on the size). At each base employees like pilots, flight attendants, technical support staff and other service personnel are permanently stationed. By maintaining several bases, Ryanair and other low-cost carriers are able to adapt to market changes such as rising or falling demand very quickly, giving them a competitive advantage. For example, during the financial crisis which particularly affected the southern European markets, low-cost carriers moved capacity to areas which were less hit.

In order to maintain its growth, Ryanair is constantly seeking new bases and the Scandinavian markets offer many interesting and unexploited opportunities. Consequently, in October 2014 Ryanair announced that it would open a new base in Copenhagen Airport in addition to its existing bases near the Swedish city of Gothenburg¹ and at the provincial airport near Billund (known for Legoland) in the southwest of Denmark. This expansion was welcomed by Copenhagen Airport, which, as a commercial entity, competes with other

1 At the time of writing, Ryanair had just opened its 74th base in Gothenburg, Western Sweden. On Ryanair's corporate website, you can follow the latest developments as new bases open and some existing bases close. *Economics for Business*, Third Edition © Chris Mulhearn and Howard Vane, 2016. For more resources visit www.palgrave.com/mulhearn3.

airports for business. Since Copenhagen airport is an important hub for the struggling Scandinavian carrier SAS (which was already very close to bankruptcy in 2012), a default of this carrier will have negative consequences for the airport and also for the entire regional economy. To mitigate the risk, the management at Copenhagen Airport has a keen interest in attracting new airlines. The opening of Ryanair's base was therefore set to provide many opportunities. As Ole Wieth Christensen, the manager responsible for new route development at Copenhagen Airport commented on Ryanair's announcement to open a new base in Copenhagen at a press meeting at the Hilton Copenhagen Airport Hotel on the 29 October 2014:

*"We have a strategy of generating growth at Copenhagen Airport – growth that will give people in Denmark far more travel options – and growth that creates more jobs and more investment in Denmark. We are excited that Ryanair has decided to be a part of this growth by initially opening three routes, and we look forward to working with them."*²

When Ryanair opened their base at Billund Airport a few years earlier, not only the airport authorities but also local politicians were highly pleased. By improving accessibility to this rural area, the entire local economy profited from the boost that increased airport activities provide. For example, when company managers know that they can easily fly out to visit their customers, they keep their companies in the area rather than relocating to major business centres.

The clash: Ryanair refuses to sign a collective agreement

But eventually, not all turned out the way management teams of Ryanair and Copenhagen airport had hoped for. About 8 months later, on the 3 July 2015 at a press conference in Copenhagen, Ryanair's CEO O'Leary furiously exclaimed, "*The Danish trade unions are*

² cph.dk, "Ryanair coming to Copenhagen", accessed 28 October 2015 on: <https://www.cph.dk/en/about-cph/press/news/ryanair/>.

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ridiculous... The court's decision has created problems for all of us, except for the Danish trade unions".

What had happened that caused this outburst of fury from the CEO of Europe's fastest growing airline company? A Danish trade union had ruled that trade unions were entitled to demand Ryanair to sign the collective agreement. This meant that Ryanair would have to pay salaries in line with the centrally negotiated contracts between the national association of employers and the trade union's umbrella organisation, as is already common practise for the two dominating airline companies in the Danish civil aviation market, Norwegian Airlines and SAS. But being a low cost carrier operating out of the Republic of Ireland, where such labour market arrangements do not exist, Ryanair felt that the stipulated conditions were unacceptable to them. Furthermore, as a consequence of the Danish legislation, the decision implied that the powerful Danish trade unions could legally carry out a blockade against Ryanair's operations if Ryanair were not willing to sign labour contracts in line with the centrally negotiated conditions.

As an experienced player in the airline market, Ryanair is no stranger to conflicts over demands for better wages, working conditions and benefits for employees. In France, for example, a local court had previously sentenced Ryanair for not paying social security contributions. Ryanair responded by withdrawing its bases from that country and serving the market only from bases located abroad. During the 30 years of its existence, Ryanair has never signed any agreement with trade union representatives.

When O'Leary decided to open the base at Copenhagen, he was already well aware of the aggressive stance of the local trade unions. As a trial, Ryanair set up a new route between Copenhagen and Dublin to test the reaction of the trade unions before committing to further investments. Not unexpectedly, the trouble started immediately. On the very first day of Ryanair's operations at Copenhagen, employees from a SAS subsidiary company physically blocked Ryanair's aircraft by surrounding the plane, shouting slogans, and waving banners and Danish flags. These were not Ryanair's own employees; in fact, since the company had arrived so recently, there were no employed staff to initiate a strike. But for

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support of the operations, Ryanair was reliant on third-party suppliers who incorporated unionized workers within their staff. Through this leverage, the trade unions could mobilize protesters and initiate a *blockade in sympathy*. This meant that Ryanair's aircraft would not be refuelled or serviced, and that passengers were physically prevented from boarding the aircraft.

In their plan to obtain a legally binding decision before making the substantial investments into the planned base at Copenhagen airport, Ryanair immediately filed a complaint at a Danish court demanding compensation for the delays. However, the court ruled against Ryanair and in favour of the trade unions, stating that the *blockade in sympathy* had been lawful. The court also ruled that the trade unions were in their right to demand Ryanair to sign a collective agreement stipulating better contracts for the cabin and ground personnel, as well as for pilots. The new contract would have to be in line with the centrally negotiated conditions for the Danish labour market. In consequence, trade unions could also initiate labour action against Ryanair at short notice. The threat of industrial action affected both Copenhagen and Billund airport. This led Ryanair to take the decision to close down in anticipation the base at Billund airport, where it had been established for years³. In Copenhagen, Ryanair would not invest the substantial sums necessary to build up presence, including aircraft hangars and other support facilities for equipment and local employees. Nevertheless, the company will still serve the Danish market and even plans to substantially expand the activities at the Copenhagen airport, but growth will originate from bases located outside Denmark. With this strategic move, Ryanair deprives the Danish trade unions of the possibility to exert pressure on Ryanair, since employees are now contracted at bases outside Denmark, away from the reach of the Danish trade unions. For the overall economy, the results are quite significant. Some sources estimated that around 300-400

³ Although Denmark is a small country with a relatively homogeneous population, there can at times be subtle differences in the regional business cultures. At Billund airport in the rural western province of Jutland, local trade unions adopted a more cooperative style compared to their colleagues at Copenhagen airport. Challenged by geographic distance to the major zones of economic activities, social partners at the local level are more conscious about the need to create new opportunities for employment, and have therefore navigated more carefully to avoid mayor conflicts. This situation only changed as a result of the intervention of the Copenhagen based union umbrella organisation.

jobs will be lost directly or indirectly at Billund airport, while no new employment opportunities will be created at Copenhagen airport ⁴.

By withdrawing all of its bases from Denmark, Ryanair did not give up on finally establishing a permanent presence in Denmark. As a next step in the conflict, Ryanair decided to take the case to the European Court of Justice. Ryanair expresses its confidence to reach a more favourable settlement there, since the ECJ has a reputation to rule in favour of more liberal labour market arrangements which is advantageous for Ryanair. The conflict has not only attracted media attention within Denmark; in particular trade unions outside Denmark (even in Korea) have expressed their solidarity with the Danish trade unions since the future decision of the European Court of Justice can have wide ranging implications for the entire airline sector and beyond. Commentators have pointed out that the “Danish Model” can be expected to come under serious pressure if Ryanair prevails by being permitted to contract local employees below the generally binding employment conditions.

The arguments

In response to the situation, Harald Børstig, the powerful head of the Danish Confederation of Trade Unions, commented:

“If we start ignoring poor wages and working conditions we will end up in a situation where some people have to accept jobs that will be completely unacceptable. Then the Danish Model will have failed, with the final result that politicians will have to intervene to regulate the labour market. Ryanair is not going to fly without signing the collective agreement... If you cannot run a

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http://borsen.dk/nyheder/virksomheder/artikel/1/307428/ryanair_lukning_i_billund_koster_300-400_job.html

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competitive airline company within the limits of the Danish terms, then you need to move your company out of the country.”⁵

The trade unions argue that Ryanair pays salaries that are too low for a decent income level in Denmark, which is a rather expensive country to live in. They have accused Ryanair of paying only half of what other low-cost carriers pay. In particular, newly employed flight personnel would only receive a salary equivalent to €10 000 per year. Some politicians who are sympathetic to the case of the trade unions argue that Ryanair should not succeed in refusing their demands; otherwise, companies in areas where salaries are under pressure due to low qualification requirements and easy-to-replace employees (supermarkets, cleaning services, agriculture, etc.) would imitate Ryanair, eventually accelerating the “race to the bottom” where “*unorderly conditions*” would become the norm. Ryanair refutes these opinions, and argues that the salaries it pays are decent. Ryanair also argues that the fact that it is able to attract new employees and retain existing ones shows that it is an attractive place to work.

Things to consider

The Danish system of collective agreements has both advantages and disadvantages. Centrally negotiated high wages are beneficial for wage earners, but can be costly for companies. High salaries can mostly be justified in knowledge intensive sectors, where highly competitive firms profit from the stable labour market conditions and lack of conflict. In other areas, however, which are characterized by lower productivity and less demanding skills and qualifications, high wages can reduce a firm’s competitiveness in the global market. As a consequence, substantial numbers of industrial jobs have been moved out of Denmark to other countries where salaries are lower. The Danish tourism sector also suffers because the combination of high wages and taxes means that many national and international tourists prefer to visit alternative destinations abroad, which they perceive as less expensive and better value.

5 check-in.dk, "O'Leary: Tåbelige fagforeninger vil være eneste vindere" ("Foolish trade unions will be the only winners") accessed 28 October. 2015 on: <http://www.check-in.dk/o-leary-taabelige-fagforeninger-vil-vaere-eneste-vindere#.VjDFdd8qehc> (6.7.2015)

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In this situation, pilots' salaries will need to be very competitive as these highly qualified specialists can easily find employment elsewhere. In contrast, flight attendants and other lower-skilled employees have less negotiating power. Ryanair frequently employs individuals from EU countries where salaries are lower than the wages demanded by trade unions in Denmark. In many eastern and southern European countries for example, where local average salaries are relatively low, Ryanair's wages are seen as competitive and an attractive employment opportunity so it is easy to find workers.

From an economic perspective, a centrally determined wage level that is too high will result in unemployment. A lack of jobs with lower qualification requirements is an issue in Denmark and a significant number of individuals have difficulties finding employment since their individual productivity is not high enough to justify the high wages stipulated by union negotiations. As a result, in Denmark a substantial number of individuals depend on state benefits. According to the Danish Statistics Agency, depending on the region between 20% and up to 40% of the working age population (between 16 and 64) are not part of the labour force. Consequently, taxes are higher and economic growth prospects are lower compared to most OECD countries. These problems have led to some major criticisms of the collective agreement system. Firstly, less productive unemployed individuals with lower qualifications are prevented from entering the labour market (a particular problem for marginalized populations, for example immigrants and refugees who do not yet have the necessary qualifications to compete in the Danish labour market). Secondly, taxpayers need to finance the high costs of providing transfer incomes to individuals who are not part of the workforce.

Questions

1. What are the underlying causes of the clash between the Danish trade unions and Ryanair?
2. From a macroeconomic perspective, discuss how institutional arrangements (the role of courts, collective agreements) affect the functioning of labour markets?

3. Ryanair has announced that it intends to bring the case to the European court of Justice. What would the macroeconomic implications for labour markets be if . . .
 - Ryanair wins the case?
 - the Danish trade unions win the case?

4. In your view, what challenges affect the “Danish Model” as a result of increasing global competition? Which sectors and industries can expect to be most affected? Do you observe such tendencies in your own country?