

LSG Group labor dispute escalating in key US market

Summary

As Deutsche Lufthansa AG (DLAKF) is negotiating a partial or complete sale of LSG group, labor troubles in its airline catering business segment are mounting in the key US market.

- LSG Sky Chefs and North American labor union UNITE HERE are far apart on economic issues in ongoing contract negotiations covering all US employees
- Tightness in the US labor market and political pressure could drive wages and benefits costs higher
- US employees of LSG Sky Chefs voted to authorize strikes and petitioned for release from federal mediation which, if granted, would enable them to strike
- North America is LSG Sky Chefs' largest market, accounting for 53% of external catering revenue in first half-year of 2019

Labor and Management are Far Apart in Ongoing US Labor Negotiations

The Master National Agreement with North American labor union UNITE HERE, which covers all of LSG Sky Chefs' 11,162 employees in the US, is currently amendable. UNITE HERE proposed a \$15/hour minimum wage floor, higher annual raises for all employees, and increased spending on health benefits, which Sky Chefs rejected. Currently, hourly wages range from \$8.40 - \$28.50 with 57% of employees earning less than \$15. Workers pay expensive premiums for health insurance, at a cost of over \$500/month for family coverage. As of 2018, only 34% of LSG Sky Chefs' US employees had any employer-provided health insurance coverage and only 9% had coverage for a family member or child.

LSG Sky Chefs stated that the union's economic proposals would "more than double" the current cost of labor.¹ In statements to the press and to the US government, LSG Sky Chefs has argued that the scope of the proposed changes would radically alter the cost structure of its business. In a letter to the US National Mediation Board dated August 21, the company wrote:

"The Union's current economic proposals cumulative cost is more than \$1.5 billion dollars over 4 years. The year 1 impact is \$279 million dollars, which is approximately a 70% cost increase. Simply stated, if the Company were to accede to the demands of the union, we would ultimately be out of business."

The catering workers' demand for higher wages comes at time of tightness in the US labor market and recent moves by some large employers to raise wages. The US unemployment rate has fallen to 3.5%, and teachers, hotel workers, fast food workers and auto workers have all engaged in recent strikes. In 2018, work stoppages in the US were at the highest level since 2007, prior to the economic crisis. In addition, pressure from consumers and politicians has mounted on large employers to raise wages. Last year, Amazon and Disney announced increases to \$15/hour for employees following negative publicity. On July 23, **Senator Elizabeth Warren** and **Senator Bernie Sanders**, candidates for the Democratic Party nomination for President, joined a UNITE HERE-led protest and denounced both LSG Sky Chefs and American Airlines for the low wages received by LSG Sky Chefs employees. It is likely that political attention to wages will continue, pressuring US-based airline caterers to raise wages. Sky Chefs' airline clients have consumer-facing brands.

Labor Dispute Moving Closer to Potential Strike in US

Employees at LSG Sky Chefs' largest US facilities voted in landslide majorities of over 99% to authorize strikes – including at key operations in New York (JFK), Dallas (DFW), Chicago (ORD), Los Angeles (LAX), Miami (MIA), Seattle (SEA), Detroit (DTW), San Francisco (SFO), Minneapolis (MSP), and Philadelphia (PHL). The strike votes drew broad press attention with coverage in *The New York Times*, *The Wall Street Journal*, *CBS News*, and major newspapers throughout the US. Workers expressed their frustrations with low pay and unaffordable health insurance plans and declared their readiness to walk out on strike when lawful.

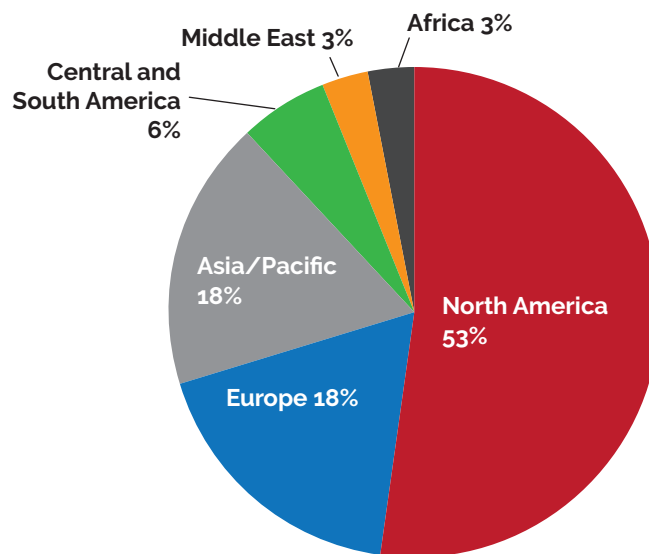
In July 2019, UNITE HERE applied for release to strike from the National Mediation Board, after negotiating with LSG Sky Chefs since October 2018 and engaging in federal mediation since May 2019. UNITE HERE expects that the National Mediation Board will make a determination regarding release next year. If granted, the release would be followed by a 30-day cooling-off period, after which the union would be free to strike at any time, at any or all of LSG Sky Chefs' US facilities. Strikes could result in disruptions to catering operations and flight delays and cancellations.

American Airlines – LSG Sky Chefs' largest external catering client – would be impacted by a strike in the US. American relies on LSG Sky Chefs for catering services in seven of its ten hub airports in the US and other non-hub airports. American is already struggling with operational difficulties unrelated to the Sky Chefs' labor dispute and cancelled over 7,500 flights in June alone.

58 catering workers and labor union allies were arrested during a demonstration in front of American Airlines' headquarters in August. The workers sat in the street blocking the entrance in an act of civil disobedience signaling their growing anger and calling public attention to the labor dispute. **In 2018, UNITE HERE led a nationwide strike of nearly 8,000 Marriott hotel workers using the slogan, "One Job Should Be Enough."** Union leaders have used the same slogan in the dispute with LSG Sky Chefs.

North American Market is Largest Revenue Source for LSG Sky Chefs

The North American region accounted for 53% of LSG group's external catering revenue in the first half of 2019. LSG Group reported external catering revenues of €1,260m, with €662m from North American region sales. Second largest was Europe with €228 (18%) and third largest was Asia/ Pacific with €227m (18%).²



Source: Lufthansa Group, 2nd Interim Report January – June 2019

Given the overwhelming importance of North American revenues, labor relations in the US should be closely watched by investors.

Endnotes

- <https://news.bloomberglaw.com/daily-labor-report/11-000-airline-catering-workers-seek-ok-to-strike> and <https://wamu.org/story/19/07/24/airline-food-workers-want-to-go-on-strike-american-airlines-wants-to-stay-out-of-it/>
- <https://investor-relations.lufthansagroup.com/fileadmin/downloads/en/financial-reports/interims-reports/LH-QR-2019-2-e.pdf>