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To all Ryanair shareholders

Our ref: OGS/SMC/EC/AB/hs

03 September 2018

Dear Ryanair shareholder,

The ITF is a global union federation of over 700 transport unions, representing over 19 million transport workers from 150 countries. With our sister federation, the European Transport Workers Federation (ETF), we represent a majority of the employees working for Ryanair in various capacities, particularly cabin crew.

Over the last 18 months, we have been in regular contact with many of you regarding challenges facing Ryanair. We are interested in the long-term success of the company, for the benefit of its customers, employees, shareholders and other key stakeholders. However, despite our affiliates pursuing a range of strategies to enable Ryanair to improve its stakeholder relations, there has been limited progress to date. The ETF and ITF strongly believe that as part of its continuing evolution as a major European airline, and to deal with continuing operational issues and poor industrial relations, Ryanair must overhaul its corporate governance.

**We therefore urge Ryanair shareholders to OPPOSE the re-election of David Bonderman at the AGM on 20<sup>th</sup> September.**

### Time for change

Ryanair is entering a new stage in its development. Both its workforce and its investors want to see the company prosper and grow, but this can only occur with the right structures and practices in place. The company cannot overcome the challenges it currently faces by taking the same approach it has in the past.

As Tony Dundon, professor of human resource management and labour relations at Manchester University, told the Guardian<sup>1</sup> recently: “The idea of riding it out is typical of a small entrepreneurial mindset rather than a more sophisticated management process. The key problem is the potential for escalation.” This is a position we at ETF and ITF, and our affiliates, hold and have been advocating for some time.

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<sup>1</sup> <https://www.theguardian.com/business/2018/aug/09/unions-accuse-ryanair-of-breaching-labour-law-after-crews-go-on-strike>



We believe that Ryanair has outgrown its current corporate governance arrangements. Whilst shareholders may have tolerated this when Ryanair was a disruptive entrant to the European airline sector, we believe they are no longer appropriate for a company of its size.

In particular:

- The board lacks independent representation – the board includes several former Ryanair employees, and proxy advisory services have suggested that the majority of non-executives are not independent.
- Key board positions are held by directors with excessive tenure – David Bonderman has been chair for almost 22 years, and senior independent director Kyran McLaughlin has been on the board for 17 years.
- The board has failed to ensure the company’s effective management of industrial relations – strikes by both cabin crew and pilots could be avoided if meaningful negotiations had taken place.
- The company continues to face operational and compliance problems which require an independent board to challenge senior management within the company over how these challenges are going to be overcome.
- Ryanair has failed to respond positively to initiatives by the ETF and ITF to help navigate the industrial relations challenges as well as ignored calls by individual affiliates to ask for shareholder intervention to encourage the company to address continuing industrial relations problems. All such organisations and unions have decades of experience between them of successful negotiations with major global and European competitor airlines.
- Ryanair workers have adopted a Charter which contains the main requests of all workers to the company. Despite our proposal to discuss these issues at transnational level with the top-management (which will give more efficiency to the whole process of negotiations here and there), no meeting took place yet.

We provide additional further explanatory points in the attachment to this letter, below.

### **Time to adapt**

The ETF and ITF want success for Ryanair, but yet again Ryanair’s existing leadership has shown it has neither the skills nor expertise to manage the implementation of industrial relations on this scale. We anticipated the company’s current problems and on two occasions offered to use our decades of multinational company experience during these early stages to help them. Most recently we proposed a bespoke governance model to enable them to manage industrial relations across 21 jurisdictions - that would precisely help resolve the issues outlined - but it was neither taken up nor engaged with.

Ryanair’s continued operational failures and industrial relations problems point to weak governance and oversight by the board, which is why the ITF and ETF are reiterating previous calls for changes in governance. A stronger, more independent board would be able to exercise more challenge to the benefit of all of the company’s stakeholders. A 21st Century Ryanair deserves 21st Century governance.

**We therefore urge Ryanair shareholders to OPPOSE the re-election of David Bonderman at the AGM on 20<sup>th</sup> September.**

For more information please contact [21CenturyGovernance@itf.org.uk](mailto:21CenturyGovernance@itf.org.uk)

Yours,

A handwritten signature in black ink that reads "Stephen" followed by a stylized flourish.

Stephen Cotton

General Secretary, ITF

A handwritten signature in blue ink that reads "Eduardo" followed by a stylized flourish.

Eduardo Chagas

General Secretary, ETF



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### ***“We're in breach of every corporate governance thing going”***

As former Ryanair deputy chief executive and current non-executive Michael Cawley has suggested<sup>2</sup>, Ryanair is in breach of the corporate governance practices expected by shareholders of major public companies. Ryanair discloses its corporate governance in line with the UK Corporate Governance Code (“the Code”) and the Irish Corporate Governance Annex.

The Code states that at least half the board, including the chair, should be independent.<sup>3</sup> It also lists a number of factors that should be considered in assessing independence. These red flags include whether the director is a past employee, has a material business relationship with the company, receives remuneration beyond board fees, represents a significant shareholder, or has been on the board for more than nine years.<sup>4</sup>

These factors raise questions about the independence of most Ryanair non-executives. In some cases multiple factors stipulated in the Code apply. Taking into account the company’s provision of share options, the board’s long tenure, and some directors having had previous roles at the company, leading corporate governance advisers such as ISS and PIRC have concluded previously that most of Ryanair’s non-executives are not independent.

### **Key board positions are held by directors with excessive tenure and other independence issues**

As Ryanair states, responsibility for upholding and promoting “high standards of integrity and corporate governance” lies with the Chair. Consequently, shareholders have even less reason to tolerate compromised directors in that position or as senior independent director. Yet in Ryanair’s case both are held by individuals that shareholders may not consider to be independent.<sup>5</sup>

David Bonderman has been both a member of the board and chair of Ryanair since 1996. He is also a shareholder in the company, currently owning approximately 7.5m shares or around 0.64%.<sup>6</sup> This puts him amongst the 30 largest shareholders in the company.

More recently, Mr. Bonderman has demonstrated poor character as a director at Uber, a position from which he was forced to resign in 2017 after making inappropriate comments at a board meeting.<sup>7</sup> The exposure of Uber’s sexist corporate culture led to reputational damage to its brand

<sup>2</sup> “We’re in breach of every corporate governance thing going” as quoted in The Independent (Ireland), 18 February 2016 <https://www.independent.ie/business/irish/the-ryanair-man-who-wants-our-tourism-industry-to-take-off-34462477.html>

<sup>3</sup> UK Corporate Governance Code 2016 provision B.1.2.

<sup>4</sup> UK Corporate Governance Code 2016 provisions B.1.1.

<sup>5</sup> For example, the Universities Superannuation Scheme (USS), a major Ryanair investor, gives the following reason for abstaining on the chair’s re-election in 2017: “We have concerns regarding independent oversight.”

<sup>6</sup> As at end September 2017

<sup>7</sup> <https://www.ft.com/content/d8c29c06-5272-11e7-a1f2-db19572361bb>



and prompted questions about Ryanair's own board diversity<sup>8</sup>. This suggests that Mr. Bonderman is part of Ryanair's problem, not its solution.

Kyran McLaughlin has been a director of Ryanair for 17 years, joining the board in 2001. He was appointed senior independent director in 2017 following the death of James Osborne. He is also Deputy Chairman and Head of Capital Markets at Davy Stockbrokers, one of Ryanair's brokers. In common with other directors he has also been provided with share options by the company.

Ahead of the 2017 AGM, neither ISS nor PIRC considered either director to be independent. Both advised shareholders to oppose Bonderman's re-election, with ISS stating: "[H]e is considered to be ultimately responsible for the Company's corporate governance practices."<sup>9</sup>

### **Labour relations failures**

In December 2017, Ryanair announced that it would recognise trade unions to represent its workforce for the first time in its history. Despite this progress has been slow, with recognition agreements signed in only a small minority of the countries in which it operates, and collective bargaining agreements are even more limited.

Unions report that the company is not negotiating seriously. Ryanair is dragging its heels on the application of national law in the country of home base. This leaves the company vulnerable to both legal and industrial challenges. Staff strikes in July and August and legal action by the Spanish pilots' union, SEPLA<sup>10</sup>, are indicative of this. It has also resulted in successful compensation claims in Italy<sup>11</sup> and the Netherlands, both of which are based on the application of national law. This means that many serious issues laid out in the Ryanair Crew Charter, such as improved economic conditions and a fair and supportive work culture have not been addressed.<sup>12</sup>

The lack of progress has led to strikes by both cabin crew and pilots. Notably in July there were over 150 flight cancellations in Italy due to strike action by cabin crew. This is despite Michael O'Leary telling analysts on the July earnings call that "We don't think there'll be much [disruption] in Italy because of the work we've done with the Italian unions..."<sup>13</sup>. The cancellations in Italy were in addition to the 600 flights Ryanair cancelled in Belgium, Spain and Portugal ahead of the strike.

A research note from HSBC has drawn a link between Ryanair's governance and its difficulties tackling labour issues.<sup>14</sup> It argues that the company was slow to react to demand from passengers for a more consumer friendly service and was equally slow to react to the challenges to its labour relations model, and that its board structure may have played a role in both these situations.

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<sup>8</sup> <https://www.irishtimes.com/business/transport-and-tourism/uncomfortable-silence-at-ryanair-over-chairman-s-sexist-joke-1.3123011>

<sup>9</sup> The Independent (Ireland), 29<sup>th</sup> July 2018 <https://www.independent.ie/business/irish/ryanair-board-under-pressure-as-profits-drop-and-strike-action-rumbles-on-37163781.html>

<sup>10</sup> <http://sepla.es/en/sala-de-prensa/notas-de-prensa/los-pilotos-de-ryanair-en-espana-demandan-a-la-compania-ante-la-audiencia-nacional/>

<sup>11</sup> <https://www.dirittiglobali.it/2018/03/97888/>

<sup>12</sup> Ryanair cabin crew have released their own charter highlighting the areas where they believe that change is needed: <http://www.itfglobal.org/media/1941034/crewcharter-final.pdf>

<sup>13</sup> Ryanair Holdings PLC earnings call, Monday 23<sup>rd</sup> July 2018

<sup>14</sup> <https://www.theguardian.com/business/2018/aug/09/unions-accuse-ryanair-of-breaching-labour-law-after-crews-go-on-strike>

HSBC notes that Ryanair's board members are typically older, less diverse, have a stronger domestic bias (most are Irish, despite the company running a Europe-wide business) and have less industry experience than their equivalents at competitors such as EasyJet.

The ITF believes that the management and board team that built Ryanair as an anti-union company is unlikely to be able to transition to work constructively with trade unions. Therefore, we see governance changes as a necessary part of the company's evolution as it seeks to grow further.

### **Operational challenges**

Ryanair has been forced to cancel a large number of flights on multiple occasions over the past year. In September 2017 rostering failures were the cause<sup>15</sup>, in summer 2018 avoidable labour disputes were another. Such events will lead costs relating to claims under EU flight compensation regulations (called "EU261" claims, after the relevant regulation<sup>16</sup>) to "continue to balloon", in Michael O'Leary's words<sup>17</sup>. Notably the UK's Civilian Aviation Authority has clarified, in specific reference to industrial action by Ryanair pilots and crew, that EU261 compensation may be claimed when flights are cancelled as a result of strikes<sup>18</sup>.

More recently the company has blamed weather conditions and ATC strikes and staff shortages for large numbers of cancellations at Stansted<sup>19</sup>, despite other carriers not having been affected to the same extent.

In all these cases it appears that Ryanair has struggled to deal with short-term disruptions, leading to mass cancellations of flights. This suggests that the lean model that Ryanair has successfully operated to date may leave it vulnerable when exposed to short-term disruptions. Michael O'Leary indicated on the most recent earnings call that Ryanair's 25-minute turnaround times mean that any disruption cascades through the day.

Once again, more robust challenge from independent directors without historic ties to the company, and particularly a new independent chair, can only help Ryanair address potential failings in the business model. We believe new directors without any emotional or financial investment in the company's historic approach are more likely to provide constructive challenge. We do not believe that the board team that built the company in its current form will be able to transform it in the way that Ryanair's customers, workforce and investors require.

### **Ryanair AGM, 20<sup>th</sup> September**

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<sup>15</sup> A total of 20,000 flights were cancelled due to rostering problems. 2,000 flights were cancelled in September and October 2017. A further 18,000 flights were cancelled between November 2017 and March 2018.

<sup>16</sup> [https://eur-lex.europa.eu/resource.html?uri=cellar:439cd3a7-fd3c-4da7-8bf4-b0f60600c1d6.0004.02/DOC\\_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:439cd3a7-fd3c-4da7-8bf4-b0f60600c1d6.0004.02/DOC_1&format=PDF)

<sup>17</sup> "Cost at EU261, we expect that to continue to balloon. We think that the short staffing, particularly through the summer, will continue right through to September, October. We think that will have a material impact on the marketing distribution and cost line. Almost all of that increase in there is the EU261 cost. So we expect a material adverse outcome on the EU261, both compensation and claims through the remainder of this year." Ryanair Holdings PLC earnings call, Monday 23<sup>rd</sup> July 2018

<sup>18</sup> <https://www.caa.co.uk/News/CAA-statement-on-passenger-compensation-during-the-current-Ryanair-strike/>

<sup>19</sup> <https://www.bbc.co.uk/news/uk-england-esssex-45111586>

In light of the factors outlined above, the ETF and ITF believe that Ryanair and its stakeholders will benefit from an overhaul of its governance practices. This should start with the appointment of a new independent chair as soon as is practical.

**We therefore urge Ryanair shareholders to OPPOSE the re-election of David Bonderman.**

**Please vote AGAINST resolution 3(a) on 20<sup>th</sup> September.**

For more information please contact [21CenturyGovernance@itf.org.uk](mailto:21CenturyGovernance@itf.org.uk)