



November 15, 2019

**TO:** Each Member,  
Board of Investments

**SUBJECT:** BOI Meeting on November 20, 2019 – Green Folder Item

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Following you will find the Green Folder item for the above mentioned meeting:

**Item V. – PAI Partners Investor Labor Relations Advisory: Areas USA**

## **PAI Partners Investor Labor Relations Advisory: Areas USA**

In July 2019, French private equity firm PAI Partners finalized its acquisition of global airport food and retail concessionaire Areas in a deal valuing the company at €1.542 billion. The deal represents the largest acquisition to date for the firm's €5 billion PAI Europe VII Fund.

In May 2019, UNITE HERE, the primary union for US airport concessions workers, informed PAI of troubling developments in the union's previously positive relationship with Areas in the US. UNITE HERE has received no response from PAI.

The completion of PAI's acquisition of Areas presents an opportunity to for PAI to reassess the current state of Areas' US labor relations and to restore the constructive engagement with UNITE HERE that has accompanied Areas' growth in the US market.

### **Overview**

Success in the multi-billion dollar US airport concessions industry depends on a contractor's ability to navigate the unique political, social, and commercial context in which these vital public facilities are operated. The primary labor union for US airport concessions workers, UNITE HERE, represents nearly 35,000 airport concessions workers in over 60 North American airports and has a decades-long history of working productively with the concessions industry to build airport concessions operations that are successfully responsive to all industry stakeholders.

When European concessions contractor Areas first entered the US market in the mid-2000s, the company established a positive relationship with UNITE HERE. By building trust with UNITE HERE at the international and local levels, Areas has been able to provide assurances of labor peace and workforce stability to contracting agencies in airports across the US, even in cases where Areas had no prior operational history and where the company would displace established union employers. Currently, upwards of 90% of Areas' frontline US airport employees are represented by UNITE HERE.

After more than a decade of labor peace, however, the relationship between Areas and UNITE HERE seems to be deteriorating. At Minneapolis-St. Paul International Airport, Areas has not entered into a labor peace agreement with UNITE HERE or even committed to retain the long-term union workers displaced by its newly opening operations. Elsewhere, protracted contract negotiations in Detroit and Los Angeles left hundreds of workers in uncertainty for more than a year. While settlements were reached in both cities in early November, two more collective bargaining agreements, in Chicago and Atlanta, have been expired since summer.

## **Public Accountability in US Airport Concessions Contracting**

While private sector management of airports has become common in most parts of the world, nearly all major US airports remain publicly owned and operated at either the city, county or state level. As a result, US airport concessions contracting programs are governed by a constellation of locally-accountable elected officials charged with operating them in the best interest of specific public constituencies.

As proprietors of publicly owned and financed facilities, airport governing bodies are charged with ensuring that their airports provide essential services to travelers and industry in a manner consistent with community standards for financially, environmentally and socially responsible operations. Efforts to improve reputational integrity, service quality and customer experience in US airport concessions may include a wide range of programs to promote disadvantaged businesses, ensure fair contracting processes, prioritize environmentally sustainable operating practices, and establish minimum compensation and retention standards for airport workers.

In the past few years, a growing movement of worker-led protests and community organizing has raised public awareness of the work done on behalf of airport patrons by the tens of thousands of people employed by on-site contractors. Most recently, support for a proposed ballot initiative to raise the minimum wage for workers at Denver International Airport prompted the Denver City Council to raise minimum wages for all employees working for the city or its contractors to \$15 by July 2021, while the authority that governs the New York City and Newark airports has set the minimum wage for all employees at its airports to reach \$19 by 2023, the highest such rate to be set by any government agency in the US.

## **Expectations for Labor Peace**

Concessions contractors at US airports regularly face scrutiny over their ability as employers to limit the possibility that service to airport patrons will be degraded by labor disputes. In addition to establishing living wage and worker retention policies to promote workforce stability across their airport operations, many of the largest US airports have adopted contracting policies that encourage or even require bidding concessionaires to demonstrate that they have secured a commitment of labor peace from any union seeking to represent their airport employees.

Labor Peace Prioritization in Major US Airports					
City	Airport	US Rank*	Concessions workers rep. by UNITE HERE	Labor Harmony in Food & Retail Concessions Operations	Upcoming or Active Solicitations
Los Angeles	LAX	2	3,500	Protections required by Policy	Yes
Chicago	ORD	3	1,700	Protections required by Policy	Yes
New York	JFK	5	2,000	Protections required by Policy	Yes
San Francisco	SFO	7	1,400	Protections required by Policy	Yes
Seattle	SEA	8	700	Requirement included in RFP	Yes
Newark	EWR	11	2,100	Protections required by Policy	Yes
Phoenix	PHX	13	1,800	Inquired about in RFP	Yes
Houston	IAH	14	750	Inquired about in RFP	Yes
Miami	MIA	15	800	Protections required by Policy	Yes
Boston	BOS	16	500	Assurances sought in RFP	Yes
Philadelphia	PHL	20	650	Protections required by Master Lease	Yes
New York	LGA	21	1,000	Protections required by Policy	Yes

\*by enplanements

From Areas' first successful US contract bid at Miami International Airport in 2006 to its most recent expansion into Philadelphia International Airport, Areas and UNITE HERE have successfully negotiated and signed numerous labor peace agreements.

As Areas took over operations in some of the largest airports in the US, UNITE HERE facilitated the transition of vetted, experienced employees from prior contractors into Areas' workforce. In airports where Areas workers went on to choose union representation with UNITE HERE, the company and the union negotiated collective bargaining agreements that assured Areas employees living wages, affordable health insurance, and a voice in their job conditions.

Labor Peace Agreements between Areas and UNITE HERE			
City	Airport	First bid won by Areas	Labor Peace Agreement
Miami	MIA	2006	2006
Orlando	MCO	2007	2009
Atlanta	ATL	2007	2007
Detroit	DTW	2007	2007
Indianapolis	IND	2008	2008
San Jose	SJC	2008	2007
Newark	EWR	2009	2008
Los Angeles	LAX	2010	2009
Chicago	ORD	2012	2009
Philadelphia	PHL	2019	2018

### Recent Labor Relations Issues

Unfortunately, the relationship between Areas and UNITE HERE has deteriorated in recent months. In addition to protracted labor negotiations in Los Angeles and Detroit, the failure to reach an agreement to preserve labor peace and assure worker retention at Areas' newly opening operations at Minneapolis-St. Paul International Airport (MSP) marks a departure from years of productive engagement that has helped to build successful concessions operations that provide good jobs for Areas employees.

At the September 2017 public hearing to approve Areas' bid at MSP, Xavier Rabell, then CEO of Areas USA, responded to concerns raised about employment standards and the current union workforce by making repeated references to Areas' history of positive engagement with UNITE HERE. In particular, Mr. Rabell cited the union-facilitated worker retention program that had prevented the displacement of experienced workers at Los Angeles International Airport and the collective bargaining processes that had secured affordable health insurance for Areas employees in multiple US airports.

Yet when Areas won the bid at MSP, the company did not work with UNITE HERE to protect the hundreds of long-term union workers who were caught up in the contractor change. (See one of their stories below.)

A further aspect of Areas' approach at MSP has been its choice to partner with a Minnesota-based company called Aero Service Group (ASG). In 2015, ASG paid over \$280,000 to settle a lawsuit brought by employees at Baltimore Washington International Airport in which workers accused the company of attempting to circumvent overtime and minimum wage laws by paying them on separate checks for work done at different locations, deducting uniform costs and unpaid customer checks from their tips, and requiring them to attend unpaid mandatory "cleaning parties." Aero Service Group denied these allegations.

***In 2018, Hamere Dinku had been working at Minneapolis-St. Paul International Airport for 20 years.***

***She loved her job.***

***She didn't expect to lose everything she'd worked for just because of a contractor change.***

"I started working at HMSHost as a cashier at one of the fast food restaurants, then I worked as a trainer to new employees and, until I got laid off in the transition, I worked as a server. I used to get paid \$9.86/ hour plus my tips. I had a shift that worked with my childcare needs too. I worked full time Friday – Monday, 35 hours a week and was covered by the excellent health insurance, had paid time off and seniority.

I still remember returning from a 4 month maternity leave 5 years ago; I was overwhelmed and exhausted, but also thinking how fortunate I am to have a job that's stable, predictable and flexible, where I can set my hours and easily take paid time off to attend to family matters.

I was told by management at HMSHost that the company Areas was taking over and they would be hiring all laid-off employees of HMSHost. Other companies have done that when they moved into the airport.

The day I got laid off from HMSHost I was told to fill out a form with all my information; when I asked why I was told the HMSHost GM will be giving the forms back to the new company so they can contact us. But no one has ever contacted me or offered me a job at Areas since I got laid off. I applied in person and online and never got a call back.

January 3, 2019 was my last day of work at HMS Host. It's been very tough on me and my family, having to meet all the needs, paying mortgage and paying all the bills that we have to pay... the lack of stability creates stress and affects our family in many ways."

Adding to the concern is the fact that over the past two years, Areas has struggled to resolve contract negotiations with UNITE HERE members at both Detroit Metropolitan Airport (DTW) and Los Angeles International Airport (LAX).

At LAX, after almost six months of stalled negotiations, nearly 700 Areas workers voted almost unanimously to strike in response to the company's refusal to contribute enough money to maintain their health insurance, give decent wage increases and start contributions to the Union's pension fund, a standard benefit package that exists for all concessions workers at LAX who work for Areas' competitors. This was concessions workers' first strike vote at LAX in close to 20 years. Though a settlement was reached that averted a strike, it took months for Areas and UNITE HERE Local 11 to resolve a subsequent dispute over the amount of wage increases that settlement required Areas to pay.

In Detroit, Areas shocked workers by initially proposing a wage freeze that would have extended more than 3 years for some workers. After their collective bargaining agreement expired in July 2018, contract negotiations with Areas stretched on for more than a year before a settlement was finally reached that included annual pay increases. In the interim, Areas employees went without pay raises and the airport was left without comprehensive labor peace protections.

Bargaining Status of UNITE HERE-represented Areas shops			
City	Airport	Joined UNITE HERE	CBA Expiration
Philadelphia	PHL	2019	<i>in 1<sup>st</sup> time bargaining</i>
Detroit	DTW	2011	<i>pending ratification</i>
Atlanta	ATL	2013	<i>exp. 6/28/2019</i>
Chicago	ORD	2014	<i>exp. 7/31/2019</i>
Orlando	MCO	2011	5/31/2020
Newark	EWR	2011	5/31/2021
Miami	MIA	2013	9/23/2021
Los Angeles	LAX	2013	6/30/2022
Indianapolis	IND	2009	12/15/2022



Anthony Smith (Cook) and Wendy Kufel (Lead Cashier) work for Areas at Detroit Metropolitan Airport.

## Summary

For more than a decade, Areas' relationship with UNITE HERE has given airport workers and local airport governing bodies reason to see Areas as a company engaged in a responsible growth program that included best practices for maintaining labor harmony, preserving good jobs, and retaining experienced workers. In recent months, however, this relationship has moved onto uncertain ground.

At a time when the usual contract turnover in the US airport concessions industry will be augmented by major expansion projects at many of the country's largest airports, the next five years will see a wide range of new concessions opportunities, as well as the potential for large-scale worker displacements that go with them.

As Areas seeks to grow in the US market, the company will continue to be called on to demonstrate its ability to ensure labor peace and smooth workforce transitions. In the past, Areas has relied on its relationship with UNITE HERE to address these issues. Areas' new owners have to decide whether to permit this relationship to break down further or to reengage in a productive relationship going forward.

Dear Mr. Paris,

We write regarding PAI Europe VII Fund's recent acquisition of the Areas concessions division of Elior Group. As a limited partner in this fund, we wish to clarify our understanding of current labor relations issues within Areas' US operations.

It is our understanding that Areas' first decade of expansion into US airports was accompanied by positive engagement with UNITE HERE, the primary labor union representing US airport concessions workers. Through this relationship, Areas pursued a responsible growth program that included best practices for preserving good jobs, retaining workers when taking over from other contractors, and giving workers access to a fair union recognition process.

Recently, however, in communications to both Elior and PAI, UNITE HERE has raised concerns about Areas' continuing commitment to principles of cooperation and dialogue with labor. UNITE HERE has notified PAI directly regarding the failure to reach a labor peace and worker retention agreement at the Minneapolis-St. Paul Airport. We are also troubled by the protracted contract negotiations at Detroit Metropolitan Airport, which left the Detroit airport authority without comprehensive labor peace protections for more than a year, and at Los Angeles International Airport, which saw Areas workers take the first strike vote among LAX concessions workers in nearly 20 years. Settlements have now been reached in both cities, but two more collective bargaining agreements, in Chicago and Atlanta, have been expired since summer.

Consistent with the aspirations of the United Nations Principles for Responsible Investment, we are seeking answers to the following questions about PAI's understanding of these issues:

- Did Elior's disclosures to PAI regarding Areas' US operations include an accounting of the history and current state of its US labor relations?
- Was PAI made aware of the March 15, 2019 communication from UNITE HERE to Elior CEO Phillipe Guillemot regarding a deterioration in labor relations between Areas and the union, centered around Areas' conduct at Minneapolis-St. Paul International Airport?
- Has PAI been informed of any managerial or policy changes made in the past few years that would alter Areas' approach to pursuing responsible growth and positive labor relations in US airports?

We hope that you will take these issues seriously and conduct thorough due diligence into the deteriorating state of Areas' labor relations with UNITE HERE. In the highly political environment of US airport concessions, inviting labor conflict is not only problematic social policy, it is a bad growth strategy.

We would appreciate a response from PAI as to what it has discovered about Areas USA's recent record on labor relations and about what it intends to do to correct course and develop a positive relationship with UNITE HERE.

Sincerely,