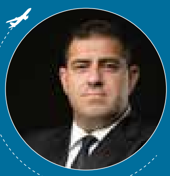


by Saffet Uyanık

Cashflow Catastrophe Seals the Aviation Industry's Fate

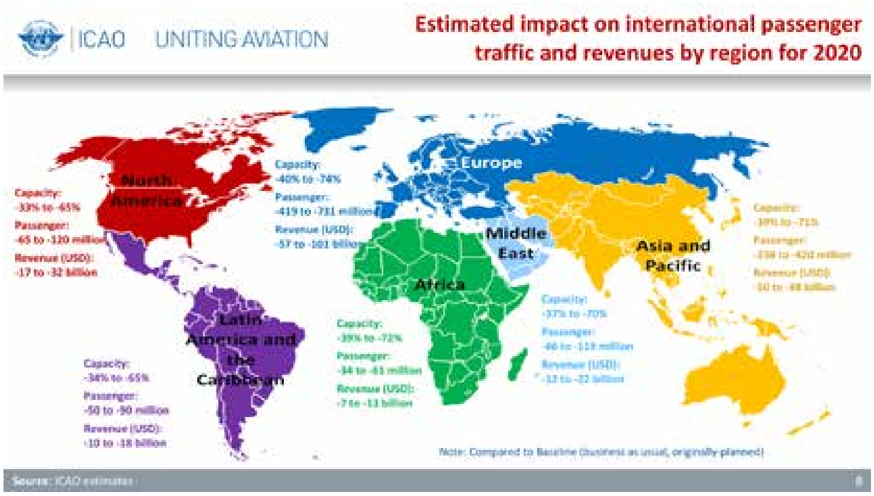
ICAO, IATA, ACI, ITF, EUROCONTROL, ECAC, all related international organizations and associations of Aviation have been respectively published best & worst-case scenarios about the future of the global aviation sector from the outset of the outbreak. How these crises could be affecting the Aviation world?

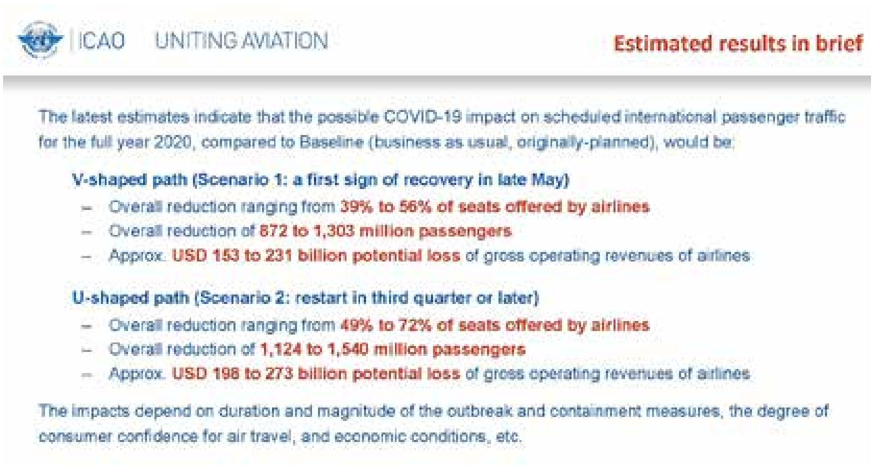
The aviation industry is one of the sectors hardest-hit by the Novel Coronavirus (COVID-19) outbreak. When the outbreak of COVID-19 began to spread, many countries declared a state of emergency, imposed quarantines, and other restrictions for citizens of the most affected areas and tried to prevent their citizens from traveling overseas. Amid the health and humanitarian crisis, governments have closed borders and requested or forced people to stay home in an effort to stop the spread of the pandemic.

As a result of COVID-19 airlines around the globe had to suspend passenger flights and cut schedules significantly. Due to the resulting travel restrictions as well as significant reductions in passenger numbers, some of the world's biggest airlines turned their focus to cargo to produce fractional revenue.

According to the International Air Transport Association (IATA), airlines transport over 52 million metric tons of goods a year, representing more than 35% of global trade by value but less than 1% of world trade by volume. That is equivalent to $6.8 trillion worth of goods annually, or $18.6 billion worth of products every day. This is not a typical situation for airlines; yet, as they are unable to fill planes with passengers, airlines are instead using whatever capacity they have, to transport more cargo, such as medicines to the regions most affected by the public health crisis as part of the global supply chain.

The earnings from passenger operations may have almost vanished during this time of the COVID-19 pandemic, but global supply chains still demand aircraft cargo capacity. Thus, airlines have innovated and converted planes that are normally used to transport passengers into freighters. Since the beginning of the novel coronavirus crisis, cargo demand has only risen as simple goods or medical necessities such as face masks, protective gear, gloves, and disinfectant quickly became scarce commodities. However, the global air freight market demand measured in cargo ton kilometers (CTKs), decreased by 3.3% in January 2020, compared to the same period in 2019; while the cargo capacity, measured in available cargo ton kilometers (ACTKs), rose by 0.9% year-on-year in January 2020. Over 200,000 passenger flights have been canceled since the end of February in response to government travel restrictions. With this, vital cargo capacity has disappeared when it is most urgently needed in the fight against COVID-19.





Because of this crisis which has spanned the entire globe, the likes of which has never been faced before in civil aviation history, we are already seeing losses that are hard to recover. On 14 April 2020, the IATA released an updated analysis showing that the COVID-19 crisis will see global airline passenger revenues drop by US$314 billion in 2020, a 55% decline compared to 2019, under a "3-month lock-down + recession" scenario and a 48% decline in Revenue Passenger Kilometers (RPKs, both international and domestic) in 2020 compared to 2019. Airlines in the Asia Pacific region are expected to see the largest revenue drop of US$113 billion in 2020 compared to 2019 with a 50% drop in passenger demand in 2020 compared to 2019.

Due to this sudden loss of revenue, airlines began to hold out against refunding canceled flights and tickets to conserve cash while European airlines owe US$10 billion for canceled flights. In a joint statement addressing this deteriorating situation, the International Air Transport Association (IATA) and the International Transport Workers' Federation (ITF) called for governments to ensure that the protection of health workers caring for those with COVID-19 is prioritized, to coordinate between each other and with industry to ensure harmonized and effective action to protect the safety of passengers and crew, to provide immediate financial and regulatory support for airlines, to maintain the sustainability of terms and conditions for air transport workers, and to assist the industry in restarting quickly by adapting regulations and lifting travel restrictions predictably and efficiently.

According to the IATA, global air passenger demand plunged 70%, and industry revenues from the passenger business are forecast to be reduced by at least $252 billion in 2020. Airlines are expected to burn through some $61 billion in cash reserves during the second quarter of 2020 alone. In April, both the European Commission and the US Department of Transportation stated that airlines are still obliged to offer refunds for canceled flights. This has created a profound liquidity emergency for airlines. The impact of the near shutdown of passenger services threatens the viability of 25 million jobs directly and indirectly dependent upon aviation, as well as the tourism and hospitality sector.

The air transport industry supports a total of 65.5 million jobs globally. It provides 10.2 million direct jobs. Airlines, air navigation service providers, and airports directly employ around three and a half million people. The civil aerospace sector (the manufacture of aircraft, systems, and engines) employs 1.2 million people. A further 5.6 million people work in other on-airport positions. Another 55.3 million indirect, induced, and tourism-related jobs are supported by aviation.

One of the industries that relies most heavily on aviation is tourism. By facilitating tourism, air transport helps generate economic growth and alleviate poverty. Currently, approximately 1.4 billion tourists are crossing borders every year, over half of whom travelled to their destinations by air. In 2016, aviation supported almost 37 million jobs within the tourism sector, contributing roughly USD 897 billion a year to global GDP.

When assessing the economic impacts on civil aviation, the International Civil Aviation Organization (ICAO) expects an overall reduction of international passengers ranging from 44% to 80% in 2020 compared to 2019 as well as an estimated loss of two- fifths of passenger traffic and 45% or over US$76 billion airport revenues in 2020 compared to previous business results. The ICAO currently reports that the first quarter of 2020 has seen an overall reduction ranging from 39% to 41% in passenger capacity, or a decrease of 16.4 to 19.6 million passengers compared to what airlines had projected pre-COVID-19. This equates to a potential reduction of US$4 to 5 billion in gross operating revenues for airlines worldwide. Prior to the outbreak, airlines had planned to increase seat capacity by 3.4% for 2020, compared to 2019.

According to Airports Council International (ACI), passenger traffic exceeded 9.1 billion in 2019, representing 3.4% growth in total passenger traffic year-over-year. Based on this data, the ACI forecasted that global passenger traffic would reach 9.5 billion passengers in 2020. However, the COVID-19 outbreak made this traffic volume unattainable as the industry was grounded as of the end of March. Economic analysis of Airports Council International (ACI) predicts that the COVID-19 pandemic will wipe out two-fifths (38.1%) of passenger traffic and almost half of the revenues for airports in 2020. This is equivalent to 3.6 billion passengers in absolute terms. This shortfall in the number of passengers and the cancellation of flights will continue to result in reduced revenues. Before the COVID-19 outbreak ACI forecasted that global airport revenues for the first quarter of 2020 would reach close to US$39 billion. Based on traffic trends impacted by COVID-19 and the inevitable reduction in overall commercial activity, ACI now estimates a 33% loss of revenues equivalent to an approximate revenue shortfall of US$13 billion. While the industry was expected to generate about US$172 billion, it may lose about 45% or over US$76 billion by the end of this year considering the ongoing crisis. A drastic decline of such magnitude for the industry represents an existential threat. Airports must also continue to maintain and operate the infrastructure components such as runways, taxiways, aprons, parking stands, and terminal buildings. Despite the sharp reduction in passenger traffic, many airports remain open for cargo operations.

Besides all these, the pan-European, civil-military organization EUROCONTROL published a comprehensive assessment of the latest traffic situation in Europe and provided a comparison to the same period in 2019. According to the COVID-19 Impact on European Air Traffic EUROCONTROL Comprehensive Assessment, since the beginning of March, all bi-directional traffic flows between the European Civil Aviation Conference (ECAC) and other regions in the world have decreased with various dynamics and amplitude: the flow with Asia/Pacific is now the largest share of traffic to/from ECAC at 6%, but this is down 82% compared to last year.

From April 1st to the 20th 2020, the flow intra-ECAC (within) decreased by 90 compared to the same period in 2019, but its share decreased only slightly from 80% to 72% and remained by far the most substantial flow. The flow to/from Asia/Pacific decreased by 67% but is now the second-largest flow with 8% of the total flows compared to 3% in 2019. The flow to/from Middle East, which was the 2nd flow in 2019, has decreased by more than 80% and now represents 6% of all the flows. This time last year, all-cargo flights accounted for about 2% of total Departure/Arrival flights, whereas now it accounts for 15% as of Saturday, April 25, 2020. Also, according to the data provided by EUROCONTROL, virtually all of Europe's largest airports are now managing 90% fewer flights compared to last year, examples: Paris Orly had no flights, London Gatwick -98%, Vienna -96%, Munich -95%, Madrid -94%, Istanbul -91%, Paris CDG -91%, Amsterdam -90%, Milan Malpensa -89%, Dublin -88%, London Heathrow -87%, Frankfurt -84%, Athens -82% and Oslo -68%.

As a result of COVID-19, the number of flights operating daily in European airspace has declined by 90%. As this dramatic reduction in operations is likely to continue in the future, the airline industry has sought the support of EUROCONTROL Member States to deal with its sudden and significant cash flow crisis. On April 7, EUROCONTROL announced that its Member States have agreed on a financial package enabling airlines to defer the payment of up to €1.1 billion of air traffic control fees due for payment to Europe's air traffic management industry in the coming months