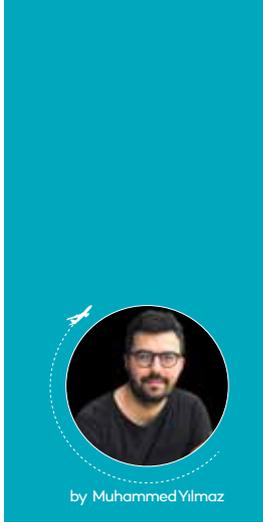






IS
AVIATION INDUSTRY
ON THE EDGES OF
COLLAPSE?



by Muhammed Yilmaz

The COVID-19 pandemic continues to spread rapidly and with drastic affects throughout the aviation industry. What ramifications are expected in the short and medium term? Are the strict measures that are being taken by states and authorities adequate? Is the aviation industry on the verge of collapse? Will state aid come into effect...and will it be enough?

Aviation Turkey Magazine Author and Aeronautical Engineer Muhammed Yilmaz has been followed-up the updated information from the outset of the outbreak for our readers. You can find the whole chronological period in our article.

The aviation industry has been coping with unprecedented conditions of uncertainty as passengers want to postpone or cancel flights that they may have booked months ago or to get refunds. Airlines are keeping most of their aircraft on the ground and many large airlines have significantly reduced their capacity, but they still continue to run some “ghost flights” even if there is not a single passenger onboard. Employees have



been instructed to take compulsory unpaid leave. Some countries have partially or fully closed their doors to commercial flights. There's been record-breaking losses in the stock market across the globe and the value of airlines have taken a nosedive. Overall, the airline industry's mission to connect world economies has now become secondary to the primary struggle to survive.

The Coronavirus (COVID-19) outbreak first occurred in Wuhan, China in December 2019 and has been detected in over 190 countries so far. On March 11th it was declared a pandemic by the World Health Organization (WHO) with an official announcement by the WHO stating that the rate of the spread of the outbreak was out of control. The global aviation industry, which has been facing various challenges for some time, was immediately and drastically impacted by this situation. The virus,

which spreads quickly with no near-term predictions on when it truly it will be under control, has rattled the aviation industry down to its core.

January 2020 data show that flight traffic had the lowest monthly increase in the last decade. Moreover, restrictions on air travel started only after 23 January 2020. The traffic figures recorded in January are thought to be just the tip of the iceberg. The outbreak will seriously test the resilience of the global aviation industry, and this is just the beginning. By the end of 2020, it is estimated that the number of passengers traveling by air will drop for the first time since 2009.

Loss of the Industry could be US\$ 314 billion!

The International Air Transport Association - IATA's last statement in mid-April, it was predicted that the revenue loss of airline companies worldwide

would reach US\$ 314 billion in 2020. This means a 55% loss of revenue compared to 2019. The IATA first announced in February that the loss would be US\$ 29.3 billion. Later it increased this figure to US\$ 113 billion that the impact on cargo operations could not yet be fully estimated. And then to US\$ 252 billion. Therefore, it was recorded to be more than a tenfold increase between the first and last estimates.

In the statement of the IATA, it is noted that the world is heading for a recession. The economic shock of the COVID-19 crisis is expected to be at its most severe in Q2 when GDP is expected to shrink by 6%. Passenger demand closely follows GDP progression. The impact of reduced economic activity in Q2 alone would result in an 8% decline in passenger demand in the third quarter.

As per the IATA's statement, it is noted that the number of flights globally was down 80% as of early April. Going back to normal in air traffic

will take more time and be slower than expected. Domestic markets may see the start of an upturn in demand in the third quarter. International markets, however, will be slower to resume as it appears likely that governments will retain these travel restrictions longer. The upward trend in the international market is expected to begin in the last quarter of the year at the earliest.

It was noted that airlines could burn through US\$ 61 billion in cash reserves in the second quarter alone and that puts 25 million jobs at risk that are dependent on aviation.

According to IATA, the crisis will lead to various consolidations on the airline side and will they have to layoff airline staff. Aircraft manufacturers will also seriously suffer from the crisis due to the order delays and cancellations.

The global airlines association also reiterated the call that governments should step in immediately, as the average airline has enough money to cover its fixed costs only for up to two months. With the emphasis that there is an increasing liquidity crisis in air transport, countries affected by COVID-19 now represent 94 percent of the global air transport market. With daily travel restrictions and the closing of borders, the market demand for air travel fell to critically low levels.

Alexandre de Juniac: “Like a war, COVID-19 has Brought Death and Economic Devastation.”



We have never seen a downturn this deep before. In our latest scenario, full year passenger revenues plummet 55% compared to 2019, while traffic falls 48%. In other words, half our business disappears. That’s catastrophic.

That impact is then amplified throughout the economy. If airlines lose one job, another 24 disappear somewhere in the value chain. That was behind our analysis last week when we said that some 25 million jobs are at risk.

That is also why we continue to ask governments to make the viability of airlines a priority. In the last week we have seen governments in Belgium and Sweden respond with relief measures. We know that several others are considering such steps. I encourage them to move quickly. This industry will run out of cash soon, so support of any kind will be a lifeline. These include:

- Direct financial aid
- Loans, loan guarantees and support for the corporate bond market by governments or central banks; and
- Tax relief

Turning to the lifting of mobility restrictions, there has been some positive news in Europe where a few governments have seen progress against the disease improve to the point where they are beginning to re-open their economies. We can all be encouraged by this.

I must point out, however, that the easing of lockdown measures, as far as we have seen, does not include a

re-start for aviation. And, individual country decisions cannot enable the restoration of international air services when other markets remain closed.

Furthermore, China and South Korea--countries which have been successful in controlling the disease within their own borders-- are now doubling down on international travel restrictions because they don’t want to risk importing a second outbreak.

Governments re-opening their economies must have confidence that the disease is also under control in the countries they do business with. Otherwise they are not going to make travel easy or convenient.

Passengers—business or leisure—will also need to have their confidence restored.

- They won’t return to travel until they feel personally safe in doing so.
- They will need to have confidence that their travel will not be interrupted by the disease or by quarantine restrictions,
- And they must have confidence in the economic situation.

I don’t underestimate the challenges that are ahead. The keys to success, however, are well-known in the aviation world—cooperation and harmonization.

Successive unilateral actions by states can shut down aviation as we have seen. But unilateral actions cannot restart aviation. Governments must work with each other and together with the industry.

I emphasized that in a presentation to the ICAO Council last week. And this is the main idea driving the regional meetings with governments and stakeholders that we are planning to begin next week.

There is much more to learn about COVID-19. So, we don’t expect to see immediate re-start solutions from our efforts. What is important, however, is that we have the best minds in the world focusing together on solving the challenges that COVID-19 has brought to the global air transport system.

This week we are reminded of the precedent for industry and government cooperation in the face of enormous challenges. The Chicago Convention was signed and ICAO was founded by governments in December 1944. With that, the regulatory framework for the post-war system for global air transport was created, even as World War II raged.

A few months later, airlines joined together to help governments in turning that framework into the industry that we have today. IATA was founded on 19 April 1945. That’s 75 years ago this week.

That’s very similar to the call to action we have today. Like a war, COVID-19 has brought death and economic devastation. And even though the end-game for COVID-19 is not yet clearly visible, it is absolutely clear that we must work and plan for it together.