

## Economic situation of the aviation industry

Restrictions on travel between Europe and large markets, such as the USA, Israel, India or China, have impacted airlines that were already affected by the drop in demand since the pandemic started. Air travel restrictions have also severely impacted airports and air navigation service providers, which were expected to register a drop in revenues in 2020 of up to 4 billion EUR, representing more than 50% of their annual revenues. Eurocontrol's estimated net loss for the European aviation sector (including airlines, airports and ANSPs) in 2020 stands at 56.2 B EUR.<sup>1</sup>

### *Eurocontrol data*

**2020 Analysis.** Traffic for 2020 closed out at -55% of 2019 levels. In total, 5.0 million flights operated in 2020 compared with 11.1 in 2019, a loss of 6.1 million flights. Moreover, load factors dropped to around 50% of capacity.<sup>2</sup>

While January and February 2020 saw year-on-year traffic of -0.4% and +0.9% respectively, March saw a precipitous decline as States closed borders and limited traffic increasingly to essential supplies and repatriation, closing the month at -86.1% of 2019 levels (4,202 daily average flights). By 12 April, the lowest point of the crisis, traffic had bottomed out at an unprecedented -92.8% or just 2,099 daily flights. From there on, a very slow recovery started, with the network ending May at -89.4% (3,586 daily average flights). Traffic stabilised over the summer at around -51%, with the 18,802 flights on 28 August (-49.0% of 2019) marking the highest number of flights in 2020. This reflected the lifting of travel restrictions in most States, and the start of the summer season. However, spiking infection rates across the European area after the summer led States to reintroduce measures in an uncoordinated fashion, causing traffic to decline steadily from 15,964 flights on 1 September, -54.8%, to end the year at a weekly daily average of 7,199 flights or -73.1%.

The intra-European segment closed 2020 with 54% less flights than in 2019, Europe – North-Atlantic at -60% - the same as Europe – South-Atlantic and Europe – Middle-East, while the lowest downfall was registered by Europe – Southern-Africa traffic at -44%.

Ryanair, Europe's largest airline, remained top over 2020, but with a daily operating average of just 951 daily flights over the year vs. 2,323 in 2019, a decrease of 59%. The average decline in flights among the top 10 European airlines was between -45% and -67%. The pandemic triggered two changes in the top 10 airlines compared to last year. Eurowings, massively downsized by parent Lufthansa Group in April, which moved to 14th place, -69% year-on-year, and Norwegian Air Shuttle, which continues to struggle despite entering bankruptcy protection in Norway and Ireland, dropping -73% and moving to 16th. Their places were taken by Wizz Air, climbing from 12th to 9th following a rapid restart of operations in May and a major base expansion strategy; and Pegasus Airlines, up from 14th to 10th on the back of strong domestic demand in Turkey – which also was reflected in Turkish Airlines moving up from 4th in 2019 to 2nd in 2020.

Along with traffic decline, the growth in emissions was also reduced by an average of 56.7% in January-November 2020 compared to 2019.

**Current situation.** Flights across Europe were at 35% of 2019 levels on 14 April (10,945 flights), stable from a week before but dropping by 8% over two weeks. Traffic is levelling off

<sup>1</sup> Eurocontrol (2020), What COVID-19 did to European Aviation in 2020, and Outlook 2021, Think Paper #8 – 1 January 2021.

<sup>2</sup> Eurocontrol (2020), What COVID-19 did to European Aviation in 2020, and Outlook 2021, Think Paper #8 – 1 January 2021.

after the Easter break period. Flows between North-West Europe and Spain/Italy are recording declines (over 2 weeks).

The highest traffic decreases are registered for Germany, France, Spain and Turkey. Increase for Italy (domestic). The highest decreases for airlines were for Vueling (-55%), Turkish (-9%), Lufthansa (-17%) and Wizz (-44%). Increases are registered for Alitalia (+32%), Ryanair(+15%) and Eurowings (+27%).

Domestic traffic situation compared to 2019 is as follows: Europe (-67%), US (-29%), China (+9%), Middle-East (-45%).

**Scenarios.** On 28 January, EUROCONTROL published two new traffic scenarios<sup>3</sup> for the period up to June 2021. Scenario A, which envisages a partial epidemiological improvement during Q2 and consequent measures relaxations, predicts the months of April, May and June with -68%, -61% and -55% respectively. A more pessimistic Scenario B, which envisages from no to very limited epidemiological improvements, predicts April, May and June with -78%, -75% and -70% respectively.

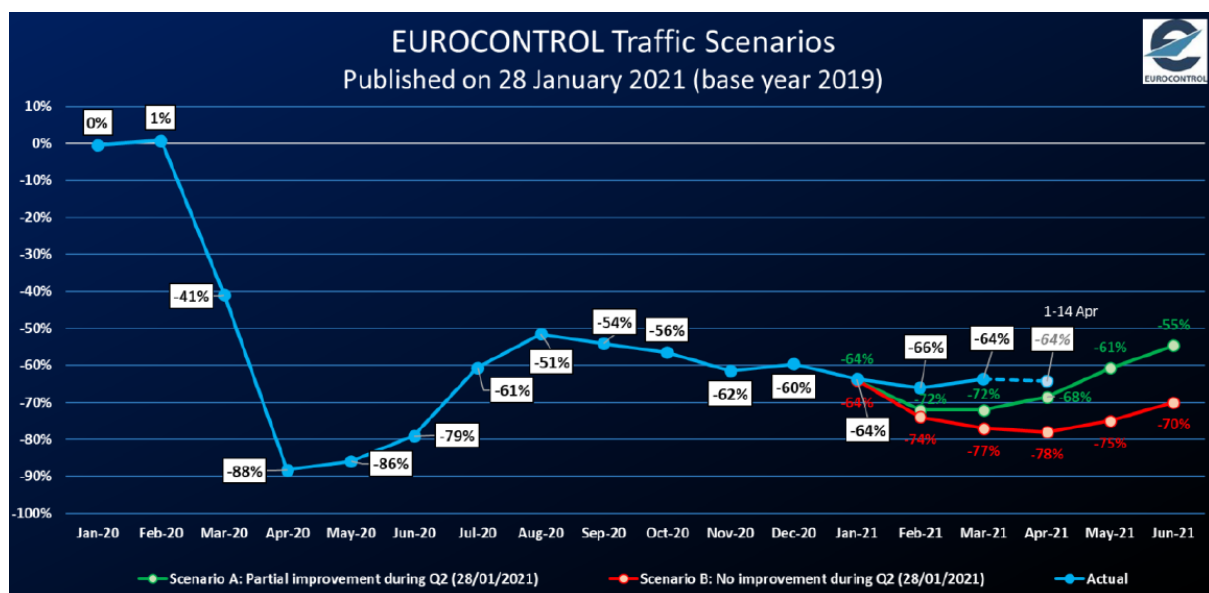


Figure 1 Eurocontrol traffic scenarios

The previous EUROCONTROL STATFOR Forecast for the period 2020-2024 envisaged, in the most optimistic scenario, traffic to return to 2019 levels by 2024. However, in the second scenario (most likely), 2024 traffic would only be at 92% of the 2019 figure. In the third scenario, traffic in 2024 would be 75% of the 2019 figure and would not reach numbers seen in 2019 until 2029.

An ICAO estimate from 1 October showed that the possible COVID-19 impact on scheduled domestic and international passenger traffic for the full year 2020 could reach a global reduction of 51% of seats offered by airlines and a reduction of 2,867 to 2,897 million passengers. Estimations for Q1 2021 are of an overall reduction in the range of 36% to 45% or seats supply and 540 to 611 million passengers. ICAO also expects a drop in the number of seats offered in Europe in 2020 by 64% for international passenger traffic and by 39% to

<sup>3</sup> <https://www.eurocontrol.int/publication/eurocontrol-draft-traffic-scenarios-january-2021-june-2021>

40% on domestic flights. The number of passengers could drop by 654 to 658 million on international flights and by 138 to 139 million on domestic ones.<sup>4</sup>

**Air freight.** Overall air freight volumes, affected by the drop in passenger flights carrying cargo, were 7% lower in June 2020 than in June 2009 during the financial crisis.<sup>5</sup> However, the indicator has constantly been negative since 2009. The share of all-cargo flights was at its highest in mid-April 2020, when it reached 23% of all flights. Since then, all-cargo has remained globally stable at 2019 levels (-6% on 5 April 2021, +11% on 10 April 2021) and is the segment least affected by the pandemic.

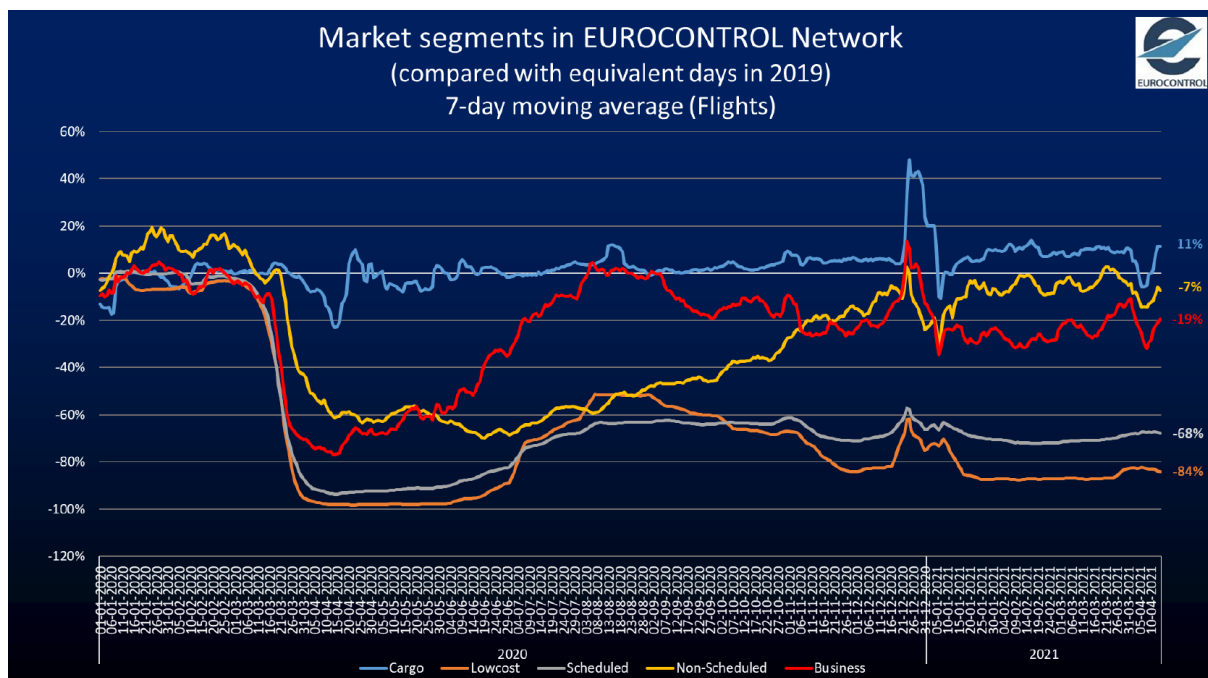


Figure 2 Eurocontrol market segments variation

The situation has had a major impact on the **financial position** of airlines, though many were already in a fragile financial situation before COVID-19 hit. ICAO estimates the COVID-19 impact on European airlines for 2020 at -92bn USD for international, and -138-139bn USD for domestic passenger traffic. Media reports and stakeholder views point to increased cash flow pressure for most airlines. Large airlines have secured generous credit lines from banks, some guaranteed by Member States' governments. On 20 March 2020, S&P lowered the ratings of a number of European airlines and placed them on CreditWatch with negative implications. The debt level of airlines globally is expected to increase by 120 billion USD by the end of 2020, according to Tim Consult. Of this, 67 billion is to be covered by national governments, and 53 billion by private sources. By 8 May 2020, European airlines had requested bailouts of over 30 billion EUR, according to the JRC and major airlines secured large rescue packages more recently.

IATA estimates that due to a persistent drop in demand, even after travel restrictions will be lifted, ticket prices will remain low until the beginning of 2021. However, in presence of seats

<sup>4</sup> <https://www.icao.int/sustainability/Documents/COVID-19/ICAO%20COVID%202020%2011%2012%20Economic%20Impact.pdf>

<sup>5</sup> [https://www.itf-oecd.org/unprecedented-impact-covid-19-freight-volumes-second-quarter?ct=t\(2018\\_Sept\\_Newsletter\\_COPY\\_02\)&mc\\_cid=6b639b40d7&mc\\_eid=2c05041267](https://www.itf-oecd.org/unprecedented-impact-covid-19-freight-volumes-second-quarter?ct=t(2018_Sept_Newsletter_COPY_02)&mc_cid=6b639b40d7&mc_eid=2c05041267)

limitations due to social distancing, the estimated increase of fares in Europe would be 49% more than the 2019 average fare after that period. The subsequent decline of revenue passenger kilometres is estimated in the magnitude of 48%. Of the 120 airlines ranked by IATA, only around 30 made a profit in 2017 and 2018. In January 2020, the typical carrier had enough cash to cover between 50% and 80% of short-term liabilities and about two months of revenues, according to IATA; 75% could not cover costs beyond three months. IATA now expects a 48% fall in global revenue passenger kilometres (RPK) and related revenue loss in 2020, and a 55% decline in Europe. Airlines are facing issues for planning activities and optimization of operations, as 41% of global passengers booked up to 3 days before departure in June. In July, Europe-international was the only market that posted a notable improvement from June (+9.6%, at -87.1% year-on-year) reflecting mainly relaxation of travel restrictions in the Schengen Area. At the same time, Europe internal routes contracted by 79.2% year-on-year in July compared with around 90% annual declines seen on Europe's other key international routes.<sup>6</sup> IATA expects the industry to turn cash positive only in 2022 and estimates that the median airlines' cash would last for 8.5 months at the rate of spending of H2 2020.<sup>7</sup>

To alleviate the effects of the crisis and provide more certainty for European airlines, the European Commission has proposed on 13 March 2020 to suspend the enforcement of the 80/20 rule to allocating slots at European airports. This measure was extended to cover the whole of the winter 2020/2021 scheduling season. The Commission is in parallel preparing a proposal for possible subsequent slot relief measures. Furthermore, the Commission proposed rules amending parts of the Air Services Regulation in May. The amendments allowed airlines in temporary financial difficulty to keep their operating licenses and airports to urgently replace their ground handling service provider should it suddenly go bankrupt. These rules were prolonged in December until the end of 2021. Moreover, the ground handlers whose contracts expire before the end of 2021 will be able to maintain them until 2022 to more easily access loans. Moreover, the Commission is working with governments to put in place schemes that compensate sectors, including transport, for the damage they have suffered because of the COVID-19 outbreak. France has provided, under EU State aid rules, a 7 billion EUR aid for Air France, although linked to the green policy plans<sup>8</sup>. Other Member States also have announced support measures or even the nationalisation of their 'flag carrier' airlines (such as Italy).

The European Commission is looking at options to address the major financial impact faced by service providers without endangering the recovery of the air transport sector after the crisis. For example, reducing the amounts to be recovered from airspace users and by spreading the recovery over many years. In addition, Eurocontrol Member States have agreed on a financial package enabling airlines to defer the payment of up to 1.1 billion EUR of air traffic control fees due for payment to Europe's air traffic management industry in the coming months.

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<sup>6</sup> IATA Air Passenger Market Analysis, September 1<sup>st</sup> 2020

<sup>7</sup> <https://www.iata.org/en/iata-repository/publications/economic-reports/outlook-for-airlines-cash-burn/>

<sup>8</sup> [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_796](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_796)