

COVID-19: Travel industry counts the cost

The travel retail industry is in the midst of unprecedented uncertainty with the cancelation of two key trade shows: Summit of the Americas in March and Tax Free World Association Asia Pacific in May.

The new decade has brought with it the COVID-19 epidemic, which has spread across the world, deeply impacting the travel and tourism industry. At time of writing, we're in the third month of the year and here is where the beleaguered travel industry stands.

While the impact of the COVID-19 epidemic was initially marginal and limited to those airports with air services to affected countries in Asia, its extension into Europe is resulting in airports across the continent now facing a crisis.

In this scenario, Airports Council International (ACI) World forecasts that global airport revenues will be down at least US\$4.2 billion in the first quarter of 2020 compared to pre-COVID-19 forecasts.

The loss is approximately equal to the total annual revenues of two major European or Asian hubs combined, the organization said. ACI previously estimated that global revenues would reach close to US\$39 billion, with the expected decline based on traffic trends under COVID-19 and constant unit revenues.

Non-aeronautical revenue hit

Most of the loss in revenues is expected to occur in the Asia Pacific region, with a difference of US\$3 billion in projected revenue. An estimated loss of US\$1 billion in Europe makes it the second most affected region. ACI noted that all regions will see a revenue impact from the loss of East Asia passengers.

Non-aeronautical revenue will be strongly impacted by the COVID-19 outbreak, ACI said. Chinese passengers in particular "tend to generate comparatively high revenue for retail concessions and other non-aeronautical services". ACI noted that non-aeronautical revenues are usually seen as an "additional cushion" during economic downturns, but the heavy impact on them will "create a wider effect for airports worldwide".

The forecasts were published on March 10 in an advisory bulletin on the predicted global economic impact of COVID-19 on the airport industry, which ACI said would be "pronounced".

At the global level, ACI estimates that airport passenger traffic volume for the first quarter of 2020 will be down at least 12 percentage points compared to what it previously projected.

Asia Pacific will be most affected, with passenger traffic volumes down 24 percentage points compared to previous 'business as usual' forecasts for the first quarter of 2020. Europe and the Middle East are also expected to be significantly impacted by reductions in traffic. North America is expected to see similar declines in the second quarter of 2020, as ACI noted recently-announced service reductions in the region, with more expected in the coming weeks.

"In addition to the official bans and restrictions on travel, sharply reduced business and leisure travel, there is a general travel confidence issue causing consumers to pull demand forward, events being canceled, and businesses reducing their normal activity," ACI said.

ACI Europe earlier forecasted a 13.5% year-on-year drop in regional passenger traffic in the first three

months, and a 7.5% decline for the full year.

ACI World Director General Angela Gittens commented: “The airport industry recognizes that all stakeholders of the aviation ecosystem are heavily impacted by the COVID-19 outbreak, and that strengthened cooperation between airports, airlines, and regulatory authorities is needed as the industry responds to the outbreak.

“The sudden shock represented by the COVID-19 outbreak is affecting passenger and cargo traffic worldwide, markedly in Asia Pacific and significantly reducing airport revenues.

“Airports rely heavily on airport charges to fund their operating and capital costs and operators find themselves under intense pressure during periods of traffic decline. Airport revenues must be sufficiently protected to ensure safe and sustainable operations. Measures to limit the collection of airport charges would be ill-advised.”

European shock

News that the Italian government had put Italy in lockdown sent shockwaves through Europe’s airport industry. In addition, on March 11, US President Donald Trump temporarily suspended all travel from Europe to reduce the spread of the disease. Beyond Italy, the situation for airports was rapidly deteriorating throughout Europe, according to ACI Europe. Olivier Jankovec, Director General of ACI Europe, called the COVID-19 epidemic “a shock of unprecedented proportions for our industry”, saying: “Airlines are drastically cutting capacity and canceling air services as they respond to falling demand resulting from loss of confidence, changes to corporate travel policies, and governmental measures which directly or indirectly restrict mobility in their efforts to contain the spread of the virus. As a result, the COVID-19 epidemic is turning into a shock of unprecedented proportions for our industry. Apart from Italy, we cannot rule out that airports elsewhere might at some point also need relief measures to address cash flow pressures and keep fulfilling their role as critical infrastructure. This will require the support of governments and the European Commission.”

ACI Europe forecast a loss of 67 million airport passengers in the first quarter of 2020, representing a 13.5% drop in airport passenger footfall compared to a business-as-usual scenario. Overall, Europe’s airports would service 187 million fewer passengers in 2020, representing a decrease of 7.5% in a year which was predicted to see 2.3% passenger growth in a business-as-usual scenario. In financial terms, ACI warned of a loss of €1.32 billion in revenues in Q1 alone compared to a normal financial quarter, as a result of lower aeronautical revenues, lower commercial (non-aeronautical) revenues, and foregone revenues from ground handling and other services.

In line with the WHO (World Health Organization) COVID-19 recommendations to states, ACI called on governments only to consider travel bans and other measures interfering with air connectivity as a very last resort and for the shortest period of time.

Israel and Iran in lockdown

In the Middle East, the airport industry is braced for a significant decline in traffic. Amid growing fears over COVID-19, Israel was in virtual lockdown from March 9, after the government imposed a restriction requiring all incoming travelers, no matter what their nationality or where they were arriving from, to self-quarantine for a period of 14 days.

Meanwhile, for many Iranians, life has been put on hold as COVID-19 proliferates like wildfire through their closed country. Iran has recorded one of the highest death tolls outside China and a rapidly growing number of cases, and the government has been taking action to deal with the crisis.

Situation in China and Korea eases

There are signs that the situation in Asia appears to be easing. New infections continue to dip, both in badly-hit China and South Korea. Chinese President Xi Jinping visited the quarantined city of Wuhan on March 10 for the first time since the coronavirus was identified there, reflecting confidence that the epidemic's spread had been largely contained within China. There are signs that life in China is slowly returning to normal with a loosening of the lockdown.

Could we be seeing some normalcy on the horizon? The world watches and waits.