

Taking a closer look at path to recovery for EU airlines & airports

Three types of drivers - comprehensive summary

1. Country specific characteristics

- Travel bans/ restrictions
 - i. Travel bans kill air travel demand > makes it impossible to travel by air from/ to specific countries
 - ii. 14-day quarantine rule discourages air traveller > consequences make air travel very unattractive
 - iii. Need for proof of negative testing > extra hurdle, making air travel unattractive
 - iv. Also, messages from governments on safety of travelling have big impact on consumer (fear of getting ill during travel or getting stuck abroad)
- Economic outlook
 - i. Significant differences in economic outlook between countries (due more/less affected by pandemic)
 - ii. Wage subsidies given during lockdown > salaries have been paid; unemployment still low; savings have increased last months
 - iii. Overall spending outlook dependent on combination of savings quote and GDP forecast
- Winners
 - i. Winners are the countries that imposed relatively soft Covid measures with respect to international travelling (no travel ban or 14-day quarantine rule) and have been able to keep minimize the impact on spending power.

2. Airport characteristics

- Lock-down strategy
 - i. Difference between airports that maintained basic level of operations and airports that closed down (either forced by government restrictions or own independent strategy) > Airports maintaining basic level of operations better positioned to pick up demand
 - ii. Most regional airports ceased operations, as it is difficult to operate at low traffic volumes despite less busy with maybe less risk for health concerns
 - iii. Also, combination of large international airports maintaining basic level of operations in combination with closed secondary airports > shifts traffic volumes to international airport, being very well positioned to pick up demand.
- Congested (pre-Covid)
 - i. Extend to which airports were already saturated before crisis hit > pre-Covid congested airports are very well positioned to pick up additional air travel demand that would otherwise have been forced to travel through other regional airports.
- Traveller/ freight mix
 - i. Recovery of discretionary travel (holiday, some VFR¹ for labor migrants) likely to take longer than systemic travel needs (business/VFR) > airports with large share of business travellers less impacted by Covid.
 - ii. Absence of long haul pax operations and requirements for medical supplies spiked freighter operations and air cargo rates (but airports and even airlines not benefitting, mostly forwarders) > airports with large focus on air freight operations less impacted by Covid.
- ICA/EU/DOM-mix²
 - i. Due to fear of getting ill during travel or getting stuck abroad it seems likely that intercontinental travel will take longer to recover than European and Domestic air travel demand > the larger the share of ICA-flights operated by the airport the longer recovery most likely will take.

¹ VFR = Visiting Friends and/or Relatives

² ICA = Intercontinental, EU=Europe, DOM = Domestic

- ii. Large hubs connect Europe to other continents in the world, which is why a relatively large share of their operations consist of ICA-flights. The share of ICA-flights differs per hub.
- **Winners**
 - i. Large, saturated airports, especially with surrounding secondary or regional airports, that are home to hub carriers which have maintained basic level of operations during this crisis > share of long haul travel key factor in the short/medium term.
 - ii. Freight-oriented regional airports

3. Airline characteristics

- **Business model**
 - i. **Low cost carriers (LCC)** will be well positioned to pick up growth
 1. Short haul only (EU oriented) > recovery of long-haul traffic will take longer than short-haul traffic
 2. Foot loose > ability to respond quickly to recovery as they can easily move fleet around within own EU point-to-point network
 3. Main bottleneck to growth was access to attractive slots at major airports. Timing of ending suspension of use-it-or-lose-it rule³ might provide opportunity to increase market share.
 - ii. **Large hub carriers** operating at saturated airports that have maintained basic level of operations, have received support and are based in less economically affected countries are very well positioned to see growth in passengers in absolute terms (and in terms of intra-region market share).
 1. However, the larger the share of long haul travel, the longer the recovery in terms of total traffic.
 2. Also, timing of ending suspension of use-it-or-lose-it rule will be critical to ability to recover. Debt repayment and ability to reduce wages also key factor.
 - iii. **Subscale national carriers** will have a lot more problems: S-curve effect; difficult to compete with airlines already operating with 3-4 frequencies
 - iv. **Regional airlines** will be in even more trouble, because traffic volumes are very thin so will take longer to reach substantial load factors
 - v. **New entrants:** cheap access to capacity and labor, low fuel price and maybe access to slots without debt burden could well step in (but difficult to attract financing)
- **Lock-down strategy**
 - i. Difference between airlines that ceased operations all together (LCC, regional and subscale national carriers) vs. airlines keeping basic level of service where possible and combining with cargo operations (mainly flag carriers) > airlines maintaining basic level of operations better positioned to pick up demand.
- **Support package**
 - i. Most EU countries provide(d) general wages subsidies to companies. But duration and level differ greatly between countries (very generous in NL) and;
 - ii. Aviation specific support programs: big difference between airlines
 1. (former) national home carriers have nearly all received large support packages. British Airways however exception.
 2. Low Cost Carriers (LCC) generally did not get a specific support package although Norwegian was able to secure government support by meeting financial criteria the government attached to any airline requesting support . The large low

³ **Use-it-or-lose-it rule:** Regulation (EEC) No 95/93 determines the procedures and rules for the allocation of slots at EU airports, specifying that air carriers must use at least 80% of their allocated slots within a given scheduling period in order to maintain these slots for the corresponding scheduling period of the following year (source: European Economic and Social Committee; [link](#)).

cost carriers (with the exception of Norwegian) have however sufficient cash to sustain full grounding or minimal operation for an extended period of time.

- iii. Types of financial support
 - 1. Loans (& guarantees) > cost increasing due to interest rates and generating cash challenge later in time.
 - 2. Equity participation > no direct impact on competitive position or future debt repayment challenge
- iv. Support packages, however, have been tied to a variety of commitments/conditions impacting airlines 'entrepreneurial freedom (sustainability, network, compensation levels).
- **Winners**
 - i. Low Cost Carriers able to response quickly to market recovery as they can easily move fleet around within own EU point-to-point network to pick up demand.
 - ii. Large hub carriers operating at saturated airports that have maintained basic level of operations, have received support and are based in less economically affected countries are very well positioned. However, the larger the share of long haul travel, the longer the recovery in terms of total traffic.
 - iii. Timing of ending suspension of use-it-or-lose-it will be critical to ability to recover. Debt repayment and ability to reduce wages also key factor.