

141st Transport Policy Colloquium-Washington Report IX

Current state and future prospects of the United States aviation industry/Comments on COVID-19 and the aviation industry in Japan, the United States and Europe

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General comments on the report

- A clear and concise overview of the current state of the aviation industry in an unprecedented situation
- Under the current situation, it is very difficult even just to grasp the clear picture of what is going on.
- The report is an important source of information, which help us to understand and assess the implications and consequences of the current situation.



The main points of the report

Part 1 Industry overview before COVID-19

- Domestic

- Both network carriers and LCCs were benefiting from robust demand
- LCCs' domestic market share was 30%
- Optional services were an important source of revenue
- Network carriers were enjoying higher yields, but LCCs were experiencing lower yields.

- International

- Network carriers saw yields declining (especially in Atlantic and Pacific markets)
- Share of international market in operating revenue was declining

Part 1 COVID-19 pandemic support

- Payroll Support Program
- Loan Program
- Continued until March 31, 2021 under the fourth installment of COVID-19 measures (Emergency Coronavirus Relief Act)

Part 1 Changes by the COVID-19 pandemic

- Overall
 - Demand declined significantly in the second quarter of 2020
 - The third quarter of 2020 saw a partial recovery in demand.
- Domestic market
 - Network carriers significantly reduced supply compared to LCCs
 - LCCs have committed to flying despite making widening losses
- International market
 - Catastrophic situation

Part 1 Future outlook

- Domestic demand is the key to market recovery
- Business demand will be lower than before the pandemic
 - But industry insiders remain calm (optimistic)
- US carriers have a relative advantage in the international market
- Movement to establish a pre-quarantine system for COVID-19 to re-open the international market
 - Possibility of changes in immigration control and international movements

Part 2 Current state of major airlines and airports in Japan, the United States and Europe

- Demand for both declined significantly in the second quarter of 2020
- The decline in European airlines and airports is substantial
- Domestic flights are expected to drive recovery

Part 2 Assistance and measures in Japan, the United States and Europe

- United States
 - Assistance to airports: cost subsidization
 - Public health measures/Presentation of information
- Europe
 - Each member country provides assistance to its own economy
 - Example: €9 billion in government aid to the Lufthansa Group
 - Presentation of COVID-19 Aviation Health Safety Protocol
- Japan
 - Support measure package: cost subsidization, etc.
 - Presentation of guidelines for preventing the spread of COVID-19

Part 2 Toward a new normal in Japan, the United States, and Europe

- Responses and countermeasures by ICAO, IATA and ACI
 - Establishment and presentation of guidelines
 - Introduction of new standards and technologies unique to each organization

Part 2 Summary

- Situation surrounding aviation/airports
 - The size of the domestic market is the key to market recovery
 - Airports that are highly dependent on international flights face tougher management situations
- Status of government assistance and measures
 - Large-scale financial support centered on flag carriers
 - Assistance for airports is not as good as that for airlines
- Movements from a new normal
 - Creation of a new system related to public health, etc.
 - Each company and each institution has its own initiatives
 - International standardization needed

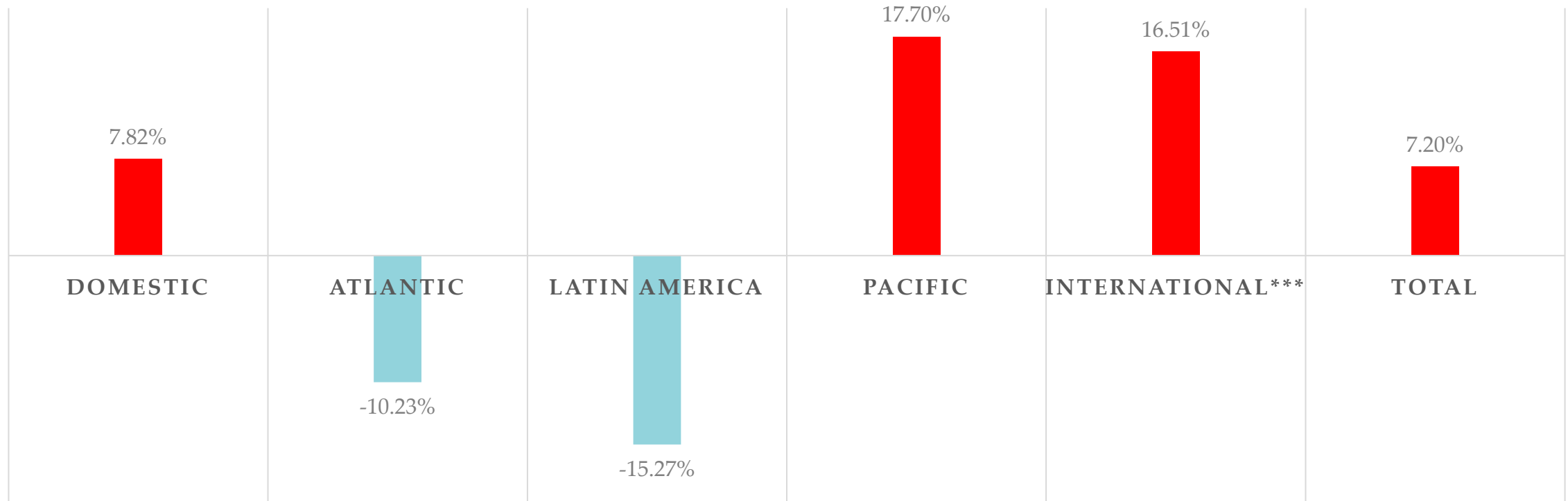
Some supplementation

- Cargo
 - Handling volume and operating revenue are not large, but stable
 - Same for both Japan and the United States
 - Reference: Supplementary Materials 1 to 5
- Changes in business demand
 - Factors: Technology and budget constraints
 - Increased price sensitivity in corporate customer bookings
 - Decreasing number of high-margin customers
 - → Increased fares for leisure travelers of network carriers
 - An opportunity for LCCs?
 - Reference: Supplementary materials 6 to 7

Supplementary material 1

United States: Cargo transportation is generally on the rise

CARGO REVENUE TONS ENPLANED
%CHG FROM JAN-NOV 2019 TO JAN-NOV 2020

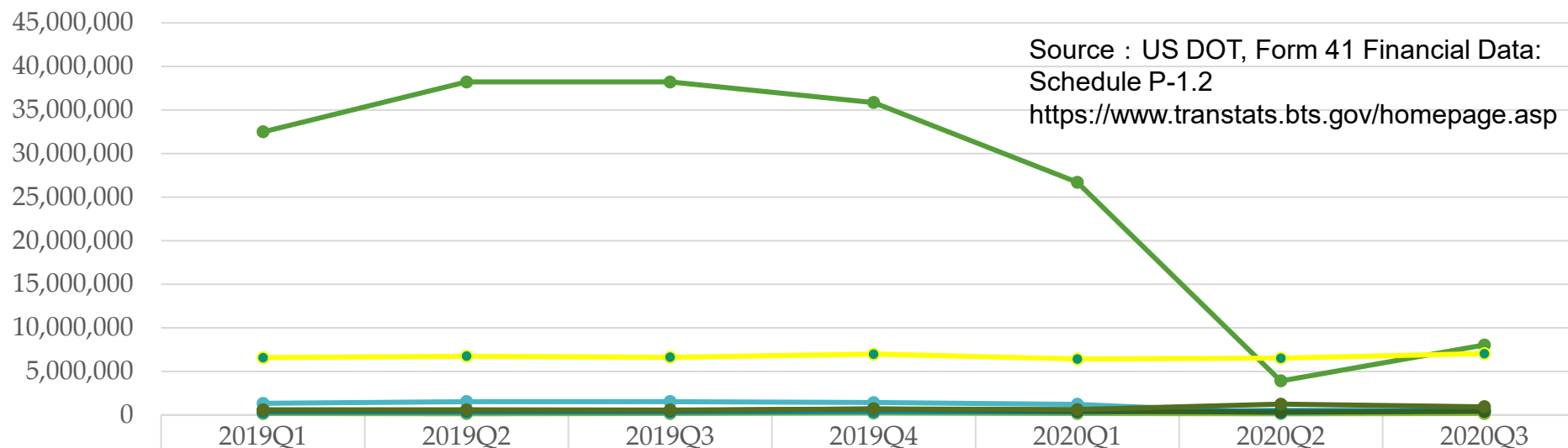


Supplementary material 2

United States: Cargo operating revenue is not large, but stable

Operating revenue Q1 2019 to 3Q 2020

Operating revenue

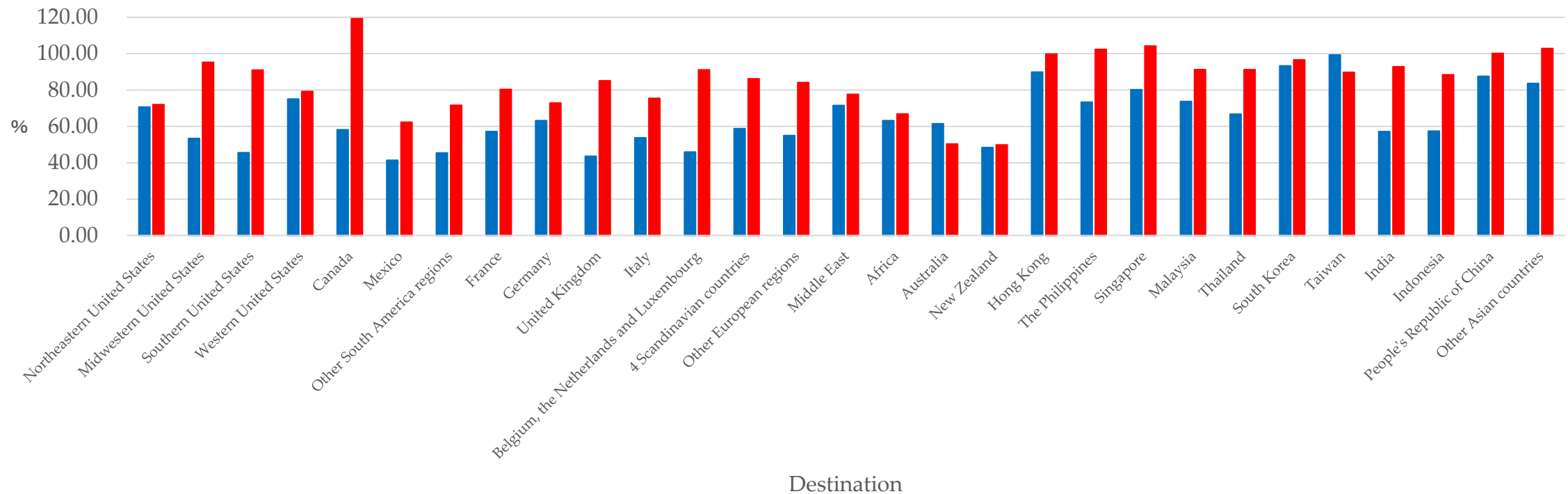


	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3
Transport Revenues - Scheduled Passenger (\$1000)	32,485,408	38,215,002	38,205,752	35,854,690	26,702,248	3,908,701	8,034,898
Mail (\$1000)	151,486	134,231	157,710	211,199	155,745	143,067	158,397
Property - Freight And Passenger Baggage (\$1000)	366,505	370,965	352,839	422,607	347,222	502,979	494,367
Property - Freight (\$1000)	6,584,258	6,752,103	6,626,086	6,984,793	6,415,442	6,514,599	7,043,256
Property - Passenger Baggage Fees (\$1000)	1,332,786	1,535,041	1,526,298	1,428,341	1,225,864	221,256	601,316
Charter - Passenger And Property (\$1000)	310,386	320,568	326,744	366,151	332,613	507,622	485,246
Charter - Passenger (\$1000)	545,033	521,747	514,830	678,577	428,335	316,969	398,626
Charter - Property (\$1000)	584,690	589,305	573,143	690,372	612,893	1,236,346	941,944

Supplementary material 3

Japan: Freight exports are recovering

Mixed cargo international exports (weight: kg) year-on-year (%)
First and second half of 2020



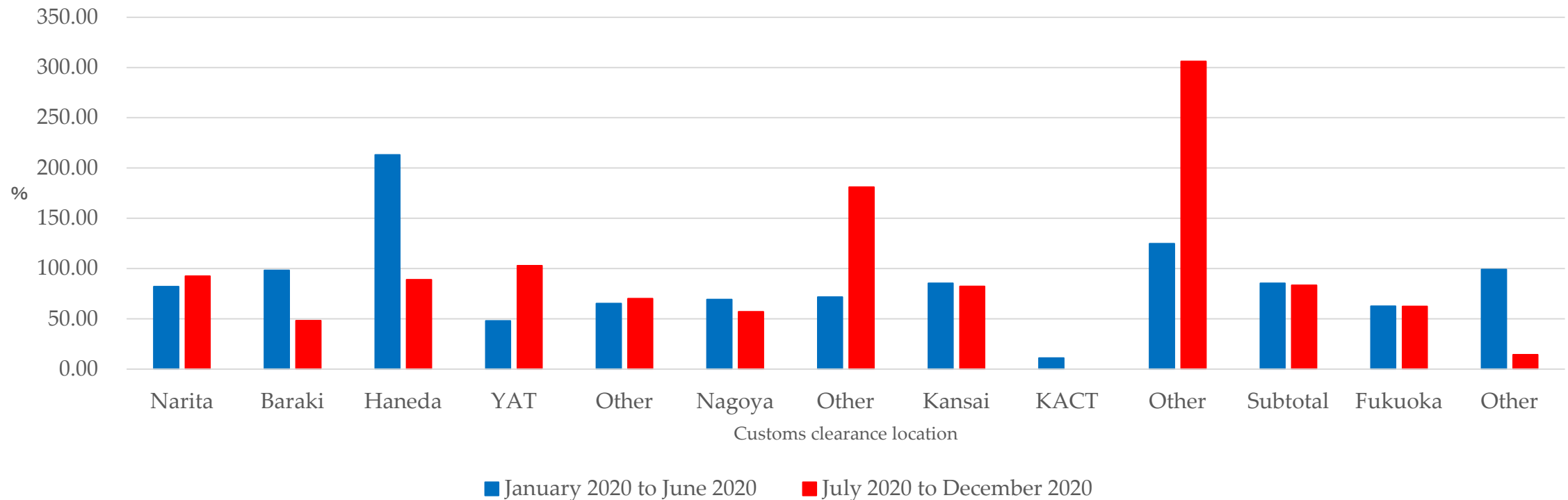
■ January 2020 to June 2020 ■ July 2020 to December 2020

Source: Japan Aircargo Forwarders Association/Air cargo throughput results
http://www.jafa.or.jp/result/001_result.html

Supplementary material 4

Japan: Will growth of cargo imports at major airports fall short of exports?

International freight imports (weight: kg) year-on-year (%)
First and second half of 2020

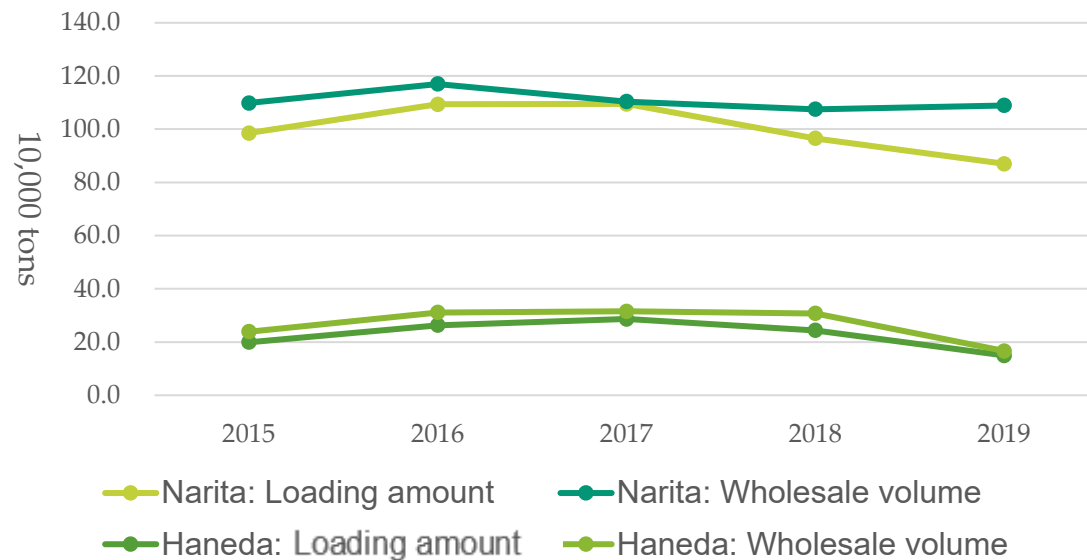


Source: Japan Aircargo Forwarders Association/Air cargo throughput results
http://www.jafa.or.jp/result/001_result.html

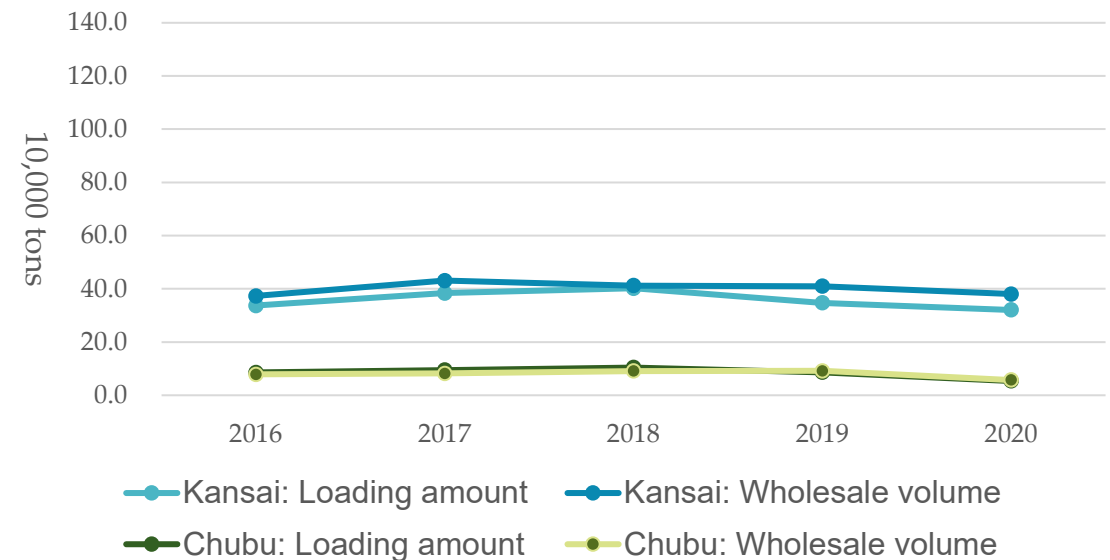
Supplementary material 5

Japan: Cargo throughput at major airports is declining, but stable compared to the decrease in passengers

Narita Airport/Haneda Airport loading and unloading tonnage trend table
2016 to 2020



Kansai Airport/Chubu Airport loading and unloading tonnage trend table
2016 to 2020



Tokyo Customs Narita Airport/Haneda Airport air cargo throughput

https://www.customs.go.jp/tokyo/narita_haneda-cargo/narita_haneda-cargo.htm

Air cargo throughput at Osaka Customs Kansai Airport (for 2020)

https://www.customs.go.jp/osaka/news/news_pdf/kanku_kamotsu_2020nen.pdf

Nagoya Customs/Air cargo throughput for 2020

https://www.customs.go.jp/nagoya/kuukou_s/kamotsuryou/chubu_cargo02.pdf

Supplementary material 6

Will business travel demand return?

- Scott McCartney, "The Covid Pandemic Could Cut Business Travel by 36% - Permanently," Wall Street Journal, Dec. 1, 2020
 - "...a look at data suggests **between 19% and 36% of all air trips are likely to be lost**, based on a business-travel analysis I worked on with three airline-industry veterans."
- Jon Sindreu, "The World After Covid Could Shake Up Business Flights," Wall Street Journal, Nov. 22, 2020
 - "Airline executives believe that increased use of videoconferencing **could take a permanent 15% bite out of the market.**"
 - "In a recent survey, Barclays found that more than half of Americans who flew for business in 2019 **expect a 20% or greater fall in such travel** after the pandemic. Technology was the most commonly cited reason, with **budgetary restraint** in second place."

Supplementary material 7

Changes in business travel demand → Opportunity for LCCs?

- Scott McCartney, "What Travel Will Look Like After Coronavirus," Wall Street Journal, July 29, 2020
 - Leisure travel is expected to recover significantly.
 - On the other hand, "...airlines ... will have to change their business plans, being unable to rely as much on rich revenue from corporate travelers. **Expect higher ticket prices for vacationers to cover the costs with fewer high-dollar customers to subsidize bargain-seekers.**"
- Jon Sindreu, "The World After Covid Could Shake Up Business Flights," Wall Street Journal, Nov. 22, 2020
 - **"Greater price-sensitivity in corporate bookings is an opening for budget airlines.** Southwest is already increasing its presence at Chicago O'Hare, a hub claimed by both United and American Airlines. It is also threatening United at Houston and American at Miami."



Question

About Part 1 (1)

- Continued support until March 31, 2021 under the fourth installment of COVID-19 measures (Emergency Coronavirus Relief Act)

← What measures can the industry expect after April?

- LCCs have committed to flying despite making widening losses

← Do LCCs try to mitigate operating losses by freight transportation earnings as ZIPAIR does? Or do they see the current situation as a business opportunity to attract customers from network carriers?

About Part 1 (2)

- Business demand is expected to be lower than before the pandemic, but industry insiders remain calm (optimistic)
 - ← Why? Is that partially because of US carriers' relative advantage in the international market?
- Movement to establish a pre-quarantine system for COVID-19 to re-open the international market
 - ← Can we see any progress in the vaccine passport debate or in the debate regarding PCR testing for domestic travel?

About Part 2 (1)

- Significant decline in demand among European airlines and airports
 - ← Is it because cross-border movement is restricted even within the EU?
- State aid
 - ← Do airlines other than flag carriers also receive assistance from governments? Ryanair has filed lawsuits against the European Commission over state aid, alleging that it is discriminatory and unfair, but are the LCCs not receiving state aid?

About Part 2 (2)

- Airports that are highly dependent on international flights face tougher management situations
 - ← What kind of breakthrough would be expected for these airports?
- Assistance for airports is not as good as that for airlines
 - ← What kind of measures can be taken as further support?

Questions throughout

- In the current situation, I think support measures for airlines and airports are unavoidable and must play a central role.
- At the same time, some airlines, such as Ryanair, claim that state aid is discriminatory and unfair.
- As seen in the ceding of slots as a condition of government assistance to Lufthansa, there are cases where aid and entry/competition promotion measures are combined (see material 1).
- I think it is also important to improve the conditions for market entry and competition.
- What kind of developments will be expected in the United States and Japan?

(Material 1) Entry/Competition promotion measures associated with the state aid to Lufthansa

- In the case of Lufthansa (European Commission, 2020; Lufthansa, 2020)
 - €9 billion of government aid (€6 billion of capital injection, €3 billion of government-guaranteed loans)
 - Lufthansa will be obliged to **transfer up to 24 slots to competitors** at Frankfurt and Munich airports
 - **Only new competitors can use slots for the first year and a half**
 - If new competitors do not use them, existing competitors can also use them
 - **Slots will be allocated by bidding**
 - Only European competitors that have not received state capital injections due to COVID-19 can bid
- It may be worth considering such measures for support and promotion of entry/ competition .

European Commission (2020), "State aid: Commission approves € 6 billion German measure to recapitalise Lufthansa" (June 25, 2020)
https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1179 (2021 2) (accessed on February 20, 2021)

Lufthansa (2020), "Agreement on Lufthansa's stabilization package" (May 30, 2020)

<https://www.lufthansagroup.com/en/newsroom/releases/finance/agreement-on-lufthansas-stabilization-package.html> (2021) (accessed on February 20, 2021).