

New challenges for policy makers

How to re-think civil aviation policy in pandemic times

With air traffic down to a fraction of its volume from three months ago – and while overwhelmed with emergency support negotiations – should policy makers review their aviation planning frameworks? To increase robustness and resilience of the aviation sector, scalability of infrastructure such as airport terminals and air navigation networks could become elements of a revised policy. Also, the strategic importance of individual airlines and airports must be analyzed and sound decision criteria for potential Government intervention should become elements of an adjusted policy.

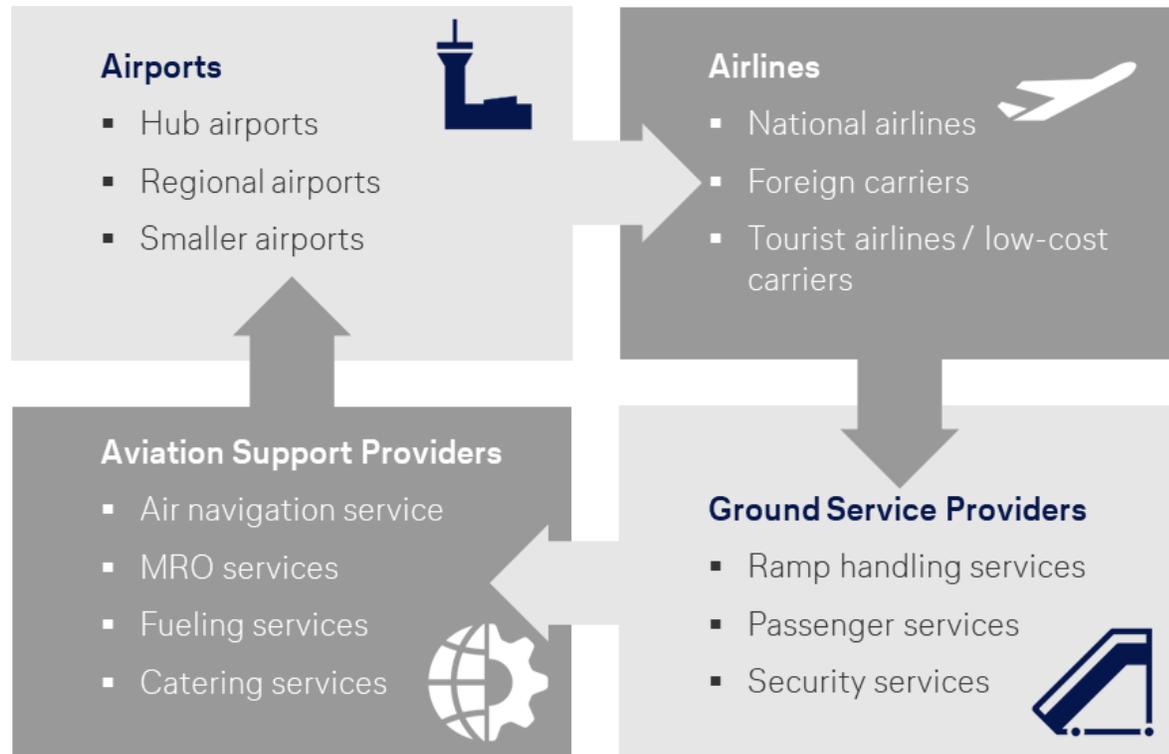


Figure1. Stakeholders in the aviation sector (Source: Lufthansa Consulting)

National aviation policy describes how Governments intend to develop the aviation sector. Ideally, this is based upon national transportation policy and development objectives.

Obviously, this strategic approach is different for each country:

- Major industrial countries such as China, Germany and Japan focus on international trade
- Some 80 countries, including Tanzania, Thailand and Turkey rely on tourism for more than 10% of their GDP (The Economist, 29.05.2020).
- The dimensions or topography of other countries (e.g. Russia, Australia, Indonesia or Canada) make domestic air transport indispensable.

Yet, only few countries have established a National Aviation Master Plan. And even countries with explicit aviation strategies, such as Sweden or Tanzania, have encountered a similar decrease in aviation demand of 60-90% in March and April 2020 due to the Covid-19 crisis (CAPA-Centre for Aviation, IATA AirportIS).

With air traffic volumes down and recovery uncertain, the mantra of permanent aviation growth is no longer valid. While air traffic is starting to recover in some parts of the world, airports, airlines and other players are still under severe pressure and many require state aid to survive. While airports and airlines are prominent examples for Government bail-outs, other crucial players (e.g. ground handlers, MRO, manufacturers) are still struggling to receive state aid putting recovery of the whole aviation sector at risk as no flight can depart without those services.

Scalable infrastructure will become crucial in planning. Governments should evaluate the strategic importance of individual airlines and airports – define the top tier, which could be bailed out and also be ready to sacrifice the least important – not just for a global shutdown, but also less severe crises. In 2015, an economic recession in Brazil caused the aviation market to decline by 9% causing airports to close terminal areas (CAPA-Centre for Aviation).

In preparation or response to a crisis, policy makers will have to review their planning frameworks (e.g. Civil Aviation Master Plans) to avoid wasting tax payers’ money and to consider political, economic and social criteria.



Figure 2. Criteria for strategic evaluation of aviation players (Source: Lufthansa Consulting)

Political criteria

Both airports and air navigation are critical infrastructure and do not only support commercial air traffic, but they are also geopolitically relevant for national defense. Many airports are of dual use (military and civil). Therefore, runways and air navigation systems are often indispensable – especially with sensitive neighboring countries. Minimum operations and maintenance must be ensured at all times.

A country's airlines also belong to the critical infrastructure. Government intervention needs to ensure basic supplies, evacuation of citizens from abroad or a minimum of essential domestic transportation – even if not commercially viable.

Ownership of infrastructure (public or private) is not necessarily important. Nevertheless, standards for Government intervention into PPP contracts and mandatory shock and force majeure clauses for concession agreements could be included in new agreements or added to existing ones.

While classic O&D airports serve as gateway to a region, supporting trade and industry, a hub airport may provide employment or prestige. Based on the national development plan, Governments need to weigh those aspects when prioritizing strategic importance.

Economic criteria

Aviation is a key driver during economic growth and also for recovery after a crisis.

When prioritizing aviation stakeholders for bail-out, Governments should, hence, concentrate on those with the highest economic contribution. In this process, each country's economic structure must be considered – depending on the relevance of trade and industry, tourism or ethnical (VFR) travel.

With 17% of global traffic concentrated on the 20 busiest airports only (ACI, 2019), there is clear evidence that a country's larger airports are major drivers for its economy and should, therefore, be of priority when considering state aid. Especially foreign carriers focus on the major airports during a crisis causing traffic to stabilize at higher levels than at secondary airports (example: according to EUROCONTROL, London's Gatwick airport was down by 98% in CW23 2020, while Heathrow's traffic declined by 82% only). Those big airports, but also larger airlines and service providers have more room for scalability of their capacity, fleet and staff to declining but also growing demand. This makes them a priority for state aid in times of crisis.

Being responsible for tax payers' money, Governments have to reasonably allocate resources to aviation stakeholders. Sustainable operation before the crisis and positive outlook after should be a prerequisite for Government support. Bailing-out stakeholders using modern infrastructure and equipment and being a sociable contributor to a countries' wealth could be a preferred option. With growing environmental awareness, Governments have to consider modal alternatives to aviation, which could allow permanent shutdown of infrastructure.

Social criteria

Airlines, airports, ground handlers and other players provide significant direct employment. Also, there is an indirect employment effect, because incoming passengers need accommodation and other services. Regional service providers supply airports and airlines. In case of closure – temporary or permanent – what would be the regional employment impact? Some countries have existing social security schemes such as "Kurzarbeit" in Germany, which mitigates the loss of income for employees during temporary closures. Without such, the employment impact of temporary closures will be more severe. Else, what is the situation in the regional employment market – are there alternative employers?

Regional airports provide connectivity between remote areas and urban centers. This allows for medical evacuation flights and emergency supplies. When evaluating Government intervention into

those, the quality of road or rail alternatives must be considered. Especially in crisis times, social and economic balance between regions has to be targeted.

Safety and regulatory obligations

Apart from political, economic and social criteria, Governments have to support those stakeholders during a crisis, that assure fulfilment of safety, security and other regulatory obligations. It remains unquestioned, that even with insufficient income, providers of air navigation (ANSPs) and weather services, search and rescue (SAR) and emergency services must remain operational at any time. Airworthiness providers, such as MRO providers must receive access and sufficient funding to maintain the required amount of aircraft and equipment.

For efficient allocation of funds, Governments should consider to implement a much higher scalability of those entities named above, e.g. by reducing airspace or airport capacity and staff for ATC and emergency services, when demand falls below a particular level. Needless to say, legal obligations to operate and supply of technically required infrastructure (e.g. ETOPS alternate airports) always have to be obeyed when scaling down.

Summary

What are the key points to consider for the regulators / policy makers to be better for future crises?

- In order to prevent losing crucial infrastructure components, Governments have to prepare a strategy for their aviation sector, not only in growth, but especially in crisis times
- Governments with the right focus and profound knowledge of the market developments can help their aviation sector to overcome the Covid-19 crisis and its aftermath. More frequent forecasting is essential
- Government support should be based upon carefully levelled-out political, economic and social criteria
- In times of a crisis, scalability and flexibility of an aviation landscape are crucial and have to be planned upfront. Governments have to include severe downscaling scenarios and strategies into their planning frameworks

*To learn more and discuss how your organization could benefit from Lufthansa Consulting's expertise on Crisis Recovery, please get in touch at APcrisis-solutions@LHConsulting.com. **Together, we can make it through to better days.***

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Further insights from Lufthansa Consulting's aviation experts are available at <https://www.lhconsulting.com/insights/news/>
