

Airports in crisis: Measures to respond and recover from COVID-19

In the face of an unprecedented crisis, airports should respond pro-actively and plan for the aftermath in order to recover and come back strong.

Aviation is crisis-proven, although COVID-19 takes it to an unprecedented level

Global aviation has experienced numerous crises in the past, each with significant impact on air traffic. For instance, the 9/11 attacks in 2001, SARS in 2003, the global financial crisis in 2008-2009 and the Iceland volcanic eruption in 2010. After every downfall, aviation recovered and came back stronger, surpassing previous traffic volumes. Yet, the COVID-19 crisis reveals a new level of concern, with unknown adverse effects to the entire industry. Airlines, airports and all involved partners suffer tremendously.

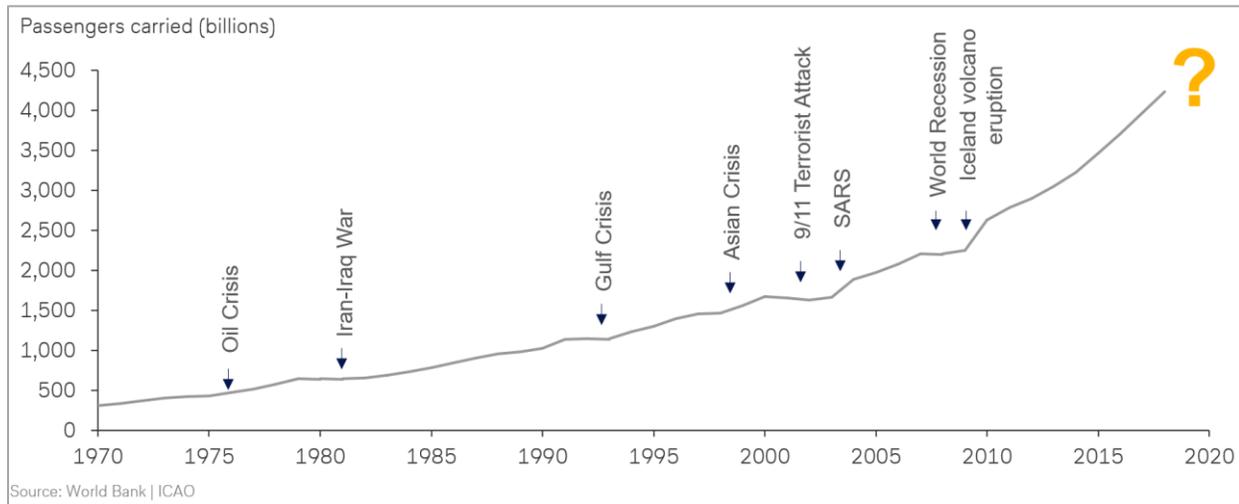


Figure 1: Previous crises and its impact on the development of passenger volumes

The airport system as a whole is struck by the shutdown of flights in many markets: airport management and operating companies, concessioners, terminal tenants, ground handling and catering companies and a wide range of involved partners are under stress in the current conditions. As many airlines reduce flight schedules by up to 100 per cent, airports feel the burden of the crisis first hand through fewer aircraft movements and passengers, and thus collapsing aeronautical and non-aeronautical revenues. The COVID-19 situation is leading to significant financial constraints.

Global traffic reductions will lead to a 45 per cent decline in airport revenues in 2020

The Airport Council International (ACI) expects total airport industry losses of USD 76.6 bn in 2020, representing a 45 per cent decline in revenues compared to pre-crisis turnover. Traffic forecasts indicate a reduction of 3.6 bn passengers in 2020, more than 38 per cent lower as compared to

industry forecasts before the COVID-19 outbreak¹. For example, worldwide air traffic decreased significantly during the last week of March year over year: departure frequencies in Europe dropped by nearly 75 per cent, in Africa, South America and Middle East by 52 to 56 per cent, and in North America by approximately 27 per cent². Traffic reductions are likely to be higher in April and the coming months.

This situation leads to low utilization and severe cashflow issues at airports, necessitating immediate measures to reduce capital and operational costs as much as possible. The primary short-term response is the temporary closure of airport infrastructures in part or full. Frankfurt Airport has decided to close Terminal 2 from 7 April 2020 and concentrate all remaining flights in Terminal 1, while the northwest runway was closed end of March to be used for additional aircraft parking. Paris Orly Airport has been completely closed since 31 March, and the same applies to all South African airports between 27 March and 16 April. Emirates Airline resumed flights on 5 April solely from FlyDubai's Low Cost Terminal 2 at Dubai International Airport in order to save costs, instead of using the airline's prestigious hub Terminal 3. Other airports, including Stuttgart Airport in Germany, have decided to suspend operations for a while in favor of runway maintenance work during these times.

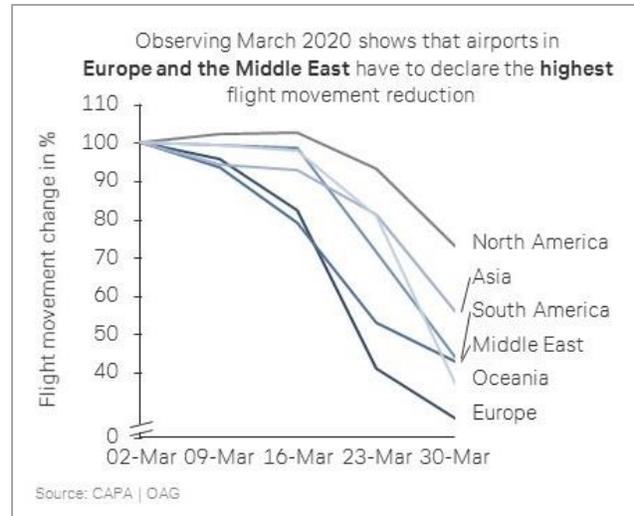


Figure 2: Changes in departure frequencies across all markets in March 2020

Six measures for airports to conquer the crisis

These actions to reduce the use of airport infrastructure are a viable response to ease the immediate financial pressure. However, COVID-19 and its adverse effects demand a more comprehensive plan of action to respond during the current crisis and to ensure strong recovery once traffic picks up again. Six measures are essential for airports and ground handling companies to sustain their businesses.

First of all, deep **cost reduction** is necessary to get through this crunch. All companies involved in airport and ground operations face significant liquidity shortages and conventional revenue streams become unreliable. Relevant partners within the airport system that are needed to fulfil operational obligations are endangered and the industry might face an insolvency wave of these system partners. Therefore, airports need to cut costs immediately and significantly while searching for alternative sources of revenue, lest liquidity constraints arise before support becomes available. At the same time, talent is important, with industry experience and loyalty to the employer needing to be preserved for the aftermath.

Secondly, companies must file for **financial support**, requesting governmental assistance, and/or finding other investors for the business. This is essential for long term liquidity given the expectation

¹ ACI Economic Analysis as of April 01st 2020

² Lufthansa Consulting, data sources OAG and CAPA

of continued volatility in the business environment. Airports should therefore prepare convincing materials to negotiate with governments on a range of support measures - financial bailout, waiver of concession payment, tax holidays and postponement of levies payment - or seek private financiers to survive the crisis.

Thirdly, airports must ensure **operational and organizational readiness in the case of insolvency of system partners**, in order to fulfil obligations arising from the operating license. To prevent not being able to fulfil the operating obligation, measures must be in place and solutions ready in order to keep the airport running. Preparing for a worst-case scenario is vital; this could take the form of securing financial support for selected key system partners or sourcing new partners to fulfil the necessary commitments.

Taking control during rough times is the forth measure airports need to follow, by updating crisis centers and management dashboards. In light of the rapidly evolving situation, all previous assessments and planning parameters with regard to airport traffic and revenues are now outdated. The commonly used decision-making tools and methodologies will not be successful in an unprecedented crisis like COVID-19. It is critical to assess and track the current situation of an airport and its business partners to manage the slowdown and plan recovery. Additionally, scenario-based action planning delivers a competitive advantage.

The fifth action, which looks forward to the revival of the business, is to develop an attractive and result-driven **incentive scheme for airlines**. After the crisis, airlines are in the driver seat when it comes to where to fly first and how to rebuild their networks; in particular, airlines would be looking for low risk routes with little or no cash burn to begin with. In response, airports require a strong strategic positioning to successfully adapt to the changed market conditions and gain a competitive edge, thereby attracting diverse airline models. Evaluations from previous crisis show that hub airports are likely to recover faster than secondary or regional gateways. However, within the future carrier environment, it must not be taken for granted that the present airlines will operate to the same regional

or hub airports. The pre-crisis airport strategies for targeting airline and other customers need to be carefully adapted to the expected consolidation in the aviation industry.

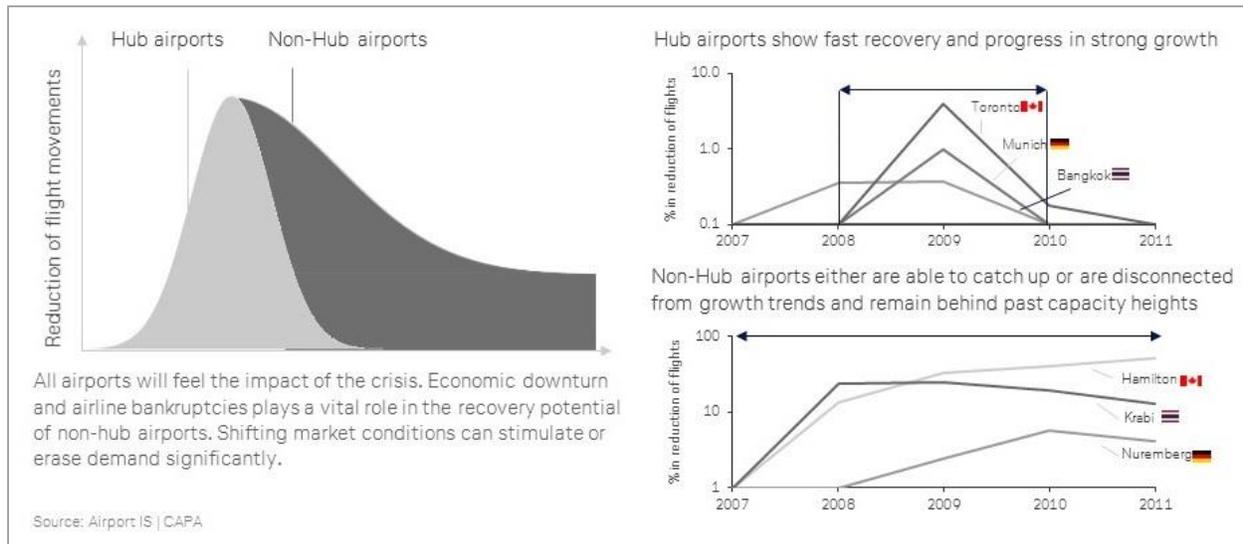


Figure 4: Recovery behavior of hub vs. non-hub airports during previous crises

Finally, airports need to transform from crisis mode into a **proactive airport management** to succeed during the air traffic recovery. The scaling of air traffic ramp-up is unforeseeable and will be highly volatile across countries and regions. Among the largest risks during this period are not being operationally ready with regard to resources and new regulatory requirements, missing the opportunity to restart operations efficiently, and insufficient communication with all relevant system partners during ramp-up. It is clear under the current circumstances that new blueprints will need to be developed to get back in the business.

The future holds unprecedented uncertainty for airports, ground handling companies, service providers and system partners. The industry can navigate this crisis and come out stronger by responding proactively, with a mix of instant measures for recovery as well as mid to long term scenario planning.

To come back stronger, the time for action is now

Restoration of air traffic to pre-crisis levels may take two years, according to ACI, and even longer for some players depending on their region and business model. The necessity for change on the ‘ground’ side of the aviation industry – through multiple measures - is also an opportunity to build safeguards against future crises and establish more dynamic, leaner, more cost efficient and more stable operations for the future.

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