

Recovery of global aviation market hinges on cooperative success

09:00 | 07/05/2021

Passenger traffic at Vietnamese airlines is expected to rebound faster than in other countries of Southeast Asia, due to the country's low numbers of pandemic cases. But airlines' recovery and success can only be achieved when all countries succeed in tackling the coronavirus.

The COVID-19 pandemic has caused the aviation industry to face arguably the most challenging time in its history. Airlines across the world, including in Southeast Asia, have been deeply affected by the prolonged and universal halt to international air travel.

Domestic flights have provided some much-needed revenue to local carriers. But with multiple and unforeseen waves of new virus cases, lockdowns and other travel restrictions, and a public generally fearful of travelling, domestic flights have not been enough to make up for the massive shortfall in revenue lost from international air travel.

Despite all the current gloom for the aviation industry, there may be light at the end of the tunnel as the world glimpses life after the pandemic. This is mainly down to vaccinations. With people confined to their homes for over a year in many Western countries, there is pent-up demand to travel. As those people are vaccinated, they will want to get out of their houses and fly somewhere.

Moreover, household savings have increased for those fortunate enough to be working throughout the pandemic in their homes, and with few options to go out and spend. This combination of travel demand and increased disposable income is a strong combination for positive growth in the post-pandemic aviation industry.

In the context of Vietnam, which to date has managed to minimise outbreaks from occurring in the country, from around the middle of September 2020 airlines announced to fly again and increase the frequency of many domestic flights. Airlines also sought to restore some international commercial routes to meet the needs of passengers, contribute to connecting trade, and maintaining production and business activities.

However, despite domestic demand, true recovery and economic success can only occur when passengers can again travel internationally, both inbound and outbound. As such, the critical questions are when the recovery will happen, and if airlines can withstand the financial adversity until the recovery.

Indeed, there is still a lot of uncertainty on when the world will travel again and fly internationally on airlines. According to the International Civil Aviation Organization, the main variables include, among others: how



By John Frangos - Partner, Tilleke & Gibbins

long the pandemic will last and at what level of severity; how long will lockdowns and travel restrictions continue; when will travellers feel confident again to fly; and how long and deep will the global recession be.

In a large part, the solution to these problems depends on how quickly countries can vaccinate their populations. For people to fly internationally again, and for countries to welcome international travellers, all concerned must be - and feel - safe. This means everyone involved in an air traveller's flight from country A to country B is vaccinated. This includes the passengers, airport staff, airline crew, taxi drivers, hotel staff, tour guides, shop owners, and more.

Different countries are at different stages with respect to vaccinations. This uneven vaccination path means it will take longer for travellers from "vaccinated countries" to visit countries whose populations remain unvaccinated. This is even if vaccinated travellers are at low risk of contracting the virus.

There are still unanswered questions, for example, on whether a vaccinated person can pass the virus to someone else. Additionally, countries with low rates of vaccinations will still likely have mandatory quarantines, required tests, and other burdensome requirements to shield their populations from exposure to COVID-19. Lockdowns and other domestic travel restrictions in the unvaccinated host country are also more likely to exist. All of these factors can affect a vaccinated traveller's choice to fly to these locations.

The airlines and other aviation industry companies that will be in a position to recover are those that can continue to withstand financial adversity over an extended and uncertain period of time. This is very difficult for many carriers, as the wave of recent airline insolvencies has demonstrated.

In neighbouring Thailand, national carrier Thai Airways and budget carrier Nok Air both filed for business reorganisation in Bangkok's Central Bankruptcy Court. NokScoot went out of business completely, and liquidated. Even in the best of times, airlines have razor-thin margins and are especially susceptible to external shock events, like the pandemic or the November 11 terrorist attacks in the US.

This means that airlines with substantial financial reserves and access to loans (usually from the government) are more likely to recover as the pandemic passes. However, it also means that airlines will likely be heavily in debt and see their financial resources drained to survive the pandemic. So even post-pandemic success will be challenging for the aviation industry.

What is more, in addition to paying back loans, airlines will likely have to spend additional sums on increased hygiene measures to lower risk of virus exposure and make travellers feel confident about traveling. This will cause increased expense. Budget carriers will probably face an especially difficult time in a post-pandemic recovery.

The result will be that only the best-run, least in debt, and most efficient carriers of all stripes, budget or otherwise, have the best chance of a successful recovery.

With the above in mind, Vietnam's general success to date in controlling the pandemic puts Vietnamese airlines in a favorable position. For example, in a report dated at the end of September last year, Fitch Ratings observed that passenger traffic at Vietnamese airlines are expected to rebound faster than in other countries of Southeast Asia, due to Vietnam's low numbers of cases.

This is positive news for Vietnam's aviation industry. But airlines' success and paths to recovery will be closely tied to how soon the region and entire world can emerge from the pandemic.

John Frangos

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