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"The daunting challenges that are currently faced by humanity will leave an indelible mark but there will come a point when the COVID-19 pandemic begins to subside, and we will adjust to life in the aftermath of this pandemic. When that time comes, we need to have a viable aviation industry to support the ancillary industries, connect global supply chains, and most importantly act as a springboard to reboot the economy."

As of 12 March 2020, the World Health Organisation ("WHO") had declared the novel coronavirus (COVID-19) a pandemic. The novelty of COVID-19 meant that there is currently no known immunity or vaccine available and the only real means of prevention is to physically isolate people. This intrinsically is in opposition to what aviation stood for – which is to bring people together. To date, we have seen more and more countries across the globe shutting down their borders and implementing various degrees of travel restrictions.

With the effects of COVID-19 affecting the global economy on unprecedented levels, there is perhaps no industry more negatively affected by the COVID-19 outbreak than the aviation industry. The International Air Transport Association ("IATA") estimates that the aviation industry's revenue in 2020 could potentially plummet by US$252 billion or 44% lower in comparison with 2019's figures.
Historically, the aviation industry often finds itself on the corporate frontline when global disaster strikes. The 9/11 attacks, SARS and global financial crises all had severe impact on the aviation industry. But interestingly, the aviation industry has time and time again proved its resilience in successfully recovering from these disasters.

In this article, we look to examine and discuss how the global aviation industry recovered from previous disasters, whether by means of governmental aid, airline buy-outs or restructuring of loans and leases, and perhaps to examine which methods were most successful in reviving the industry.

9/11 Terrorist Attacks

The terrorist attacks that took place on 11 September 2001 in the U.S. had a wide-ranging impact on the aviation industry. Following the attacks, all commercial airlines in the U.S. and Canada were halted momentarily and many businesses suspended all non-essential air travel for their employees. The aftermath of 9-11 was not just limited to the U.S.[1] because the aviation industry by its very nature provides cross-linkages between countries and as such, the demand for global air travel took a severe plunge[2].

In the ensuing months, government bailouts and news of major airlines filing for bankruptcy dominated the headlines. Ansett Airways, which was a major Australian airline group based in Melbourne, declared bankruptcy in September 2001. US Airways, United Airlines, Delta Airlines and Northwest Airlines filed for bankruptcy as well. The U.S. Congress subsequently approved a US$15 billion financial aid package comprising of US$5 billion in immediate cash and US$10 billion of loan guarantees to help tide over several U.S. based airlines.

Notwithstanding the financial aid package, the U.S. aviation industry post 9/11 was truly defined by a series of corporate restructuring exercises that took place between the period of 2005 to 2016. This period saw consolidation exercises of some of the biggest aviation players at the turn of the century. Prior to 9/11, approximately 80% of the U.S. market share was held by 9 airlines. As of today, approximately 80% of the U.S. market share is held by only 4 airlines – Delta, United, American, and Southwest[3].

Severe Acute Respiratory Syndrome (SARS) Outbreak

Another crisis which impacted the global aviation industry was the SARS outbreak. SARS is a viral respiratory illness which was first reported in Asia back in early 2003. It subsequently spread to many countries in the Americas and Europe. Over the next several months, SARS had affected 26 countries.

The aviation industry in the affected countries suffered a large proportion of the economic loss suffered by the global aviation industry. IATA estimated that the Asia-Pacific based airlines suffered a dip of 8% in annual traffic and this roughly translated to US$6 billion in losses.

When the SARS outbreak was officially declared as over by WHO, measures were introduced and implemented throughout the Asia-Pacific countries with the sole purpose of stimulating the demand for air travel. Such measures included a reduction in airport landing charges ("ALC"), building rental charges, and land rental charges to mitigate the negative effects brought about by SARS.

The following major Asia-Pacific airports had adopted the respective ALC reducing measures:

- ► Malaysia: 50% reduction in ALC
- ► Singapore: 30% reduction in ALC
- ► People's Republic of China: 20% reduction in ALC
- ► Taiwan: 15% reduction in ALC
- ► Macau: 30% reduction in ALC
- ► Philippines: 10% reduction in ALC
- ► Indonesia: 20% - 25% reduction in ALC

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[1] Economic Briefing, International Air Transport Association, The Impact of the 9/11 Terrorist Attached, dated 2 May 2006, accessible at https://www.iata.org/en/iata-repository/publications/economic-reports/impact-ofsept-11th-2001-attack/

[2] Article, Harumi Ito & Darin Lee (2005) Comparing the Impact of the September 11th Terrorist Attacks on International Airline Demand, International Journal of the Economics of Business, 12:2, 225-249, DOI: 10.1080/13571510500127931

[3] Opinion, Joseph M. Humire and Allison C. Reichel, dated 30 March 2020, accessible at https://thehill.com/opinion/finance/488219-lessons-from-9-11-for-the-post-covid-19-airline-industry

2008 Global Financial Crisis (Recession)

The Recession was a severe global economic crisis that began with a depreciation in the United States' subprime mortgage market which subsequently developed into a global banking crisis, starting with the collapse of Lehman Brothers. Within a few weeks of Lehman Brothers filing for bankruptcy, many other financial institutions soon followed suit and soon the global markets entered an economic downturn.

Although the Recession impacted all industries alike, the aviation industry took the brunt of it. As a by-product of the Recession, consumers had to cut back on spending, and this resulted in a sudden decline in demand for air travel. This was further aggravated by the dramatic increase in fuel costs. In order to stave off the financial onslaught, airlines had to reduce costs by downsizing its operations and increasing airfare, which proved to be futile in driving demand. Despite their best efforts, many airlines resorted to service terminations and eventually filing for bankruptcy[4].

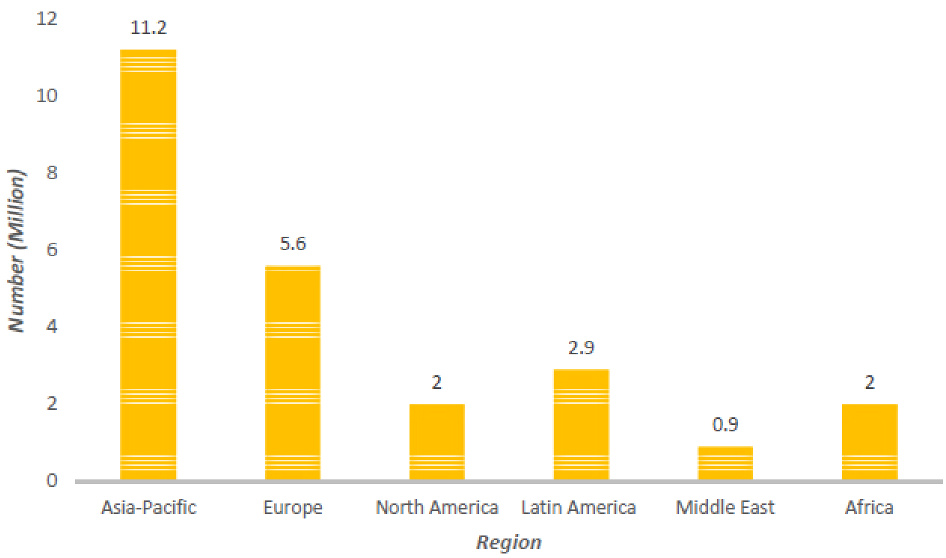
The silver lining to the Recession was the increase in volume of travellers from developing countries which managed to sustain the global aviation industry during this period. The travellers from developing countries were continuing to increase year-on-year in both number and purchasing power. In South East Asia, this period coincided with the birth and rise of the low-cost carriers. As these travellers continue to expand their horizons, the demand for air travel had continuously increased despite the Recession.

COVID-19: What to Expect?

Since its occurrence, 9/11 has been the defining crisis of the aviation industry. However, less than one week into COVID-19 being elevated to pandemic status, it became apparent that 9/11 would be stripped of its title.

According to IATA, the livelihood of over 65 million individuals is dependent on the aviation and ancillary industries such as tourism, hospitality, and food & beverage globally. Of this, approximately 10.2 million people work directly in the aviation industry. Given the current situation, IATA estimates that approximately the livelihood of 25 million individuals is at risk and among these are 2.7 million individuals working airline jobs. For perspective, 25 million is equivalent to the entire population of Australia or equivalent to the entire workforce of Italy and larger than the workforce of major industrialised nations such as Canada or Spain.

The breakdown by regions based on IATA's press release:



[4] News, The Economic Times, World Financial Crisis Stalks Global Air Carriers, dated 19 September 2008, accessible at https://economictimes.indiatimes.com/industry/transportation/airlines-/-aviation/world-financial-crisis-stalks-global-air-carriers/articleshow/3501884.cms

The demand for air travel is now in free fall and is down approximately 70% as compared to 2019. Airlines are burning through their cash reserves at an alarming rate. IATA estimates that in the second quarter of 2020 alone, some US$61 billion would disappear from the collective cash reserves of the airlines.

How deep the dip sinks would largely be determined by the measures adopted by governments, world organisations and most importantly how every individual responds to COVID-19. Whilst it is nearly impossible to predict the extent of the repercussions of COVID-19, one thing is certain -- extraordinary circumstances calls for extraordinary measures.

COVID-19: Navigating the Unknown

IATA has implored for global governments to take swift action by rolling out regulatory and policy changes to ensure that airlines have liquidity to tide them over these choppy waters. This may be achieved by providing direct financial support; facilitating the granting of loans with subsidised interest rates; providing necessary support to the corporate bond markets; and fully or partially waiving taxes, levies, and airport and aeronautical charges for the aviation industry.

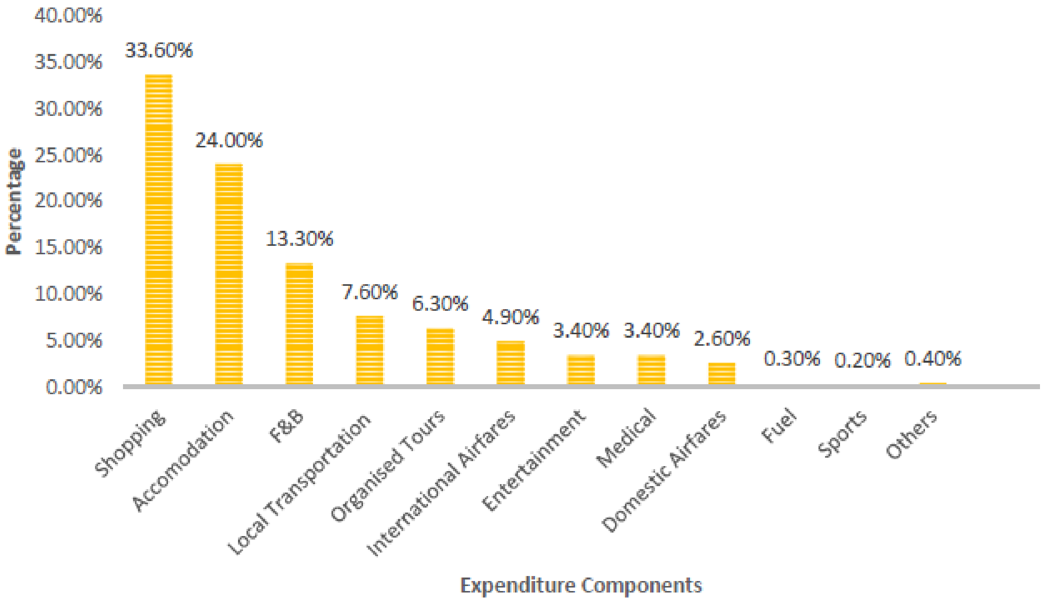
A growing number of governments have announced financial relief packages for their respective countries' aviation industry. The following is an overview of some of the measures that have been announced:

- U.S. – US$61 billion relief package comprising of grants and loans to passenger airlines, grants and loans to cargo airlines, providing financial aid to airline contractors, and suspension of domestic and international segment fees and aviation excise taxes.
- Singapore – S$750 million aid package comprising of payment of employees' monthly pay, reduction in ALC, reduction in rental of airport lounges, waiver of aircraft parking charges and deferral of payments of fees payable to the Civil Aviation Authority of Singapore.
- South Korea – deferral of payments of airport landing, parking and facility fees; state-run banks have also agreed to provide KRW300 billion in unsecured loans to help low cost airlines that have been hard hit by plummeting air traffic.
- Australia – an aviation support package which is valued at AUD715 million that includes waivers and refunds for fuel excise tax, domestic air traffic control fees, and domestic aviation security charges.
- New Zealand – NZ$900 million loan facility to the national carrier as well as an additional NZ$600 million relief package for the aviation sector.

However, as at the time of writing, the Malaysian government has yet to announce any specific financial relief packages for Malaysian based airlines. Major airlines such as AirAsia, Malindo and Malaysia Airlines are reported to have sought financial support from the Malaysian government. Such short-term relief is important as it will allow the airlines to continue its operations and keep its staff employed amidst the current capacity reductions in certain affected routes, aircraft grounding and travel restrictions enacted to curb the spread of COVID-19.

Without urgent relief, the airlines will suffer and will not be in a position to lead the recovery of the Malaysian economy. Post pandemic, the loss or reduction of international connectivity arising from the lack of air services to key regional markets (China, Indonesia and India) will result in a domino effect and bring about further devastation to the Malaysian economy. This holds especially true in the Malaysian context as tourism is the third biggest contributor to Malaysia's gross domestic product, after manufacturing and commodities. According to Tourism Malaysia, Malaysia received 26.1 million international tourists, bringing in tourism related revenue totalling RM86.1 billion in 2019.

The tourism related revenue are derived from the following sectors:



Separately, whilst financial assistance is much welcomed, this should also be supplemented by principles of good governance and introduction of non-fiscal policies. To that end, any assistance measures must be carefully structured to ensure that the funds are properly deployed to mitigate loss of employment, minimise consumer losses and to ensure the continuation of essential air connectivity.

The clarification and relaxation of foreign equity requirements, amendment and/or introduction of legislation to facilitate corporate restructuring exercises, and amendment and/or introduction of legislation to facilitate the conduct of business in aviation ancillary industries, may also provide some relief to airlines without monetary costs. In connection with this, it is perhaps high time for ASEAN countries to recognise the impetus to jointly escalate its efforts in truly realising a single integrated market for the aviation industry as envisaged under the ASEAN Open Sky Agreement. To that end, member states would be prudent in considering the liberalisation of their respective foreign equity restriction policies as this would enable the respective airlines to access a greater pool of investors and talent. The increase in liquidity and expertise would without a doubt, go a long way in rebuilding the decimated aviation industry within the ASEAN region.

Despite the bleak outlook for the global aviation industry, not all is doom and gloom due to the recent plummet in oil prices. The same barrel of jet fuel that would have cost airlines approximately US$60 per barrel in March 2020 would now cost only US$29.92 per barrel as of 3 April 2020. The significant price drop in every airline's greatest cost would but for the sudden decline in demand in air travel, signify a huge surge in profits.
The tepid consumer demand for air travel and excess supply of jet fuel hitting global markets meant that market structures fell deep in contango and has remained firmly entrenched in negative territory. This would also mean that refiners globally would be accumulating unwanted jet fuel inventories and would have to actively source for means to offload their excess supplies. To this end, airlines who have by and large stayed out of the hedging game could benefit immensely from the falling spot prices. However, this may not hold true for airlines which entered into hedging transactions much earlier when the price of oil was high.

Light at the End of the Tunnel

The daunting challenges that are currently faced by humanity will leave an indelible mark but there will come a point when the COVID-19 pandemic begins to subside, and we will adjust to life in the aftermath of this pandemic. Whilst we are very likely to observe a similar post-global disaster market to that of the Recession, and unless a new, futuristic form of transportation emerges, the necessity of air travel will remain a key component of the global economy.

Policymakers and legislators would be wise to draw upon past experiences and promptly formulate policies to “reshape” the aviation industry. It is imperative that such policies must be sound, logical, flexible and properly curated to suit the distinctive needs of this country. This is to ensure that when the time comes, there is a viable aviation industry to support the ancillary industries, connect global supply chains, and most importantly act as a springboard to reboot the economy.

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