GLOBALIZATION, COVIDIZATION AND ITS IMPACT ON AVIATION INDUSTRY

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Scheme of Discussion

- Part-I will focus on globalization and its impact on global economy and will also highlight its impact on Indian economy.
- Part-II will focus on de-regulation, globalization and liberalization of aviation industry. It will also highlight the de-regulation in the USA and its impact on US aviation industry. Further it also highlighted the aviation liberalization process in the European Union and other parts of the world including Asia Pacific Region.
- Part-III will focus on the Covid-19 pandemic impact on various sectors and particularly it will focus on the aviation industry. The pandemic has presented a lot of challenges for the global economy some of which have direct bearing such as disruption in supply chains, challenges in meeting contractual obligations and problems of funding while others are universal in nature like maintaining the safety and health obligations at workplaces, impact of travel restrictions It also briefly highlights the Covid-19 pandemic impact on Airlines, Airports, MROs, Force Majeure, passenger rights etc.

What is Globalization?

- Globalization is the term used to characterize the processes of growing interconnection and interdependence among the different nations of the world.
- It offers to the increased flow of trade, people, investment, technology, culture, ideas among countries and creates a more <u>integrated</u> and <u>interdependent</u> world
- World Bank: Globalization is the growing integration of economies and societies around the world.
- Globalization is often understood as the dissemination, transmission, and dispersal of goods and Services, persons, images, and ideas across national boundaries
- Globalization of markets is one of the most fascinating developments of the 20th century. Its impact on economic transactions, processes, institutions, and players is dramatic and wide ranging. It challenges established norms and behavior and requires different mindsets.
- Globalization of markets involves the growing interdependency among the economies of the world; multinational nature of sourcing, manufacturing, trading, and investment activities; increasing frequency of cross-border transactions and financing; and heightened intensify of competition among a larger number of players

When Globalization Started?

- Globalization has been around since the 15th century when European exploration & colonization created global empires & markets.
- Globalization From 15th – 18th C – age of exploration by European nations – invasions in pursuit of raw-materials/resources for industry development.
- Globalization from 18th – 20th C – Industrial Revolution and rapid growth of Manufacturing Industries, Migrations of Labor, Steamships, Telegraph, Railways, MNC Exporting Odyssey, Dutch East India Company, etc. .
- Globalization in the late 20st C – Old economic & business order changed. New business landscape and major shifts in the global economy after Oil Shocks.
- Phase 1: 1974 -1980s Oil Shock -OPEC sets Oil price NOT oil MNCs. A blow to BIG 3 US Auto Industry and Competitiveness, Rise of Japan and Germany as Globally Competitive Nations .

When Globalization Started Cont..

- Phase 2: 1980s – 1990s China's World Manufactory & India IT Business Development.
- Globalization ERA : Carry-over from the late 20th C into 21st C– New World Economic & Business Order.
- Phase 1: 2000+ BRIC then Expanded to BRIC+KS (Korea +S Africa)
- Phase 2: 2010+ G20 Emerging Markets including BRICKS join JUG to share economic/ business power in a globally competitive trading system – accounts for over 80% of World Trade, FDI , World Output (GDP) and EMCs w China & Japan leading account for 75% world's FOREX reserves
- Recent developments including communication, information technology and e-commerce and related issues.

ASPECTS OF GLOBALIZATION

1. Economic perspective - globalization is perceived as the creation of high-tech jobs in wealthy nations and the lifting from poverty of some three billion people or half the world's population. At the same time, it is also perceived as the loss of jobs in wealthy nations and the exploitation of workers in poor nations.
2. Cultural perspective - it is the growth of cross-cultural understanding made possible by the increasing two-way flow of entertainment and news, and the development of human values that transcend those of any one culture. At the same time, it is also the erosion of local traditions and standards and their replacement by foreign ones.
3. Technological perspective - globalization is the spread of knowledge and the dramatic leaps in world communications and travel that has resulted in eradication of deadly diseases, saving of endangered species, the reduction of famine and the increase in world productivity to the benefit of all humankind. At the same time, it has also unleashed destructive forces leading to loss of species, spread of disease, environmental degradation, war, and terrorism.
4. Political Perspective – Creation of global and regional political organisations

League of Nations, UN and WTO, Regional organisations like European Unions like NAFTA, SAFTA etc,.

Impact of Globalization

- On the positive side, it generated by growing international economic, cultural, and political cooperation and solved many global problems.
- Promotes intense competition among multinational corporations (MNCs) and also makes local companies to be more competitive internationally.
- Makes governments more aware of the global impact of poor environmental policy.
- Promotes ethical behavior by MNCs in the area of wages, working conditions and pollution abatement, since they are vulnerable to global media coverage of their operations, and fear loss of market share resulting from negative publicity.
- On the positive side, it generated by growing int. economic, cultural, and political cooperation & solved many global problems.

Arguments Against Globalization contd….

- On the negative side, globalization also has profound implications for states such as the autonomy and policy-making capability of states are being undermined by economic and cultural internationalization.
- Shift of sovereignty from political to economic
- Role of States have Changed from Law-maker to Law-takers
- Role of States are changing from regulator to facilitators
- Many governments see their role as not to regulate markets but to facilitate their expansion.
- Globalization and regional interactions are wiping out national borders and weakening national policies.
- Concept of Law has changed from sovereign to science of social adjustment

Globalization Drivers

- **Global Market –** Common customer needs, Expanding global customers, Global market channels, Marketing transfers and global branding
- **Production & Supply Chain** - Taking advantage of economies of scale & scope, Sourcing efficiencies, Production factor cost differences, Product development costs, Application of rapidly changing economies
- **Government and Multilateral -** Role of GATT/WTO in trade liberalization, Unrestrictive trade and investment policies, Compatibility of technical standards
- **Competitive Advantage Drivers -** Global competitors in trade and investment, Interdependence among nations, Shrinking product life cycles and technology advances, Imports compete with domestic products
- **Human Resource Skills Drivers -** Readily available engineers and scientists abroad
- **Globalization of Technology Use -** Mergers & Acquisitions of complementary technologies, Access to the global phenomenon of shared technologies, Integration of company operations with new technologies of rivalry

Globalization and India

- India Globalized its economy in 1991 With Mounting problems- huge fiscal deficits, BoP crisis and foreign exchange crisis, Foreign investors and NRIs had lost confidence in Indian economy
- Major measures as a part of the Globalization strategy, Devaluation of Currency, Disinvestment, Dismantling of The Industrial Licensing Regime Abolition of the MRTP Act , Allowing Foreign Direct Investment, Wide-ranging financial sector reforms
- Reforms relating to the banking system-- Capital base of the banks were strengthened by recapitalization, public equity issues and subordinated debt, Prudential norms were introduced and progressively tightened for income recognition, classification of assets, provisioning of bad debts, marking to market of investments, New private sector banks were licensed and branch licensing restrictions were relaxed., Credit delivery was shifted away from cash credit to loan method

Globalization and India

- Exchange Control and Convertibility-- Exchange controls on current account transactions were progressively relaxed culminating in current account convertibility.,
- Foreign Institutional Investors were allowed to invest in Indian equities subject to restrictions on maximum holdings in individual companies.,
- Restrictions remain on investment in debt, but these too have been progressively relaxed., Indian companies were allowed to raise equity in international markets subject to various restrictions.,
- Indian companies were allowed to invest a small portion of their assets abroad, Indian companies were given access to long dated forward contracts and to cross currency options.(Derivatives)
- Reforms in the capital market□ SEBI- the apex regulator of the Indian capital markets□ Regulations were framed for insider trading□ Abolition of capital issues control□ Introduction of free pricing of equity issues□ On-line trading was introduced at all stock exchanges

Globalization of Aviation in Different Regions

- Since the passing of the De Regulation Act of 1978 in the United States of America, the international air transport is undergoing the most dramatic changes in its history.
- Globalization, deregulation, liberal bilateral air transport agreements, international alliances, privatization of airlines and airports, and economic constraints are some of the factors challenging established management and business practices.
- Globalization process, each region plays variations on a common theme. In North America, air travel is the normal way of moving people, mail and increasingly, freight.
- In the European Union, we have liberalization, consolidation, concentration and decentralization.
- Civil aviation in Eastern Europe and the Former Soviet Union is being restructured and needs strengthening –while adjusting to a free market economy.

Globalization on Civil Aviation Cont.

- Impressive Aviation expansion is seen in India, China and ASEAN.
- Latin America shows promise.
- With the increasing globalization of economies, liberalization and technological developments in air transport, new trends are emerging on the horizon.
- Privatization, cross-border acquisitions, market alliances, merger and restructuring of airlines in the wake of liberalization of air transport and deregulation are all leading towards market oriented international aviation environment.
- Airlines of many countries are in various stages of privatization. Airports Privatization is happening in many parts of the world

De-Regulation in USA

- The deregulation process in the USA stared first in air cargo sector in 1977, followed by the passenger deregulation by passing deregulation Act, in 1978
- The aim of the above act was that the market place should determine the airlines business decisions in the future.
- This fundamental change in policy meant that the U.S. Government's role in the new regulatory environment would be to protect the competitive process, not individual competitors.
- The scope of regulatory reform was limited essentially to commercial meters, such as pricing (which include fares, rates, and charges) market entry, capacity and frequencies, but did not include any relaxation of government controls over such matter as safety, air traffic control, airworthiness, personnel licensing and aircraft maintenance.

Liberalization in other countries

- Under the influence of deregulation in the United States, other industrialized countries, such as Australia, Canada, European Union (EU) countries and Japan adopted policies to liberalize the aviation industry and to bring about a more competitive environment.
- The structural changes in the Canadian airline industry bear a great similarity to developments in the US.
- In a period of de facto deregulation, starting in 1984, the airline industry in Canada moved rapidly toward a high degree of market concentration, before the new National Transportation Act came into effect in 1987.

Liberalization in EU

- A major landmark was the decision of the European Court of Justice in the **Nouvelles Frontieres case in April 1986**, that air transport agreements are subject to the competition rules of the Treaty of Rome, Signed in 1957 by six European Countries.
- This meant that airlines may be prosecuted for violation unless exemptions have been granted to them under policies agreed upon by the Council of Ministers.
- The implications of this judgment put considerable pressure upon the European Community (EC), presently European Union (EU, to develop and agree upon an air transport policy.
- In December 1987, the Council of Ministers adopted a package of legal instruments put to them by the Commission and thus took the first step toward a general liberalization of the European air transport industry[6]

EU Aviation Regulations

- There are three different regulations:
- Regulation NO. 2407—the Licensing Regulation, dealing with the requirements for the issue and revocation of operating licenses to air carriers established in the Community
- Regulation No. 2408—the Access Regulation, giving access to intra-Community routes to Community air carriers, and
- Regulation No. 2409—the Fares Regulations, whose purpose is to abolish government intervention in the determination of fares on intra-Community routes[7].(3 ,see Aviation Industry Developments 1997,p.115)
- As a result, all air services within EU countries may be regarded as having a special status under the EU third aviation package a domestic traffic and thus providing EU-based airlines with the opportunity to open new routes, whereas non-EU airline services within EU-countries may be considered cabotage traffic.
- This could bring about a new dimension in future negations concerning air service agreements.

Impact on Developing Countries

- The most serious impact of deregulation and liberalization of the aviation industry is being felt by airlines in developing countries.
- This lead to the formation of regional airlines from a number of small carriers in order to improve efficiency and productivity, to reduce cost and to maintain market share.
- Alternatively airlines also combined operations and joint projects, such as joint scheduling, sharing of equipment, crews and ground facilities, pooling of aircraft parts and support equipment, and cooperative arrangements for aircraft overhaul and maintenance.
- The rapidly changing environment of world air transport makes it essential that governments of developing countries and airline management should be very clear about their objectives and the need for close cooperation and sharing of scarce national resources.

Impact on Asia/Pacific Region

- The Asia/Pacific region offers abundant opportunities as the fastest growing aviation region in the world.
- The reasons for this optimism includes the strong economic expansion, significant ethnic ties with various countries, increase in leisure time, moves towards air transport liberalization and vigorous efforts to promote tourism to/from the region.
- The size and economic potential of the region has acted as a catalyst for development of new aircraft types, and manufacturers foresees a big market for future new aircraft.

LPG and Its Impact on Indian Aviation

- Liberalization and open skies policy
- Repealing of Air Corporation Act 1953 and new Air Corporation Act 1994

Airport Privatization Legal Issues

- The Airports Authority of India Act, 1994 (55 of 1994)
- Privatization of AAI 2003
- Airport Infrastructure Policy 1997
- Joint Ventures, PPP and FDI in Airports
- Airports Economic Regulatory Authority of India Act, 2008
- The Carriage by Air Act 2009

Airlines Privatization and Legal Issues

- FDI in Aviation Sector
- Mergers and Acquisition: Legal Issues
- Competition Issues in Aviation Issues
- Aviation Insuranc

Aviation Liability: Recent Developments

Draft Civil Aviation Policy 2016 and Anti-Hijacking Act, 2016

COVID Impact

- COVID-19 has affected every segment of society, with the law being no exception. ‘Lockdown’, ‘sanitizer’ ‘face mask’, ‘social distancing’, ‘digital platform’, ‘work from home’, etc. are presently some of the new practices that we have learnt to internalise.
- Consumers are forced to move towards online shopping, resulting in a spike in e-commerce.
- Small scale producers, sellers, and consumers in developing countries also have started to adopt the policies of e-commerce to alleviate the loss during the time. The government has also taken a lot of measures to encourage digital transactions, mobile money transfer as well as e-commerce.
- The pandemic has triggered an unprecedented demand for critical resources. This in turn, rouses the need to embrace emerging technologies and their usage in order to combat this pandemic using several applications, such as population screening, infection tracking, and vaccine development, effective quarantine, prioritizing the use and allocation of resources, and designing targeted responses.

COVID Pandemic Impact

- To avoid coming in contact with human beings and physical objects, for the fear of being infected, several innovative and emerging technologies are being considered by the health-care authorities to protect their workers as well as to help the betterment of treatment of the needy patients.
- The stay-at-home and social distancing policy around the world during this period has made it compulsory for people to work remotely and in order to do so, workspaces have been forced to digitally transform.
- The education system also assumed a new role where online learning has become the need of the hour, the only requirement of which is the high-speed internet connectivity.
- COVID-19 has forced the telecom industry to strengthen the existing broadband capacity and ensure its availability to support consumer demands

COVID Pandemic Impact

- The Covid-19 virus has brought the world economic order to a standstill.
- Trade relationship with the countries has been negatively impacted, including the sea trade.
- Migrant workers were forced to leave because of the inhumane living condition; job cuts were introduced in order to bring down the costs, causing a significant number of people to lose their jobs.
- The biggest brunt, however, was suffered by the aviation industry. Many countries have decided to halt the operation of the airlines and ceased international flights because of which the airlines companies as well as the tourism sector has suffered a huge loss. Another adversely affected sector is the corporate sector where the smaller companies were forced to wind up their business.
- The education sector has seen a revolutionary change where, following government orders physical classes have been replaced by online education.

COVID Impact Cont..

- **The impact of the pandemic COVID-19 poses fundamentals questions : How will the pandemic influence the international order globalization in the future?.**
- **How the pandemic might reshape the world order, including prospects for international cooperation.**
- **Can the pandemic will accelerate USA decline and the advent of a more multipolar world ?.**
- “The health crisis linked to the Covid-19 epidemic should lead us to define new criteria for decision-making in terms of global economic governance,” said **Thomas Piquetti.**
- **In fact, globalization is currently in a crisis, and consequently the countries of the world must reshape their contents and goals, on the basis of social and humanitarian solidarity**.
- Influence on Domestic Governce

COVID and Uncertain World

- Due to the impact of Covid-19 and great power competition, the future world is full of uncertainty.
- Thomas Friedman argues that the world will be divided into a pre-epidemic and post-epidemic era.
- Some analysts are also debating whether the coronavirus is "China's Chernobyl moment" or "America's Suez Canal moment," of 1956. The notions reflect the worry in the minds of many people.
- **Currently, three uncertainties dominate the world.**
- The first is **when the global pandemic will be brought under control and effective vaccines can be made available worldwide.**
- The second uncertainty involves the **impact of the pandemic on the global economy**, including whether systemic financial risks will occur, how long the global economic slowdown will last and how deep it will be.
- The third uncertainty **global order-**- "the virus has caused a great change not seen in a century" and needs careful observation.

COVDI 19 and Int. Relations

- The COVID-19 pandemic has affected international Relations and caused diplomatic tensions, as well as resulted in a UNSC Resolution demanding a global ceasefire.
- Some scholars have argued that the pandemic necessitates a significant rethinking of existing approaches to international relations, with a greater focus on issues such as health diplomacy, the politics of crisis, and border politics.
- Others have argued that the pandemic is unlikely to lead to significant changes in the international system.[4] Diplomatic relations have been affected due to tensions around trade and transport of medicines, diagnostic tests and hospital equipment for coronavirus disease 2019
- Leaders of some countries have accused other countries for not containing the disease effectively and resulting in the uncontrolled spread of the virus.
- Developing nations in Latin America and Africa cannot find enough materials for testing for coronavirus disease, partly because the United States and countries in Europe are outspending the resources

COVDI 19 and Int. Relations

- The US is the world’s most important center for political, economic, technological and cultural exchanges, followed by China.
- The outbreak in China disrupted the global “real” economy and global supply chains, and then the epidemic in
- Also, Italy and United Kingdom have been the countries which received a serious blow.
- The first policy of UK was to let the pandemic spread as Boris Johnson called “herd immunity” however this policy caused the death of lots of people.
- And what should be the role of the EU in the post pandemic “new normal”?

Covid; Essential Questions

- How does COVID-19 impact the pattern of international relations, and what will the post-pandemic world order be like?
- What will be the geopolitical impact of the COVID19 pandemic?
- Does a global pandemic change the nature of international affairs? Is it likely to foster international cooperation, or will it promote disintegrative tendencies within the global system–as nations seek to disconnect themselves? Could we see renewed efforts at "decoupling" countries and rethinking global supply chains and transport networks?
- Moreover, will different nations see the pandemic as an impetus for working more closely together, or will they see it as an opportunity to gain advantage in the context of "great power competition"?

Four major reasons aggravate the impact of the pandemic

- First, today's world is highly interdependent and globalized, pulled together by the flows of goods, capital and people. It is now a "global village."
- Second, the public and political leaders have been slow to understand the virus, inhibited by habitual thinking. Covid-19 is subtle, with a long incubation period, and is highly contagious.
- Third, the world's two largest economies, China and the United States, became epicenters of the pandemic. the US impacted the global virtual and real economy.
- Fourth, the pandemic has exaggerated and politicized the strategic competition between China and the US. Obviously, some forces are taking this opportunity to push hard with their own agendas, decoupling the US from China and pushing the world into a new Cold War.

COVID and Its Impact

- **Economic Impact:** Firstly, the COVID-19 outbreak has hit the world economy hard triggering a global economic recession. Traditional controls like limiting the mobility of economic activity, compression of the consumer market, and cutting off the supply chain of economic services have succeeded in buying time for anti-pandemic measures, but generally have a detrimental impact on economic growth.
- **Rising Nationalism and Isolationism:** Secondly, the COVID pandemic has intensified existing nationalist tendencies and anti-globalization trends in some countries. The virus does not recognize national borders but has regional characteristics. The pandemic has exposed the fact that the further the distance between the production base and consumer markets and the more decentralized the layout, the greater the risk.
- The large-scale shutdowns and the difficulty in the synchronous resumption of work and production have aggravated the dilemma of economic recovery

COVID and Its Impact Cont..

- **Increased Inequality**: Thirdly, the global polarization between rich and poor is more acute under the pandemic. While COVID has raised the major issue of strengthening regional and global governance in the field of public health, it also poses challenges around issues such as global population mobility and global food supply.In the post-pandemic world, acquiring and maintaining ‘life security’ will become a new driving force for future global population movements.
- **A New Multilateralism**: Finally, the traditional multilateral cooperation mechanisms of the current liberal rules-based order cannot effectively address the challenges of the global governance gap. Existing cooperation frameworks have failed to respond adequately to the pandemic. On the whole, the UN, the WTO, the IMF, the World Bank, the G20, and other international organizations have generally said more than they have done. At least in the short term, they have not effectively established a worldwide united front against the pandemic.
- The global crisis represented by COVID-19 cannot be resolved by relying solely on existing multilateral mechanisms.

LESSONS LEARNED

- No matter which way the leaders of the countries will choose and no matter how long it will take to establish effective global, regional and local governance, there are already some lessons to learn, and policies to advocate for.
- Firstly, **respect and support of scientific expertise** are important if not even vital. There should be a shift in mentality and relationship with scientific institutions. Financial support of scientific and innovative infrastructure will be decisive in defining our ability to combat future challenges globally or within one country.
- Secondly, any global crisis can only be tackled by a **coordinated multilateral response**. The stability of the international economy and community is dependent on scientific infrastructure and governance mechanisms to prevent, manage and contain global pandemics. There is a hope we share that the current crisis will be a tipping point and start of a new era of diplomacy which is science-based and oriented for common good.

LESSONS LEARNED Cont..

- New forms of global leadership will bring us back to cooperation as to a Fundamental principle enshrined in the UN Charter. Global leadership is needed, however, the concept of it should be reevaluated as well. Power is not defined by the potential of destruction, but by the extent of positive impact and effective, responsible, scientifically oriented leadership.
- Lastly, our future task is to find mechanisms to provide **unity of scientific development** and scientific knowledge. Intensifying knowledge sharing and exchange will lead to better scientific advancement and accuracy of research findings. In these challenging times, the role of the scientific and academic community is to use this momentum to shift global leadership towards redefining new realities in a globalized world and plant seeds for future political and economic cooperation.

Impact of COVID on Aviation

- Since the outbreak in Wuhan, China in December 2019, the CoVid-19 epidemic caused by the novel coronavirus which is spreading increasingly and became a huge crisis across the globe, deeply affects not only the public health but also the business world.
- Airlines are more fragile than the airport operators at the moment since a considerable percentage of airlines were struggling to survive even before the COVID-19 crisis started showing its impact. So if rescuing these airlines was a tough task before, now it seems next to impossible
- Airlines around the world are confronting the challenge of a sharp decline in demand, complicated by almost total uncertainty about when the virus will be under control and travel can return to normal.
- The collapse in demand has led major airlines worldwide to announce severe cost-cutting measures, request government assistance, and, in the case of certain airlines, ground fleets. Many airlines are seeing more cancellations than bookings.

Impact of COVID on Aviation

- One of the industries that the coronavirus pandemic is threatening is the airline industry. Flights are almost empty. Flight schedules have been dramatically reduced. The warnings from trade associations are dire.
- **Issues such as Rental payments, force majeure and rent holidays, Leasing issues particularly Wet leases, Airport slots, Passengers' rights to refunds, crisis has affected the litigation process, Third party contractor agreements/Hedging arrangement for jet fuel prices, Financing Arrangements, Restructuring, Import Duties and Trade barriers**
- People who work for airlines don't know what's going to happen, affects not only the public health but also the business world. There is no doubt that the civil aviation sector is the most affected sector by the epidemic and hundreds of airlines have to ground thousands of airplanes due to flight bans.
- ICAO, ACI, IATA, TIACA, WFP and WHO have worked in close cooperation in the development of this single source for aviation-specific guidelines with the objective of ensuring appropriate planning and action at all levels in order to mitigate the effects of a human outbreak.

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Impact of COVID on Airlines

- Airlines face an unprecedented international crisis in the wake of the coronavirus pandemic.
- The International Air Transport Association (IATA) estimates that the global industry will lose US$252 billion in 2020.
- Many airlines are cutting up to 90%of their flight capacity.
- The airline industry has faced many crises before – 9/11 and the 2010 Icelandic volcano eruption, for example. But these pale in comparison to the economic hit that airlines are currently facing.
- Some are asking: can it recover?
- Is this an economic crisis that could reshape how we travel and live?
- Or will it turn out to be more of a pause, before returning to business as usual? And what role does the climate crisis play in all this – how will sustainability figure in any rebooting of the industry going forward?

Impact of COVID on Airlines

- Most of the global airline industry is currently grounded. Although some routes are still managing to operate, and there is evidence of a gradual domestic air market rebound in China, 2020 will certainly not see the 4.6 billion annual passengers of 2019.
- The long-term trend of ever-rising air passenger numbers year on year has been brought to a dramatic and rapid halt.
- The global outcomes of the crisis, then, are firmly anchored in national responses. The airline industry is cyclical: it is used to peaks and valleys. Bailouts have repeatedly been vital for airlines, so many countries have some sort of precedent to go by.
- In any bailout, the key question is whether this is a solvency or liquidity crisis.
- Solvency means that the airline will be very unlikely to ever remain financially viable. Liquidity means that the airline has a high risk of running out of cash flow but should be solvent soon, if supported. Assessing this is sometimes complex.

Impact of COVID-19 on Airports

- The impact of COVID-19 is challenging airports on both of those revenue channels.
- The shortfall in the number of passengers and the cancellation of flights leads to reduced revenues from airport charges (landing charge and parking charges paid by airlines for instance, and passenger service charges and security charges paid by passengers)
- While aeronautical revenues are being challenged, the cost base for airport charges remains unchanged as airports can neither close nor relocate their terminals during the outbreak.
- Non-aeronautical sources of revenue usually provide diversification of airport income streams, but they also serve as an additional cushion during economic downturns.
- In today’s unprecedented situation, airlines and airports are at the forefront taking the brunt of this global COVID-19 crisis. The Airport Council International (ACI) estimates that this year the sector will have a loss of approximately US$46 trillion by the end of 2020.

Impact of COVID-19 on Airports

- ACI currently forecasted that, prior to the COVID-19 outbreak, global airport revenues for the first quarter of 2020 would reach close to $39 billion (all figures in US Dollars).
- In today's unprecedented situation, airlines and airports are at the forefront taking the brunt of this global COVID-19 crisis. The Airport Council International (ACI) estimates that this year the sector will have a loss of approximately US$46 trillion by the end of 2020.
- Based on traffic trends under COVID-19 and constant unit revenues, ACI now estimates a loss of revenues of at least $4.2 billion. This is approximately equal to the total annual revenues of two major European or Asian hubs combined.
- Airports Council International (ACI), has reached out to India's civil aviation ministry seeking to bail out the players affected by Covid-19 virus outbreak.
- The global body took to the notice of the Indian government that Covid-19 outbreak has "drastically impacted the airport business and is posing a serious threat to the financial sustainability of the airport india.
- ACI has also recommended to the Indian government that "alternative relief measures should be explored to support both the airlines and the airport industries as primary generator of economic and social value for the country."

Force Majeure Clause

- The outbreak of pandemic COVID-19 has reignited the debate of term ‘force majeure’ in contractual businesses particularly in civil aviation business.
- The outbreak has brought the world to a near standstill and as a result the commercial businesses are at their low.
- The companies across the world want the governments or the other businesses to invoke the clause of force majeure so as to save them from incurring losses and their collapse in these unforeseen circumstances.
- One of the major industry suffering in India from this pandemic is the airline industry. It is already suffering from low availability of credit to maintain their day to day operation and has been plagued by rampant corruption.
- The Federation of Indian Chambers of Commerce and Industry (FICCI) has recommended that the government should mandate that force majeure applies to all civil aviation contracts to save the domestic civil aviation industry from the COVID-19 induced crisis.

Force Majeure Clause

- The passenger airlines both domestic and international have been put on ground for an indefinite period to contain the spread of novel corona virus.
- In such an extraordinary situation the airlines are seeking invocation of force majeure by the government to defer the payment of taxes, oil charges, aviation turbine fuel and salary to workers.
- Most of the airlines capital reserves would be wiped out if the situation persists for more than three months.
- FICCI also suggested that Oil Marketing Companies may be directed to extend unsecured interest-free credit terms to the aviation sector as the aviation turbine fuel is one of the three major costs for domestic airlines.
- The Supreme Court in case of Dhanrajmal Gobindram vs. Shamji Kalidas, (1961) 3 SCR 1020 held that the term force majeure is of wider import. Judges in the past have agreed that where the reference is made to force majeure, the intention is to save the performing party from the consequences from the anything over which he has no control.

COVID and Indian Aviation

- Post Covid, megatrends such as the dramatic rise in remote working, government or organisation-imposed limitations/restrictions on air travel, greater reliance on locally-oriented supply chains as well as avoiding non-essential travels will impact the recovery demand in the aviation industry and may lead to major overhaul in the management and operation of the airline industry.
- In order to fly safely through this turbulent time, it is of utmost importance that the airline companies launch a crisis management team or as its being coined by some in the industry – “Plan Ahead Team”.
- This Plan Ahead Team will be responsible for collecting forward looking intelligence and provide a Post Covid-19 flight plan to guide and accelerate decision making.
- Following are some of the of the challenges/considerations which airline companies in India may consider while formulating their Post Covid-19 flight plan:

INDIAN AVIATION INDUSTRY AND COVID-19

- India, in particular, has done well to bring back flyers on domestic routes while international passenger services continue to be restricted and operated under ‘travel bubbles’ through bilateral agreements with partner countries. Interestingly, the air cargo market has continued to grow steadily to meet the increasing demand for food essentials and medical aid.
- The fall in passenger demand has also prompted many carriers to retrofit aircraft to carry more cargo across borders, in search of better margins and cash flows.
- As with any major crisis, COVID-19 and its economic ramifications have presented both challenges and opportunities.
- Let’s briefly examine five key challenges that the industry faces as it strives to recover from its precipitous fall.
  1. Rationalisation of corporate travel
  2. Drop in commercial revenues
  3. Market distortions
  4. Impact on future investments and asset rebalancing
  5. The double whammy for regulators

Covid and Indian Aviation Industry

- **Impact on Aviation Sector:** The Aviation Sector in India has been amongst the biggest loss-making sectors in the country, with Airlines barely managing to break-even. With existing low-availability of credit to maintain day to day operations, the lockdown will have destructive effect on the sector. Earlier the decision of the government to sell Air Deccan, a regional carrier has already put all its employees on a sabbatical without pay which indicates the losses that the sector is bound to suffer in the days to come.
- **Force Majeure Clause on Indian Aviation Industry**: The World Health Organization (WHO) and the Ministry of health and Family Welfare on 19th February, 2019, had declared that the disruption of the supply chains due to spread of coronavirus in China or any other country should be considered as a case of natural calamity and "force majeure clause" may be invoked, wherever considered appropriate, following the due procedure.

COVID Pandemic and Challenges

- Aviation industry needs to quickly accept that the standard operating procedures (SOPs), protocols, frameworks, business models and the whole eco-system around the aviation activity will be different.
- Some airlines have announced closure and many more are expected to follow suit. Numerous leasing companies will be battered. Many aircraft, especially the wide bodied ones, will remain grounded as the cost of maintenance will be too high with lesser revenues.
- MRO services have to re-align to cater for the likely increase in smaller aircraft. Many jobs across verticals will be lost. IATA is expecting the aviation industry job loss to the tune of 29 lacs in India alone.
- Large scale multi-skilling and re-skilling will be needed to create lean workforce.
- Many crew members will lose currency of ratings due to aircraft being on ground for long requiring regulators to give the required waivers.
- Air Crew may even lose their licenses due to medical issues and non-renewal of medical status.

COVID Pandemic and Challenges

- Social distancing will become part of life, longer waiting, longer turn-around times, baggage restrictions etc.
- Hands free technologies and machine readable documentation will be put to use. processes, technologies and SOPs will undergo changes.
- Baggage handling will be different. The concept of lounge will undergo a sea change. Many concessionaires will lose economic viability and wind-up. Luxury brands may vanish from the terminals.
- Catering and food outlets may find fewer customers. Business travel will reduce drastically as executives will make do with video conferencing and work from being the norm. Public transportation will see less foot fall and private transportation may increase. Expenditure on hygiene and sanitation by airport management will increase.
- Thermal scanners will be in operation. Last minute cancellations at security gate level will increase due to enhanced checks. Use of private transportation will increase the consumption in petroleum products. Thus, the aviation fuel may cost more.
- The government and airport management will look for higher taxation on passengers to off-set the revenue loss from other avenues and cater for subsidies.
- The cost of air travel will go up.

India's Flying Plan post Covid-19

- Post Covid, megatrends such as the dramatic rise in remote working, government or organisation-imposed limitations/restrictions on air travel, greater reliance on locally-oriented supply chains as well as avoiding non-essential travels will impact the recovery demand in the aviation industry and may lead to major overhaul in the management and operation of the airline industry.
- In order to fly safely through this turbulent time, it is of utmost importance that the airline companies launch a crisis management team or as its being coined by some in the industry – "Plan Ahead Team".
- This Plan Ahead Team will be responsible for collecting forward looking intelligence and provide a Post Covid-19 flight plan to guide and accelerate decision making. Following are some of the of the challenges/considerations which airline companies in India may consider while formulating their Post Covid-19 flight plan:
- Third party contractor agreements/Hedging arrangement for jet fuel prices:
- Financing Arrangements
- Aircraft Lease Agreements
- Governmental Support
- Resolution/Restructuring

Thanks

Thanks