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RESEARCH ARTICLE

CHALLENGES FACED BY THE AIRLINE INDUSTRY DUE TO COVID-19.

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ABSTRACT

This research paper focuses on how the aviation sector has faced huge concerns as countries struggle to keep COVID-19 from spreading by increasing restrictions, banning flights from certain countries with a higher positivity rate, airlines incurring massive losses. This study also provides deep insight on how the unemployment rate in the airline industry differs from previous unemployment rates making more and more people unemployed as the travel and tourism sector provided one out of every ten jobs in the world. Furthermore, this study looks into one of the greatest issues confronting the aviation sector i.e. huge drop in cash reserves as planes remain grounded for extended periods of time owing to lengthy travel bans in countries throughout the world. Many airlines were on the verge of bankruptcy as their financial reserves deplete due to the countrywide lockdown. During the lockdown, Indian airlines lost about 75-90 crore each day. As flights remain grounded for an extended length of time, the question of whether passengers will choose air travel arises, the reason for this is because the passenger's conduct has changed as a result of the COVID-19, travel bans and restrictions imposed, and also accompanying various crisis, resulting in a significant decrease in demand for aviation activities.

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INTRODUCTION

Adel Al-Ali, Air Arabia Group CEO, said during his opening remarks that "Aviation has a huge contribution into every country's economy. Most of the businesses were impacted negatively by the pandemic, but the pandemic's impact on the aviation sector is the most difficult, as we have the most expensive liabilities." ¹ On August 5, 2021, there were 201,064,392 cases reported globally, with 4,271,371 fatalities. As of, India was one of the worst-affected countries, with 31,812,114 total cases and 426,321 total fatalities². The COVID-19 pandemic has an effect on every sector of the economy. The aviation industry "has been one of the most hard-hit industries" of the economy, passengers will likely see fewer nonstop flights and fewer options for flights out of smaller locations as a result of the industry downturn. According to Statista, there was a steady growth in the number of domestic and international passengers from FY2014 to FY2019, however there was a decrease from FY2019 to FY2020 owing to lockdown measures as planes have been grounded for a long time due to restrictions or bans imposed to

control the surge of Covid-19³. The restrictions that went into effect in March 2020 still continue with some changes, affecting many sectors like aviation, hospitality, and tourism, lead, this has resulted in a number of challenges, including "a sharp drop in demand for passenger air travel as a result of the COVID-19 pandemic and containment measures, which is jeopardizing the viability of many firms in both the air transport sector and the rest of the aviation industry, putting many jobs at risk". Some airlines are experiencing enormous losses and going bankrupt, while others have converted their passenger planes to freight carriers in order to make income. Airlines may initially reduce fares to boost demand, but the efficacy of this tactic will be limited due to economic uncertainties and high unemployment rates in many nations. Discounts are also only expected to persist until the sector sees a prolonged demand resurgence, which will be determined accordingly by the spread of virus.

BANNING AND INCREASED RESTRICTIONS: As a result of the pandemic, significant border and airline restrictions have occurred. One of the major causes for the aviation industry's slowdown is that governments throughout the world are canceling visas for foreign individuals and

¹Aviation Experts Highlight Challenges Faced Amid Pandemic | Aviation Pros

²COVID Live Update: 201,064,392 Cases and 4,271,371 Deaths from the Coronavirus - Worldometer (worldometers.info)

³• India: air passenger traffic by type 2020 | Statista

closing down the countries with higher positivity rates. Since the outbreak, more than 120 countries have imposed travel restrictions, ranging from prohibiting travel from high-risk countries to establishing essential measures such as quarantining and screening to prevent the spread of COVID-19. International visitor admissions are being reintroduced in several countries, however, they are often accompanied by a two-week quarantine period. The adjustment is unlikely to result in a rebound in passenger numbers for airlines. Flights under full travel restrictions and admission with quarantine both see similar reductions, according to an IATA analysis. This makes sense: vacationers are more inclined to stay at home rather than spend their whole vacation in quarantine, and the set-up is ineffective for a normal one- or two-day business trip. In the long run, this makes the sector's revival much more difficult. The spread of Covid-19 has been reduced as a result of travel restrictions. The bans and restrictions were first implemented because it was observed that the virus spread increased after community spread was established in multiple countries in different regions of the world where a large number of people would gather. Travel restrictions were shown to be particularly essential at the beginning and conclusion of the epidemic. Travel restrictions have caused tremendous economic and social harm to the economy and tourism sector through lost money and social hardship to those who were unable to travel due to business trips or other reasons.

AIRLINES INCURRING MASSIVE LOSSES AND GETTING BANKRUPT:

According to civil aviation minister Hardeep Singh Puri, Indian airlines lost Rs.16, 000 crores between April and December 2020, on the other hand, airports incurred a loss of around Rs.3, 000 crore⁴. The worst-affected airlines were Air India and Indigo, Air India, suffered a loss of Rs 4,700 crore, over the past three years, the company, which is set to be sold, has seen little improvement in its losses, and IndiGo on the contrary lost around Rs 5,829.7 crore and faced the “financial losses of Rs. 2,884 crore and Rs. 1,194 crore in the first and second quarters of 2020.” Compared to Rs 900.47 crore in FY 2018-19. Vistara lost Rs 1,563.28 crore in 2020, while AirAsia suffered a devaluation of Rs 1,396.0 crore and on the other side Go Air reported losses of Rs 481.67 crore in FY 2019-20, compared to earnings of Rs 72.69 crore the year before. AirAsia lost Rs 813.09 crore in FY 2019-20, compared to Rs 703.04 crore in FY 2018-19., SpiceJet reported net losses of 600 crores and 112 crores in the first and second quarters of 2020⁵.

Many airlines across the world were unable to withstand the pandemic like the “Air Deccan, which was previously India's largest low-cost carrier, stated in April 2020 that it will cease operations and place all of its workers on unpaid leave until further notice.⁶ The low-cost airline began flights in Maharashtra over a month later. Virgin Australia, located in Brisbane, filed for voluntary administration on April 21, which is the Australian equivalent of bankruptcy proceedings. As a result, the almost two-decade-old airline became the largest in the country's history to go bankrupt. According to Reuters, the airline was purchased by Bain Capital and is now being relaunched as a mid-market carrier.

⁴Airlines incurred loss of ₹16k cr in Apr-Dec (livemint.com)

⁵Indian airlines suffer over Rs 15,000 cr losses in FY 2020-21, Air India & IndiGo worst-hit – ThePrint

⁶How bad is the impact of coronavirus on India's airlines? - The Economic Times (indiatimes.com)

Flybe, a regional airline headquartered in the United Kingdom that was already struggling financially before Covid-19, was one of the pandemic's early fatalities. However, 7 months after it went bankrupt, the airline was purchased by a company named Thyme Opco, which claimed that it would resume flights in 2021.⁸”

REVENUE LOSS

The Indian aviation sector has been losing between 75 and 90 crores per day since the restrictions and lockdown began. According to information provided by V K Singh, Minister of State for Civil Aviation, “The financial loss of Indian carriers during FY 2020-21 is approximately Rs 19,000 crore. The financial loss of Indian airports during FY 2020-21 is approximately Rs 3,400 crore,” ICRA, a banking and credit rating organization, presented this evaluation. From a contraction of 41% in June 2020 to a contraction of 14% in October. With the gradual easing of air travel restrictions beginning in late May, passenger traffic increased as well. However, the shock of the national lockdown's first two months had taken its toll on airlines. As per official data, Indian airlines and airports lost Rs 22,400 crore in the previous financial year 'due to the COVID- 19 pandemic. Crisil an Indian analytical company reported that the Indian aviation sector is expected to lose Rs1.1-1.3 lakh crore in income between fiscal years 2020 and 2022 as a result of the pandemic, according to another rating agency, ICRA, the country's airlines would need roughly Rs 37,000 crore in additional capital from 2020-21 to 2022-23 to recover from losses and debt. The industry has a “negative credit outlook,” according to ICRA. The Center recently authorized airlines to raise rates by up to 30%, the decision might further depress air traffic as consumers, already weary of travel owing to the pandemic, would be forced to pay more for plane tickets or resort to other modes of transportation. The Airport Authority of India reported a decline in income from Rs 2,976.17 crore in April-June 2019 to around Rs 889 crore in April-June 2021. Airlines all around the world turned passenger planes into temporary freight carriers in order to earn revenue and stay afloat. To transport perishable commodities, such as fruits and vegetables and pharmaceuticals, Indian airlines used specialized freighters and even overhead storage in passenger cabins. In the April-June 2020 period, domestic air freight traffic plummeted 74% and international air freight traffic fell 57% compared to the previous year, resulting in low margins.⁹

DIFFER IN THE UNEMPLOYMENT RATES

“In April India's unemployment rate increased to over 8%, with seven million job losses, the national unemployment rate rose to 7.97 percent, up from 6.5 percent in March and 6.89 percent in February, with urban unemployment rising to 9.78 percent, up from 7.27 percent in March. For the third month in a row, the number of paid and non-salaried employees decreased from 39.81 crores in March to 39.08 crores in April, a drop of 73.5 lakh. In January, India's employed population was estimated to be 40.07 crore.

⁷You Won't Believe How Many Airlines Haven't Survived Coronavirus. How Does It Affect You? (forbes.com)

⁹Indian aviation sector in 2021: A stormy flight ahead - Business News - Issue Date: Mar 1, 2021 (indiatoday.in)

The number of individuals who were unemployed but not actively seeking for work climbed from 1.60 crore in March to 1.94 crores in April, according to the monthly figures.”¹⁰

UNEMPLOYMENT RATE

Demographic	February	March	April
National unemployment (in percent)	6.89%	6.5%	7.97%
Urban Unemployment (in percent)	6.99%	7.27%	9.78%

In April The COVID-19 epidemic had a huge influence on the Indian aviation business in 2020, with major airlines experiencing losses and difficult times laying off staff, sending them on unpaid leave, or cutting their compensation. As a result of the pandemic, all airlines used cost-cutting measures such as layoffs or wage reduction. GoAir put the bulk of its staff on unpaid leave in April. Air India reduced staff wages by 10% in April. Simultaneously, SpiceJet and IndiGo reduced overall staff pay by 10-30% and 5-25%, respectively. IndiGo also lay off 10% of its staff in July. AirAsia India reduced the wages of its senior workers by up to 20% in April. Vistara began implementing a leave without pay scheme for its employees based on seniority in April. In 2020, the International Air Transport Association, which represents the majority of the world's airlines, predicted that global air travel demand would not rebound to 2019 levels until 2024, a year later than projected.

According to the New York Times, US carriers are losing between \$350 and \$400 million each day. Approximately 28% of Southwest Airlines' employees, or 17,000 people, chose to leave the company or take unpaid periods of absence. Over 20,000 workers have voluntarily quit their airlines and will not be able to return until they are rehired. Nearly 17,000 Delta Air Lines employees, or 20%, have taken advantage of the company's buyout or early retirement schemes. The revocation period has ended, and that personnel is no longer on the company's payroll.

Wage Reduction by Airlines

Airlines	Contraction of wages(in percent)
Air India	10%
Spice jet	10-30%
Indigo	5-25%
Air Asia	20%

As per a new survey, more than half of the world's airline pilots are no longer flying for a job due to a drop in demand during the coronavirus epidemic. Cathay Pacific Airways Ltd of Hong Kong, for example, has implemented permanent wage cutbacks of up to 58 percent, while Turkish Airways and Singapore Airlines Ltd have reduced compensation temporarily. According to the survey, 84 percent of jobless pilots claimed it was due to the epidemic. Prior to the arrival of COVID-19, there had been severe pilot shortages, which had increased demand for aviators and resulted in better pay and conditions. According to the poll, 82 percent of jobless pilots would take a wage reduction for a new chance.¹¹

¹⁰As COVID-19 Second Wave Wreaks Havoc, India Lost Over 7 Million Jobs in April: CMIE (thewire.in)

¹¹Covid-19 Impact: 12 airlines that did not survive the pandemic | Business News, The Indian Express

CHANGE IN PASSENGER BEHAVIOUR AND DROP IN DEMAND PASSENGERS: As one of the worst-affected countries, India is likely to experience a reduction in passenger numbers as tourists from across the world avoid visiting India due to the rising number of COVID cases and restrictions. “The International Air Transport Association (IATA) announced full-year global passenger traffic results for 2020 showing that demand (revenue passenger kilometers or RPKs) fell by 65.9% compared to the full year of 2019, by far the sharpest traffic decline in aviation history. Furthermore, forward bookings have been falling sharply since late December”. In the second quarter of 2021, domestic air passenger counts fell by more than half compared to the first quarter of the year.¹² “The number of passengers transported by domestic carriers in India in the second quarter of the year was 109.53 lakhs, down from 233.83 lakhs in the first quarter, according to figures released by the regulator, the Directorate General of Civil Aviation.” However, following a steep drop in May, passenger demand has shown a hopeful rising trend in June¹³. Domestic airlines transported 31.13 lakh passengers in June, compared to 21.15 lakh the month before. Mumbai airport was the most impacted among the metros, with a 75.9 percent drop in passenger traffic and a loss of Rs.317.41 crore. The second-worst performer was Chennai airport, which saw a 75.3 percent drop in passenger flow. In comparison, Delhi saw a 66.4 percent drop and a loss of Rs.317.41 crore, Bengaluru saw a 66.3 percent drop, Hyderabad saw a 63.4 percent drop, and Kolkata saw a 64.9 percent drop and a loss of Rs.31.04 crore. Bengaluru surpassed Mumbai for the first time to become India's second-busiest domestic airport in FY21, behind Delhi, due to restrictions related to the pandemic in Maharashtra, according to the study.

MEASURES INTRODUCED BY THE GOVERNMENTS

As the aviation industry has encountered several issues and suffered significant losses as a result of the pandemic, governments from various nations have taken a number of steps to assist the industry. In India, The first 33% of operations were opened on May 20 as a result of COVID-19. It eventually climbed to 45 % in June and 60 % in September. The operation of Regional Connectivity Scheme UDAN flights was unrestricted. As regular international activities were halted, air bubbles were formed with 27 nations; this was a temporary solution implemented globally by governments. Private investment in existing and future airports was encouraged through the Public-Private Partnership method, and care was made to guarantee that cargo terminals at all major airports were operational when needed. For residential Maintenance, Repairs, and Overhaul (MRO) services, the GST rate has been decreased to 5%. For domestic Maintenance, Repair, and Overhaul services, the GST rate has been decreased to 5%. Indian airlines were encouraged to expand their share of international air cargo traffic. Route rationalization was implemented in Indian airspace in coordination with the Indian Air Force for better airspace management, shorter flights, and decreased fuel use. The government approved Rs108 crore for the development of Chhattisgarh's airports of Jagdalpur, Ambikapur, and Bilaspur under the UDAN plan in September 2020. The government increased the scope of Krishi Udaan in the Union Budget

¹²IATA - 2020 Worst Year in History for Air Travel Demand

¹³Domestic air passenger number falls by half in Q2 of 2021, Travel News, ET TravelWorld (indiatimes.com)

2021-22 to align with Operation Green Scheme, which provides a 50 percent air freight subsidy for agri-perishables to North-Eastern states and four Himalayan states/UTs. The government reduced the customs duty on components of parts, including engines, used in the manufacture of aircraft by public sector entities of the Ministry of Defense from 2.5 percent to 0%. During the pandemic, the government launched the Lifeline Udan flights on April 20 to carry critical medical goods to outlying areas.¹⁴ “The Airport Authority of Hong Kong has stated that it would offer its aviation sector a fresh round of COVID-19 financial assistance worth up to HK\$2 billion. The package will provide additional support to airlines and aviation support services operators by easing their liquidity pressure. AAHK will offer to buy around 500,000 plane tickets in advance from four domestic carriers. The purchase will be used to pump liquidity into the airlines ahead of time, with the tickets being given free to international tourists and Hong Kong residents as part of a future market recovery effort that will be launched once the epidemic has passed. Another relief solution allows aviation support services operators at Hong Kong International Airport (HKIA) to sell their ground services equipment (GSE) to AAHK. The authority will purchase the GSE from operators in cash and pay in advance, with the goal of assisting operators in improving their cash flow. Operators will also benefit from a rent-free term following the sale of the equipment. Voluntary participation in the system is open to operators who provide ramp management, maintenance, catering, and in-flight fuel.”¹⁵ Singapore’s Ministry of Transport stated on Feb 17 2021 that an \$870 million support package for the hard-hit aviation sector will boost pay subsidies to 50% for domestic workers for additional six months, as announced by Deputy Prime Minister Mr. Heng Swee Keat during his Budget address. The Jobs Support Scheme, which would be expanded, offers pay support to firms in the industry of 30% from April to June and 10% from July to September 2021. The \$330 million Aviation Workforce Retention Grant would increase to 50% of wages given to Singaporeans and permanent residents from April to September, according to the Ministry of Transport.¹⁶

CONCLUSION

The COVID-19 has caused disruptions and panic in the minds of people around the world and once things have returned to normal, individuals all over the world may resume travel in huge numbers because of the pandemic's constraints lifted, but this may have an impact on business travels because people are now accustomed to interacting online and may continue to do so in the future. On the other hand, if we look into the losses and bankruptcy faced by the industry, each country's government is torn between providing financial assistance and allowing airline companies to declare bankruptcy or guaranteeing current debt to the airline industry.

Tax policies, mergers, and acquisitions may help revive the airline industry but this measure may increase the national debt, the worldwide supply network, and the linked industry may impact the airline industry due to its insolvency. The airline industry's problems have had a knock-on effect on tourism as well, which has witnessed a significant decline. This has a negative impact on the economies of some nations, as tourism generates the majority of income.

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¹⁴Fate of India's Covid-hit aviation industry hangs in balance | Policy Circle

¹⁵Hong Kong aviation industry benefits from AAHK COVID-19 relief package (internationalairportreview.com)

¹⁶\$870m aviation support package to increase wage subsidies to 50% from April to September: MOT, Singapore News & Top Stories - The Straits Times