

AIR TRANSPORT WILL NEVER BE THE SAME AGAIN



Last spring, Lufthansa's passenger numbers reached only 1% of the numbers from the previous year. This figure illustrates the extent of the crisis of air transport, as does the gloomy global outlook for the sector. The International Air Transport Association (IATA) forecasts a 55% drop in the number of passengers worldwide compared to 2019, including the months when traffic was still at normal levels.

Perceived by many as a key driver of economic growth, business trips have for many years enjoyed the magical aura of turning physical meetings around the world into a business and economic opportunity. It has also been an important engine of growth for air transport.

Yet business travel may never again return to the pre-crisis levels. Travel bans, imposed by governments and companies, can be the starting point for a self-reinforcing cycle, which policymakers are looking for to identify exponential changes.

However, the longer the crisis situation lasts, the more likely it is that systemic changes will become permanent. The absence of business travel and face-to-face meetings has now led to the widespread adoption of alternatives such as video conferencing, virtual collaboration, online whiteboards, etc. If these alternatives are able to show that they can increase productivity, business trips would become redundant.

From Globalization to Regionalization?

Since 2005, globalization has been showing signs of slowing down. Companies' internationalization strategies are increasingly focused on local responsiveness and less and less on control and reliance on international headquarters.

Global trade tensions, such as the conflict between the United States and China, could contribute to slowing down the intercontinental travel. The Covid-19 crisis could accelerate this trend and promote regional trade and supply.

A recent study showed that an important response to the Covid-19 crisis was the relocation of supply chains, including a focus on the use of regional ecosystems. This response could become permanent, reinforced by the low level of international travel.

Recent figures from the International Civil Aviation Organization (ICAO) show that while interregional travel has resumed from an average of 250 million passengers before the crisis to 100 million today, the number of international passengers has reached 20 million, well below the pre-crisis level of 160 million.

The End of the Hub-and-spoke Network?

It is interesting to note that the impact of the Covid-19 pandemic was felt differently by low-cost airlines, such as Ryan Air or EasyJet, and traditional network airlines, such as Lufthansa, Air France, or Singapore Airlines.

The network airlines rely on central hubs where short-haul flights are linked to long-haul flights which, with their larger aircraft, are economically more attractive. This so-called hub-and-spoke model also creates powerful network effects, allowing major airlines to achieve economies of scale and creating powerful barriers to entry for newcomers.

However, these advantages come at the price of passenger acceptance. Indeed, these routes involve connections. Under normal circumstances, this may be questioned for environmental reasons and may be perceived as a disadvantage by passengers. However, in times of health crisis, hubs are key risk areas in the passenger journey, as it remains difficult to guarantee standards of social distancing in airports.

The interdependence between short-haul and long-haul flights is also a huge obstacle to the recovery. For network airlines, the absence of long-haul flights means that short-haul flights have to be reduced. The absence of short-haul flights will then make it impossible to fill the large long-haul flights.

Low-cost, full-service airlines operating a point-to-point model can be much more responsive by opening and closing routes to meet the fluctuating demand. The strategy of most network airlines is to hold on and eventually restart their hub-and-spoke model. But to avoid a breakdown in their long-haul supply flight system, they need to keep open routes that are uneconomic. This makes them, in most cases, dependent on state aid. The question is how long this strategy can be maintained and how long taxpayers will be willing to cover the losses.

It is not surprising that some airlines are rediscovering holiday trips with their point-to-point offers. "Never before have we included so many new holiday destinations in our program. This is our response to the wishes of our customers," says Harry Hohmeister, member of the board of Deutsche Lufthansa AG.

What about 'Flight-shaming'?

Growing awareness of environmental impact has led to a flight-shaming movement in Sweden to avoid air transport that has now spread far beyond the borders of the kingdom.

However, there are also signs that the confinement measures, in response to Covid-19, have increased people's desire to adopt a calmer lifestyle. This raises questions about the cosmopolitan lifestyle that the middle classes have so easily adopted. Today, this point remains at the heart of the concerns of air transport stakeholders, even if its real influence on consumer behavior remains difficult to measure.

To sum up, it emerges that these factors of change herald a more radical transition in air transport than in other sectors. While uncertainties remain high, it seems that the post-Covid scenarios will take shape around these elements.

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