



VIRTUAL ROUNDTABLE DISCUSSION – APRIL 16, 2020

COVID-19 and Impacts to the Aviation Industry

Introduction

VHB hosted a Virtual Roundtable Discussion on April 16, 2020, regarding the wide-spread and significant impacts of COVID-19 on the aviation industry. Participants included industry executives from a variety of aviation touchpoints, including airlines, airports large and small, the Federal Aviation Administration (FAA), airport industry interest group leaders, and consultants.

The session provided an opportunity to share multiple perspectives to develop a clearer vision of our potential future. The comments below provide a summary of challenges, concerns, ideas, and creative thinking that were shared during the conversation.

Summary

By April 9th, U.S. airlines had idled 2,200 aircraft and passenger volume was down more than 95 percent from a year ago. Recent reports indicate that global passenger revenues are expected to fall by \$314 billion this year, a 55 percent decline from last year.

These are uncertain times; there will not be a light switch we simply turn back on. The industry knows it is in for a long recovery. To get through this, participants mentioned the need to think like economists: look at unemployment, consumer spending, and new metrics. Old models will no longer apply because we have never experienced anything like this COVID-19 pandemic. Still, looking to the past provides us with hope for the future. The industry has experienced shocks before (the 1979 oil crisis, the Gulf War, 9/11 and the 2008 Global Financial Crisis) and has always recovered. **The crisis has forced the FAA to be more agile and think differently**—which is challenging when dealing with Airport Improvement Program (AIP) grants for FY2020 and the [CARES Act](#) simultaneously. FAA lines of business are collaborating

across the board on initiatives, such as amending aircraft parking plans (to accommodate grounded aircraft) and expediting the review processes for work acceptance and approval. FAA is responding to questions about the [CARES Act](#) and is keenly aware of what the industry is facing.

Participants discussed being focused on people first. How to keep employees safe at the workplace is important for an industry with people on the frontlines. Several participants cited the swift activation of crisis response teams to mitigate loss.

The consensus among roundtable participants is that we will most likely see lasting structural and technological changes in how we travel to and through airports, and how we fly. The pandemic will accelerate the use of technology, especially health screening, further promoting a digital world. The federal [CARES Act](#) is a stop gap measure for the industry—a step in the right direction.

Below are highlights of the roundtable conversation.

Discussion One: What are you experiencing right now?

- » What impacts have you felt in your organization?
- » What strategies are you employing in response to those impacts?
- » What challenges do you wish you had anticipated before this crisis unfolded?
- » Are your projects moving forward or on hold?

Airlines

Airlines are fighting for survival. **Those who pivoted fastest when the first decline in bookings happened in late February may weather the storm better than those that hesitated.** March 9th was a significant day in regard to the velocity of cancellations. Some airlines responded with lightning speed, implementing crisis response teams trained for catastrophic events, who worked significantly long hours to address a challenge never previously seen.

Despite the immediate economic and logistical complications, airlines have been focused on how employees and customers are being affected. The dust is settling, and operations are going well for those that are flying, albeit at strikingly diminished levels. **Collaborative phone calls between airports and airlines are helping both groups continue to deal with the crisis.** Airports have a better understanding of their financial position and what decisions and operational changes they may still need to make. While the [CARES Act](#) and capital deferrals is providing critical funding, it will not be enough to compensate for the unprecedented revenue shortfall.

Airports

The pandemic resulted in a complete turnaround for many airports that were rapidly moving ahead with plans to address growth and expansion. **When cancellations began to escalate, airports set immediate response goals: customer and employees' safety and health come first, maintaining jobs is close behind it. Every project and program was scrutinized.** At some airports, the drop in total operations was an opportunity to move forward and expedite projects while passenger/customer activity levels are low. We also saw airports put major capital investments on hold, while others identified projects that should move forward with design and permitting, such that they are shovel-ready for when circumstances improve.

COVID-19 has had a huge impact on large capital projects that were needed in airports across the country. According to an Airports Consultants Council (ACC) member survey, 90 percent of airports are experiencing delayed/cancelled projects and 72 percent have seen reduction in RFPs. Construction projects that were underway are still happening, with interruptions resulting from employees hesitant to come back to work and pauses to implement new safety requirements on construction sites.

Airports are concerned about the temporal extent of this pandemic, unlike the events of 9/11, which had a finite timeline. The nature of COVID-19 is uncertain and may drag on for months or years. In terms of international travel, a major factor will be how each country responds to COVID-19 and the procedural and safety measures put in place will impact international travel for years to come, ultimately until a vaccine is found. On the domestic side, this pandemic could result in structural changes to the hub-and-spoke system of air service provision and could lead to permanent changes in the National Aviation System Plan.

Non-hub airports are experiencing significant losses. **As an example, on a typical travel day, one small airport cited around 1,000 cars in a standard parking lot. Today, that lot is down to 27 cars.** These airports are the heart of their hometowns, and most operations' employees are all still at work. Airports have responded by making staff health and safety a priority. **One silver lining: deferred maintenance projects such as parking lot painting can now be prioritized** and projects like this do help to keep on-site staff spirits up when they are working and see activities continuing at the airport.

Airport Concessions

Only a handful of retail stores and concessions are operational at airports with greatly abbreviated operating hours. **A bright spot mentioned was a new trade association recently formed in the industry, allowing concessionaires to better collaborate and have a voice during this crisis.** Concessionaires have experienced varied responses from airport partners, with some reacting quickly to recommendations to reshape operations and policies, such as waiving or deferring rent. They are watching as to how Personal Protection Equipment (PPE) guidelines and standards for consumer protection at airport concessions will change as a result of COVID-19.

Fixed Base Operators

Similar to scheduled aircraft operations, charter and private aircraft operations are down for fixed base operators (FBOs). **FBOs are being proactive by setting up rent deferment programs, and expect the coming months to be more demanding.** Communicating with employees and customers is vital—they should feel safe coming to work. Cleaning expenses are up and FBOs are working with tenants to provide lots of signage and vocally communicate with passengers about conducting flows in terminals to maintain social distancing.

Aviation Industry Consultants

Consultants are focused on helping airports rethink budgets and prioritize projects and initiatives. **Most airports know the amount of federal aid they will receive from the components of the [CARES Act](#), but the variation is great** amongst them due to varied enplanements and debt service. Forecasting the future after this pandemic is difficult as there is no past precedent. The biggest challenge right now is the unknown post-lock-down, pre-vaccine period.

This is a long, drawn out crisis without a precedent, and the entire industry will have to be nimble to respond.

2 Discussion Two: What are you planning for?

Roundtable participants were asked to consider this particular point in time next year:

- » What do you think our aviation recovery will look like and when do you think that might that happen?
- » Will it vary by region/location?
- » What will be the lasting impacts on the aviation industry?

Here are some predictions of what could happen to the industry:

What does a post-COVID airport look like?

Expect passenger behavior to change dramatically. Look for a reduction in physical touchpoints during the boarding process and social distancing on planes and in terminals.

The use of technology will skyrocket. There may be an increase in the use of biometrics to test passenger health. Security officers will need equipment to better screen bags without having to touch objects inside. It's a big opportunity to have a more automated journey.

A big design challenge will be redesigning terminals and ticketing for social distancing. If social distancing becomes the norm, it will affect operations, such as longer times between boarding for plane sanitization. Cleanliness of planes will remain top-of-mind for travelers.

Airlines will have to work hard to encourage customers' return to flying. They must pay attention to consumer confidence. Passenger confidence is key. Expect demand for a higher level of service.

Terminal projects will be a bigger focus now with attention paid to how travelers approach airports. Could there be an increase back to airport parking instead of transit or TNC rides due to virus transmission anxiety?

Educating the consumer about changes will be important. Will they need to get to airports even earlier? Will we have to health screen passengers now and what entity would be responsible for that? Current TSA checkpoint guidelines could be obsolete. Airlines, airports and other industry partners will need to team-up in a consistent, coordinated approach.

Structural Changes in the Aviation Industry

Companies realize that employees can be productive at home, so **business travel could languish.** The hub and spoke system will be more relevant than in the past. Gateways may be the first to recover—carriers tend to consolidate into gateways post-crisis. The industry has previously seen air service cut off to small communities. Could there be code-sharing among airlines to cover demand to smaller markets?

Funding

New federal aid dollars come with conditions at AIP funded airports, which could discourage airports from accepting funding or using FAA funds to finance projects. One outcome of the crisis could be the ability to introduce additional flexibilities within programs. **The infrastructure stimulus package will be critical in funding future airport projects.** Passenger Facility Charge (PFC) dollars are shrinking. Could this crisis lead to a different approach to funding projects?

Financing of airports could move to more short-term financial models. It will be difficult to get airlines to commit to long-term agreements. Private capital may come into the market even more due to risks public authorities are no longer willing to take.

Next Steps: Future Discussions

We want to stay connected! VHB will be hosting several virtual roundtable discussions, connecting varying perspectives across geographies. Future question and discussion around this roundtable topic include:

- » What are we learning from Asia and Europe on the recovery?
- » Which airports and segments of the flying public are likely to be more resilient?
- » When do we expect to see more normalized air travel trends returning?
- » How will the design and operation of airports have to change?

Connect with our Aviation Thought Leaders:

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