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Measures of State Support for the Aviation Industry and the Impact of the Coronavirus Pandemic on the Global Air Transportation Market

D.Z. Nikolishvili

PJSC Aeroflot, Moscow, Russia

ABSTRACT

This article analyses the international air transportation market, assessing the impact of coronavirus and government support measures. Air transport is now extremely important for the successful functioning of the global economy, its further harmonious development, and the maintenance of sustainable economic growth; allows for the mobile high-speed movement of people and goods between different continents, contributing to the development of world trade and the international tourism industry. Given that sales of high-tech goods depend on a well-functioning air transport system, there is currently no alternative to air transport for the transport of perishable goods. The current trend in the development of air transportation is focused on the growth in demand for international air transportation, the annual improvement of its infrastructure and the legislative framework in this area in the world and in individual countries. Consumers prefer air transportation to another mode of transport, which is justified by the reduction in the time of delivery of goods to anywhere in the world.

Keywords: air transportation; international cargo air transportation; pandemic world air market; global air cargo market; Russian international air cargo market; COVID-19

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During the COVID-19 pandemic, as part of a global effort to contain it and protect public health, Governments around the world have imposed full or partial isolation. Countries closed borders, imposing strict restrictions on journey and travel, issued recommendations warning against unnecessary travel. Such measures have led to an unprecedented decline in demand for air transportation. The aviation sector is now one of the most affected.

Serious shortage of liquidity in the aviation sector caused a sharp reduction in air transportation, endangering its economic viability, threatening millions of jobs, that depend on the industry. All interested parties in aviation, including airports, airlines, air navigation service providers (ANSP) and manufacturers of aerospace products, and all participants have problems ensuring the continuity of their work, and perhaps even their survival in the production process of value added.

According to recent research by the International Civil Aviation Organization ICAO, analysis of the economic impact of COVID-19 on civil aviation showed that, global passenger traffic fell sharply, by about 60% in 2020, which is equivalent to a decrease of about 2.7 billion passengers compared to 2019 (*fig. 1*).

It is estimated that the sharp decline in traffic resulted in a decrease of 370 billion USD in airline gross operating income, and losses in revenues of airports and ANSP, respectively, reached 115 and 13 billion USD. Short-term forecasts indicate that the industry will have weak transport demand for a long time.

Fig. 1 shows that from 1970 to 2019 there was a stable growth in civil aviation. Border closures, as well as other restrictive measures during the quarantine, caused extensive damage to the aviation industry. In addition, the diagram confirms the following statistics from the report of the

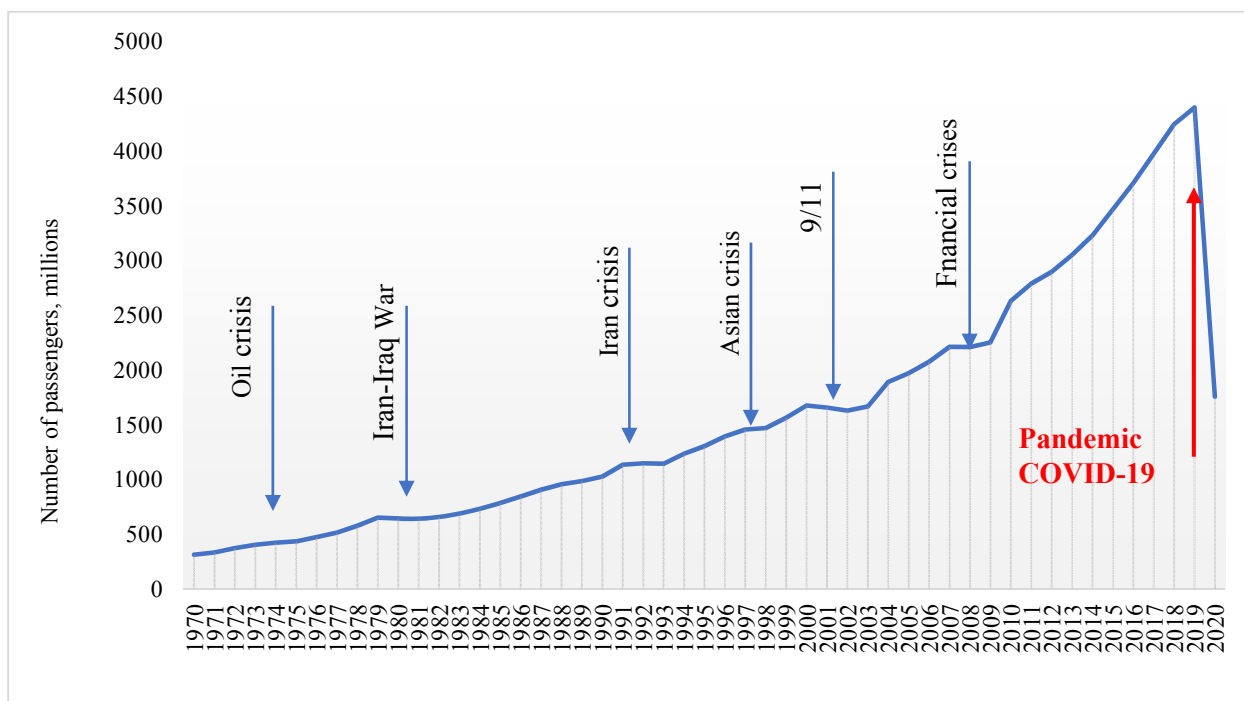


Fig. 1. Passenger traffic dynamics

Source: https://www.icao.int/sustainability/Documents/COVID-19/ICAO_Coronavirus_Econ_Impact.pdf

Table 1

Impact of COVID-19 on global scheduled passenger travel relative to 2019 levels

2020	2021
Total seating decrease, offered by airline companies, by 50%	Total seating decrease, offered by airline companies, from 39 to 40%
Total reduction in the number of passengers by 2 699 million (–60%)	Total reduction in the number of passengers from 2 108 to 2 196 million (from –47 to –49%)
Estimated loss of airline companies' sales from passenger services – 371 billion USD	Estimated loss of airline companies' sales from passenger services – from 310 to 323 billion USD

Source: [1].

Table 2

Change in international passenger traffic relative to 2019 levels

2020	2021 (preliminary estimates)
Total seating decrease, offered by airline companies, by 66%	Total seating decrease, offered by airline companies, from 60 to 62%
Total reduction in the number of passengers by 1 376 million (–74%)	Total reduction in the number of passengers from 1 309 to 1 356 million (from –71 to –73%)
Estimated loss of airline companies gross operating revenue – 250 billion USD	Estimated loss of airline companies' sales – from 245 to 253 billion USD

Source: [2].

Table 3

Change in domestic passenger traffic relative to 2019 levels

2020	2021 (preliminary estimates)
Total seating decrease, offered by airline companies, by 38%	Total seating decrease, offered by airline companies, from 23 to 25%
Total reduction in the number of passengers by 1 323 million (–50%)	Total reduction in the number of passengers from 798 to 840 million (from –30 to –32%)
Estimated loss of airline companies gross operating revenue – 120 billion USD	Estimated loss of airline companies' sales – from 65 to 69 billion USD

Source: URL: <https://ura.news/news/1052269206>

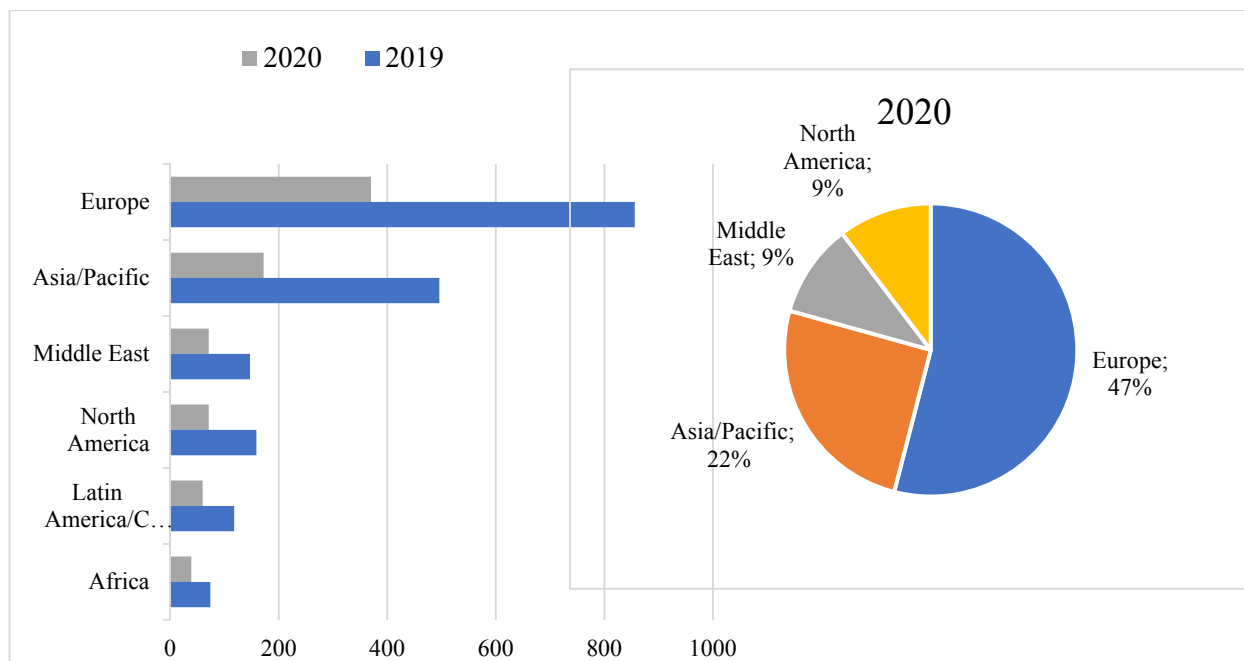


Fig. 2. Number of passengers by regions in 2019–2020

Source: URL: https://www.icao.int/sustainability/Documents/COVID-19/ICAO_Coronavirus_Econ_Impact.pdf

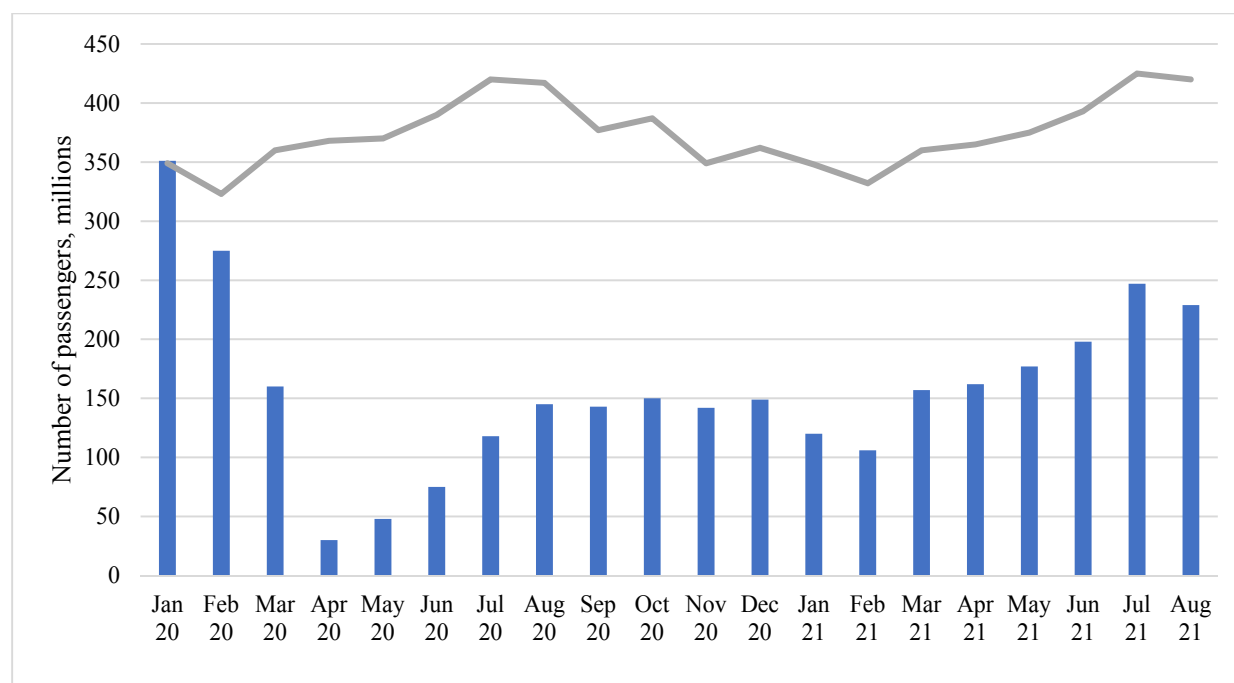


Fig. 3. Number of passengers in 2020–2021

Source: URL: https://www.icao.int/sustainability/Documents/COVID-19/ICAO_Coronavirus_Econ_Impact.pdf

International Civil Aviation Organization.

In *table 1–3* are given statistical data for 2019, 2020 and 2021 on passenger transport, on which it can be concluded that there was not only a significant reduction in the seats offered by airline companies, and passenger traffic, but also recorded a gross loss of airline revenue.

In the future, the potential deterioration of economic activity in this sector will affect the balance sheet of the aviation ecosystem, with far-reaching consequences at all levels of the economy. That is why the airline companies need to urgently take decisive and courageous steps, aimed at strengthening their financial situation, as well as reducing the consequences of the huge income deficit. Of course, it is equally important that all States take appropriate measures to support and stabilize the aviation industry, which is in financial difficulty so that it can continue to play an important and key role in air connectivity, job creation, stimulating the national economy and contributing to the total economic recovery.

There are a number of economic and financial activities that need to be undertaken by States and aviation companies to address the financial implications, caused by pandemic, easing liquidity shortage and financial pressure on the sector. But most importantly — need to increase the industry's resilience to future crises.

The aviation recovery task force of the ICAO Council published a report in June 2020,¹ covering 10 main principles and 11 recommendations, agreed at the global and regional levels on mutually acceptable measures to ensure safe, sustainable and reliable renewal, recovery of the aviation sector. Its main principles are presented below.

¹ URL: <https://www.icao.int/covid/cart/Pages/CART-Report--Executive-Summary.aspx>

Support to financial assistance strategies. In accordance with their mandates, States and sectoral agencies should explore the need for direct and/or indirect assistance in various proportionate and transparent ways. It should also ensure fair competition, avoid market distortions or limitations in its diversity and/or access.

Sustainability. States and industry in the aviation sector need to strive for economic and environmental sustainability.

Adoption of economic and financial measures. Member States should consider implementing the appropriate, comprehensive, integrated, proportionate, targeted and other responses to the emergency Situations, which comply with ICAO policies, in order to ensure economic sustainability and maintain the required security indicator. These measures should be effective, ensure flight safety and environmental protection and not interfere with fair competition.

Countries taking into account direct and indirect financial benefits, which are established by air transport — for its economy, необходимо в отдельных случаях (and possibly also through international or regional economic cooperation, as well as cooperation with private sectors and financial institutions) should be given, in selected cases, the most appropriate means of support within the civil aviation sector to all interested parties. These activities should also be applied to ensure operational flexibility. In addition, it will be necessary to provide economic incentives and direct financial assistance.

These measures should be comprehensive, temporary and limited to what is necessary to reduce the impact of COVID-19.

The capacity of the State to support the aviation industry is quite diverse. As different aviation interested parties will be treated with conflicting and competing demands, that States will need to adhere to principles of effective governance that are

consistent with institutional and regulatory frameworks, to coordinate goals and needs with commitments and resources, often based on conflicting and/or competing priorities.

Aviation companies took care of the crisis to take prompt action, which should mitigate the effects of a rather difficult economic situation and maintain financial and functional capacity to work. However, sharp declines in income have often been

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beyond the reach of even the industry's most drastic measures. More substantial and long-term financial difficulties have created a real threat to the aviation business, and have also led to the risk of potential bankruptcy and insolvency, which have put some jobs at risk.

In their national economies, a large number of countries have recognized the importance and strategic nature of the aviation industry, and its importance in creating the conditions for basic economic activity. However, taking into account the need to stabilize the situation in the aviation sphere, so that it can continue to play a constructive role in stimulating the national economy, and to provide

employment to this sector, are provided various types of support by the State. Given the rather gloomy forecasts, it is also expected that more actors in the sector will seek assistance from States [3].

For the continuation of aviation companies, staff retention and survival due to the economic crisis, financial assistance from the State can be provided directly or indirectly. In a context of low demand and limited capacity, the availability of additional capital should guarantee the full or partial operation of aviation companies. In general, financial assistance from the State takes the forms described below, which have various budgetary and debt implications:

- government loans and loan guarantees;
- capital injection in the form of grants;
- state's capital participation in shareholder's capita;
- operational subsidies or donations for specific routes;
- restructuring financing;
- subsidy or wage guarantee;
- reduction of taxes, fees and charges related to aviation;
- total reduction in tax burden;
- complex package of financial support measures.

So, to put the country's aviation and economy on the road to early recovery, which was weakened during the health crisis and travel restrictions, further financial support and assistance may be required. This financial assistance depends on the economic capacity of the country. As the objectives and approaches of assistance vary widely from country to country, the scale and level of support from individual countries will need to have a greater impact on the global civil aviation system in the future. Whatever the form of public financial support, it should be provided in a well-managed and principled manner. It is also necessary to exercise diligence and caution, given its impact on competition, market

structure and future development of the aviation industry. It has to be kept in mind that all competing requests for financial public assistance may come from different sectors. It follows that States need to assess value creation in the national economy through aviation, comparing it with other sectors [4].

With increasing uncertainty associated with a prolonged pandemic and its various variations, forecasts, which should be achieved with regard to the rehabilitation of air transport, remain pessimistic today, along with gloomy economic prospects. Strategies that are adopted by the state and industry will affect the development of aviation, economic stability of the industry, financial viability and future stress tolerance, that is, how long the industry will be able to resist the crisis, how strong and fast its recovery will be, the extent to which the industry is modifying and the extent to which its future structure at the global level will change [5].

While stabilizing the industry is a top priority, there is also an urgent need to

use opportunities, that enable it to emerge from the pandemic more competitive, resilient and resilient in the long term. Public assistance should therefore focus on promoting the entire aviation ecosystem in order to make it more responsive to the rapidly changing demand and expectations of clients following the end of the pandemic. Since there is no universal approach, both the State and the industry will have to act reasonably according to their unique capabilities and needs, constantly monitoring and evaluating the changes in the economy during the COVID-19 pandemic. The effects of destruction and the changing environment every day require that countries and industry break away from the classic orthodox eye and think afresh to create a strong, viable and persistent aviation sector in the future.

The expansion of the COVID-19 has had a serious impact on the international air transport market, but timely support and assistance to the industry will help to return passenger and gross turnover of airlines to the pre-endemic level.

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ABOUT THE AUTHOR



Devi Z. Nikolishvili — Category 1 Specialist, PJSC Aeroflot, Moscow, Russia
<https://orcid.org/0000-0002-2959-7782>
devi.nikolishvili@yandex.ru

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