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IMPACT OF CORONAVIRUS ON INDIAN AVIATION INDUSTRY

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Abstract

The world is facing its biggest ever fear which initially seemed to be an outbreak and within days it engulfed many countries globally and World Health Organization (WHO) announced it a PANDEMIC on 11th of March, 2020.The Coronavirus or COVID-19, term given by WHO, starting in the Wuhan province of China in November 2019, has witnessed 808,716 deaths, 24 August 2020. Over the years, tourism has grown into an industry and has become a major source of revenue for many nations. The economy of many countries rests largely on foreign currency earned through tourism. Further, due to economic growth and rise in per capita incomes, people have a higher disposable income and the urge to travel and see different places is now more easily satisfied. The tourism is one of the industries which has been badly effected due to the pandemic. The nationwide lockdown, restrictions on movement has added to the woes with leaving many jobless. This study, calculates the effect of COVID-19 on aviation industry which is complement to tourism industry. The outcomes of this study will help the bureaucrat's and industry practitioners to form a strategy to minimize the economic effect and to bring back on track the industry. This will help the industry to recover post lockdown and to bring back its lost glory.

Keywords: COVID-19, International Tourism, Economic impact, Aviation Industry, Disaster.

Introduction

Any natural calamity or manmade disasters has an undeviating effect on the tourism industry Ali, Y., Shah, Z.A. and Khan, A.U. (2018). It is directly affected by global or national crises. Cahyanto, Wiblishauser, Gray, and Schroeder, 2016 in their study found that pandemics post a major concern for international travel.

Although initially travellers are primarily affected due to epidemic infections but in due course the major impact is seen in the travel and tourism industry (Wilder-Smith, 2003).

The aviation sector itself contributes to over USD 892 billion out of the total economic activity of USD 2.7 trillion. More than 50% of international tourists prefer air travel to any other mode of transport, which shows a glimpse of the aviation sector for the tourism industry.

Context of the Study

The whistle blower ophthalmologist Doctor Li Wenliang, who was employed at Wuhan Central Hospital, was the first, who raised an alarm of the outbreak on 30 December, 2020. He observed seven cases of a virus that looked like SARS Coronavirus (SARS-CoV) virus identified in 2003, unaware of the fact that the disease was an entirely new Coronavirus. The cases were said to come from the Huainan live animal and seafood Market, located in Jianghan District of China.

In the month of January national authorities in China reported the cases with pneumonia of unknown aetiology to World Health Organization (WHO). WHO declared "COVID-19" as the name of this novel disease on 11th February 2020.

By the month of March 2020, this pandemic spread led to restricting nation-wide partial or full lockdown by over 100 countries.[1] Domestic as well as international travels were restricted, boundaries were sealed and many countries restructured their VISA norms. Countries had put travel restrictions on travellers coming from specific regions and also for a specific period keeping travellers in isolation.

According to United Nations World Tourism Organization (UNWTO) the worldwide tourist arrival reached 1.4 billion which is a 6% rise in 2018 as compared to 2017. The aviation sector is a major revenue as well direct and indirect employment generator.

Transportation plays a vital role for the tourism sector. Travelers depend largely on this service to move from one place to another. This service can be either rail transport/air transport/ bus transport, renting taxi or any other vehicle. The transportation industry on the other hand depends on tourism for the revenue generation. They are complement to each other. An effect on the transport sector has a direct implication on the tourism industry. Actually decline in tourism has the worst impact on the aviation industry.

With the restrictions in transportation, in both goods and passengers, the worldwide travel and tourism industry perceives a rapid decline in its overall business, and is effecting the global economy, at large.

[1]British Broadcasting Corporation (2020 April 7) https://www.bbc.com/news/world-52103747

Literature Review

The Asian International traffic arrival fell by more than 70% even the Severe Acute Respiratory Syndrome (SARS) outbreak of 2003 had not effected many countries and it had also significantly affected the revenue as well as witnessed nearly 3 million job losses. (Wilder-Smith, 2003).

Unemployment has been reported highest in those countries where there are more reported cases of the Coronavirus (Nashirah, A, B., Sofian, R., 2020). Spread of communicable diseases through air travel investigated potentially pandemics can spread by newly emerging infections through air travel and concluded that common public should be made aware on health issues related to air travel and infection control. Mangili, Gendreau (March 12, 2005).

Study on SARS CoV reveals that the indoor environments of aircraft should look into other possible routes of infection transmissions. (Lei, Li, Xiao and Lin, 2017).

McKercher, Chon (2004) has mentioned the "Over-Reaction to SARS and the Collapse of Asian Tourism" in their research note which pointed that the 2003 Severe Acute Respiratory Syndrome (SARS) outbreak devastated Asian tourism and tourism arrivals also fell by 70% or more across the rest of Asia, even in countries that were largely or totally disease-free.The similar is faced by the whole world today because Covid-19.

Srivastava (2020) discussed the possible Effect of Novel Covid-19 on India's GDP and Economy: Aviation and tourism industry has been severely effected by the lockdown due to the outburst of COVID-19. Joshi, Matade, Chhabda (2020) has done study focussing on "Aviation Industry in India during Covid-19 and Post Covid": The model of travelling through air will undergo a drastic change with a focus more on hygiene and sanitary aspects and procedures.

Chaudhary, Sodani, Das (2020) analyzed the effect of COVID-19 on Indian Economy and found that due to the pandemic the year of 2020 and 2021 will witness a high risk of global recession because of complete closure of all economic activities—production, consumption and trade—to control the spread of COVID-19 is imminent".

In the year 2009 international travel was hit by global financial crisis as well as pandemic-H1N1. (Leggat, Brown, Aitken & Speare, Rick. 2010) As per UNWTO, there was an estimated 4% decline of nearly 4% in international tourist arrival and -6% in international tourism revenues. This time because of Covid-19, decrease would be substantial.

As per IHS Markit's PMI (Purchasing Managers' Index) survey, due to the COVID-19 impact on supply chains and demand, the global economy is falling rapidly[2] which is the steepest fall after the 2008 recession.

An interactive map developed by Johns Hopkins University helps to foresee and keeps a watch on the reported cases. It shows within a span of 9 months the pandemic had spread across nearly 188 countries/regions with 30,859,069 total confirmed cases, 958,314 reported deaths and 21,099,095[3] recovered cases.

As per ICAO 16 September, 2020 report shows that there is an overall reduction from 57% to 60% of air passengers traffic (both international and domestic), or over USD 104.5 billion airport revenue in 2020 as compared to 2019.

Objectives

This aim of this study is to investigate the effect of COVID-19 on the tourism industry. In particular, this study is focus on COVID-19:

1. To examine the impact of Covid-19 on the airline passenger traffic.
2. To analyse the effect of Covid-19 on the earnings of Indian tourism industry.
3. To study the trend of aviation industry of India in the last six years.
4. To analyse the recent policy measure of Government of India towards tourism sector and aviation industry.
5. The present study provides suggestions to improve the economic condition of aviation industry.

Hypothesis for the study - This research has been done to test the following hypothesis which is in correlation with the previously set objectives:

H_1 - Covid-19 has no significant impact on the tourism industry

H_2 - Covid-19 has no significant impact on airline industry

Aviation Industry

In the past, we find many studies which shows that any sort of unrest let it be political or social, terrorist attack or disease outbreak, tourism is one such sector which has a cascading effect. The worst affected are the airlines, and hospitality sector. Other stakeholders such as travel agents, tourist's guides, souvenir shop owners, tour operators, taxi service providers and in adverse scenario railways can also be seen to have taken the aftermath shocks.

[2] https://ihsmarkit.com/research-analysis/week-ahead-economic-preview-week-of-9-march-2020.html
[3] https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6 retrieved on 20 September 2020, 23:25 IST

The pandemic spread has resulted in suspension of flights and cancellations of bookings be it air ticket, hotel reservations, tour package, railway ticket, bus bookings, taxi services every sector of the industry has incurred huge losses due to this pandemic effect. Some 60,000+ IATA travel agents worldwide will be directly affected by this.

The International Labour Organization estimates that half of global workforce due to the pandemic is at risk of losing livelihoods.

The report of United Nations Conference on Trade and Development (UNCTAD), shows that there is a decline of 3% in the global trade in the first quarter, which will be in 2020 near to $1 trillion to $2 trillion.

As per ICRA estimates FY 2020, the aviation industry of India (comprising of Go Airlines (India) Limited, Air India Limited, Air Asia India Limited, Interglobe Aviation Limited, Tata SIA Airlines Limited and Spicejet Limited) there is a 2.5% decline from the 4.5% projected in the domestic air passenger, and due to lock down a loss of nearly Rs. 75-90 crore per day loss

In case of complete shutdown of operations, it is likely that budget airlines IndiGo may report losses worth Rs 5,494 crore and SpiceJet with Rs 1,412 crorein the second quarter. There will be decrease in passenger traffic flow in both inbound and outbound sector and tourism revenue receipts particularly for the FY 2020-21. Earlier also in similar conditions we have seen there were losses in job, so in coming months this can’t be ruled out.

Sri Lanka has been recognized as the Top Best Destination Country in the world for Travel in 2019 by Lonely Planet Travel Magazine. Recovery of Sri Lanka Tourism has confidently come back at the end of Year 2019, bearing only 5-6 months. In 2019, a total tourist arrival was 1.9 million despite nearly 17% decline compared to 2018 (2.3 million of tourist arrivals)

INDIA

National carrier Air India and budget carrier Indigo has cancelled many of their international flights w.e.f March 16, 2020 and March 17, 2020 respectively. Government of India (GOI) has also stopped all international flights to and from India from March 23, 2020 till April 15, 2020 and domestic travel has also been ceased with effect from March 25, 2020 till April 15, 2020.

As per Federation of Indian Chambers of Commerce & Industry (FICCI), India has 53,000+ travel agents (including Non-IATA agents), more than 1.3 lakhs tour operators (domestic, inbound, adventure, cruise and outbound), more than 2,700 MICE organisers and 19 lakh plus tourist transporters[4].This catastrophe in aviation sector has direct and indirect implication on their livelihood which are also dependent on such type of ancillary services.

The below data shows a glimpse of the adverse effect on the aviation sector[5]

IndiGo
— There is a drop of 82.3% in passengers carried in July 2020 as compared to the same time period of 2019
— In a bid to raise nearly $500 million and for the smooth functioning, the airline is planning to sell its shares.
— IndiGo is planning to cut 10% of its workforce

Air India
— Due to the ongoing pandemic situation Air India has shut down its offices in Vienna (Austria), Milan (Italy), Madrid (Spain), Copenhagen (Denmark) and Stockholm (Sweden)
— Air India will furlough nearly 600 employees on voluntary leave without pay for up to 5 years
— As the Indian government is considering denationalizing the airline and the Tata Group has shown its interest to bid for Air India. The Tata Group is presently doing due diligence as it prepares to bid before the deadline of 31stAugust 2020.

Air Asia reducing the workforce by up to 30%

SpiceJet Airline reports show a loss of Rs 934.8 cr in the FY2020. It's expected that the, with the induction of the newly service of the Boeing 737 MAX by March 2021 will give the necessary boost to the SpiceJet's fleet.

Table 1: comparative chart shows the listed airlines in BSE Sensex for the past one year:

Date / Name of the Stock	**10 September, 2019**	**02 March, 2020**	**31 March, 2020**	**10 September, 2020**
Interglobe Aviation	₹1675.65	₹1239.05	₹1066.15	₹1257.95
SpiceJet	₹129.05	₹75.90	₹36.90	₹50.90
Global Vectra	₹60.0	₹51.20	₹35.05	₹54.10

[4]https://www.grantthornton.in/globalassets/1.-member-firms/india/assets/pdfs/travel-and-tourism-in-times-of-covid-19.pdf
[5]Travel Technology Research Ltd (n.d.) https://www.t2rl.com Coronavirus COVID-19 Airline Impact

Exhibit1: Fluctuation in the stock prices (in INR) of listed airlines
(Source https://www.moneycontrol.com)

Domestic Airline Services:

The Table 2 shows a 3 % dip of passenger traffic in the month of February as compared to December. March month has witnessed a decline in passenger traffic by 37% due to restriction on movement imposed by government. There is a 74% decline in the month of June as compared to March, which shows even government has given relaxation in air travel, but the major concern of hygiene and safety is still in the travellers

Table 2 - Source: Author compilation from the data of DGCA

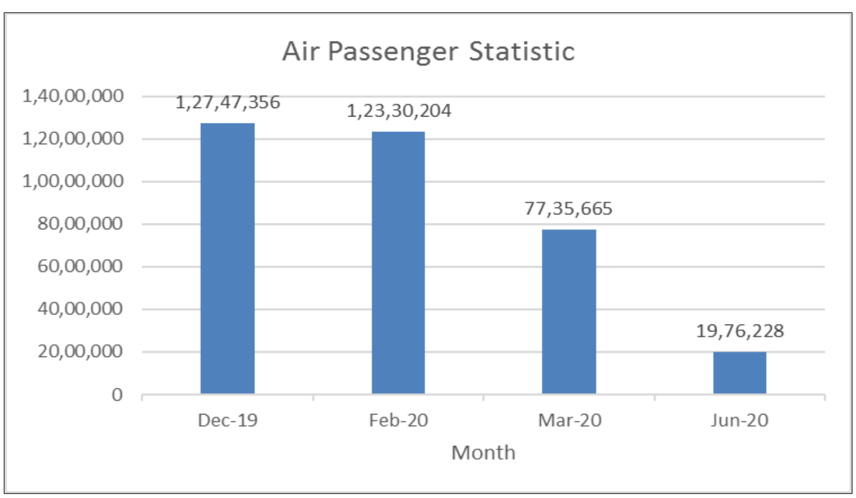

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Table 3 shows a 4 % dip of Freight carrying in the month of February as compared to December. March month has witnessed a decline by 25% due. There is a 29% decline in the month of June as compared to March.

Table 3: Author compilation from the data of DGCA

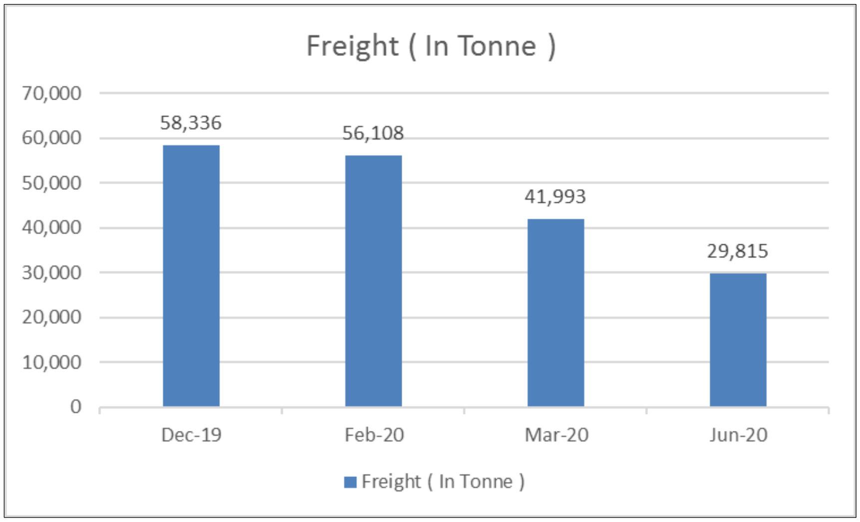
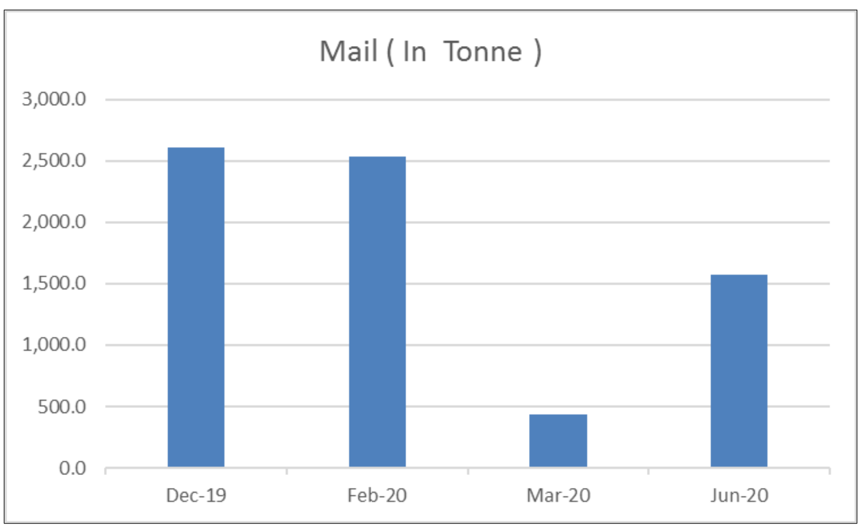


Table 4 shows a 3 % dip of Mail carrying in the month of February as compared to December. March month has witnessed a decline of 83% and a -258% decline in the month of June as compared to March.

Table 4: Source: Author compilation from the data of DGCA



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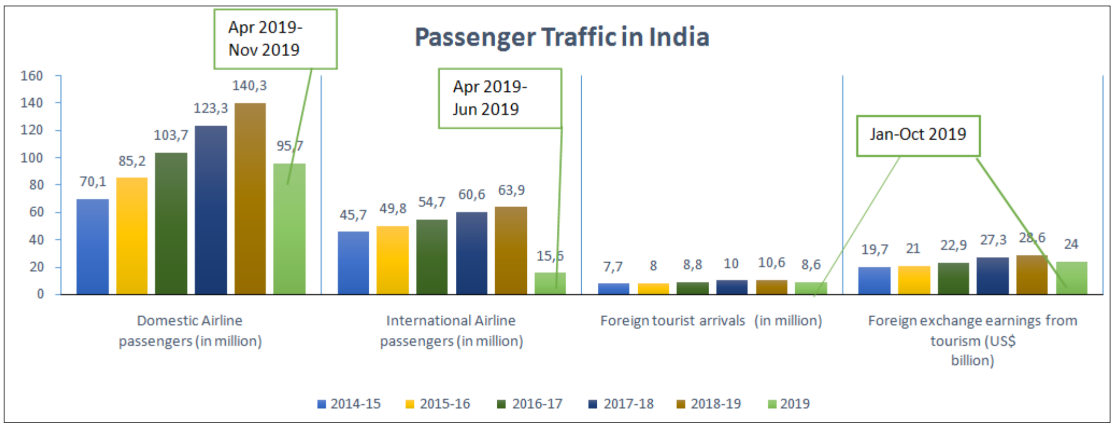
Foreign Tourist Arrivals in India (FTAs): Vision 2040

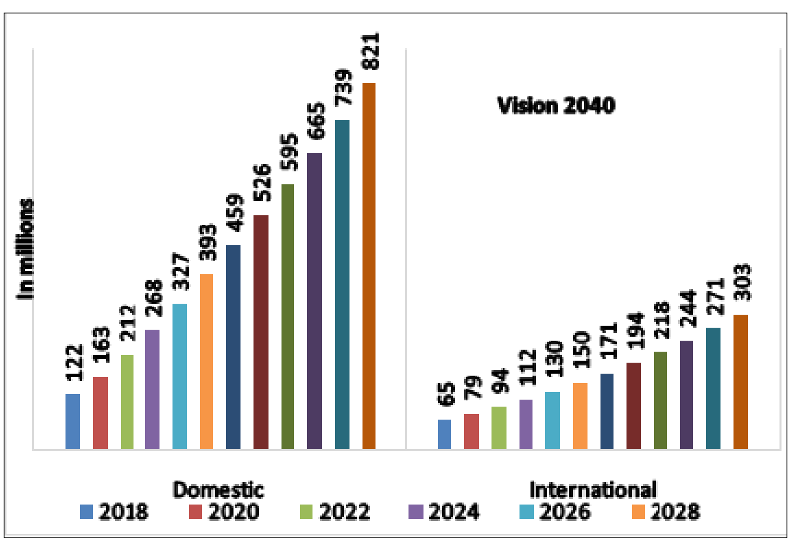
GOI had set an aim of attracting 20 million foreign tourist arrivals (FTAs) by 2020 with double the foreign exchange earnings. GOI had plans to achieve one per cent share by 2020 and two percent by 2021in global international tourist arrivals. As per India Brand Equity Foundation (IBEF) forecast on Indian tourism industry shows that passenger traffic will increase to 450 million by 2020 at Indian airports. Chart 3 shows the forecast made by KPMG in collaboration with FICCI, which clearly shows India was very close to achieve these targets. The pandemic has made not only the tourism progress stagnant or can be seen it is taking back but also it is slowing the GDP growth.

Exhibit 2: Passenger Traffic at a Glance



Source: https://bit.ly/36OjnpF

Exhibit 3: Vision 2040 for the Civil Aviation Industry in India KPMG report in collaboration FICCI (https://bit.ly/36JbiTr)



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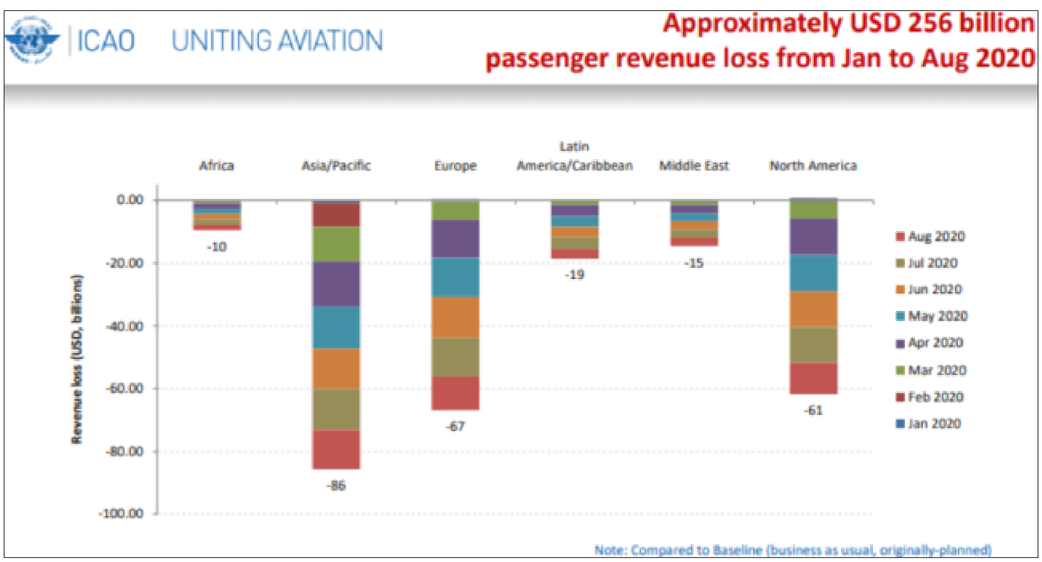
Interpretations and Observations

IATA shows a 54.7% decline of revenue passenger kilometers (RPKs, both international and domestic) in 2020 compared to 2019. Due to 100% worldwide travel restrictions, there was a decline in international tourism receipts of between USD 910 to 1,170 billion in 2020, compared to the USD 1.5 trillion generated in 2019. Approx. USD 372 to 393 billion potential loss of gross passenger operating revenues of airlines Q1 2021 (Jan – Mar)

From the above analysis and data, we can conclude that the hypothesis that there is no impact on the tourism industry of India is rejected and hence there is significant impact of Covid-19 on the economic growth.

The other hypothesis that Covid-19 has no impact on the aviation industry of India is also rejected; actually data shows that it will take more than a year to revive to their pre Covid-19 levels.

Exhibit 4: Air Passenger Traffic in India, witnessed a positive growth in the year 2018-19 compared to the 2017-18.



Conclusion

Our results reveal that environment control in indoor environments should consider all three possible transmission routes for respiratory and enteric infections. Our results reveal that environment control in indoor environments should consider all three possible transmission routes for respiratory and enteric infections. COVID-19 had a negative impact in the aviation industry and on the GDP.

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The reports of June 2020 of IMF (International Monetary Fund) and World Economic Outlook shows India's GDP in the year 2018 was 6.1 and for 2019 was 4.2, whereas the projected figure for the year 2020 is -4.5.The passenger taking air travel has been reduced significantly. There is a sense of insecurity among travellers related to hygiene. Post Covid-19 psychological factors can affect directly to the consumer's satisfaction(Hong, Yan; Cai, Gangwei; Mo, Zhoujin; Gao, Weijun; Xu, Lei; Jiang, Yuanxing; Jiang, Jinming. 2020). Even there is significant reduction in the cases but fear of Covid-19 might impact the aviation industry. A government intervention is required in this crucial juncture. Many countries have reinstated the air travel as per the Air Bubble agreement. Few airlines of other countries have been given support by government.

Although, Virgin Atlantic has acquired £1.2bn rescue plan from the creditors it would secure its help to keep the airline afloat for at least 18 months and 6,500 employees jobs[6] but if the situation doesn't improve airline will need funding support and require cash to meet to meet their expenses and to remain floating. The countries can set up a dedicated Task force that will work on the revival plan of the industry. The below methods if implemented can give much needed relief to all the stakeholders:

- Tax exemptions
- Increasing the time period of deferred amount
- Supporting the cost of salaries
- Introducing commission based structure for ticketing agents.
- Government can wave off the parking charges and reduce the fuel cost.
- IATA can increase the billing period of 15 days, which is at present weekly. This will give the ticketing agents rolling period.
- Introducing Leave Travel Allowance/ Concession (LTA/LTC).
- LTA/LTC should not be limited to the national carrier.
- At present Balmer & Laurie is the authorized ticketing agent for government offices. For a couple of years, IATA authorized travel agents should also be considered for the same
- The airline should also consider B2B (business to business) proposition rather than promoting B2C (Business to Customer).

Although business travels are reinstated with a major concern of hygiene and safety, but the leisure travel will be still at stake. The tourism industry has one of the most skilled workforces, and losing them in this juncture will jeopardize the whole system.

[6] https://www.bbc.com/news/business-53908474#:~:text=Virgin%20Atlantic%20has%20won%20backing,money%20had%20approved%20the%20plan.

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