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Corona crisis continues to weigh heavily on the aviation industry

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Despite the recent border openings, the corona pandemic continues to impact the aviation industry. Although the industry association IATA has recently reported an upturn in key performance indicators for June and thus the first effects of the corona relaxation measures, the positive effects are currently primarily evident in domestic flights. However, the number of global flight bookings in late June remained around 80 per cent below the previous year's level, IATA announced.

Apart from the airlines, the two largest aircraft manufacturers and arch rivals Airbus and Boeing are also massively impacted: Airbus plans to cut about 15,000 jobs worldwide in response to the aviation crisis. In Germany alone, about 5,100 jobs will be affected, the aircraft manufacturer recently announced. In addition, Airbus plans to cut 5,000 jobs in France, 900 in Spain, 1,700 in Great Britain, and over a thousand at other locations worldwide.

"The industry is in an unprecedented crisis", Airbus announced. Air traffic is not expected to recover before 2023 and may not return to pre-corona levels until 2025. According to broadcaster NDR, Airbus Labor Director Marco Wagner spoke of the worst crisis in aviation history. No area at Airbus would be spared, said Wagner, adding that Airbus will probably be a smaller company overall after the crisis.

Airbus CEO Guillaume Faury had already prepared the company's employees for hard times on several occasions, and had spoken of a situation threatening the company's existence, especially since a second corona wave could further delay any expected recovery.

As a result of the corona crisis, Airbus did not receive any new aircraft orders in June, as had already been the case in May. At present, many completed aircraft are parked, airlines currently not accepting them because of the collapse in the market caused by the corona crisis. Production is to continue, but temporarily at a slower pace, with only 40 of the best-selling A320 series to be produced per month.

737 Max flight ban puts additional pressure on Boeing

The US aircraft manufacturer Boeing has also already launched a massive cost-cutting programme to stabilise its financial position. At the end of April, the company announced that it would cut ten per cent of its jobs worldwide, about 16,000 jobs.

Boeing is not only suffering from the Corona crisis, but also continues to suffer from the flight ban on its Boeing 737 Max planes. After two crashes in Indonesia and Ethiopia with a total of 346 fatalities, Boeing's best-selling aircraft type has been placed under a worldwide flight ban since March 2019. A faulty control program is considered the main cause of the accidents.

Most recently, the Boeing 737 Max completed its first test flights for recertification by the FAA. This marks an important milestone, but a number of other hurdles remain, such as the evaluation of flight data. The grounding will only be lifted when the FAA safety experts are convinced that the aircraft meets all standards. If all goes well, the 737 Max could be certified again in the coming months.

With the Corona crisis the situation has been exacerbated for Boeing. The US aircraft manufacturer is also suffering from the order slump in the industry. In May, Boeing delivered only four commercial aircraft as opposed to 30 in May of 2019, even though the 737 Max was already subject to take-off bans at that time. The order situation also remains critical. In May only nine new orders came in and the wave of cancellations continues: In the course of the year to date, a total of 602 orders were lost by the end of May.

Airlines continue to rely on massive government aid

Meanwhile, the airlines, which have been severely affected by the crisis, continue to rely on cost cutting and large-scale state aid. AUA parent company Lufthansa, for example, has recently decided to make further savings. The number of management positions is to be reduced by 20 per cent, and 1,000 administrative jobs will also be cut.

Lufthansa had to be saved from bankruptcy with a EUR 9bn government financial package due to the business slump caused by the pandemic. According to the executive board, the airline group has a long-term personnel surplus of 22,000 full-time positions, as the management expects a permanently smaller fleet. Agreements with unions on cost reductions are to prevent the affected employees from having to be laid off.

The crisis has also led to a return of state involvement. As a result of the rescue package, the German state is now Lufthansa's largest single shareholder, owning 20.5 per cent. The controversial state shareholding had made the Lufthansa rescue dubious for a while, however, in the end the shareholders voted in favour of the rescue package, including the state's entry.

Lufthansa subsidiary AUA was also rescued using state funds in part, with the Republic of Austria and owner Lufthansa each contributing EUR 150m in addition to a state-guaranteed EUR 300m bank loan.

KLM Royal Dutch Airlines secured a state loan of EUR 3.4bn at the end of June to overcome the crisis. This means that the aviation group Air France-KLM can count on financial aid to combat the effects corona crisis of more than EUR 10bn that is either directly state-funded or state-guaranteed. France is supporting KLM's sister company Air France with EUR 7bn.

Now the industry is hoping for positive effects arising from the opening of the borders. Based on its forecast models, IATA expects further recovery in the demand for flights during Q3, with domestic flights in particular leading the recovery. However, according to IATA estimates, 2019 levels will not be reached again until 2023. The big question remaining is whether a possible second corona wave could slow down the ongoing recovery.

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