

The state of global travel retail — Route to Recovery, Airports

Recently, the Duty Free World Council (DFWC) held a webinar that was exceptionally comprehensive in its scope. Speakers included Patrick Lucas, Director of Economics, ACI World, who discussed the current and prospective state of air travel.

It's difficult to picture a worse scenario than what we have seen this year for the air travel industry. We may all be getting tired of hearing the word "unprecedented," but this word is truly accurate. Last year, 2019, was a banner year, with record passenger numbers and load, and January began on a positive note, but that was soon to change as it became apparent that the COVID-19 virus was spreading around the world and borders began to close in March. By April there was very close to 100% contraction, with nearly all borders completely closed. "Hopefully the darkest days are behind us," said Lucas.

While there has been a slight uptick, 2020 as whole will show declines of about 60% compared to the projected baseline.

Borders begin to open

As of September 17, when Lucas spoke, 115 destinations, or 53%, had eased travel restrictions that had been put in place because of COVID-19. That being said, 93 destinations, or 43%, still had borders completely closed.

Year on year, global PAX in April was 94.4% lower than in 2019, with the decline in Q2 standing at 89.6%. By Q3 that number had improved to a decline of 68.9% — severe to be sure, but at least heading in the right direction.

Despite the fact that flights have been canceled, routes have been cut and planes have been grounded, the load factor reached record lows this year after record highs last year. For July, the international PLF was 46%, down 39 points from last year's high of 86%.

Lucas compared the situation in 2020 to that of post-2001, and the global economic crisis of 2008/2009 though he expresses that the drop in growth trajectory at those times looked like a "pothole" as opposed to the cliff of 2020. In 2001 recovery came within two years.

Returning to previous numbers

There are two different ways to look at recovery. One is, when will numbers return to pre-pandemic levels and the other is, when will we return to the growth trajectory we had been on, meeting up with the originally forecast numbers.

If certain conditions are met, Lucas states that the majority of the world will see a return to pre-pandemic figures in about 2023 for domestic traffic, and 2024/2025 for international traffic. But these conditions must be met for this to occur.

These conditions are:

- The development of a vaccine and effective supply chains to deploy it

- Stable economic conditions (income, prices and consumer behavior)
- Removal of quarantine measures and travel restrictions

A number of factors can affect this timeline, including second and subsequent waves of infection, economic uncertainty leading to a prolonged recession, and consumer' feelings of safety.

What the industry can do

Lucas discussed current stumbling blocks and what we as an industry can use as “managerial levers” to help accelerate recovery.

The most important decision governments need to make to help aid in the recovery is to get rid of border closures and quarantine measures. And these decisions and their associated guidelines need to be made en masse. “Quarantine measures have completely stalled the industry when this could be replaced with robust testing program,” said Lucas. Additionally, “Despite solid international guidance, travel restrictions remain largely uncoordinated from one jurisdiction to next, making air travel challenging and problematic — international travel in particular.”

An integral part of achieving the goal of ending border closures and quarantine measures is to create an environment of safety and security within all airports. This will help governments to feel opening up is the right decision and will also help with consumer confidence.

To create an environment where governments will work in agreement, all stakeholders in the aviation industry must be aligned. Airports and airport retailers need to ensure strict health guidelines are being consistently followed. Airports can take part in ACI's Airport Health Accreditation program, which is an audit process to ensure sanitation procedures are being followed.

Lucas says we need to create contactless environments. “This move existed before the pandemic but is now accelerating. Communication, proper signage and proper contactless protocols must be in place.”

Communicate importance of all

We need to establish the importance of all members of the aviation ecosystem with our respective governments. “The aviation ecosystem very much linked to UN development goals,” said Lucas. “If we don't get back on track these goals are at risk because of multiplication effect.” The costs born by airports are mainly fixed. Even the variable costs are only somewhat variable, and passengers are necessary for all contributors, retail or otherwise, to recover.

Another area ACI would like to focus on to help aid recovery, and according to Lucas a policy brief will be sent out on this matter in a couple of weeks, is the removal of international passenger taxes, which amount to US\$90 billion each year. “Removal of these taxes could potentially give huge benefits – direct, indirect, induced and catalytic – aviation, tourism, contribution to wealth; the benefits are basically doubled,” said Lucas.

Long-term fundamentals

Lucas does want to remind us that despite the dire situation we are currently in and the unpredictability of recovery, the long-term fundamentals still apply. “Before the crisis, aviation's center of gravity has continued to shift eastward toward Asia. Eighty percent of the global population resides in emerging markets, and a lot of these markets have a growing middle class and a rise in propensity to travel by air.” This creates a feedback loop as these people travel to other markets.

Asia, Latin America, Africa and India are all massive potential markets that are peaking or have yet to peak in terms of working age populations. This is a massive pool of purchasing power. India's working population will not peak until 2040. So while it may take 20 years to get back to the growth trajectory the industry had been on, we will arrive there.