International Civil Aviation Organization

Twelfth Meeting of the Air Traffic Management Sub-Group (ATM/SG/12) of APANPIRG

Bangkok, Thailand, 23 – 27 September 2024

Agenda Item 8: Any other business

STATE OF AVIATION ECONOMICS

(Presented by IATA)

SUMMARY

This paper provides summary of the current state of aviation economics, particularly with respect to recovery post COVID-19 pandemic, and also reminds States of their expected obligations under ICAO guidance for setting ANS charges.

1. INTRODUCTION

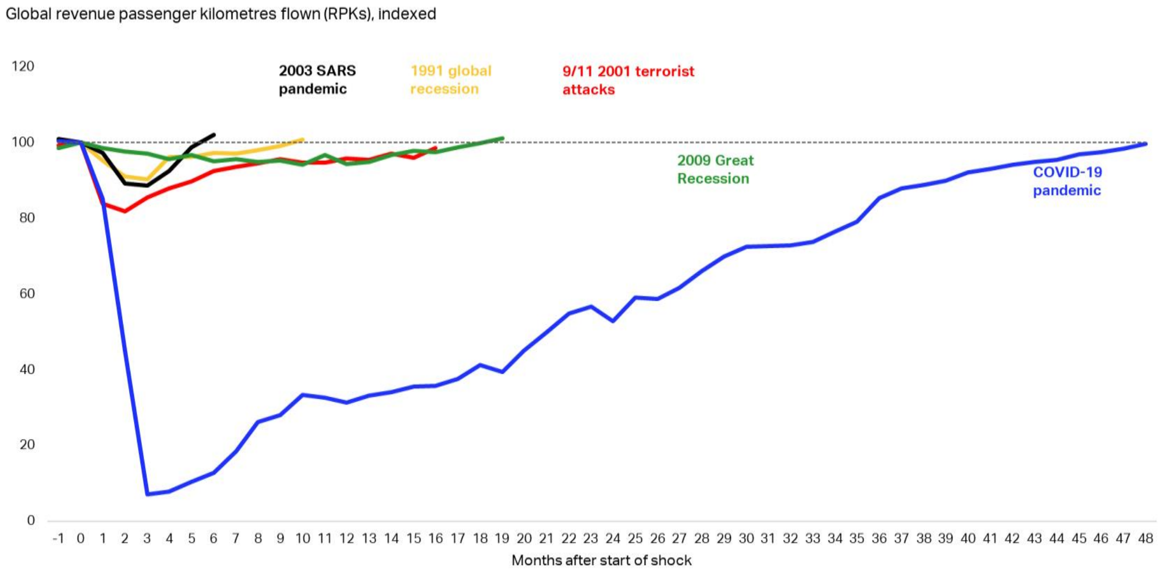
1.1 The global aviation industry has been in steady recovery since restrictions related to the COVID-19 pandemic were lifted. Some regions have recovered more rapidly than others however all are either back to 2019 performance or expected to be by 2025.

1.2 Airlines are returning to profits however still face several financial challenges to maintain break-even levels. Some airlines have been unable to recover and have either ceased trading or entered voluntary administration.

1.3 Airlines and ANSPs must work together to ensure investment in future ATM infrastructure matches user needs and strategic planning so that cost-recovery for all parties is ensured and achievable. ICAO guidelines for setting ANS charges provides an effective methodology for achieving these outcomes.

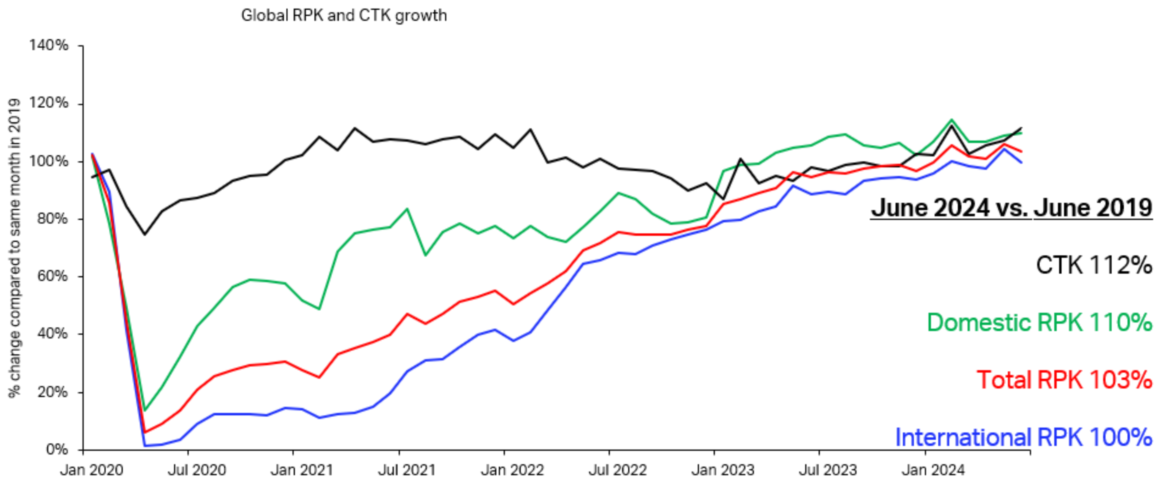
2. DISCUSSION

2.1 The scale of past events' impact on global air traffic pales in comparison to the impacts from COVID-19. No event was as severe or prolonged in its negative effect on world aviation.



Source: IATA Economics using data from IATA Monthly Statistics. Data is adjusted for seasonality.

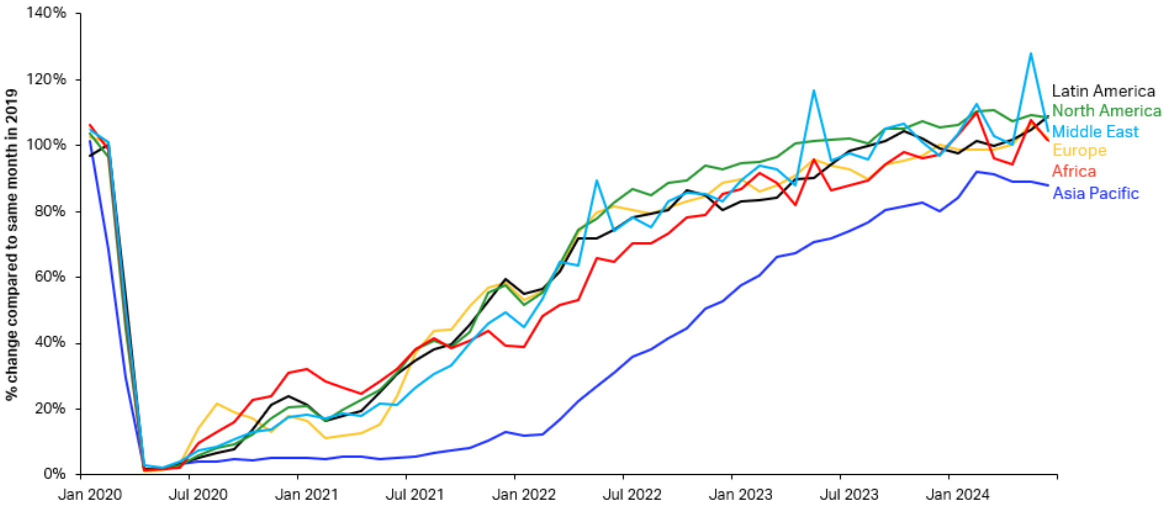
2.2 The global recovery remains on track with total RPKs (Revenue-Passenger-Kilometre) currently at 103% of 2019 levels.



Source: IATA Monthly Statistics

2.3 International traffic for all regions except Asia Pacific has recovered. Asia Pacific traffic in June 2024 was at 88% of pre-COVID levels.

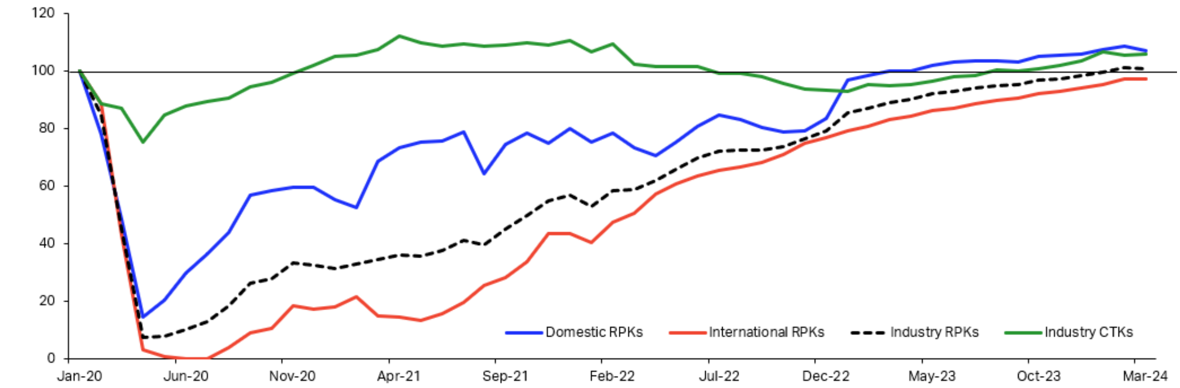
Growth in international air travel, RPKs by market



Source: IATA Monthly Statistics; traffic by **airline region of registration**

2.4 There has been a solid uptrend in passenger traffic, whilst cargo figures are still being primarily sustained.

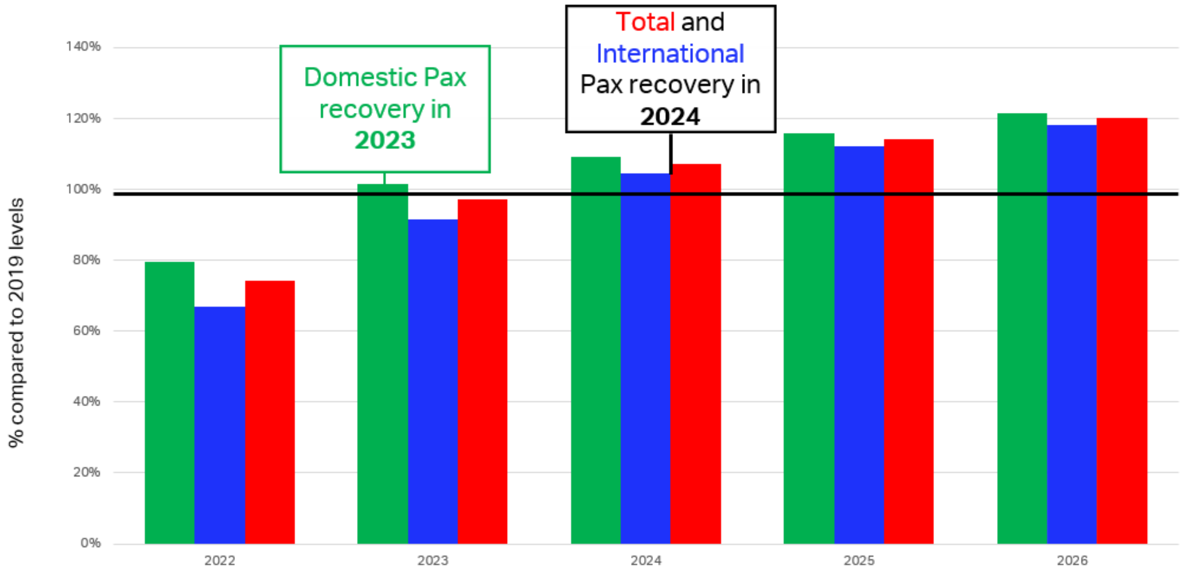
Industry RPKs and CTKs, Seasonally Adjusted, indexed, January 2020 = 100



RPK: Revenue Passenger-Kilometers; CTK: Cargo Tonne-Kilometers

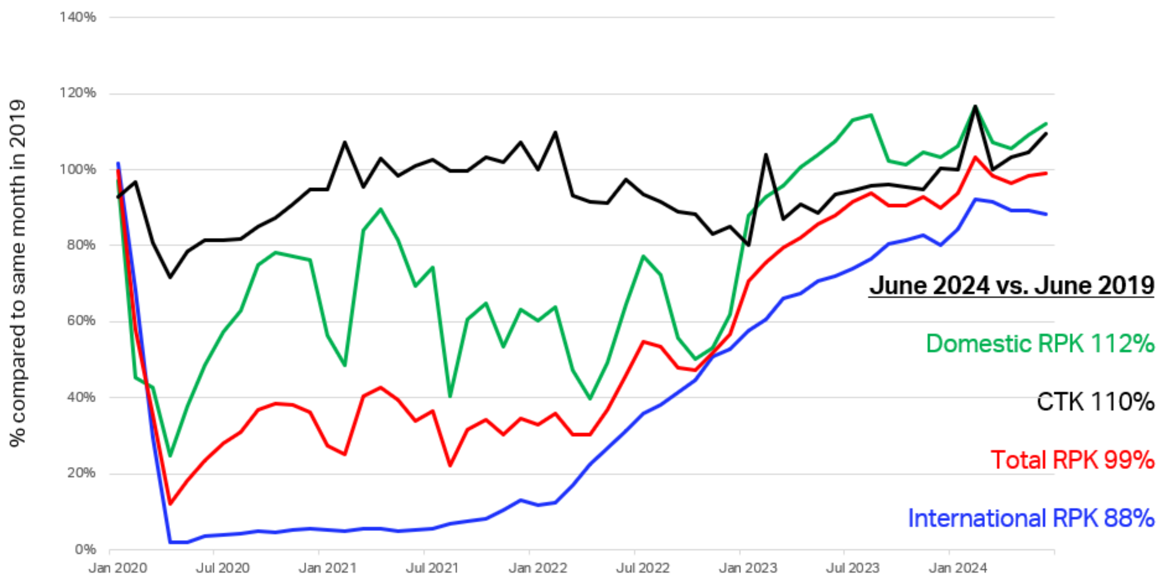
Source: IATA Sustainability & Economics, IATA Monthly Statistics

2.5 The global passenger forecast shows overall domestic, international and total passenger numbers recovered during 2024.



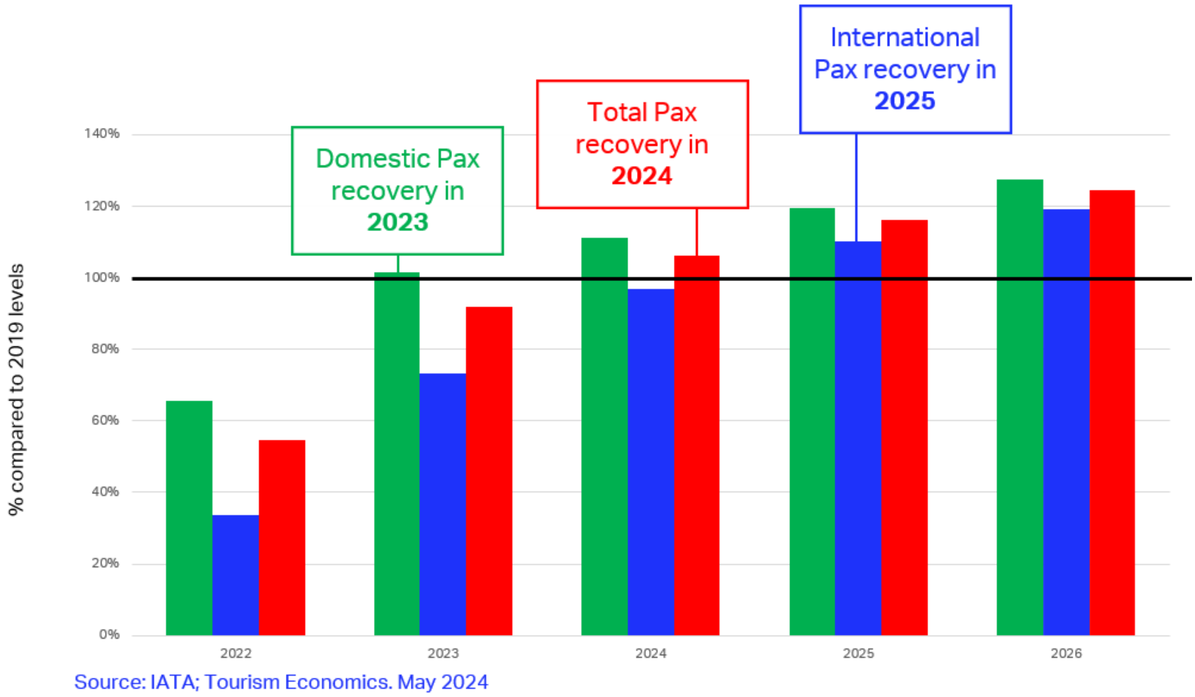
Source: IATA; Tourism Economics. May 2024

2.6 RPKs in Asia Pacific are currently at 99% of 2019 levels.



Source: IATA

2.7 Asia Pacific domestic passenger numbers are expected to push total passenger numbers past 2019 levels however international traffic in the region is not expected to have fully recovered until next year.



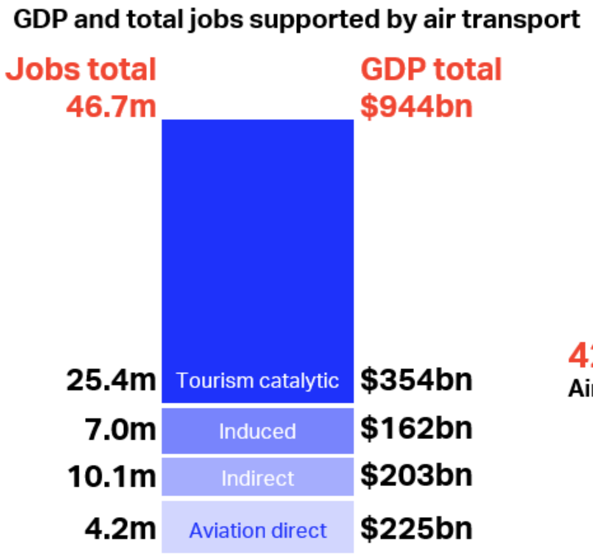
2.8 In Asia Pacific, air transport supports 46.7 million jobs and USD944 billion of Gross Domestic Product (GDP). This is accumulated through the following attributions:

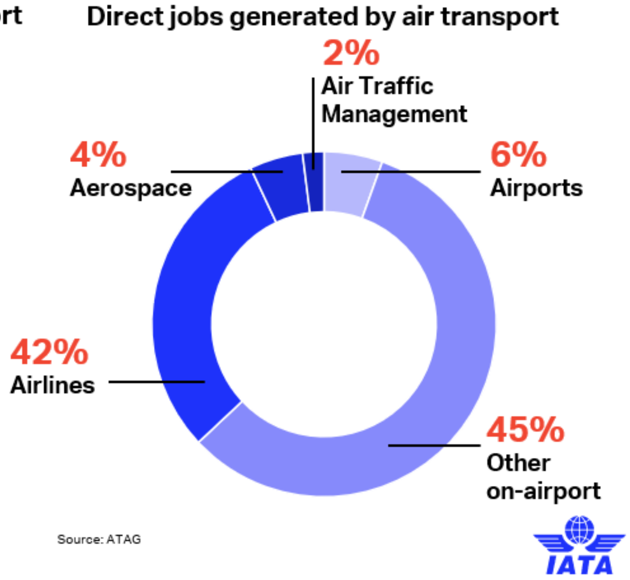
a) Aviation Direct: creating jobs that directly serve passengers at airlines, airports and air navigation service providers (ANSPs);

b) Indirect: Indirect impacts include employment and activities of suppliers to the air transport industry — for example, aviation fuel suppliers; construction companies that build airport facilities; suppliers of sub-components used in aircraft; suppliers of products such as radars and satellite-based navigation systems to the air traffic management industry; manufacturers of goods sold in airport retail outlets; and a wide variety of activities in the business services sector (such as call centres, information technology and accountancy);

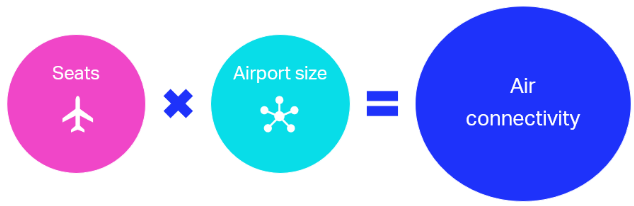
c) Induced: The spending of those directly or indirectly employed in the air transport sector supports additional jobs in industries such as retail outlets, companies producing consumer goods and a range of service industries (such as banks, telecommunication providers and restaurants); and,

d) Tourism: represents a significant contribution to the worldwide economy, providing employment and boosting global economic activity.

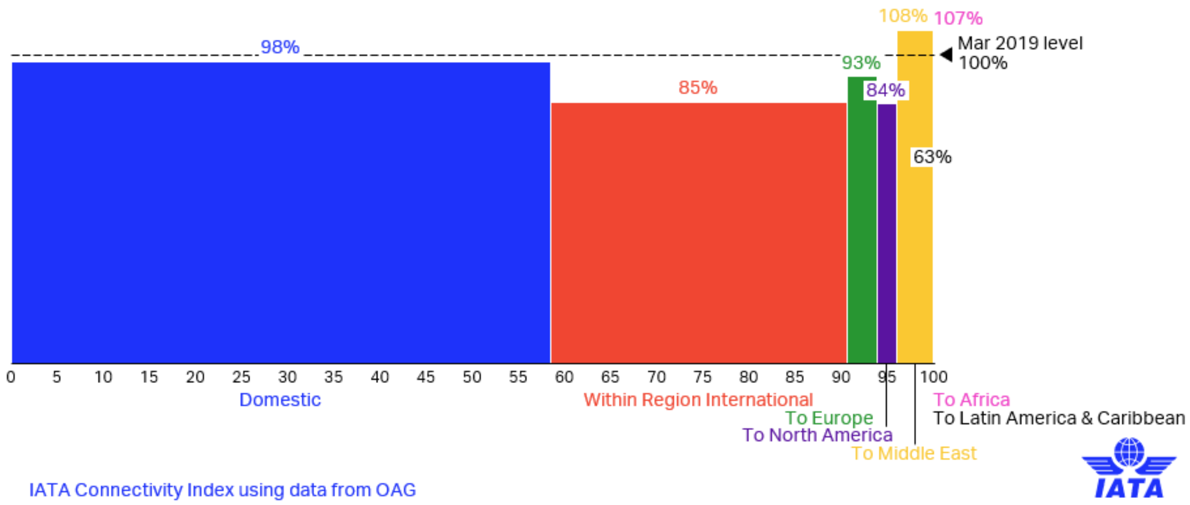




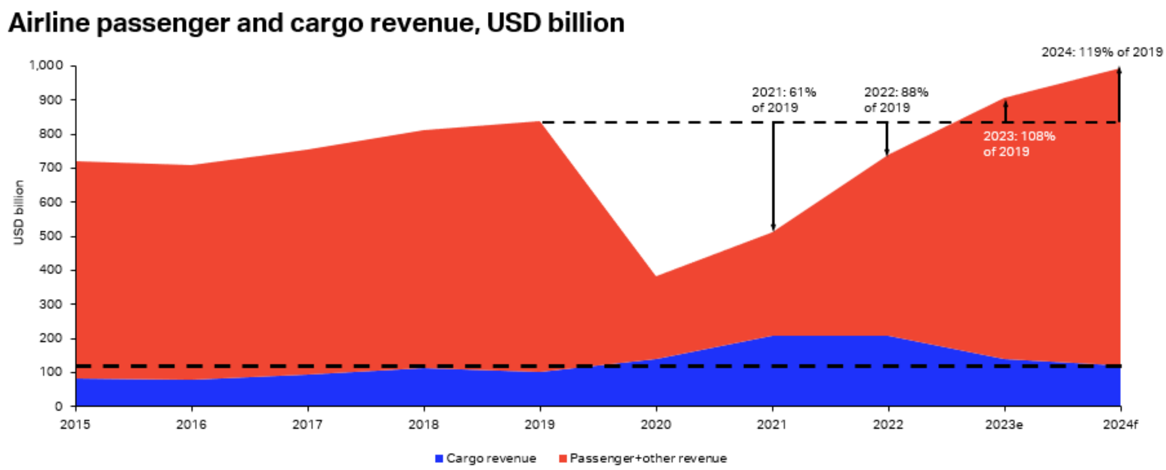
2.9 Air connectivity is an engine of economic growth. The key elements for measuring Air Connectivity are frequency and available seats per flight (Seats), and weighting of the destination airport (Size).



2.10 By March 2024 Air Connectivity in Asia Pacific was approaching 2019 levels with intra-region internation connectivity still only at 85%. It is possible that full recovery of Air Connectivity may not occur in the short-medium term as many airlines have reduced their networks and others have ceased operating altogether.



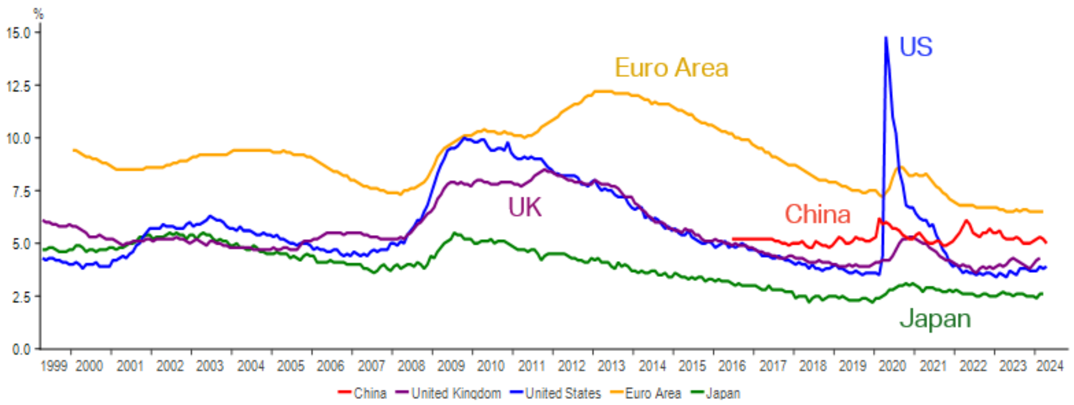
2.11 Airlines have slowly climbed back into cost-recovery and profit areas with the revenue growth being on the passenger side. Cargo revenue has dropped slightly from the peaks experienced during the shutdown periods of COVID-19 but remains consistent.



Source: IATA Sustainability and Economics, The Airline Analyst

2.12 However, there are still many challenges in the aviation industry that airlines and most stakeholders still face in achieving cost-recovery and some level of profit. These include labour markets remaining exceptionally tight, fluctuating wage growth, global inflation still being too high for big policy rate cuts, and the very possible threat that real interest rates will rise further.

Unemployment rate in selected economies, %

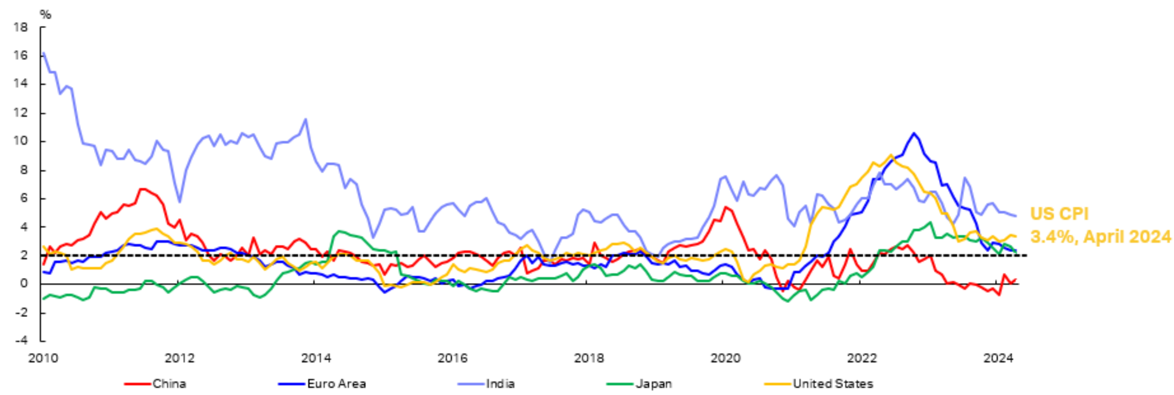


Source: MacroBond

US Nominal Wage Growth, % YoY

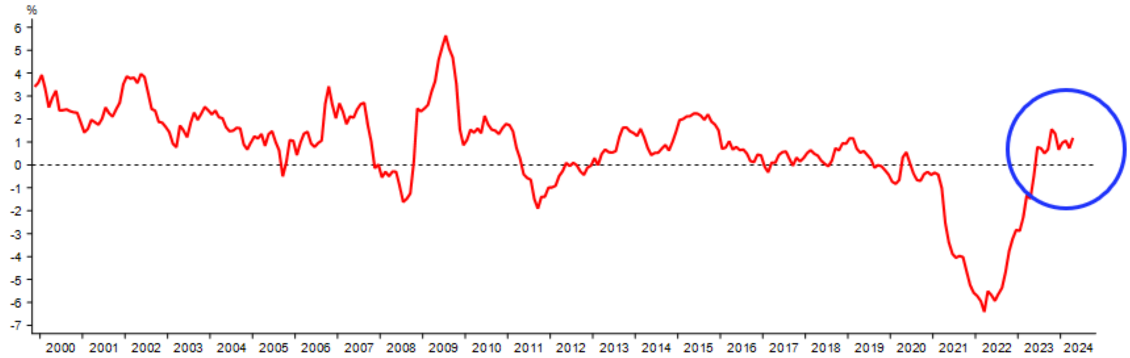
Source: Federal Reserve Bank of Atlanta

Consumer Price Inflation in selected economies, %



Source: MacroBond

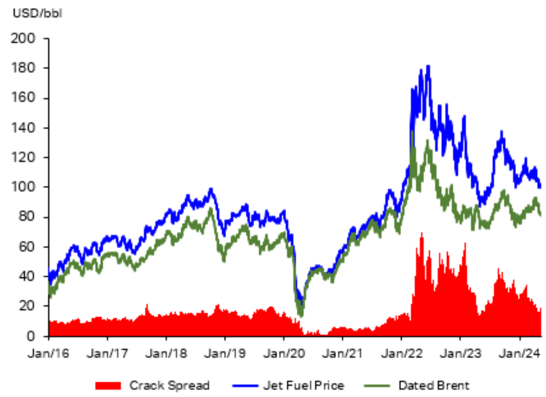
Real US 10-year interest rate, %



Source: MacroBond

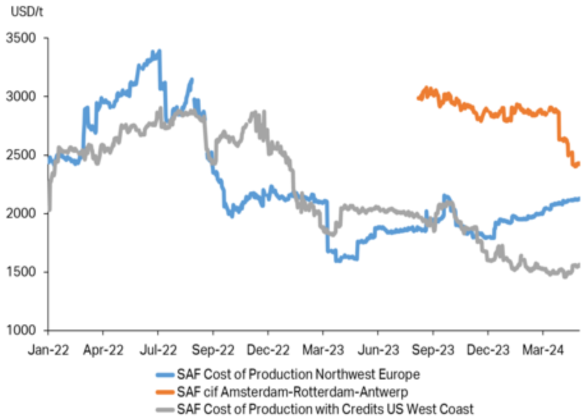
2.13 The price of jet remains high albeit down from the peaks of previous years driven by still relatively high crude oil and crack spread prices. Additionally, the cost of production and price estimates of Sustainable Aviation Fuel (SAF) remain high until more producers join the market and improve production process and costs and create better competition.

Jet fuel, Brent crude, and Crack Spread, USD per barrel



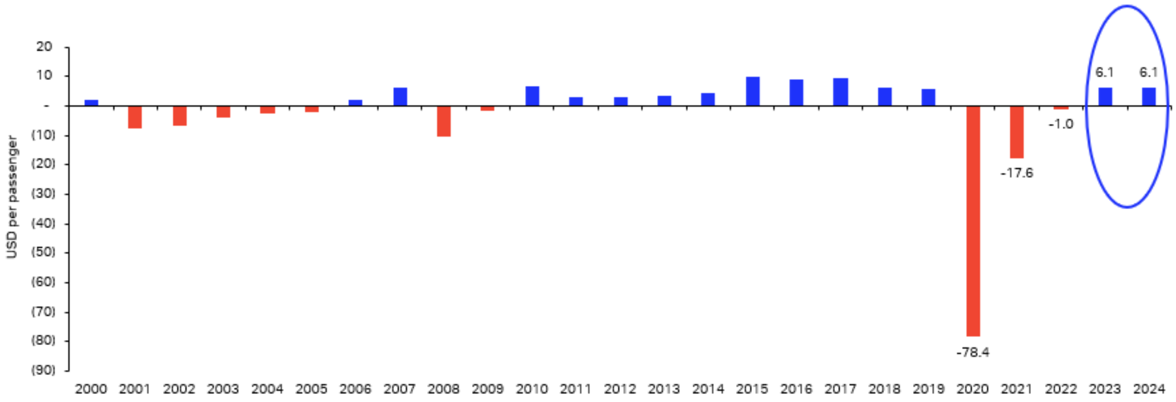
Source: Platts, S&P Global Commodities Insights

SAF cost of production and price estimates, USD per tonne



2.14 Despite the challenges, the recovery in passenger numbers is providing airlines a global average net profit per passenger of USD6.10.

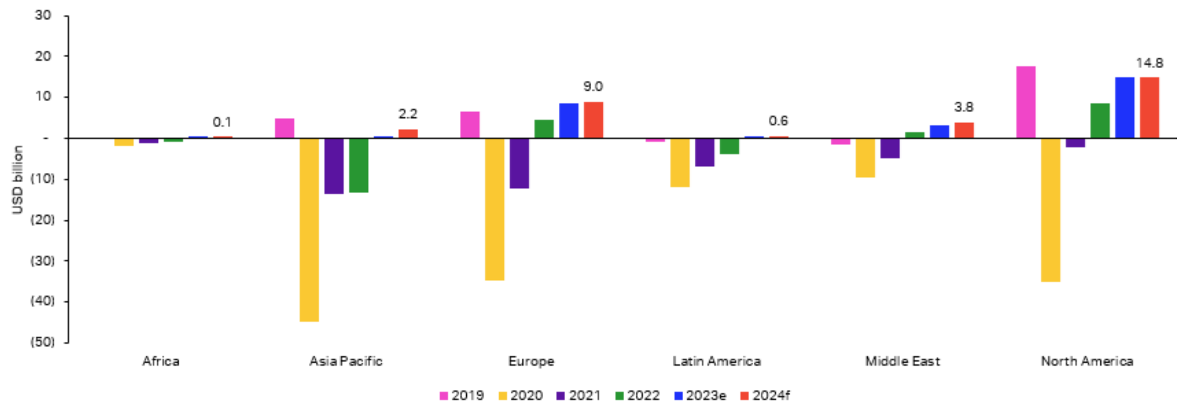
Net profit per passenger



Source: IATA Sustainability and Economics, The Airline Analyst

2.15 These profits, however, are weighted heavily towards the North America and, to some degree, the Europe markets with Asia Pacific only just breaking even last year and forecasting a modest profit this year.

Net profit by region, USD billion



Source: IATA Sustainability and Economics, The Airline Analyst

2.16 It is timely to remind of APANPIRG Conclusion 34/15 (13Dec23) regarding Adherence to ICAO Principles and Recommendations for Setting Air Navigation Charges

States are urged to:

1) Incorporate the four key charging principles from ICAO Docs 9082 and 9161 into national legislation, regulation or policies, and air services agreements; and

2) Provide direction to ANSPs, airport operators and other service provider entities to comply with the Doc 9082 and 9161 guidance and intent, particularly the provisions relating to consultation with airspace users.

Why: To encourage timely (i.e., prior to promulgation) and adequate consultation with AUs by ANSPs, airport operators and other service providers.

2.17 Unfortunately, this continues to be ignored by many States! Only a handful of States follow ICAO guidance for setting ANS charges. Common challenges encountered by airlines include:

a) No prior engagement with Airspace Users to determine user needs;

b) Absence of a National Air Navigation Plan;

c) Little or no financial CapEx or OpEx financial figures provided so no accurate cost-recovery targets;

d) Unreliable traffic forecasts used to set unit rates;

e) Varying interpretations of what 'meaningful consultation' involves – often airlines receive a briefing on what has already been decided.

2.18 Recent examples of challenges include:

a) Claim that consultation was conducted in 2013 for a 2021 increase and therefore no further engagement. Followed by another increase in 2024;

b) Successive increases citing same investments as part of cost-base – no way to track what has been completed or not;

c) Short-notice invitation to charges briefings to be advised new figures already approved by the Regulator or the relative Government Department;

d) Commitment in late 2023 to a full consultation process then discovery of publication in May 2024 of new increases effective Jan 2024 without any further engagement;

e) Consultation feedback from airspace users opposed a significant infrastructure project that was still retained by the ANSP but cancelled from the cost-base 12 months later. There was no refund for the component of charges that had already been collected for it.

2.19 "Equilibrium" is an IATA Asia-Pacific strategy for balancing the needs of Airspace Users and Air Navigation Service Providers. It is about partnering for mutual benefit to strike the right balance between the needs of ANSPs and AUs, including:

a) Safety – as the foremost priority!

b) Regulation and legislation

c) Future investment plans and operational strategies

…in order to:

d) Enhance understanding of CAPEX and OPEX plans

e) Prioritize investments to ensure safety and capacity

f) Support strategic objectives to improve and support the international and domestic aviation sectors.

3. ACTION BY THE MEETING

3.1 The meeting is invited to:

a) note the information contained in this paper;

b) discuss any relevant matters as appropriate; and,

c) promote adherence to ICAO guidelines for setting ANS charges, noting the objectives of IATA’s “Equilibrium” strategy.

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