



## Travel Industry Update

September 14, 2020

### **Delta will use frequent-flyer program to back \$6.5 billion in debt**

- Delta Air Lines said Monday that it will borrow \$6.5 billion backed by its frequent-flyer program, the third airline to tap loyalty platforms to shore up liquidity during the coronavirus crisis.
- Delta joins American and United with plans to use its frequent-flyer program to back new debt.
- The airline plans to sell senior secured notes and enter into a new credit facility, both backed by its SkyMiles program. SkyMiles will lend the net proceeds of the bond offering to Delta, although a portion will go to a reserve account.

### **United Airlines CEO warns economic woes will get worse without vaccine, new round of stimulus**

- United CEO Scott Kirby said Sunday that while some industries of the economy have been able to recover, "anything to do with leisure, hospitality, meeting, convention services [and] restaurants are all hurting, and frankly, are near depression levels."
- "It was a remarkable bipartisan response really to rescue not just the aviation industry, but the whole economy back in March, an unprecedented bipartisan response," Kirby said in an interview on CBS' "Face the Nation." "But this is lasting longer and is deeper than most people thought back then. And our revenue, we just said, is going to be down 85% in the third quarter. And in a world like that, United Airlines and others come Oct. 1, without an extension of the CARES Act ... is going to be forced to lay off employees just to survive."
- He explained that business travel is "almost nonexistent" while leisure travel is "down significantly from where it was before." As for international travel, United's revenue was down 96% year-over-year for the second quarter and continues to take a hit as coronavirus restrictions keep borders closed.
- Kirby said that demand for air travel shows no sign of rebounding anytime soon without people feeling safe around each other.
- "That's going to take a vaccine, and that's just the reality," Kirby said. "Some businesses can recover earlier, but in aviation and all the industries that we support, it's going to take longer."
- While the airline has gone to the private market for roughly \$18 billion in capital to get through the pandemic, Kirby said it isn't a sustainable long-term strategy as millions of dollars are burned each day.
- "In a world where we're still burning \$25 million per day, you just can't go forever on that," Kirby said. "And our view is demand is not coming back. People are not going to get back and travel like they did before until there's a vaccine that's been widely distributed and available to a large portion of the population. And I hope that happens"

sooner, but our guess is that's the end of next year. And so you just got to survive those losses through that time and be ready to bounce back."

- Until then, United plans to lay off 16,000 employees once the original \$25 billion bailout for the airline industry expires on Oct. 1. While at least 3,000 of those jobs will be saved due to an agreement reached with the pilot union last week, thousands will still have to be let go just for United to stay afloat.
- "We have confidence in the long-term future of being able to bring everyone back," Kirby said. "But getting through a crisis where revenue is down 85% is just not sustainable for an industry like aviation or almost any business for that matter."
- As businesses continue to be pushed to their limits financially to weather the pandemic, Kirby expects that the layoffs across his industry are only the beginning.
- "The reality is, without more government support for the whole economy, there's going to be more layoffs to come across the economy."

### **Ryanair expects new EU travel system to put most of Europe on 'green list'**

- Ryanair expects the European Commission this week to unveil a new system of COVID-19 travel advice that will open up most regions of the continent to travel without quarantine, Chief Executive Eddie Wilson said on Monday.
- The European Commission earlier this month proposed a common traffic light system for EU member states to coordinate border controls and remedy the current, confusing patchwork of coronavirus restrictions on travellers across Europe.
- "I think you'll see the vast majority of Europe and UK returned into a green zone and then it'll be up to the individual health authorities to follow up on track and tracing them," Wilson told Ireland's RTE radio.

### **Ryanair will cut twice as many jobs as expected in Belgium**

- The Irish low-cost airline Ryanair is to cut twice as many jobs as previously announced, as a result of the coronavirus pandemic.
- At the beginning of July, the airline, which operates out of Brussels and Charleroi, said it would have to cut 84 jobs from its aircrew staff – 40 pilots and 44 cabin crew.
- Now, according to the company's unions, that number has been revised upwards to 172 – 66 pilots and 106 cabin crew.
- According to the company, the extra job losses are a result of the pandemic, and the loss of more bookings than previously expected.

### **Which Airlines Have Turned A Profit So Far In 2020?**

- There's no doubt that 2020 has been a challenging year for airlines. Most carriers are reporting heavy losses and making tough decisions about their future. Profits are simply out of the question. However, a handful of carriers have managed to turn a profit this year, despite the downturn, mainly by rapidly shifting their focus when the crisis hit. So which airlines have managed to buck the trend?
- The two airlines that stand among the global competition are Korean Air and Asiana. Both carriers suffered losses in the first quarter of 2020 due to a drop in passenger demand from China and the rest of East Asia early in the year. However, the carriers reported substantial profits in the Q2 of 2020. But how?
- The answer is cargo.

- Korean Air reported a profit of ₩148.5 billion (\$125.2 million) for the second quarter, even as revenue shrank by 44%. Asiana reported a ₩115.1 billion (\$96.9 million) profit in the same quarter, with revenue falling 45%. According to Korean Investors, falling cargo prices could see profits reduce next quarter.
- Africa's largest airline, Ethiopian Airlines, has done well through the pandemic. With a combination of cargo and repatriation flights, the airline has covered all its fixed costs and says it has turned a small profit for the fiscal year that ended in July. The exact figure is not known.

### **Singapore Airlines to launch 'flights to nowhere'**

- Singapore Airlines (SIA) is looking to launch "flights to nowhere" that will depart from and land in Changi Airport next month.
- The flights for domestic passengers are expected to begin by the end of October and could be bundled with staycations at hotels, shopping vouchers at Jewel Changi Airport and a limousine service to ferry customers around.
- Each flight is expected to take about three hours.

### **Dutch minister says survival of Air France-KLM 'not a given'**

- The survival of the Air France-KLM group is not guaranteed if the economic crisis caused by the coronavirus pandemic continues, Dutch Finance Minister Wopke Hoekstra warned Sunday.
- France and the Netherlands, each with a 14-percent share of the group, have poured out billions of euros in aid to help national carriers that virtually came to a standstill in the first half of 2020.
- The bailout for KLM must be accompanied by "a comprehensive restructuring plan" as well as commitments to reestablish performance and competitiveness.
- Hoekstra said he had insisted in talks with KLM on the importance of changing direction.
- Dutch press agency ANP said KLM has to develop a restructuring plan by October 1.
- Air France-KLM suffered a loss of 2.6 billion euros in the second quarter as air traffic virtually shut down because of the coronavirus pandemic.
- This followed a loss of 1.8 billion euros in the first quarter.
- Air France said it would cut almost 7,600 jobs by the end of 2022 and KLM up to 5,000 jobs.

### **Alitalia to pull out of Milan Malpensa airport after 70 years**

- First time since 1948 that Alitalia will not serve Malpensa airport.
- Italy's national airline Alitalia will no longer fly to or from Milan Malpensa airport from 1 October, according to Italian news agency ANSA.
- The only Malpensa flights still operated by the Italian flag carrier, serving Rome Fiumicino, will be terminated after 30 September and, as far as is known at the moment, will not even be rerouted to Milan Linate.

## **The tourists are leaving Italy. Now catastrophe looms**

- For all too brief a time, the Italian summer offered a glimmer of hope. After emerging from what was in early 2020, one of the world's harshest coronavirus lockdowns, Italy managed to dust itself down in time to welcome visitors.
- But as the sun begins to cool, so do hopes of a full recovery for Italy's decimated 2020 tourism season. Winter is coming, and with it what is expected to be a full-blown economic catastrophe.
- The Italian government, like many across the world, has been doling out cash to help support many ailing businesses and individuals, but with many global travel restrictions still in place, lost revenues from the country's faltering travel industry leaves a gaping financial hole that must now be filled.
- "Tourists are what we need to keep going," says Cassandra Santoro CEO and founder of travel planning service, Travel Italian Style. "Our guides, drivers and workers from Piedmont to Sicily who thought they would be out of work for a season, are now exploring other jobs and income sources."
- "The projected 2020 loss from overseas visitors to Italy is €24.6 billion and even domestic traveler spending is down €43.6 billion," says Giorgio Palmucci, president of the Italian national tourist board, ENIT.
- Even with hopes of growth and recovery two years down the line, the pain, he adds, is likely to be widespread.
- "All Italian cities are expected to be significantly impacted, particularly those more dependent on international visitors like Venice, Florence and Rome."
- The Italian Confederation of Business has reported that 70% of hotels in cities like Rome and Florence and 20% in coastal areas never even reopened after the lockdown. The Italian National Institute of Statistics projects that 60% of businesses in the industry fear imminent collapse.
- The ongoing travel ban that prevents Americans -- one of Italy's biggest sources of tourism -- from entering is also having a particularly brutal impact.
- Cassandra Santoro of Travel Italian Style says at least 85% of her clients are American. As of September her company has registered 100% of holiday cancellations for 2020. She says it's the first year she has seen zero profits from Italy vacation planning.
- "In December 2019, I had more than 100 clients booked to travel between March -- September of 2020. I have refunded about 50% of the guests in full, and 50% have postponed to 2021, some even to 2023 and 2024."
- Santoro says that during interviews, "We have heard more than once, 'If the borders remain closed for the remainder of 2020, we will not have money to buy food for our family by January.'
- "We lost 100% of our 2020 bookings in a matter of days," says food tour company Casa Mia co-owner Eleonora Baldwin.
- Operations director for luxury chain Rocco Forte Hotels Maurizio Saccani says Rome was deserted through July and August and occupancy at the famed Hotel de Russie hovered at around 15%, compared to 87% for the same period last year.