



## Travel Industry Update

October 12, 2020

### There Will Be Blood. This Week U.S. Airlines Will Begin Reporting How Big Their Third Quarter Losses Were

- The butcher's bill will be revealed by U.S. airlines Tuesday when Delta leads off the (now euphemistically named) third quarter "earnings" report season. And the only question is not whether, but by how much will the third quarter rank as the single worst in industry history?
- Based on analysts' current consensus estimates the Big Four U.S. carriers – Delta, American, United and Southwest – are expected to lose almost \$8.5 billion combined in the quarter on a pre-tax operating basis.
- Throw in proportionately similar, albeit much smaller losses from the rest of America's airlines, plus taxes, write-offs and other below-the line losses and the industry's net third quarter loss should top even the \$11 billion it lost on that basis in the second quarter of this year, the first fully impacted quarter of the Covid-19 era.
- And, were it not for the \$25 billion in federal grants paid to airlines and certain other aviation related companies to help cover employee costs – money which is now mostly spent – third quarter losses this year would be even more enormous.
- According to Zacks Investment Research, analysts' consensus estimates call for:
- Delta, which reports Tuesday, to lose around \$3.1 a share, or around \$1.97 billion on a pre-tax, operating basis
- United, which reports on Wednesday, to lose \$7.73 a share, or around \$2.25 billion on the same basis
- American, which reports Oct. 22, to lose \$5.6 a share, or around \$2.85 billion on the same basis
- Southwest, which also reports on Oct. 22, to lose \$2.44 a share, or around \$1.37 billion on that basis. Its loss will be smaller than those of its three largest competitors because of its distinctly different business model that produces lower total revenues because it lacks first class service and positions itself as a low fare or discount carrier. Nevertheless, it's just as devastating a loss in that it, coupled with a big second quarter and likely big fourth quarter loss, means Southwest will report its first annual net loss in 48 years. Southwest's only annual loss came in its first full year in business.

### British Airways boss steps down as airline navigates 'worst crisis faced in our industry'

- British Airways Chairman and CEO Alex Cruz will step down as the airline's chief executive, parent firm IAG announced on Monday, with Aer Lingus Chairman and CEO Sean Doyle set to take the reins after a transition period.
- Cruz will remain as the non-executive chairman of British Airways, IAG said. His replacement as the airline's CEO, Doyle, has been at the company since 1998.

- Doyle has worked in various roles at British Airways, before being appointed to the airline's executive management committee in 2016 as director of network, fleet and alliances.
- Doyle became Aer Lingus chief executive in January 2019.

### **Malaysia Airlines May Need To Shut Down Without Restructuring**

- Malaysia Airlines is making plans to shut down if lessors do not accept its restructuring bid. The deadline for accepting the restructuring plan is Sunday, which means we could know the fate of the airline soon. The airline's sole owner has also said it will no longer fund the struggling airline if the plan does not pass.
- Malaysia Airline's financial woes date far back from the current crisis. The airline had been operating at a loss for a while and expected to need nearly \$5bn to continue operations until 2025. However, the pandemic has decimated business for the ailing flag carrier, with reserves quickly falling and airline burning through a staggering \$84mn every month.
- Last week, the airline's owner, Khazanah, said that it intends to stop funding the carrier and plan an alternate airline if Malaysia cannot restructure. This has sent the airline scrambling to pass its restructuring plans by creditors, which would also see it renegotiate contracts with aircraft lessors.
- Malaysia Airlines' parent, Khazanah, has a plan to ensure continued air operations. If the airline fails, Khazanah will place Malaysia into liquidation and transfer its Air Operator's Certificate (AOC) to another carrier. This airline would then fly the essential air routes as needed.
- The flag carrier is not the only Malaysian carrier in trouble. Asian low-cost giant AirAsia is also in talks to restructure its long-haul subsidiary AirAsia X. This decision comes just days after the airline shut its Japan subsidiary and plans to cut its 24,000 employee workforce by 10% soon.

### **Italy Prepares For A New Flag Carrier To Succeed Alitalia**

- The Italian government is preparing to welcome a new national carrier now that attempts to rescue current flag carrier Alitalia have fallen through. The government has signed an Air Transport Decree to establish a new airline currently referred to as Newco, although the formal name of the company is signaled to be ITA.
- With the government in control, restructuring the airline to form a new, competitive airline became the only option. Now, the government has given a name to the new airline which will be Italy's national carrier; Newco.
- The new name and new identity of the airline will represent a "clear discontinuity" from troubled Alitalia.
- Local media are reporting that the new government-owned airline will take off in early 2021. However, the current lack of demand around the world means Alitalia's successor is starting life with the odds stacked against it.
- Labour minister Nunzia Catalfo said the following, according to FlightGlobal.
- "With the birth of Newco we are faced with an ambitious challenge, which must be met in order to equip the country with a competitive and qualified air carrier."

## **No Outbreak at Disney World Three Months After Reopening**

- When Disney World reopened in July, coronavirus cases were spiking in Florida and the decision to put thousands of people back to work was widely derided as a disaster in the making.
- 'We've had very few, and none, as far as we can tell, have been from work-related exposure,' said Eric Clinton, president of UNITE HERE Local 362, which represents roughly 8,000 attraction workers and custodians."

## **Pence and Cruise Lines Note Positive Call; Restart Optimism High**

- Cruise industry executives had a key conference call with U.S. Vice President Mike Pence on Friday afternoon, as momentum builds towards a cruise restart in the United States before year's end.
- The cruise industry's proposal to resume operations in the U.S. will now be presented to the coronavirus task force in order to provide a recommendation to President Donald J. Trump with regard to next steps on the CDC's No Sail Order, which expires on Oct. 31.
- Other factors include COVID-19 cases in Florida and the progress of the industry restarting in Europe and Asia, according to sources.
- Pence led the call with Centers for Disease Control and Prevention (CDC) Director Dr. Robert Redfield; Department of Health and Human Services (HHS) Secretary Alex Azar; former Utah Governor and HHS Secretary Mike Leavitt of the Healthy Sail Panel; and cruise executives.

## **EUROPE TRAVEL ADVISORY: 10 NEW TRAVEL RESTRICTIONS THIS WEEK**

- Many EU nations imposed additional testing/quarantine requirements for arrivals, extended lock-down measures in major cities, or updated their travel rules.
- Italy made some major changes this week, including who needs a PCR test to enter and who doesn't.
  - Added to the 'PCR required' list was the UK, Czech Republic, Netherlands and Belgium. These 4 nations join the list of countries that need to bring proof of a negative PCR test, taken no longer than 72 hours prior to arrival.
  - Italy did however remove Croatia from the PCR test-required list, making entry for passengers coming from Croatia a breeze. Now that a PCR test from Croatia is no longer needed, Croatian residents, or people who have been in Croatia for 14 days, can enter Italy unrestricted.
  - Many US travelers have been using Croatia as a 'loophole' to enter Italy. Until now, they have needed to provide a test to move from Croatia to Italy, but this requirement is now gone.
  - Greece and Malta were also removed from countries that required a PCR test to enter Italy.
  - This week, Italy also made the wearing of masks mandatory in both outdoor and indoor public spaces, 24 hours a day. Big fines are being issued for non-compliance.
- Switzerland added Canada, Georgia, Tunisia, Slovenia, and some areas of Germany to the list of who needs to quarantine for 10 days upon arrival.
- While the UK's 'travel corridor' list keeps shrinking week-by-week, this week's update didn't see the removal of any more countries, but instead saw 5 Greek islands put back onto the quarantine-free list.

- The following Greek islands: Serifos, Santorini, Lesbos, Zakyntos, and Tinos, have all been added back to the 'travel corridor' list, meaning that quarantine is not required for both UK citizens returning from a trip, and/or Greek tourists from those islands arriving into the UK.
- Spain: While no new border restrictions were put into place, many areas of Spain enter lockdowns at cases surge.
  - Madrid has put into place a limited confinement act, as well as 8 other regional towns, that dictates people are only allowed to enter or exit the affected areas for work, school or medical grounds or for other pressing reasons. Public and private gatherings are limited to six people, and bars and restaurants must operate at 50% of their interior capacity and close by 11:00pm.
  - Catalonia is asking residents to work from home for the next 2 weeks if possible to lower community transmissions. Also this week will see meetings limited to six people, bars and restaurants to close by 10 p.m. and children's parks will cut to 30% capacity.
- As Cancun is quickly becoming one of the most popular destinations during the pandemic, many European airlines have restarted their direct flights into the resort city. Cancun is being regarded as one of the easiest places to vacation, due to not having any testing or quarantine requirements, but also for a place for couples separated by travel bans to reunite.
- As of Monday, October 12, Finland has practically closed to every nation once again.
  - Finland removed ALL EU/Schengen nations from its 'no quarantine' list, with only the exception of Vatican City. All other nations that were previously on the list have been removed starting October 12 due to exceeding 25 cases per 100,000 population in the past 14 days.
  - However, these intense rules won't last forever as Finland looks to replace quarantines with testing after November 23<sup>rd</sup>.
  - At the end of November, leisure travel will also be possible from all EU and Schengen countries (including UK) with infection rates above 25 per 100 000 persons, with testing. Travelers from these countries will need to bring proof of a negative COVID-19 test result no older than 72 hours. Then, upon arrival in Finland, visitors from these countries are placed in quarantine for 72 hours after which they need to take a second test. After a second negative COVID-19 test result, the person can move around in Finland freely.
- Norway joined Finland in increasing its entry restrictions and has now removed Latvia, Lichtenstein, Cyprus and more areas of Sweden from 'quarantine free' list.
- Romania increased border controls as well as rules while inside the country this week.
  - Romania added the following countries to its 'yellow' list, which requires a 14-day quarantine upon arrival: Belgium, Czech Republic, France, the Netherlands, Luxembourg, Denmark, Iceland, United Kingdom, Hungary, and Slovakia.
  - Tourists that are visiting Romania should be aware that a new restriction has now stopped indoor service at restaurants, and strengthened face mask rules.
- Due to a sudden rise in cases, the government of Slovenia is restricting all RED-list countries to essential travelers only. Tourism is currently not a valid reason for travel when coming from a red country.
  - Previously, countries like the USA that were on the red list could still enter Slovenia, with an agreement to complete a full 14-day quarantine. Some American travelers were using this route in order to gain access to the EU/Schengen area, like for travel to Italy for example.

- Now with the October 7th update, travel will only be permitted from red list countries if the travel is deemed essential, like Slovenian nationals returning home, essential workers, etc.