



Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized

The Impact of COVID-19 on Airports: An Analysis



Creating Markets, Creating Opportunities

Airports are essential to the economic development of cities, countries, and regions. They directly contribute to economies by providing services to airlines, moving passengers, and transporting cargo. The movement of goods and people also benefits governments, consumers, and industries.

However, the COVID-19 outbreak has hit airports hard—which could stall development in emerging markets.

As a result, air travel has fallen sharply, which has prompted airlines to cut capacity. Many have been closed by governments to contain the spread of the virus. The result is a sharp fall in revenues. Given the importance of airports to the economic development of cities, countries, and regions, the broader impact of COVID-19 on the global economy is enormous.

SECTOR BACKGROUND

Global industry size: There are well over 4,000 airports across the globe with scheduled traffic ([2016](#)). According to Airports Council International (ACI), a global trade group for the world's airports, these generated revenues of \$172.2 billion in 2017, up 6.2 percent year-on-year. The airport industry has steadily expanded in recent years, driven by strong growth in passenger traffic. In 2019, total trips exceeded 9 billion—up 3.4 percent year-on-year.

Airport ownership: Models for airport ownership, management, and operation exist on a continuum from fully private to fully public, including concessions and management contracts where the state contracts out specific operations to private firms. While only 14 percent of airports worldwide have some form of private sector participation, such airports account for 40 percent of global traffic (2016), *according to ACI*. Of the 100 busiest passenger airports in 2016, 46 had private sector participation. These figures highlight the important role that the private sector has been playing in the industry.

Revenue streams: Anchor airlines—which carry the largest share of traffic at an airport and frequently use it as a hub—typically contribute the most significant share of airport revenues. Airports engage in commercial relationships with both airlines and passengers and generate two main types of revenue streams, as described below:

- **Aeronautical:** Paid by airlines and passengers for the use of airport facilities, for example, landing, parking, passenger fees, and transit/transfer fees. These accounted for about 56 percent of airports' revenue in 2017.
- **Non-aeronautical:** Income derived from retail concessions, including duty-free, car parking, rental car concessions, food and beverages, and advertising. These revenues help diversify revenue streams for airports. These accounted for about 40 percent of airports' revenue in 2017.

Cost structure: Airports have high fixed costs associated with the provision and maintenance of infrastructure and services such as safety and security. These are incurred regardless of traffic levels. Airport owners and operators, therefore, have limited scope to curtail costs when facing a downturn in demand. Operating expenses comprise about 65 percent of total costs and include staff costs (30–40 percent), contracted services (20–25 percent), utilities (about 7 percent), and rent or concession fees (about 7 percent). Capital costs (on average, 35 percent) mainly comprise depreciation (about 65 percent) and interest payments (about 32 percent).

The impact of airports on the economy: Air travel and tourism, directly and indirectly, contribute about 10 percent of global GDP and support 330 million jobs worldwide. According to IFC analysis, airports can play a vital role in domestic economies: Jamaica, for example, can trace about 11 percent of its GDP and 12 percent of its employment to the direct, indirect, and induced effects of the Montego Bay Airport, which has received financing from IFC.

COVID-19'S IMPACT ON THE SECTOR

COVID-19 has had an immediate, dramatic impact on airport traffic and revenue. The economic crisis that will follow the pandemic will continue to drive lower demand for air travel in the immediate aftermath.

Effect on passenger traffic: The COVID-19 pandemic has reduced passenger traffic worldwide. The disruption began in Asia-Pacific, but the rapid spread of the virus and the containment measures implemented in response—such as government recommendations to avoid travel and airport closures—led to a 22.9 percent drop in global air traffic in February and 53.1 percent in

March, according to ACI. This was equivalent to a 620 million passenger reduction in the first quarter of 2020. April was a particularly difficult month as passenger traffic volumes declined by 90 percent across the globe.

Effect on revenues: The sudden drop in air traffic has led to almost complete paralysis of both aeronautical and non-aeronautical revenues. As airlines cut capacity, the aeronautical revenues airports receive from airlines, such as landing charges for aircraft and security charges, fall. As people stop flying, non-aeronautical revenue, derived from airports' parking facilities, restaurants, or duty-free, also plummets. According to ACI, total airport revenues fell by 35 percent worldwide in Q1 2020 (equivalent to \$14 billion) and by 90 percent in Q2 2020 (equivalent to \$39 billion).

Projected estimates for 2020, as a whole, paint an even grimmer picture, with a 50 percent drop in total passenger traffic (to 4.6 billion) and a drop of nearly 57 percent in airport revenues (to \$97.4 billion), compared to pre-COVID-19 forecasts.

**QUARTERLY TOTAL AIRPORT REVENUES IN 2020 BY REGION:
FORECASTED (PRE-COVID-19) VS. ESTIMATED UNDER (COVID-19) (MILLION USD)**

	Forecasted (pre-COVID-19)	Estimated under (COVID-19)	% Change
Africa	4,300	2,100	-51.2%
Asia-Pacific	49,900	20,500	-58.9%
Europe	59,300	22,200	-62.6%
Latin America-Caribbean	10,500	5,200	-50.5%
Middle East	13,200	6,200	-53.0%
North America	34,700	18,300	-47.3%
World	171,900	74,500	-56.7%

Source: ACI.

Many airports remain open for cargo operations, which should provide some relief to airports. However, cargo operations were affected by airlines' capacity decreases as cargo often travels in the belly of passenger aircraft. As a result, both demand and capacity for air cargo fell in February 2020 as a result of COVID-19, even though rates charged by airlines were much higher. And in any case, cargo revenues represent only a small share of total revenues for airports (less than 10 percent).

Future risks: Both the future prospects for airlines and a structural change in demand may exacerbate the current situation.

- **The financial health of airlines:** Potential airline bankruptcies present a major risk for airports, especially for airports that serve as hubs to struggling airlines.
- **Structural demand change:** Airports are likely to see structural changes in demand from the economic crisis that will follow the COVID-19 outbreak. Airports' performance will continue to be affected by the lower-than-expected GDP growth around the globe after COVID-19.

As a result, industry experts project a much slower recovery than in previous shocks such as 9/11 or SARS.

Earnings' reviews and credit downgrades: As a result of dramatic revenue losses and ongoing uncertainty surrounding COVID-19, major airport operators are revising their earnings expectations, and credit agencies have downgraded the long-term debt ratings of several and/or revised their outlooks to negative. According to S&P, European airports could see earnings fall by 30 percent in 2020.

RESPONSE TO THE CRISIS

Given the severity of the current crisis, trade associations and legislators are calling for government support to ensure aviation's survival. At the same time, airports are cutting costs to preserve revenue. Actions include:

- **Government support:** ACI has argued for measures that: (a) protect airport revenues, (b) alleviate airport slot usage requirements (to free up slots for cargo requirements), (c) reconsider concession fee payments, (d) provide relief from airport taxes, and (e) call for financial assistance from governments. While airlines have already received some financial packages, airports have not. The U.S. government approved a \$58 billion assistance package for mainly passenger airlines, which included \$3 billion in grants for airport contractors, such as caterers. In the United States, ACI North America is seeking \$10 billion in assistance from the U.S. Congress to meet airports' needs. In Europe, ACI is asking for a relief program for the sector from the European Commission, which includes tax suspensions and deferment of concession fees.
- **Airports are reducing variable costs:** While airports have high fixed costs, they are reducing variable costs where possible, by closing portions of infrastructure (such as certain runways), furloughing staff or cutting salaries, curtailing contract services, and postponing Capex. For example, in early April, London Heathrow asked staff to take 10-15 percent pay cuts for the next nine months. Dividends may also be scaled down.
- **Airports are cooperating with airlines:** Many airports hold minimum revenue guarantee contracts with their tenants. However, in view of the COVID-19 pandemic, some airports are adapting payment conditions and relieving airlines and retail partners from some of their contractual obligations. For example, two large airport operators in Mexico (OMA and GAP) have agreed to fully exempt local airlines from payments of airport fees for April and May.

Airports under Public Private Partnerships (PPP) schemes: Most operators will require financial support from governments. Airports under PPP agreements or concessions can, where applicable, trigger Force Majeure clauses or seek assistance to ensure the financial viability of private operators. Concession terms or revenue shares may be reviewed and/or Capex plans potentially delayed.

GOING FORWARD

Historically, aviation has recovered from major shocks within five to seven months after events such as 9/11 or SARS. The impact of COVID-19 on airports will depend on the duration of lockdowns and how fast economic activity recovers after the pandemic. Many industry observers expect the recovery to be much slower than those of previous shocks, reflecting the double hit from travel bans and the economic fallout caused by lockdowns.

- **Traffic volume recovery will be long:** As of April 1, ACI expects [*traffic volumes to reach pre-COVID-19 levels by the end of 2021*](#)—an 18-month recovery—given the economic ramifications of COVID-19. However, credit agencies are predicting a more gradual (24-month) recovery.
- **Assumptions for negative outlook:** Credit agencies, as of late March to early April, have assigned a generally negative outlook to a large number of airports, driven by uncertainty about the containment of the virus and thus traffic recovery. Travel restrictions may continue for some time, even if the virus appears to be contained. Weaker global macroeconomic conditions may impact consumer spending and traffic recovery. And airlines—which have cut significant capacity in light of COVID-19—may experience weakening credit profile and competitive positions.

The recovery of airports will also depend on the [*airport type and the host country's response to COVID-19*](#). According to [*ALG's analysis*](#), major airport hubs serving large urban centers and financially strong airlines (who are likely to receive government support) are more likely to recover quickly. Major to medium-sized tourist airports may see a slower recovery.

Last update: May 2020

This article was authored by Ian Twinn (Manager), Navaid Qureshi (Chief Industry Specialist), Daniel Sebastian Perea Rojas (Results Measurement Specialist) and Maria López Conde (Research Analyst) at the International Finance Corporation (IFC), a member of the World Bank Group. For more information about IFC's work in infrastructure, please visit: www.ifc.org/infrastructure.