

Covid-19



Market Watch: Aerospace & Aviation Industry Insights

7th May 2020



Introduction



Sean Long

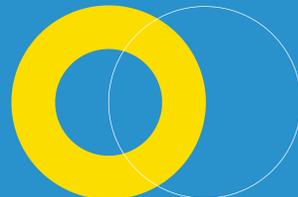
Lead SMA

Aerospace & Aviation

As a result of the Global pandemic due to Covid-19, Enterprise Ireland's Aerospace & Aviation companies are experiencing extraordinary market conditions, resulting in unpredictable demand, production shortages and bottlenecks, as well as fractured supply chains. While these are certainly unprecedented and challenging times, there remains significant challenges and future opportunities for clients within the global Aerospace & Aviation market as this pandemic runs its course, which we hope to help you identify.

Our Market Watch for the Aerospace & Aviation industry provides insights from Enterprise Ireland's leading market advisors across the world, which you should find beneficial as you seek a comprehensive guide to what Covid-19 may mean for your business moving forward.

Reporting from each market, we share information on the client and buyer sentiment and outlook, and also consider production demand and service expectations from Airplane Manufacturers (Primes), Airlines, Airports, MRO and related supply chain partners in market. We look at the overall challenges and opportunities from these leading companies as well as the different Government mandates and financial supports in place for businesses impacted by Covid-19.



Aerospace & Aviation – Ireland



SUMMARY

- Ireland has introduced a lockdown (except for [essential services](#)) until May 5th 2020 when it will be reviewed by the Irish Government.
- Although designated an essential service, passenger air traffic in Ireland has reduced by 92% since the equivalent period in 2019 with only Cargo flights and limited other flights operating.
- Aer Lingus are operating a reduced schedule and are also undertaking Critical Supply Operations for the Irish Health Service Executive (HSE) which involves the transportation of medical equipment comprising of PPE procured by the HSE from China.
- In response to the Covid-19 virus over 99% of Ryanair's aircraft are grounded until at least May 14th.

DEVELOPMENTS

- As both industries are highly regulated many of Enterprise Ireland's Aerospace clients also provide products and services to the MedTech industry and are thus deemed essential.
- Aerospace manufacturing is taking place at reduced levels and clients have revised their workforce levels to match these new production levels.
- MRO is designated an essential service and Enterprise Ireland's MRO clients continue their activities in Hangars at both Dublin and Shannon Airports. Consequently the MRO supply chain are also working to support the industry at this time.

SUPPORTS

- The Irish Government has put in place a suite of funding supports to help Irish companies adjust to immediate and future challenges of Covid-19.
- These supports include employee supports such as the Short Time Work Support, and the Covid-19 Temporary Wage Subsidy.
- Other supports include an SME Credit Guarantee Scheme. Supports also available from the Strategic Banking Corporation of Ireland loans include a €450m Covid-19 Working Capital Loan and a €200m Future Growth Loan Schemes.
- Enterprise Ireland has several supports available to help businesses mitigate the impact of covid-19 including a Business Financial Planning Grant and a Sustaining Enterprise Fund which are available to Enterprise Ireland's Aviation and Aerospace clients.
- Also available from Enterprise Ireland is a Business Continuity Voucher designed to enable clients secure their premises and manufacturing floors to mitigate the risks of Covid-19.

OPPORTUNITIES/CHALLENGES

- Extension of payment terms from customers are causing cash flow concerns.
- Opportunities to supply into the HSE sector around Ventilators & PPE (in particular) in the Ireland and the UK.
- Clients are looking to diversify and are looking at opportunities outside the Aerospace and MedTech sectors.



Aerospace & Aviation – U.K.

SUMMARY

- Despite the continued Lock Down in the UK. The Aerospace industry generally continues to manufacture planes and supply chain components in line with UK Government & WHO guidelines.
- Aviation related to the passenger market remains largely shut down with only Cargo flights operating.
- Clients continue to reach out to UK & European buyers & Pathfinders in market, in particular around aerostructures for Primes & interior seat manufacturers. Clients also continuing to support any NHS initiatives e.g. around respirator supply chains & PPE equipment requirement both in the UK & at home in Ireland.

DEVELOPMENTS

- Bombardier production in Belfast suspended although still taking deliveries from suppliers. Production targeted to resume in Belfast May 4th with potentially some operations starting before then. Airbus has reduced build rates by one third pcm, with furlough of 3200 staff at its North Wales site. Boeing, Rolls Royce resuming production under UK Government & W.H.O guidelines.
- Related supply chain tiers such as UTC, Spirit, Moog, Collins, Spirit, Thompsons continue to produce under UK Governments & W.H.O guidelines. Non-essential staff / admin encouraged to work from home within industry.

SUPPORTS

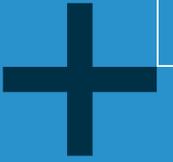
- The Aviation industry (Airlines, Airports & MRO), have requested the UK government to extend Business Rate relief to include the Aviation industry; to make financial supports more available (with repayments in line with recovery); increase the Job Retention Scheme (JRS) past May & work on an international co-ordinated approach for lifting air travel restrictions.
- Air navigation service providers across Europe are to receive a share of £1.1 billion support package to maintain critical services as income plummets due to coronavirus. The UK's National Air Traffic Services (NATS) would be eligible to receive up to £92 million in support from this.
- UK Aerospace & Aviation companies generally continue to review general governments supports for business around loans, JRS, grants, VAT / business rate deferrals. Banks are also providing short term finance facilities where possible.

OPPORTUNITIES/ CHALLENGES

- Challenges in short term finance and liquidity faced by supply chains.
- Extension of payment terms from customers are causing cash flow concerns.
- There are opportunities to diversify into the NHS sector to supply components for Ventilators & PPE (in particular) in the UK.



Aerospace & Aviation – Central Europe & Russia



SUMMARY

- The region's air traffic figures have dropped significantly in comparison to this time last year.
- This has caused severe liquidity problems for the majority of the region's airlines.
- S7 owner, Vladislav Fliev, predicts that none of Russia's largest airlines will be forced to leave the market but their fleet sizes will diminish.

DEVELOPMENTS

- As of the 27th of March, Russia's international aerial borders are closed, with only Aeroflot continuing repatriation flights.
- Russian aircraft manufacturers' facilities remain open but must adhere to strict guidelines. Russian carriers have faced two major blows in the last two months, the cancellation of international flights and rising costs due to the rouble's sharp drop in value.
- Several of Russia's airlines have signalled that they are in financial difficulty. To counteract this airlines have begun using their planes to transport cargo from China to Russia/Europe. Emphasis has been placed on recommencing domestic air travel by slowly increasing the number of flights a day.
- If the situation does not improve by the end of the year, Russian Airlines could lose an estimated \$1.3 billion.
- Hungarian Wizz Air has grounded 85% of its fleet with plans to re-open 16 of their routes by mid-May. Czech airlines and Smart Wings have completely grounded their fleets.

SUPPORTS

- The Russian government has made a fund of \$307 million to support airlines pay off their debts during this period.
- As of the 25th of April further supports are being drawn up by the Russian government to support the sector. This may include deferment of tax payments, reduced interest rates and further financial support from the state.

OPPORTUNITIES/ CHALLENGES

- There will be a lack of MRO opportunities in the market, as there are enormous financial strains on the airlines, as they will struggle to pay staff, make leasing payments etc...
- A common trend in the region is the weakening of local currencies in comparison to the Euro. The Russian Rouble, The Hungarian Forint and the Czech Koruna have all been affected by the epidemic.
- While the Russian Rouble has strengthened since the beginning of this crisis, it is still considerably weak and the threat of Russian airlines looking for cheaper options from the likes of Belarus and China still exist.

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Aerospace & Aviation – Eurozone.

SUMMARY

- Global Aviation has been critically impacted. Current estimates are that 2020 traffic will be half of the expected level before the crisis. European passenger traffic is down 97%. Boeing CEO, Dave Calhoun has advised that the business downturn due to the Coronavirus pandemic will impact the company until 2023. He said that Boeing will need to change production rates to balance supply and demand. These changes will in turn impact Irish companies supplying into the Aerospace Primes & their supply chains.

DEVELOPMENTS

- Airbus has advised of the significant impact of the crisis, with 135,000 staff now bracing for potential job cuts. Airbus has already furloughed 3000 French aerospace workers. Airbus says it is too early to judge the shape and pace of market recovery but that the aviation industry would emerge "*very much weaker and more vulnerable*".

SUPPORTS

- International flight groundings continue but airlines are proposing planned schedules to return to 60% of normal levels by June. Supports needed include government and EU bailout, cashflow, innovation funding to pivot to new aircraft interiors and air filtration systems and training in medical/healthcare for flight support and ground staff.

OPPORTUNITIES/ CHALLENGES

- After the initial recovery from the flight suspensions in 2020, traffic levels in 2020+ will be driven by economic outlook.
- Structural changes to fleet and risks will require innovation and problem solving across the sector while including advisory and participation from medical sectors, science and healthcare.
- Recovery in 2020 is likely to lead to reduced and cancelled orders for new aircraft, the existing fleet will need to be adapted and fitted with new systems to ensure passenger safety which will lead to opportunities for Irish clients supplying to the sector.



Aerospace & Aviation – North America

SUMMARY

- The US aviation industry has been severely disrupted by the Covid 19 outbreak. Airbus and Boeing are both expected to have used a substantial amount of cash in the first quarter, in part due to production halts to allow local communities to deal with the pandemic. Even when the virus is contained, airlines are likely to need upward of three years to fully recover. Airlines are preserving cash as air travel plummets. Inactive large transport jet aircraft in global scheduled and non-scheduled passenger fleets has reached 55% .

DEVELOPMENTS

- Boeing, Airbus and Bombardier have all been affected by the Covid – 19 outbreak through productions halts, order cancellations or delays and staff safety issues.
- MRO Americas postponed until September 1st – 3rd 2020. MRO industry shifting focus to cargo operations. Southwest airlines to fly its first cargo only flights in 50 years.
- GE Aviation, Lufthansa Technik , AAR Corp all adversely affected. However both GE and AAR have won defence contracts during this time.

SUPPORTS

- The US has agreed a roughly \$25bn rescue package for 10 of the country's biggest airlines as travel plunges due to the coronavirus.
- American Airlines, United, Delta and Southwest are among the recipients. The money is to be used for payroll and will be provided through a combination of low-cost loans and direct grants.

OPPORTUNITIES/ CHALLENGES

- The MRO industry will experience issues with cash flow and supply chain disruptions as contracts are cancelled or postponed. The time frame for a steady return to MRO operations is uncertain and where possible companies are pivoting towards where demand has increased i.e. pharma/medical device production.
- One of the few sectors holding up relatively well during the corona-crisis is air cargo. Many airlines are now taking freight in their passenger compartments to ease the congestion and keep some revenue flowing in. This presents opportunities for MRO companies with cabin modification capabilities.



Aerospace & Aviation – APAC

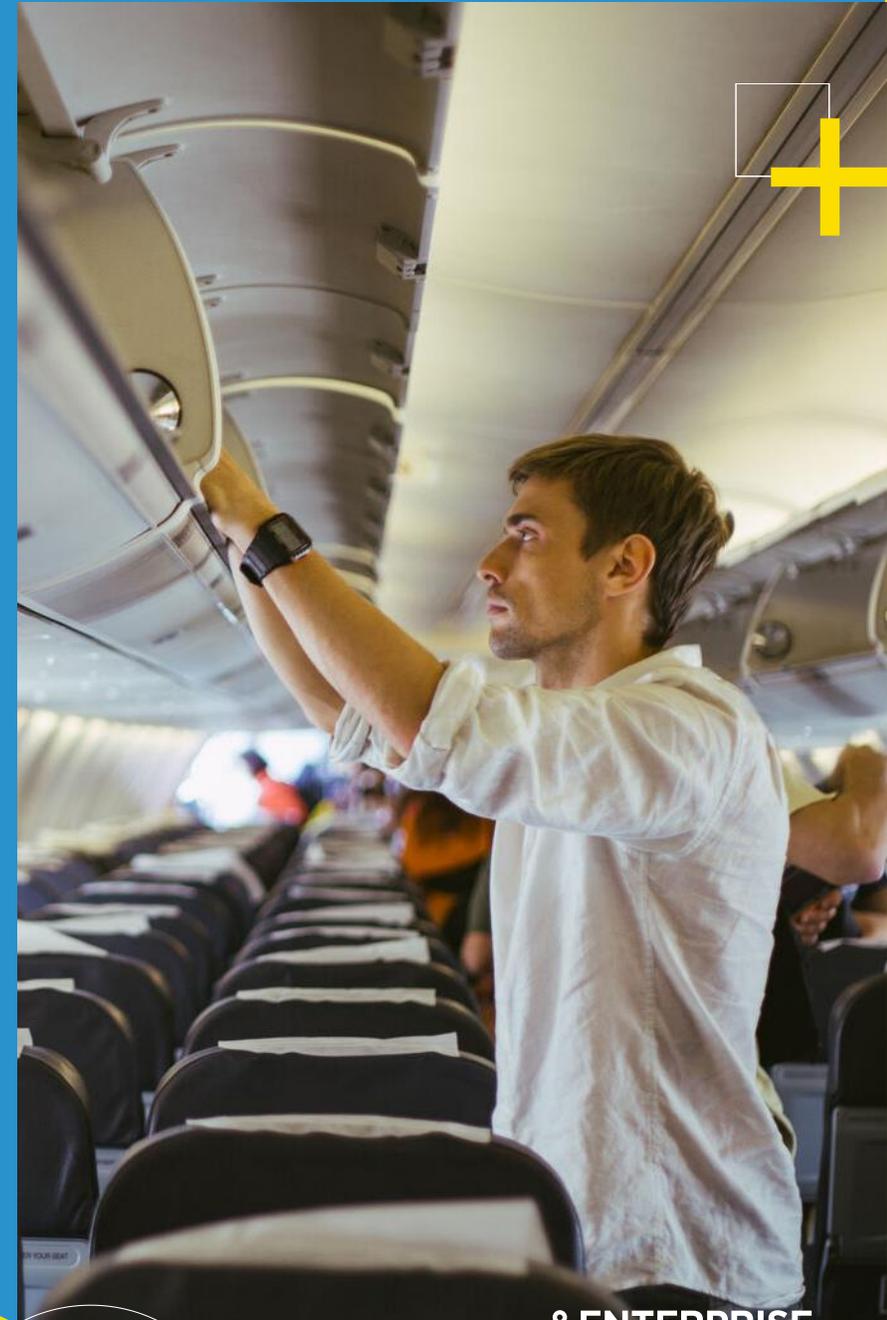
SUMMARY

- The China Aviation industry was indeed affected by the Covid-19, and has a relatively large impact on the operation. The industry lost a total of 39 billion 820 million yuan in the first quarter, of which the airlines lost 33 billion 620 million yuan. In the first Quarter, the passenger traffic volume was 74.078 million, down 53.9% year on year (Data from CAAC). However there are now signs that China's domestic aviation market is starting to recover (reported IATA).
- In March, a total of 484000 tons of cargo and mail transportation was completed, down 23.4% year-on-year. It is worth mentioning that the freight volume of the whole cargo plane sector rose against the trend, completing 253000 tons, up 28.4% year-on-year ((Data from CAAC).
- As Covid-19 unfolds, Governments of all countries have taken strict measures to restrict the flow of people, with aviation demand declining accordingly. The aviation supply chain is experiencing the greatest crisis since the post war years of the 1940s. Tier three and four suppliers with weak risk mitigation are possibly facing bankruptcy in this dramatically restructured environment.
- Business Jet has also been affected by Covid-19 with only one third of the take-off and landing volume experienced for business aircraft in peak days.

- Data for one main airline: China Eastern – Passenger transport capacity investment decreased by 69% year on year. Among them, domestic, international and regional passenger transport capacity investment decreased by 63.72%, 77.45% and 91.92% year-on-year respectively; passenger turnover (based on passenger kilometres) decreased by 79.11% year-on-year, among which domestic, international and regional passenger turnover decreased by 74.72%, 86.55% and 97.48% year-on-year respectively.

DEVELOPMENTS & OPPORTUNITIES

- Potential for business jet and aircraft cargo business.
- Cargo business increase - Many airlines including China Eastern, Air China switched from passenger aircraft to cargo aircraft in the past 2 months (e.g. China Eastern switched 6 Airbus A330 aircraft cargo use). Also with demand developing for cargo aircraft in China, COMAC will start designing new cargo aircraft.
- Air Show China will now be held from 10th – 15th November in Zhuhai.



Aerospace & Aviation – MEAI

SUMMARY

- Liquidity remains the key issue for airlines across the MEAI region.
- Concerns now are that the longer the current situation lasts the less likely we are to get back to the ‘normal volumes’ of travel pre-Covid-19. The dynamics between how a government decides who is worth saving and who isn’t will be a discussion that unfolds over the next few months.
- Administrators appointed to South African Airways. Spice Jet, Air India and Fly Dubai are under highest financial risk regionally.
- IATA’s latest figures show revenue losses for Middle Eastern carriers are expected to mount to \$19bn this year – more than double a previous assessment of \$7.2bn made on March 11. In the UAE alone, the impact of the coronavirus could lead to 23.8 million fewer passengers for the country’s airlines, resulting in \$6.8bn in lost revenue. There is also risk to 378,678 jobs and a \$23.24bn contribution to the UAE’s economy.
- Most regional cash-constrained airlines will postpone scheduled aircraft replacements, especially as current fuel prices will make it economic to continue to fly relatively older, less fuel-efficient aircraft.

DEVELOPMENTS

- Emirates are trialling new ‘10 minute’ blood tests before boarding to identify potentially contagious passengers.
- Airport Show 2020 has been rescheduled to take place from 26-28 October 2020 at the Dubai World Trade Centre (DWTC).
- Saudia Airlines not cancelling orders of new aircraft but are concerned that travel restrictions could last for +18 months.
- The Dubai ruling family have pledged an equity injection into Emirates who currently have \$6bn cash reserves.
- Two new LCC’s, ‘Wizz Air Abu Dhabi’ and ‘Air Arabia Abu Dhabi’ are still planned to launch in Q4 2020.
- Sri Lankan Airlines reports it “has already taken measures to preserve the liquidity of the National Carrier by negotiating deferred payment plans and deductions with Airline’s key suppliers.”
- Launch of Nigeria’s newest airline ‘Green Africa Airways’ is likely to be postponed until the end of 2020.



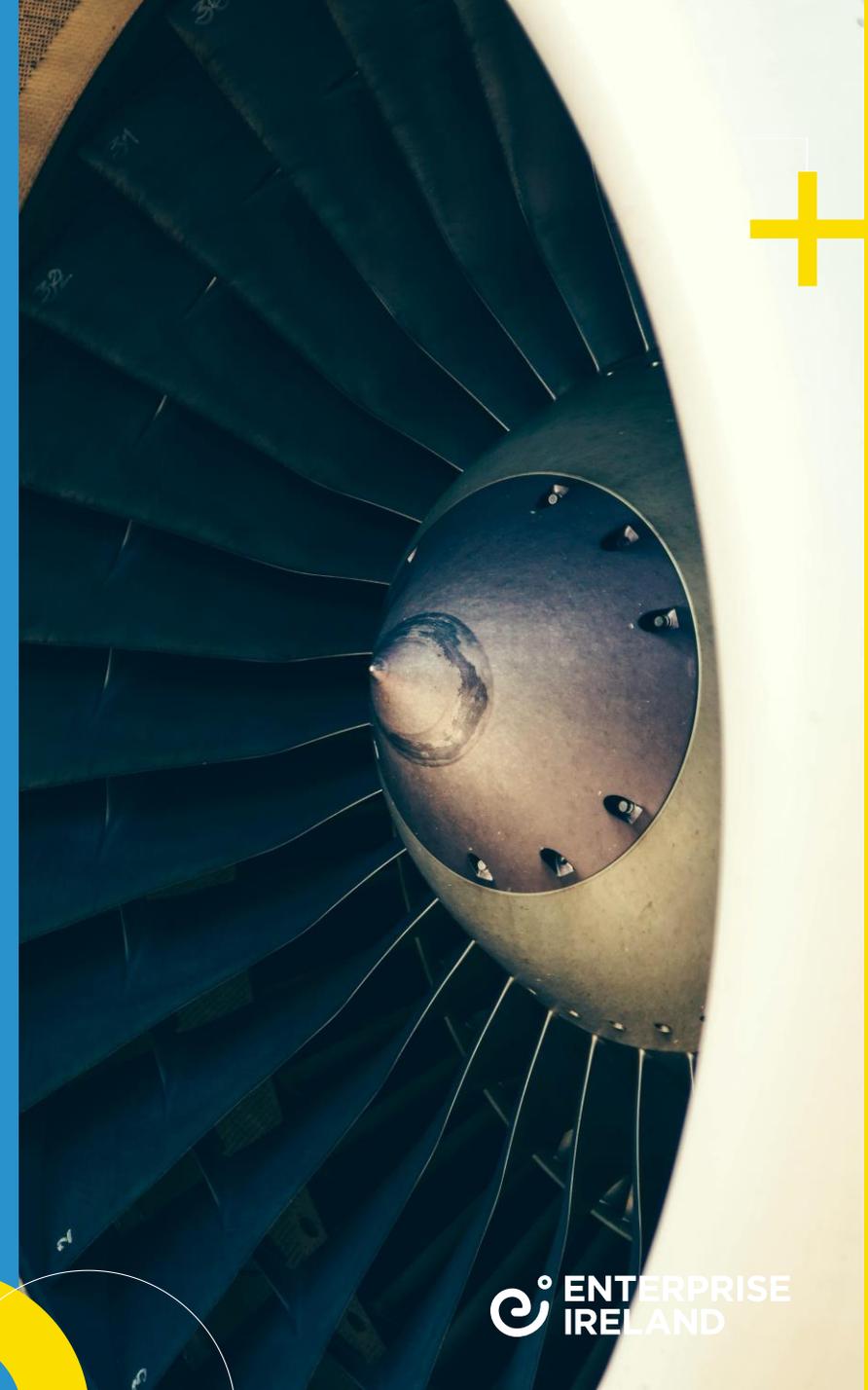
Aerospace & Aviation – MEAI

SUPPORTS

- Qatari government have pledged to support foreign SME's that have registered entities within the country.
- The Arab Air Carrier Organization (AACO) who represents 33 airlines in the Middle East and North Africa, is calling on Arab governments to adopt 1) tax relief for airlines for a period of two years 2) speedy financial support packages for airlines to retain workers 3) government-supported grace period from paying lenders and suppliers 4) exempt airlines from paying user charges at airports and air navigation service providers 5) exempt airlines from passenger rights regulations 6) suspend slot rules in Arab airports 7) compensate airlines for net costs of sanitisation and monitoring to contain the spread of the virus.
- Government stimulus packages have been announced to protect numerous industries, however, there have not been specific stimulus packages announced for IMEA aviation industry.

OPPORTUNITIES/ CHALLENGES

- Supply chain consolidation likely as smaller airlines either merge with stronger players or are forced into liquidation. Irish companies need to evaluate where they may fit in the 'new world'.
- Opportunities may emerge for pilot training and simulation as fleets continue to be grounded.
- Air cargo across the Middle East increased by 5% in February however, due to a current capacity crunch, air freighters are restricted for any further growth in the short term. The Africa-Asia market was the only trade lane which continued to post growth in March, with volumes up almost 10% year-on-year.
- New solutions to assist major airlines track and monitor the health of their staff and passengers likely to become high demand.
- Important for clients to stay close to customers and airlines and ensure they can be part of a new future and assist their recovery efforts.



Aerospace & Aviation – Russia

SUMMARY

- Before the epidemic, a number of clients expressed that Russia was a priority in terms of development.
- Client visits to market during quarter 2 have been postponed indefinitely.

DEVELOPMENTS

- As of the 30th of March, all non-essential businesses will be closed until the 30th of April.
- As of the 27th of March, Russia's aerial borders are closed.
- There will definitely be disruptions in the supply chain. Update to be provided as they are made available.

SUPPORTS

- The Russian government has made a fund of \$307 million to support airlines during this period.

OPPORTUNITIES/ CHALLENGES

- OPEC and Russia struck a deal to cut oil production which has strengthened the Russian Rouble.
- The Russian Rouble is still considerably weak and the treat of Russian airlines looking for cheaper options from the likes of Belarus and China still exists.



Aerospace & Aviation – Czech Republic & Hungary

SUMMARY

- Lock down in Czech Republic & Hungary causes significant disruption and consequences.

DEVELOPMENTS

- The Czech Airline business has been affected by the Covid-19 significantly. As a consequence of the decision of the Czech government to lock the country and not to allow Czech citizens travel abroad and foreigners to enter the Czech Republic, two main airlines Czech Airlines and Smartwings have completely stopped their passenger flights from/to the Czech Rep. for the period of March 16-April on (this date can change). This measure will have a serious impact on their financial results and their staff. Airline cargo transport operations still continues.
- The Hungarian low-cost carrier Wizz Air has grounded around 85 percent of its fleet due to travel restrictions introduced by government. The company continues to operate 15 percent of its capacity and remains operational in Romania, Hungary and Bulgaria.
- Same as in the Czech republic the Airline cargo transport still continues operations.

OPPORTUNITIES/CHALLENGES

- With Farnborough international air show 2020 being cancelled, this will impact the securing of new contracts and business within the industry for Czech Republic. While the exchange rate stood below 25 CZK to 1 EUR in mid-February (the strongest exchange rate since 2012), it is now at 27,38 CZK to 1 EUR as of Wednesday 1st of April (Czech National Bank website).
- The Hungarian Forint hits negative record – On 31st March the HUF-EUR exchange rate went over 361, non-governmental news portals report; at the time of this writing, one Euro costs 366 Forints. The long-lasting weakening of the Hungarian currency has unleashed when, as asked by the Hungarian Central Bank, the government introduced a moratorium on loan repayments. According to economic and business portal portfolio.hu, in March, Forint weakened by 5.65% – the second weakest period since the 2008-09 crisis. The Hungarian currency's loss of value is not unique: it is in line with regional trends, but it is particularly unfortunate that the Forint was already at a very low point when the epidemic hit the economy. There is no reason to believe that the trend would change in April, and it cannot be told where the fall would end.
- Due to this, The Hungarian Parliament approved new emergency powers on Monday (30 March) that will allow the ruling Fidesz party the right to rule by decree, without a set time limit. The markets have not reacted well to the announcements.





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Enterprise Ireland is the government organisation responsible for the development and growth of Irish enterprises in world markets. We work in partnership with Irish enterprises to help them start, grow, innovate and win export sales in global markets. In this way, we support sustainable economic growth, regional development and secure employment.

During this unprecedented period Enterprise Ireland is on hand to support you in overseas markets, to help you secure and sustain existing business relationships and to research opportunities that may emerge during the crisis. Please connect with our experienced Market Advisors by email to discuss further.

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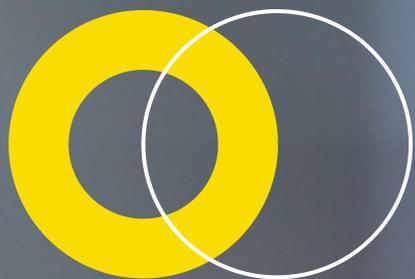
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