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THE EFFECTS OF GLOBAL ECONOMIC CRISIS ON THE AIR TRANSPORT OF PASSENGERS IN EUROPE AND IN ROMANIA

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Abstract: This paper analyzes the essential aspects regarding the Global Economic Crises on aviation sector at the time of her appearance in late 2007 and present them and the ways in which many countries were affected, airlines in 2008 when the crisis has appeared in European level but also in 2009 when they were implemented several measures for the recovery of the decline. I surprised that major bankruptcies produced them but also the routes that were most affected. At the end of the paper I tried to see who was the indirect effects of the crisis on tourism and expose some conclusion and expectations about the future of passenger air transport.

Key words: Global economic crisis, air transport, bankruptcies, geographical routes affected, traffic on airports in Romania, impact for tourism

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1. INTRODUCTION

Global economic crisis has affected all sectors of the economy but as we well know, one of the most affected sectors is travel sector. That is why I tried to make an analysis of the crisis effects not only on European but also Romania aviation sector in the last two years and to identify trends and prospects of travel for the next period. Understanding the evolution of the air transport sector, it is necessary to be aware of the relationships between all actors. As an illustration, figure 1 provides insight into the structure of relationships between actors in the air passenger sector. A similar methodology was already succesfully applied to port and maritime relations within the port of Antwerp in Coppens et al. (2007).

There are clearly forms of cooperation between actors in the air transport industry, both within a particular subsector (e.g. the airline industry) and beyond (e.g. between airlines and ground-handling companies) which are dependent on each other and can be affected at all.

Some trends from the past show us that tourism and business travel have caused a strong development in airport capacities at worldwide level, supporting millions of jobs in both developed and developing countries. World economy is now increasingly dependent on air travel, also with a growing share of freight, by value, conveyed by air. But several research studies shows the evolution of aviation industry after the crisis from World War 2 when the flight schedule was disrupted for years.

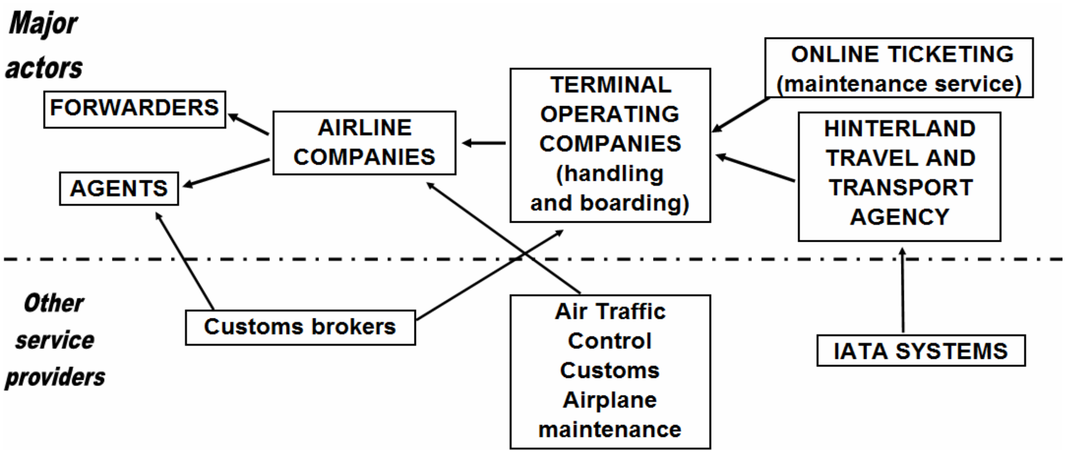

Figure 1. Air transport actors (air passenger sector case)
(Data source: Author after Meersman model 2008)

Macário et al in 2009 identify ten major trends that lead to market disturbances like networks and growing impacts of networking, technological evolution, evolution towards a mass-market sector; increasing safety concerns; emerging new forms of modal competition; irregular space and time distribution of the sector, Changes in air transportation market structure; Changes in airlines, airline airport and airports relationships and declining yields . All of this are based on the political factor who has very much marked the pace of what we call the competitive market waving in the air transport sector. The timeline presented below depicts the evolving deregulation process that the market has been going through since the end of World War II.

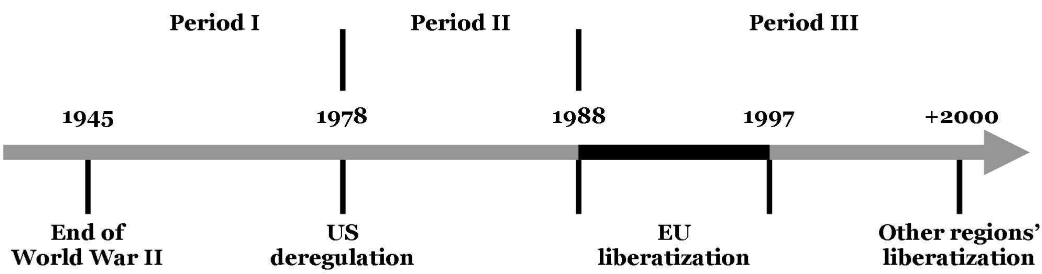

Figure 2. Market deregulation timeline
(Data source: Macário et al., 2009)

2. CRISIS EFFECTS ON AIR TRANSPORT

An analysis of data from the Euro-State as regards the traffic recorded in the countries but also from international aviation organizations on IATA[1] and AEA[2] airlines have to provide us air passenger traffic situation both internationally and internally.

2.1. crisis effects on world and european air transport

Economic recession manifested globally has first touched the corporate segment affecting the aviation domain where since the last quarter of 2007, the profit started to decrease taking a downward trend. Then the travel agencies have reported a sudden drop

[1] IATA – International Air Transport Association
[2] AEA – Association of European Airlines

of 20 % of applications and the market trend was not favorable at all. Eventually, the crisis of market tourism has affected the hospitality industry and that of small private entrepreneurs who had connections with this area and predictions were not indicating that the market continues to contract.

At the end of September, American aviation industry announces the first data which indicated the decrease of RPK[3] this would only foresee the same fate for Europe, if the decrease in October was only a modest one of 4 % in half of November data indicated a drastically decrease leading at the end of the year to the announcement that European companies increase with only 1 %.

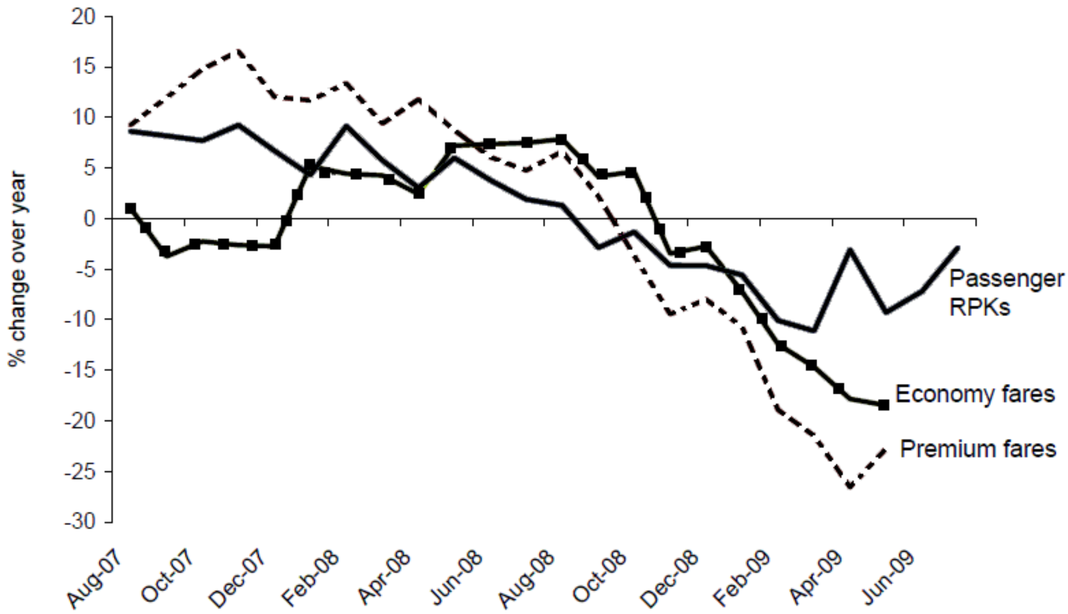

Figure 3. Tickets sold and the revenue obtained per passenger per km
(Data source: IATA and PaxIS)

As far as known, in 2008 was the year when the price of oil was decreasing unprecedented. This fact created a perfect "storm" which reduced the cost of air services and high prices but all these were competing with a big drop of requests for premium ticket type, in particularly. As we can notice in the chart below, September of 2008 was the moment of transition to negative values which led to the cancellation of flight segments but also to more layoffs among airline industry.

Latin America has had the lowest losses worldwide which ended the year of 2008 on a positive trend and Asian market had the most surprising decline. Europe was affected from west to east so that the first ads of the crisis had to report a drop in the traffic both on the intra-European and other routes with a sharp decrease of the transatlantic ones to North America.

The European Union countries can be observed at a large difference between some countries which were very affected and some which have not yet felt the effects of the crisis. This, the countries which had a large decrease in the number of passengers were United Kingdom - especially concerning the connections with the U.S., Spain – the country which is dependent of tourism and with decreasing their number decreased number of passengers.

[3] RPK - revenues/ passengers/ km

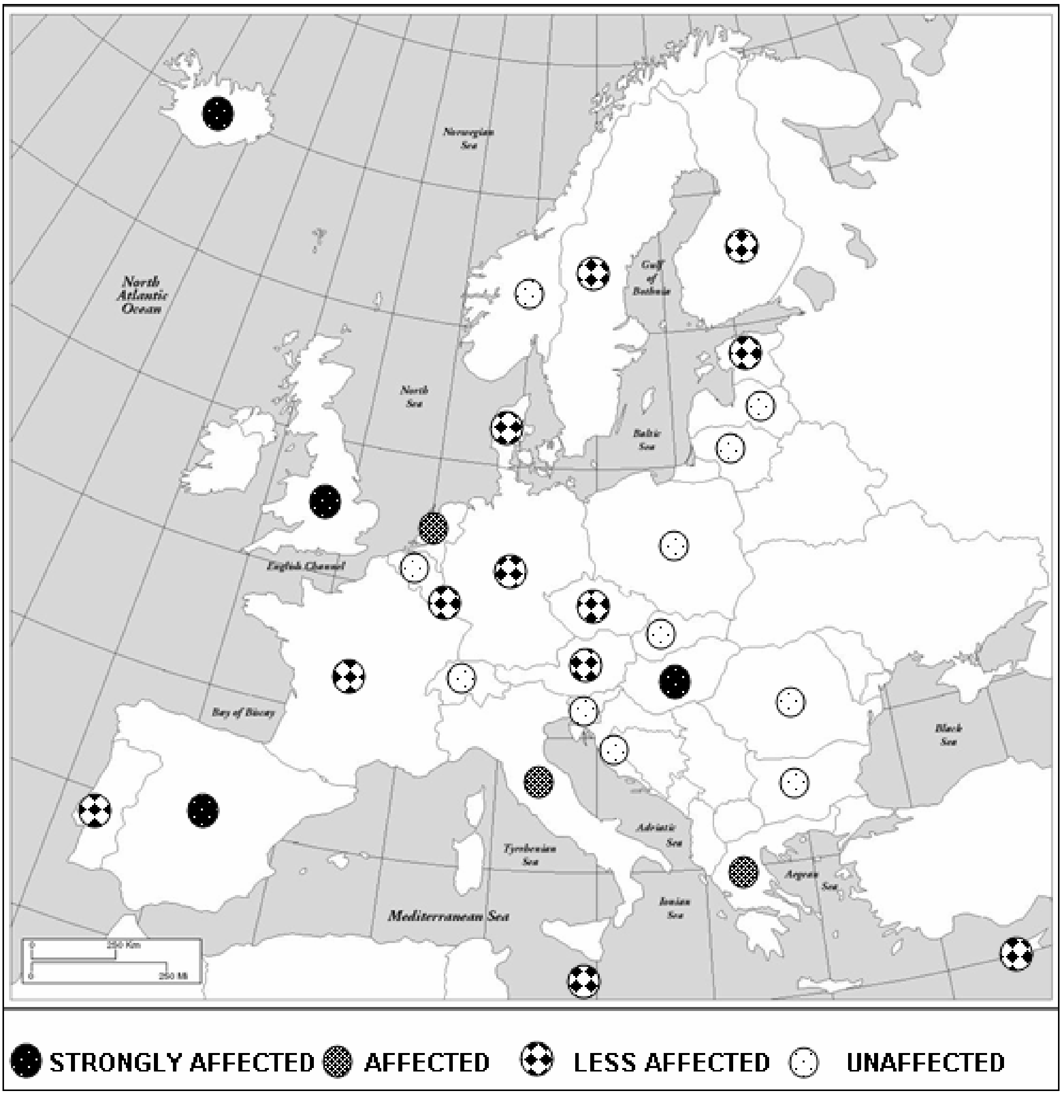

Figure 4. Europe Air transport of passenger / countries comparative data for 2007 with 2008
(Data source: Euro-stat, Transport Statistics)

Other countries affected by the crisis were Italy and Greece (dependent of tourism) and also Netherlands which is the provider of tourists. The least affected countries by the crisis were mainly those of Eastern Europe that have prospered in low-cost flights. Countries that had a small downturn in air transport of passengers were on number 12 to be listed among France, Portugal, Germany and Austria and those affected by the crisis in 2008 were countries with a lower traffic and especially in Eastern Europe including Romania, Poland, Bulgaria, which had to feel the crisis but only since 2009.

The crisis had to predict a bleak future for the aviation industry and that the market would remain just as powerful state companies. For example, Alitalia entered bankruptcy because of losses on certain routes, and other smaller companies for low cost or which exercised niche flight either on business segments or seasonal type charter, went bankrupt over the year 2008 among which I mention **Maxjet** (first European company bankrupted because of the crisis, in January 2008 - it made regular flights in particular on the Business segment between London and Las Vegas, Los Angeles, New York, etc.), **Eos Airlines** (American company-based on European Business segments announced its withdrawal in April 2008), **Oasis Airlines** (low cost airline that made flights between Europe-Asia and America failed in April 2008), **Silverjet** (British company that suspended its operations on May 30, 2008, mainly operating routes to Dubai, New Jersey but also in many sectors of racing charter), **Futura** (Spanish company having the base in Palma de Mallorca announced bankruptcy in September 2008, performing flights from 28 airports in Spain but also in 118 airports in Europe and North Africa), **XL Airways** (European company which operated in France, Germany and UK announced bankruptcy in September 2008 along with **XL Leisure Group** - one of the largest tour-operators of tourism in Britain).Bankruptcy did not stop there.

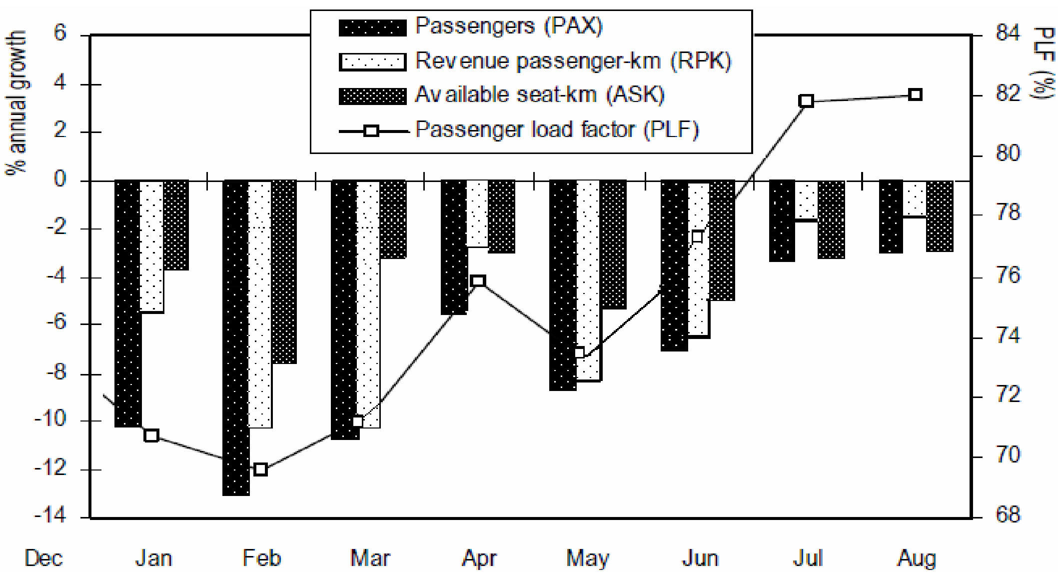

Figure 5. European airline traffic as RPK 's, PAX, ASK and PLF in 2009
(Data source: AEA)

The crisis has just begun as more than 9 companies have announced bankruptcy in 2009 among them **FlyLAL** (Lithuanian state company which announced bankruptcy in January 2009) **Olympic Airlines** (Greek line company that had more than 37 internal destinations and 32 external, canceled the flights in March 2009) or other prestigious low cost company such as **SkyEurope** (who operated 44 routes to 30 destinations in 17 countries)**, Volareweb** and **MyAir.**

Most airlines have taken heavy losses and to withstand the crisis had to use various different marketing policies of lower prices or promotions in order to diminish losses. The main European companies as **Air France-KLM** announced decrease of over 30 % of income because of the cheaper tickets but estimated an annual profit of over 15 %, **British Airways** adopted a new policy of "flights of survival" by which companies try to provide some incentives to loyal customers and keep them even if the company does not register profit, **Lufthansa** was also affected by the crisis but perhaps the least of them predicting only a drop of 4.8 % in profit compared to 2008 but despite this it intends to purchase the **SAS**, **Austrian Airlines** and **Brussels Airlines** which have some financial problems. Some low-cost companies took advantage of the crisis and exploited the bankruptcy of other companies by entering on the opened market or by acquiring traditional customers of line companies through an aggressive promotion policy such as

AirBerlin, **WizzAir**, **BlueAir**, **Ryanair** and **EasyJet**, the last ones have announced an increasing of seals of over 20 %.

The demand for air transport is a derived demand. The same reasoning applies to the demand for employment. Employment will be function of air transport economic activity, i.e. the supply of air transport. Since as a consequence of the current economic crisis both demand and supply for air transport decreased, so does employment. Table 1 gives an overview of recent job cut announcements in the European air transport sector selected by Macário in 2009.

Table 1. A selection of job cut announcements
(Data source: Macário and Van de Voorde 2009)

Carrier	Date of announcement	Job cuts
SAS	4 February 2009	8,600 out of 23,000
	12 August 2009	Additional 1,500 job cuts
Virgin Atlantic	12 February 2009	600 out of 9,000
Ryanair	12 February 2009	200
Air France/KLM	15 April 2009	3,000 out of 100,000
Lufthansa	16 July 2009	400 administrative staff
Aeroflot	17 September 2009	2000 jobs
LOT	6 October 2009	400 out of 3,500
British Airways	6 October 2009	1,700 out of 14,000 cabin crew UK
Aer Lingus	7 October 2009	676 out of 3,900 (during next two years)

2.2. Crisis effects on romanian air transport

The effects of global crisis on the airlines in Romania have been less visible since the appearance of recession was later felt in Eastern Europe and has mainly affected charter flights type which has fallen with about 30 % as declarations communicated by ANT. The statistics, mainly cover the data traffic on the airports and less the traffic of the airline companies but according to AEA **Tarom** national airline company had a 12 % decrease in the number of passengers but also the RPK' s value (revenue/No passenger/km) is smaller with approx. 200 million than the same period of last year. This decline is connected not only with the decrease of requests but also with the fierce competition from low cost companies serving now also the Business segment. Fighting with the crisis, the national company decided to improve the board services and also to promote new destinations at accessible prices (Bucharest–Amsterdam, Bucharest–Lyon, Bucharest– Venice, Dubrovnik–Bucharest, Bucharest–Zagreb, Cluj–Paris and seasonal international route Cluj–Constanța).

The other Romanian regional line company **Carpatair** has celebrated this year 10 years of operation and through the manager announces a drop in traffic by 12 % from the previous year although this year launched new flights on the routes Chernovtsy–Timisoara, Timisoara–Perugia, Bucharest–Ancona, Bucharest–Verona, Bucharest–Milan/Bergamo and Bucharest–Bari but also two new flights from Craiova–Milan/Bergamo and Craiova–Rome. Other airline companies were in the usual media of the decrease of requests but because they were not affected too much, only Olympic Airlines has stopped its activity.

The low-cost Airlines manifested the crisis in two different ways, some of which was bankrupt as **Myair** Italian company which was active in Baneasa and had 12 destinations or the **SkyEurope** Austrian-Slovakian company that had 7 destinations departing of Bucharest, not even **Volareweb** resisted the recession which had flights from Timisoara airport. After these failures many airlines have tried to get into the place left open in the market and take some of the destinations.

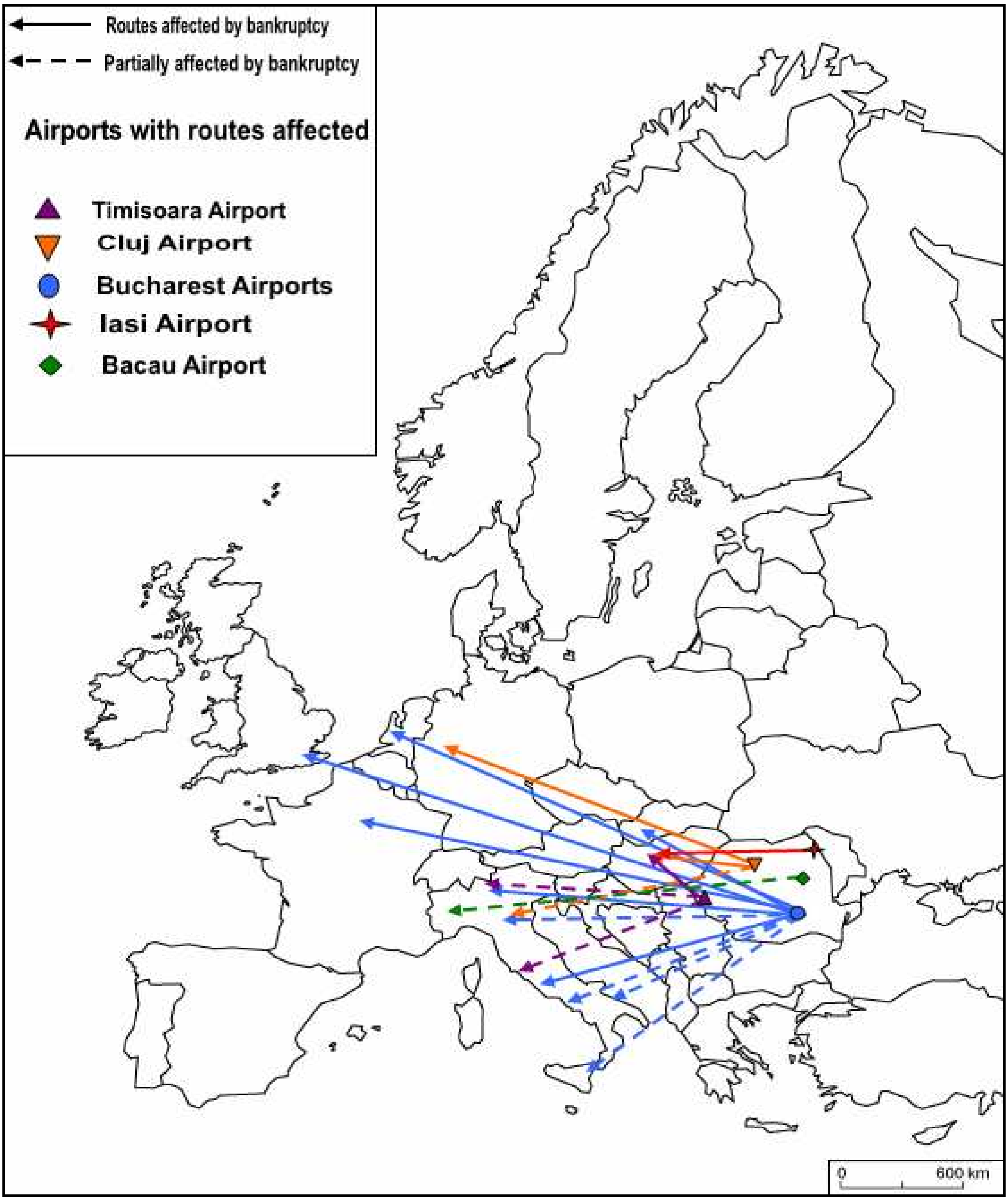

Figure 6. Routes and destination countries affected by crisis

But not all destination were profitable and were not resumed flights to them. Among them is Iaşi–Budapest, Bacău–Cuneo, Cluj–Koln, Bucharest–Amsterdam, Bucharest–Bratislava, Timişoara–Budapest.

Among the companies that have resumed some flights include **WizzAir, Carpatair** and **BlueAir** which had an increasing in the number of passengers and also it introduced new destinations such as Bucharest–Vienna, Suceava–Vienna, Suceava–Venice, Suceava–Cluj, Baia Mare–Venice, Baia Mare–Rome, Baia Mare–Vienna, Cluj–Rome, Cluj–Paris, Cluj–Bucharest, Bacau–Milan and Bacău–Bologna having the highest growth in this period, **WizzAir** is just another important player on the airline market in Romania which has not stalled and it has increased its number of destinations with new departures: Cluj–Venice, Cluj–Forli, Cluj–Grenoble, Cluj–Cuneo, Cluj–Pisa, Cluj–Zaragoza, Cluj–Dusseldorf, Bucharest–Naples, Ontario–Forli and Bucharest–Catania, Bucharest – Zaragoza which continued to increase the number of passengers and also the Hungarian-Polish company accounts. The other small players of low cost market in Romania are satisfied by keeping the flights they have now and be just afloat, among these I should mention **WindJet, EasyJet, Ryanair, Germanwings, Baboo, Vueling, AirBaltic.**

Competition between line companies and the low-cost companies led to the emergence of new routes but also to low prices to attract new customers so at the end of 2009 the podium of traffic recorded by airlines have on the first 2 places two low-cost companies **BlueAir** and **WizzAir** followed far away from the national company **Tarom**.

The traffic recorded by the main airports in Romania indicate us that some airports have been affected by the crisis or that others have greatly increased the traffic, after an analysis done on data of the first half of the years 2007, 2008 and 2009 showed that airports were not affected by the crisis in 2008, almost all having a significant increase in the number of passengers, the only airport with negative values is Timisoara (actually due to the withdrawal of Volareweb company) and the others had positive values and some even with significant increases such as Constanța, Cluj, Sibiu, Băneasa and Otopeni, not the same is the situation in 2009 when the effects of recession were felt in Iasi and Otopeni airports where the number of passengers fell by more than 8 %, which was noticed in the total number of passengers in Romania which is in a slight decrease of about 70 thousand passengers.

Table 2. Traffic on the main airports in Romania
(Data source: Euro-stat, Transport Statistics)

Airports	Passenger Ian – Jul 2007	Passenger Ian - Jul 2008	Passenger Ian - Jul 2009
BACĂU	44,763	47,532	68,820
CONSTANȚA	11,956	18,275	27,586
CLUJ	135,480	315,244	345,048
IAŞI	51,288	63,858	61,776
ORADEA	16,701	18,920	19,552
SIBIU	44,652	60,063	69,383
TIMIŞOARA	439,241	413,737	432,295
BĂNEASA	395,598	743,280	935,306
OTOPENI	2,132,195	2,365,256	2,014,909
TOTAL	**3,271,874**	**4,046,165**	**3,974,675**

3. THE IMPACT OF AIR TRANSPORT CRISIS FOR TOURISM AND FUTURE PROSPECTS FOR AVIATION

The crisis in air transport has led to a decrease in the number of tourists who traveled by plane and especially of those who practiced business tourism but also for those with higher working holidays in May that led to a decrease in the number of nights spent in hotels and similar establishments, decreased slightly, the number of holiday trips made by residents of the EU increased by 7.1 % in 2008. Here also, the increase was less favorable in the second half of the year, especially regarding foreign tours. In addition, these trips were on average shorter in 2008 than in previous. With However, this indicator also presents a model falling during the year and growth fell from 8.6 % in first six months (compared with the first six months of 2007) to 5.3 % in the second half. Increase in foreign travel (6.7 %) was slightly lower than for domestic trips (+7.2 %). In the second half of the estimated number of trips was particularly affected by the economic slowdown with a growth of 2.6 % compared with 6.2 % for national holidays. Over the past decade, the fastest growing segment was short breaks of 1 to 3 nights. This has continued in 2008, an increase of 9.3 %. Although the growth rate for this type of trip, fell slightly in the second half of the year (8.3 %), compared with 9.8 % in the first half, is widely exceeded the growth rates for long trips at least 4 nights which slowed down to 3.7 %. This observation indicates that a certain extent, long trips were replaced with short breaks. Choosing the increase for shorter vacations is also seen in Table 5 which shows the evolution of average length of holiday travel. Holiday travel in 2008 were on average 0.16 days/shorter nights (-2.6 %) less than in 2007.

The recession has greatly affected the air transport sector and indirectly because tourism is one of the secondary human needs such was very easy to give it up, but nonetheless flourishing sector so the past years can be restored to its original level and profit growth especially as some areas are economically linked directly to it. Some signs have predicted a recovery in tourism was given the demands of the air transport sector have stabilized in the last 4 months in the euro area and especially so given the smaller fluctuation in exchange rates (compared to other countries where inflation is greater). The danger of rising oil and lead to an increase in ticket prices which would reduce the chances of recovery in air transport.

The effects of the pandemic influenza A (H1N1) were low and limited tourism demand for more areas affected (especially in Mexico and the USA affected by avian first) and threatening areas such as Asia and the Middle East but also Europe and especially countries where the virus made presence felt in a large number of people such as Iceland, Ireland, Sweden, Norway, Netherlands, Bulgaria and Italy.

4. CONCLUSIONS

Many companies will increasingly eight more to reduce the number of staff and promotion of online sales for lower costs, which would keep unemployment in the tourism industry at a high level. But most research institutes give encouraging predictions for the new year and especially for the third quarter when predicting an increase of applications especially for Europe and Middle East.

Other consequences that might result from crisis: for Alliances, consolidation and niche players – a further concentration movement, with a risk of resulting in market dominance and abuse of market power; for the issue of privatization – risk of dominant positions, also in the airport and third party handling market; for the influence of cross-border mergers and acquisitions – consolidation of movement; for the low-cost market – concentration towards a limited number of LCA's and borders with legacy and charter carriers disappear; for the issue of bankruptcies – trend will persist and the consolidation and risk of abuse of market power; new market entries and increasing aggressiveness – risk of predatory pricing, i.e. entry deterring strategies that work by reducing the profitability of rivals and extreme volatility of the airfreight market whit the risk of a complete restructuring of the airfreight market.

To be able go aviation crisis would need to follow some of this summarized as future trends: Reshaping the development of multiple airport systems in metropolitan areas and of niche airports; Commercialization: business management in a market economy. Economic performance and efficiency become salient criteria for design; Technology change: propelling integrated carriers and rearranging handling through electronic commerce and ticketing; Airport Networking, airline networking, airport-airline joint-ventures/alliances; New modal competition: high speed train, improvement and investment in competitive infrastructure and modal business model sophistication (high-speed rail, etc); others (cities airport, suiting Airlines and Airports specialized carrier-specific Needs, improve systems to detect natural disasters)

The air transport from Romania will be affected especially at small airports with regional traffic and many will suffer the expense of those that will capture still the highest among them include Cluj-Napoca, Timisoara, Baneasa and Otopeni from capital. The chance for small airports should be upgrading their facilities and providing new politics for setting up new bases in their place. Inauguration of the new airport from Brasov will have an important influence on the area but also on tourism by facilitating access to winter resorts and spa and cultural objectives.

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