



COVID-19 PUSHES SMALL CEE AIRLINES TO THE BRINK

Akin Nazli

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“Every airline, regional or not, will go bankrupt unless it gets aid – either from investors, bankers or the government,” said Addison Schonland, founder of Baltimore-based Air Insight in the United States.

“The only survivors will be those that get such financial support to get them through the period where there is no traffic revenue,” he told BIRN. “Even the cargo carried today does not sustain any passenger airline.”



📷 Aegean Airlines aircraft lands to Cyprus International Airport after reopening, Larnaca, Cyprus. Photo: EPA-EFE/KATIA CHRISTODOULOU.

Choosing whom to rescue

Unwanted state interference has long been seen as a problem for airlines in the Balkans but may become the norm in the era of COVID-19.

“Nationalizations/re-nationalizations among regional airlines are certainly an option,” said Schonland. “After all, why would a government support an airline without taking over control to protect its investment?”

The more difficult question will be, “which airliners to save?”

“Governments are likely to support any local airline because it means keeping skilled jobs and protecting transportation links and the tourism economy which generally is a big employer,” he said.

“I suspect that few governments will allow their airlines to go bankrupt. Where this does happen, it will be because the government is too weak financially to offer such support.”

Aegean Airlines in Greece is a major worry. According to Ahmad, the airline is “choked” with governmental red tape and policies that hurt growth.

With Greece opening up to much-needed tourists, “Aegean may just stay afloat,” he said. But it will have to slash costs. “The Greek Government is already broke and can ill afford to bail anyone out in any industry.”

Skopje-based aviation analyst Igor Bozinovski said Greece’s conservative government had heard and responded to the airline’s “cry for government help” but it was yet to be seen what concrete steps the state would take.



 Turkish Airlines cabin crew walk after resuming domestic flights in Esenboga Airport, Ankara, Turkey. Photo: EPA-EFE/STR.

Miracles needed

In Croatia, flag carrier Croatian Airlines is already receiving state aid but still racking up debt, Bozinovski told BIRN, having never truly recovered from a financially disastrous three years between 2008 and 2011.

In March, with COVID-19 taking hold in Europe, plans to privatise the airline were put on hold and Croatian Airlines asked the government for some 92.7 million euros in state aid, an “astonishing amount,” said Bozinovski.

The company says the money will cover this year’s expected losses and allow for the further development of its fleet.

Bozinovski said Croatian Airlines was still considered “a company of strategic importance for Croatia” but that turning it into a success story would be a “big miracle.”

Schonland said that the current climate may prove tempting for “anyone with the management skills and capital” to get their hands on major assets and at big discounts.

But politics may prove an obstacle.

“For example,” he said, “how would Croatia feel about Croatia Airlines being absorbed into Air Serbia? You can imagine the political impact of this.”

In Turkey, COVID-19 looks certain to force a rethink at Turkish Airlines on an ambitious expansion strategy over the next four years that would have seen its fleet expand by more than 135 planes.

Like other industry players, Turkish Airlines will now have to rethink its fleet plan given the significant stress in the aviation market due to the pandemic, Moody’s Investors Service told BIRN.

This may affect the airline’s strong presence in the Balkans, motivated as much by political and geostrategic interests as profits.

“Given the geographical proximity I think the company will continue to stay in the region, and retain its partnership with Air Albania driven by a political will,” said Artem Yamschikov, Equity Research Analyst at Renaissance Capital in Moscow, told BIRN.

Like other global airlines, it will have to become leaner and focus on its most profitable routes.

“Like all airlines throttled by the virus, Turkish Airlines has to look to where its yield and revenue is greatest – and that’s not in the Balkans,” said London-based Ahmad.

Unlike Turkish Airlines, private low-cost carrier Pegasus may struggle more given it is unlikely to receive help from the state, the Yamschikov warned.



📷 Dane Kondic (L), CEO of the new AirSERBIA company, current Serbian President Aleksandar Vucic (C) and the CEO of Etihad Airways, James Hogan (R), join hands after the signing of a partnership deal, in Belgrade, Serbia. Photo: EPA/KOCA

SULEJMANOVIC.

End of the line for Etihad's Air Serbia venture

Experts say the pandemic is likely to hasten the demise of Etihad's partnership with Serbia in Air Serbia.

A major financial, strategic and operating overhaul is already underway at the UAE flag carrier.

Bozinovski noted that Serbia's transport minister, Zoran Mihajlovic, has already indicated Serbia is considering buying back Etihad's stake in Air Serbia, "thus effectively nationalising" the airline.

"The marriage between Etihad Airways and Air Serbia is now in its last days and the divorce would probably be announced in the weeks or months after Serbia's June 21 parliamentary elections," won in a landslide by the ruling Progressive Party, Bozinovski told BIRN.

COVID-19 is threatening to seal the fate of a number of other smaller flag carriers in Central and Eastern Europe, such as Polish LOT, Romania's Tarom and Blue Air and Montenegro Airlines.

"Like most airlines in this environment, LOT Polish Airlines cannot survive without government help," Schonland said. "Because of the tiny margins, no airline was safe. Certainly not LOT."

Romania also looks unlikely to stump up the cash to save Tarom and Blue Air, experts say, but a merger may be one way out.

In Montenegro, the government late last year stepped in to save flag carrier Montenegro Airlines with 155 million euros from the budget over the next six years, including 50 million for the purchase of new aircraft.

Under normal circumstances, the airline earns about 70 million euros per year, said Bozinovski, but 2020 faces being "catastrophic" for the company

given the impact of the pandemic and a political row with Serbia that saw the airline's landing rights at Belgrade airport suspended. It will likely need "far bigger support" from the government than it has already received, he said.



📷 Passengers disembark from the low-cost airline company Wizz Air plane in Nis, Serbia. Photo: EPA/DJORJDE SAVIC.

Wizz Air bucking the trend

But while most airlines in the region are hunkering down, hoping to survive the storm, Hungary's low-cost Wizz Air has seized the moment to expand.

On June 16, the company announced a massive expansion of its Serbian operations, adding one new Airbus A321 aircraft to its Belgrade base and pledging nine new routes out of the Serbian capital from July.

It has also added a number of new routes from other cities in the region, including Tirana, Sofia, Bucharest, Skopje and Bosnia's Tuzla.

The expansion has been made possible by the purchase of a number of new Airbus planes by Wizz Air's owner, the American private equity firm Indigo Partners, and the fact that short to medium haul routes are proving far easier to restart than bigger, more expensive networks.

“Regional competitors of Wizz Air in Central and Eastern Europe will have been weakened by the outbreak and Wizz Air should be able to benefit from weaker competition immediately post outbreak,” Stanislas Duquesnoy, Senior Vice President at Moody's Deutschland GmbH in Frankfurt, told BIRN.

“Wizz Air's business and aircraft fleet is still very small compared to large European network carriers, which makes it much easier to grow and to adjust its route network,” he said.

If Wizz Air succeeds, it may further threaten the survival of other carriers in the region, Bozinovski noted, though experts say the likes of Czech Airlines and Smartwings are better placed than most given their low costs and routes that are popular with tourists.

“As travel restrictions ease, that demand will return,” said Ahmad. “It won't be instantaneous, but there is evidence that people want a European summer vacation, and with the on-set of depressed pricing, there will be good deals to be had.”

Nevertheless, Wizz Air is “taking risks” in trying to expand right now, he said.

“Judging their strategy a year from now will be a better bet than to do so now because the dynamics are just so erratic,” Ahmad told BIRN. “Needless to say, other airlines are shrinking in this same environment. There is no one-size-fits-all.”

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