

Top challenges in aviation today

KPMG Cyprus Hospitality newsletter

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The aviation sector was severely affected over the past couple of years as entry bans and travel restrictions brought the sector to a halt during the pandemic. The escalated demand of travelers, following the lift of travel restrictions, resulted in several challenges and operational issues for the aviation sector globally. Additionally, the sector is called to face the increasing inflation and recent spike in fuel costs caused by the ongoing geopolitical crisis.

Top challenges in Aviation today

- 1** The escalated demand of travelers, followed by the lift of travel restrictions, imposed due to the Covid-19 outbreak
- 2** The travel chaos instigated by the large number of travelers and the staffing shortages across the aviation sector
- 3** The global instability and uncertainty resulting from these unprecedented times
- 4** The current energy crisis adversely affecting fuel costs, putting pressure on profitability

Escalated travel demand

As the world of travel started to open again, a significant increase in travel demand is observed. According to the International Air Transport Association (IATA), global passenger traffic has reached 75% of pre-pandemic levels, achieving a 151% growth in July 2022 compared to July 2021.

Passenger traffic in Cyprus for the first 9 months of 2022 reached 7 million passengers which is already two million passengers more than the passenger traffic recorded for the entire year of 2021. This translated into a 111% year-on-year growth for the passenger traffic of the island. According to Hermes Airports, the total passenger traffic for 2022 is expected to reach 8,7 million passengers achieving 78% of the 2019 passenger traffic.

Staff shortages and travel chaos

The Covid-19 outbreak in 2019 resulted in several entry bans and travel restrictions which brought much of the aviation to a halt. The majority of airlines and operators were left with no choice but to dismiss their staff in aim to eliminate financial losses and survive the pandemic. This resulted into the diversion of many workers from continuing working into the sector.

Following the lift of travel restrictions, aviation rebounded much faster than many anticipated. This found the sector with staff shortages, not being able to accommodate the escalated travel demand observed in 2022. Shortages of ground staff in areas like security and baggage handling caused major delays in processing passengers and flights creating a travel chaos and even more problems for the airlines. Suitcases are consistently lost leaving airlines exposed to huge amounts of compensations.

Additionally, several airlines have been cancelling thousands of flights amid congested airports and overcrowded skies leaving passengers stranded in airports across the world for hours. Several airports tried to enforce a cap on flight numbers in an attempt to overcome this travel chaos.

Strikes have also become more often in the aviation sector, from ground handling staff to pilots, affecting not only local air traffic but also overflights and flight connections. For example, the recent strike of French air traffic control and pilots affected numerous airlines including Air France, EasyJet, Vueling, and Ryanair with the latter operator stating that they had to cancel 420 flights affecting 80.000 passengers.

Global instability

The global instability and uncertainty the world went through during the pandemic was further increased by the rapidly escalated events of the war in Ukraine. The geopolitical crisis in Europe added on the political crisis in Middle East and Asia raise not only financial concerns but also security concerns as aviation has always been a high-profile terrorism target either physically or electronically. Additionally, the energy crisis unfolding creates even more uncertainty for the sector as such crisis is highly likely to adversely affect travel demand.

Fuel costs and profitability

Fuel cost is considered to be one of the main costs for airlines, thus any increase has the potential to significantly affect profitability. Aviation fuel costs have crucially risen since 2020 with oil prices in March 2022 hitting the highest price point in the last 13 years. Further to the disruption caused by the Covid-19 outbreak and the airline passenger revenue dropping by more than 50% in 2020, the increased fuel costs left many airlines and operators increasingly suffering financially. Consequently, some are inevitably terminating their operations with the most recent case being the suspension of Blue Air's operations.



Aviation continues to recover as people take advantage of their restored freedom to travel."

Willie Walsh
IATA, General Director

Impact on the Cyprus hospitality sector

As heavily relied on tourism arrivals, the Cyprus hospitality sector is unavoidably affected by the disruption witnessed in the aviation sector. A flight cancellation means less tourist arrivals and therefore less revenue for the Cyprus hospitality sector which is one of the main pillars of the island's economy. However, according to a Senior Manager of Hermes Airports, when numerous airports abroad were faced with hundreds of flight delays and cancellations, only about 5% of flight were delayed or cancelled in Cyprus. It was also stated that Cyprus' airports, both in Larnaca and Paphos, are well equipped and adequately staffed to accommodate the travel demand in the island.

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