

## CLOUDS ON THE SKY OF AVIATION COMPANIES DURING THE SUMMER VACATION OF 2022

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### ABSTRACT

European airports faced a "big challenge" throughout summer 2022, which meant chaos for millions of passengers. Regular queues and cancellations have become depressingly commonplace for travelers, in all airports, with hundreds of flights missing in recent days alone, and the future does not look promising. Although that a significant recovery in air travel is expected after the pandemic, which will allow global airlines to reduce their losses this year and possibly return to profit only in 2023, we notice that there are big problems in terms of the cancellation of the air flights and even a certain decrease of the tourists' confidence in reserving their vacations, due to these inconvenient. In this article, we will analyse the causes that led to these consequences (geopolitical, economic and medical) and what can be done to avoid a deterioration of the situation.

**KEYWORDS:** *airline companies, aviation industry performance, COVID recovery, flight cancellations & delays*

**DOI:** [10.24818/IMC/2022/05.11](https://doi.org/10.24818/IMC/2022/05.11)

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### 1. INTRODUCTION

The objective of the paper is to examine why the aviation sector faced major problems during the summer of 2022. Many people have seen their vacations affected due to flight cancellations, delays, lost luggage, etc. so we think it's worth looking into why this happened and what can be done to fix the problem. The pandemic crisis, which effects started to hit sharply the aviation industry in March 2020, almost shot down the sector. Compared with 2019, the number of customers diminished by 60%, and reach only 50% in 2021, from a maximum of 4.5 billion registered in 2019. Still, despite the optimistic faces that could be expressed by the managers, some problems that could jeopardize the future hopes for recovery.

One of the main issues is caused by the war started by Russia in Ukraine which generated sanctions against the Russian people, impossibilities to flight over the sky of the war zone, and more than that it pushed the fuel prices to the highest level. If we look back in with 2019 when the price of fuel was 19% of total operation cost, in 2022 it became 24%, calculation based on a reference price for BRENT crude of \$101.2/barrel (IATA, 2022). It is worth mentioning that at the time when the article is written, the last quotation for oil BRENT crude is 113 USD/barrel.

Another problem in the aviation sector, derived from the conflict, is the rising inflation, which will force companies to raise the price of their tickets but which will also erode the purchasing power of

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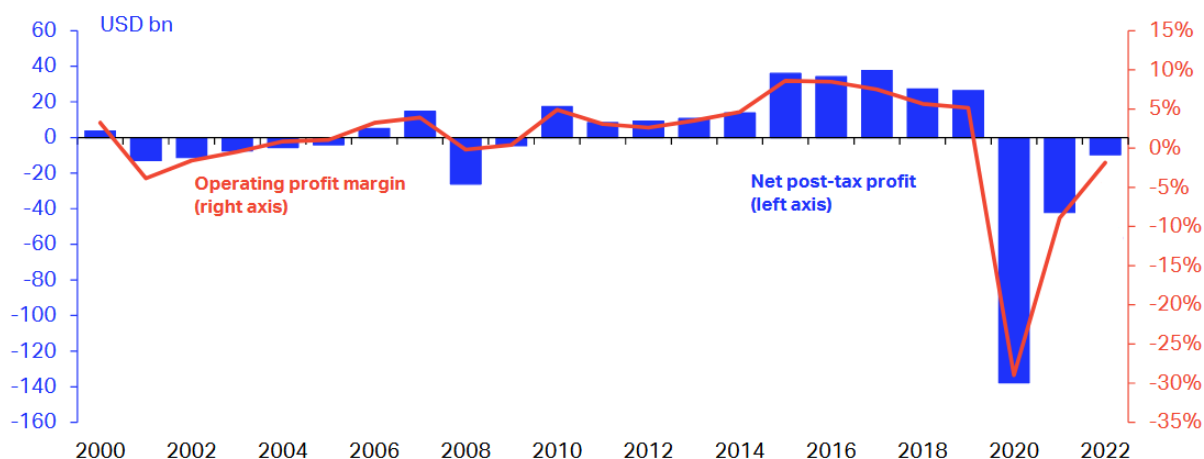
their clients. There might be a smaller benefit since the airlines have to reimburse a large number of debts contracted during the pandemic at a lower interest rate. They still have to invest for keeping up their goals of investing in sustainable fuels, new efficient technologies and reducing carbon emissions.

The sector is also forced to continue to deal with the unknown of the future development of COVID. Even though we are not living in an emergency state with lockdowns and closed borders, there is still a permanent risk of new Omicron variants. Already the scientific and medical experts are concerned about the BA.4 and B.A.5 sub-variants that are present in Portugal, the U.K., Australia, and the U.S. It looks to be able to infect people even if they have multiple doses of vaccine or they recently had the virus but another variant. For the moment we don't know much about future development but there is a risk that should ring a bell for aviation managers. There is also a new threat at the horizons – the monkey pox outbreak, which could be a new issue on the agenda.

Last but not least, there is also another operational issue regarding the manpower, which consists of a shortage of luggage handlers, security agents in the European airports but also stewards, and pilots in the United States. This situation although could be temporary will badly affect this summer vacation for millions of clients. Some of these issues are beyond the control of airline managers (war in Ukraine, increasing of jet fuel prices, and Omicron evolution) but some others, like the shortage of manpower is in their obligation and capability to act.

## 2. REVIEW OF DIFFERENT KEY PERFORMANCE INDICATORS USED BY INDUSTRY

First of all, let's see what the actual state of the airline sector is, after such a complicated period, due to the Covid pandemic. A return to profitability is feasible in 2023 for airlines, which expect to find 83% of their pre-Covid-19 pandemic passengers, as declared IATA representatives in Doha.



**Figure 1. Airline industry net profit and operating margin**

*Source: IATA Economics, 2022*

The sector is expected to lose another \$ 9.7 billion this year, but it will be a "huge improvement" after losing \$ 137.7 billion in 2020 and \$ 42.1 billion in 2021, the association said. International Air Transport Association (IATA), which brings together the vast majority of airlines around the world and holds its annual general meeting in Doha.

The situation of the airlines' companies (at least those who are part of IATA who represent 290 airlines and 83% of the world's air traffic) is on an ascendant path after a catastrophic 2019, and this can be also being seen from several specific indicators collected from different databases.

**Table 1. IATA performance indicators**

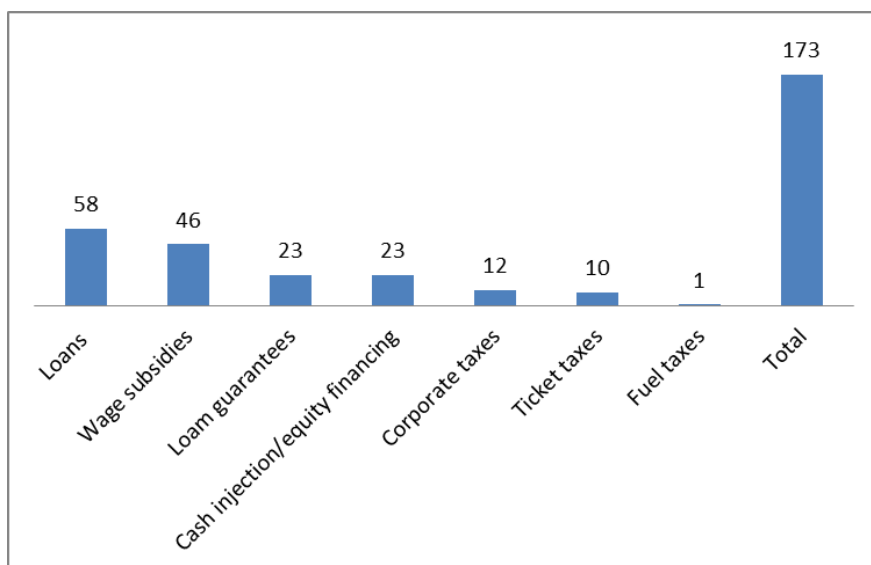
<b>IATA indicators</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Spend on air transport (USD billion)	876	340	476
% change over the year	3,60%	-61,20%	40,20%
Passenger departures (million)	4,543	1,795	2,808
% change over the year	3,80%	-60,50%	56,30%
EBIT margin, % revenue	5,20%	-32,30%	-7,10%
Net post-tax profits (billion USD)	26,40%	-118,50%	-38,70%
Labour costs (USD billion)	187	117	123
% change over the year	3,50%	-37,40%	5%
Employment (million)	2,89	1,87	1,96
% change over the year	0,30%	-35,50%	5%

*Source: IATA, 2021*

It is obvious that the airline industry has been put underground by the pandemic, but the recovery has started in many regions of the globe, mainly because of the appearance of the tests and vaccination against COVID but also because of a diminishing of infections. Nevertheless, according to the same report, the airline companies benefitted from government aid of 173 billion USD. It is maybe worth mentioning that the sector contributed yearly to governments' budget with 110 billion, on average, as tax revenue (companies, employees, clients' taxes). Some of these loans were given under the condition of modernising the fleet, in order to diminish the CO<sub>2</sub> released into the atmosphere, which is considered, roughly speaking, as being 2% of total human contribution.

Nevertheless, the industry set in 2009, three specific goals to contribute to the common effort of fighting against global warming (ATAG, 2020):

- (a) Improving fuel efficiency by an average of 1.5%/year. In 2019, the industry reported an improvement in efficiency by 2%, so above the goal. Between 2009 and 2019, it registered an overall positive efficiency of 21.4%. During this decade, 15 thousand new aircrafts were added to the fleet and the process of renewing the aircraft fleet will continue.
- (b) Stabilization of net CO<sub>2</sub> emissions at the 2020 level and promote a carbon-neutral growth. That means that the industry will have to invest in sustainable fuels, better and more efficient technology, developing infrastructures, etc. in order to compensate for the CO<sub>2</sub> that they produce anyway. Offsetting carbon emissions is an important step in the big picture of climate action.
- (c) Diminishing the aviation net CO<sub>2</sub> contribution to half of what they emitted in 2005, by 2050. This long-term objective can only be achieved by investing in research and development of sustainable fuels, new design concepts, engines, and technologies. According to ATAG, there is an appreciable advance in fulfilling this goal, today the fleet fuel efficiency of the industry is at 54,3% compared with 1990 and at 37.8% versus 2000.

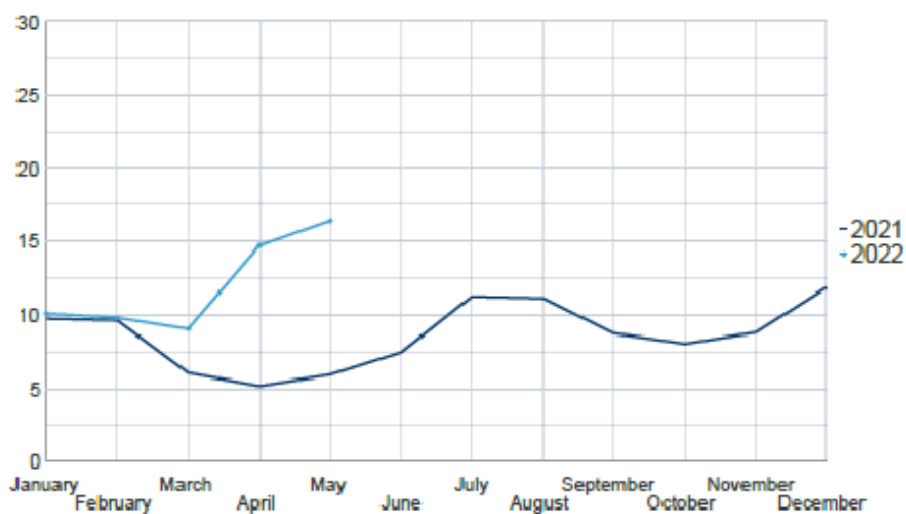


**Figure 2. Government aid to the airlines because of the COVID pandemic (USD billion)**  
 Source: IATA, 2021.

If we look closer, we can actually see that even though governments offered airliners 46 billion USD only to preserve jobs, in reality, they fired 1 million people in 2020 and hired back only a few thousand in 2021. In any case, the security clearance for new staff is taking 6 months, so even if they are deciding to hire today, the effective results will be seen at the end of the year.

Having in mind all these circumstances we have a first indicator of why the recent flight delays and cancellations are happening: because there is not enough manpower to handle a rapidly growing number of clients. It is not the only reason; a second one is the Ukraine war's consequences on the rising prices of fuels, inflation, and instability, which may put companies in a difficult situation, but this issue was a minor one for the instance. All big airports and airline companies were confronted with this issue, no matter if we speak about Lufthansa, Air France-KLM, EasyJet or Heathrow, Schiphol, Frankfurt, Charles de Gaulle, and Dublin, to mention only a few of them.

According to EUROCONTROL (2022), there is also a significant increase in the number of hours of delay per departure / arrival, which is also a direct consequence of the reduced number of staff at work.



**Figure 3. Average Delay per Flight on Departure**  
 Source: EUROCONTROL, 2022

Coming back to the main cause of airport chaos during this summer, the legitimate question is if this situation will continue over the summer. Unfortunately, the problem will get only worse because the staff shortages are not an issue that can be solved in a short time; during the pandemic, people who were fired joined other sectors, where working conditions are better, job security and higher salary. There is a small chance to see them back once they found better arrangements. If we add to the six month time for security clearance the period necessary for training, we can realise that there is no miraculous solution than reducing the number of clients. Therefore, even if is strange, there is somehow normal to see that the airports are asking airline companies to reduce the number of their passengers, bookings, and reservations.

On top of this situation, we have to take into consideration the usual strikes of people who are already in the system and who have to work more, usually for the same salary but also the eventual technical problem that may arrive in the daily life of an airport or airline company. For example, on the 15th of June 2022, because of a computer failure at Skyguide, the management decided the closure of entire Swiss airspace for half a day (Mitterpergher, 2022). The situation comes back to normal the next day. Because of this technical problem, which was not a cyber-attack, thousands of people were affected; some of the intercontinental flights which were on the air during this time were diverted to other European airports.

In some countries, the government has temporarily relaxed airport slot rules to help airlines avoid last-minute cancellations due to staff shortages. Airlines buy slots to exploit their schedules but can lose them to competitors if they fail to meet their obligations to the airport and passengers by failing to fly. Nevertheless, due to a lack of staff in all companies but airports facilities also, clients will have hard times.

### 3. CONSEQUENCES OF THE LACK OF STAFF AND SOLUTIONS TO IMPROVE CUSTOMER CONFIDENCE

Because of all these issues, the final result is the cancellation of thousands of tickets and consequently the ruining of customers' business trips or vacations. After two complicated years where the holidays were uncertain and difficult to organize (due to the instability generated by the pandemic) we are very likely to face another difficult season.

This is only one aspect but the next picture is reflecting the people feeling about future developments, household's consumption, and saving. Even though is not only about the airlines' companies but also about the entire economy.



Figure 4. Euro area and OECD countries' consumer confidence  
Source: IATA Economics, 2022

Is obvious that consumer confidence has dramatically gone down compared with the most recent peak of mid-2021. The OECD's consumer confidence index is today at the same level as the spring of 2020, which is the lowest level in the last 7 years. The large majority of the economies are affected by inflation even though some countries are still performing at an acceptable level (China, India, etc.). Nevertheless, lower confidence always can be transposed by holding people back from making major purchases, and this sometimes also means giving up vacations. If we add to that the fear of having a cancelled flight only a few days or even hours before living, and most of the time without the possibility of recovering the money spent in advance, probably the touristic and aviation sectors will face unhappy people.

Obviously, the situation is not easy for any airport, airline or service manager. As we have seen before, the growing demand for aviation services is quite unexpected after 2 years of COVID, but the lack of employees is the most important factor of this crisis. There is no miracle solution, after being fired for the past 2 years, ex-employees will not come back easily. Most people want continuity in employment (ILO, 2016). New people need training and security clearance to fill the gap. The aviation industry should be more protective of their staff as many of the companies have been heavily aided financially by governments, specifically to keep people's jobs. However, some of them preferred to use the money to pay bonuses to top employees. It will take a long time for customers to regain trust and confidence in the services of aviation companies.

The situation is not easy for any manager of an airport, airline or service. Since the situation on the ground cannot be fixed, the companies could at least better communicate to customers what the real situation of delays is, as this way they could avoid a general situation of annoyance. Some customers could organize their time better than waiting long hours before boarding.

#### 4. CONCLUSIONS

In this paper, we analyse the different issues that may affect the aviation sector during the next months and which will consequently affect the summer vacations of thousands of people. We will see many tickets cancelled and frustrated people in the airports, mainly because of a lack of manpower. Although each airport and airline company is unique, the main reason for the delays is the impossibility of growing the personnel at the required levels. Airports and ground handling staff are coming out of the pandemic with low numbers as they were "forced" to lay off staff when air traffic crashed in 2020.

Despite the other external issue that we spoke about (Ukrainian war, inflation, COVID uncertainties), the industry is reaping a lot of what it has sown. Not only has the existing economic model been unable to provide decent and sustainable jobs, but this has been exacerbated by the behaviour of employers who, during the pandemic, opportunistically reduced jobs and reduced wages and working conditions. Some of them even benefited from state aid to keep employees.

Poor wages and working conditions - including working from Monday to Friday without a break, make it difficult to re-employ airport staff. Hiring new people is the only way of getting out of this situation but it needs at least 6 months of seeing them on board (security clearance, training, etc.). Meanwhile, the demand for plane tickets is growing almost too pre-pandemic times so consequently during the 2022 summer many of these will be cancelled because of staff shortage.

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