

# COVID-19 & Refunds

## Global perspectives

Doug Lavin

Vice President, North America

IATA

2 December 2021

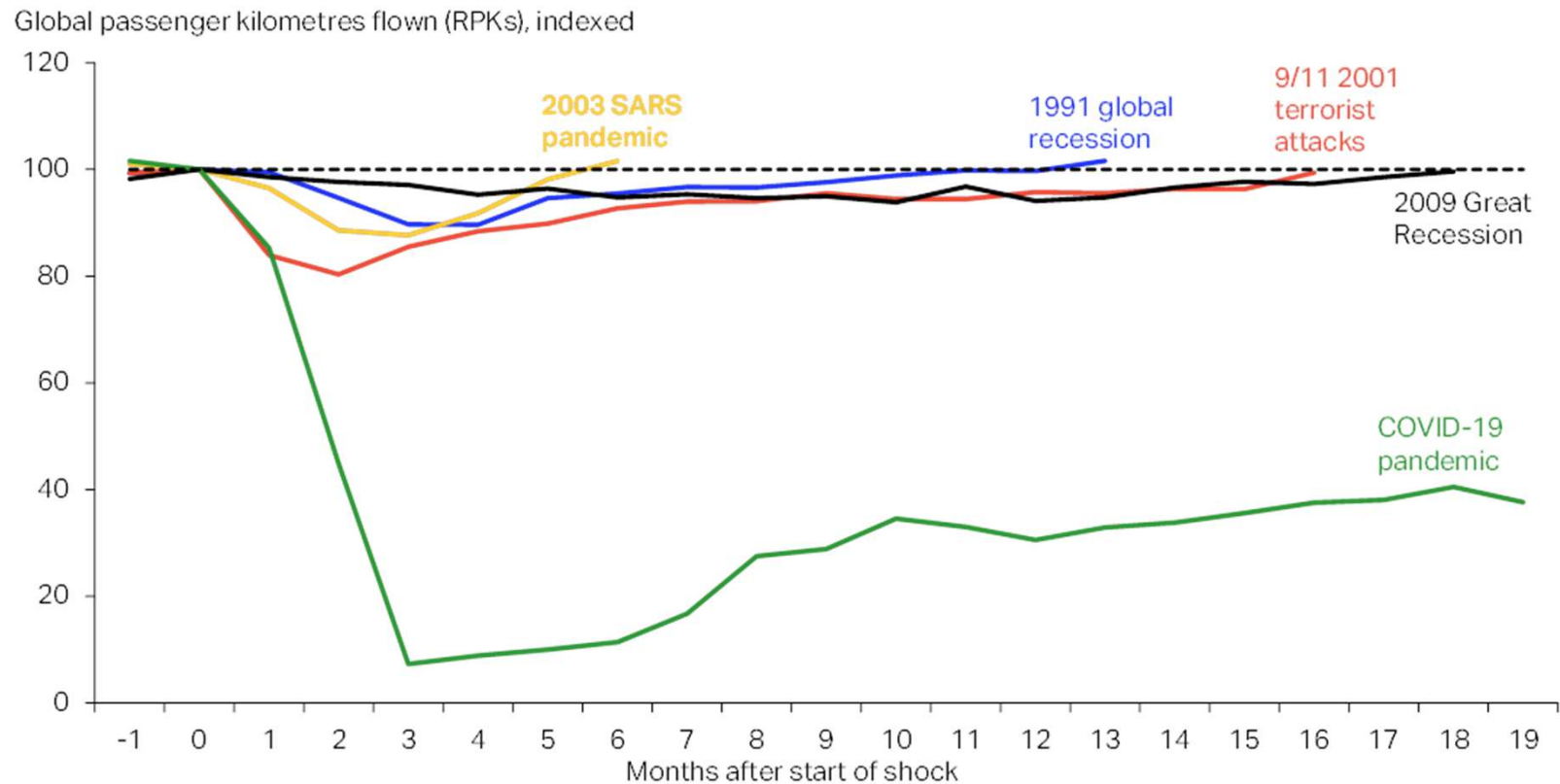


# Outline

- COVID-19 and refunds
- Importance of pricing freedoms

# Depth and length of COVID crisis is unprecedented

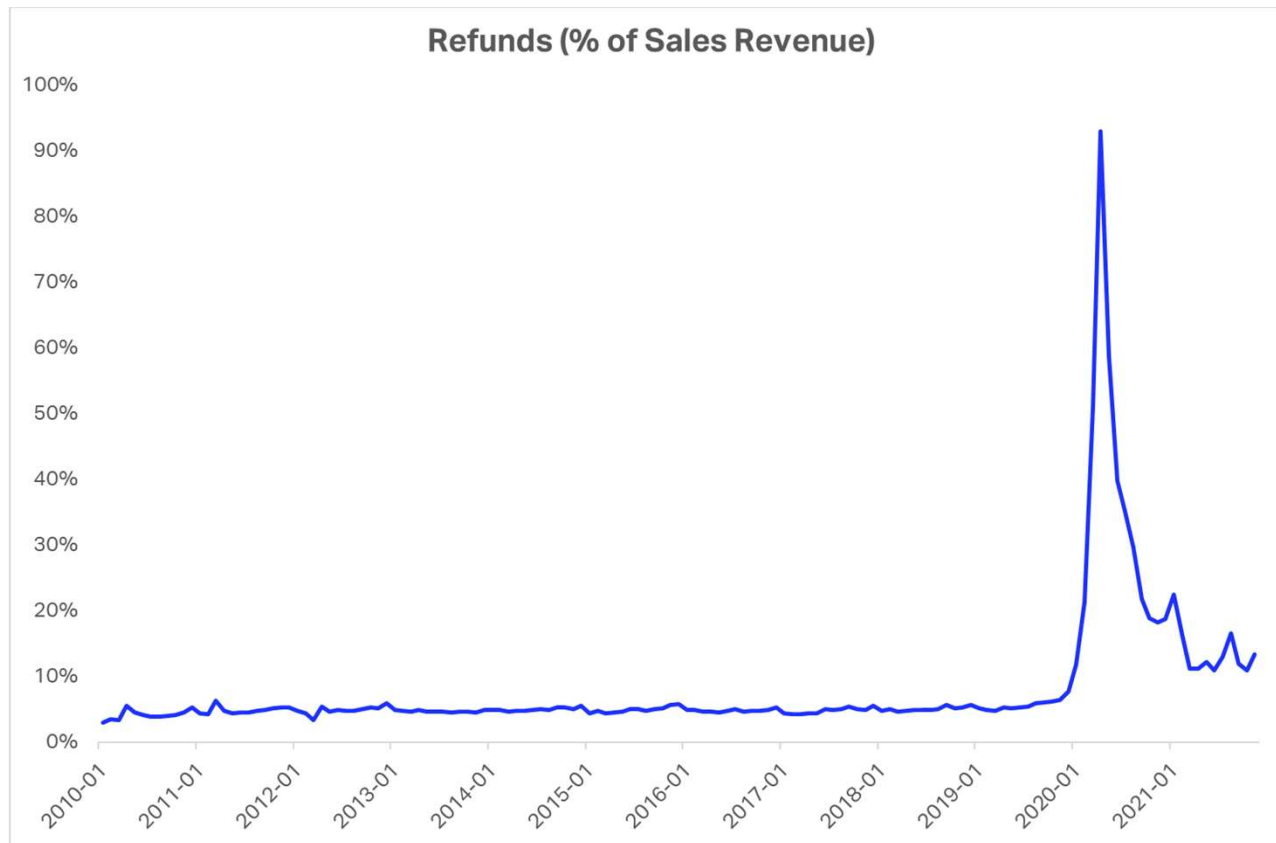
## Global traffic at 40% of pre-pandemic levels after 20+ months



Source: IATA Economics using data from DDS

# Refunds equivalent to 93% of revenues in April 2020

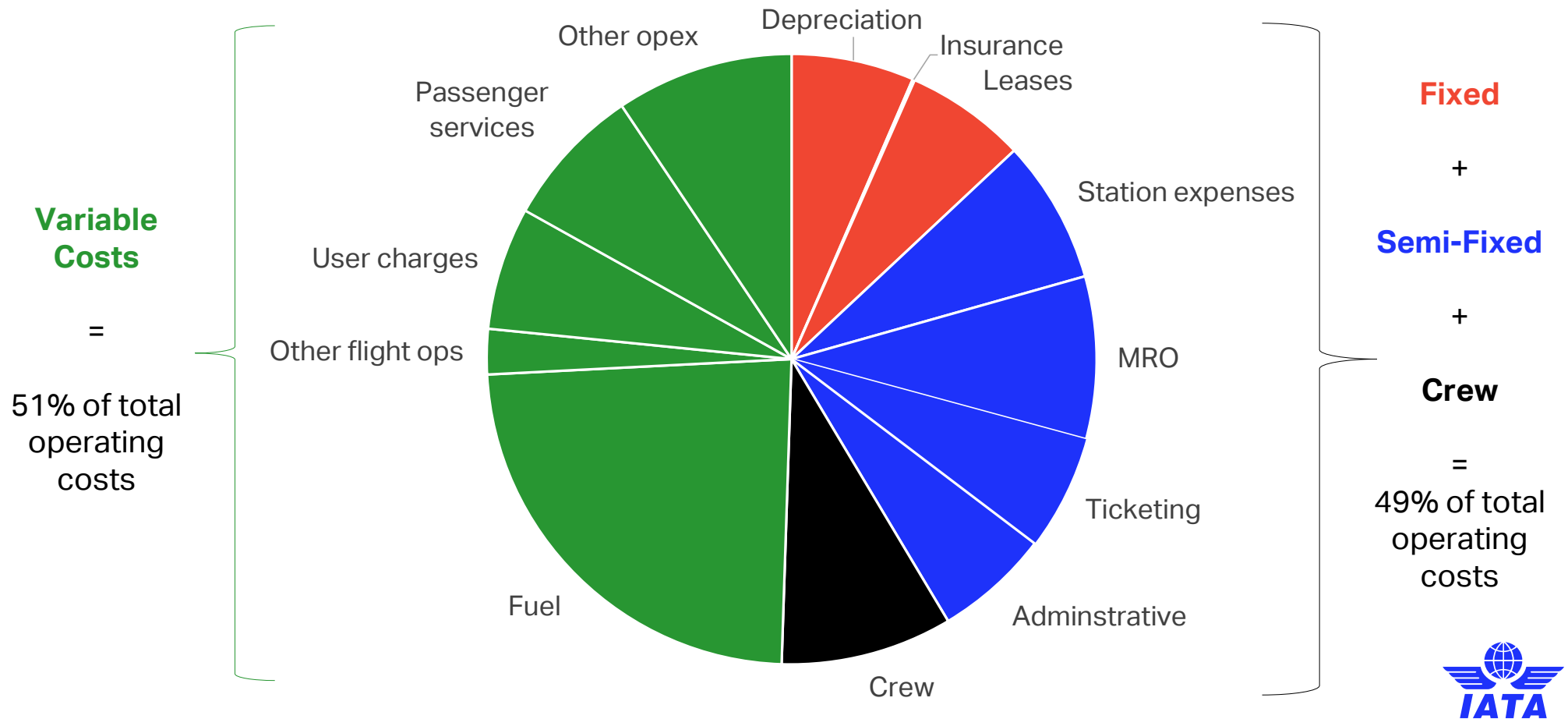
## Scale of refunds unlike any previous industry crisis



Source: IATA Economics using data from DDS

# Airlines have significant fixed and semi-fixed costs

Many costs could not be avoided in the short-term as COVID hit

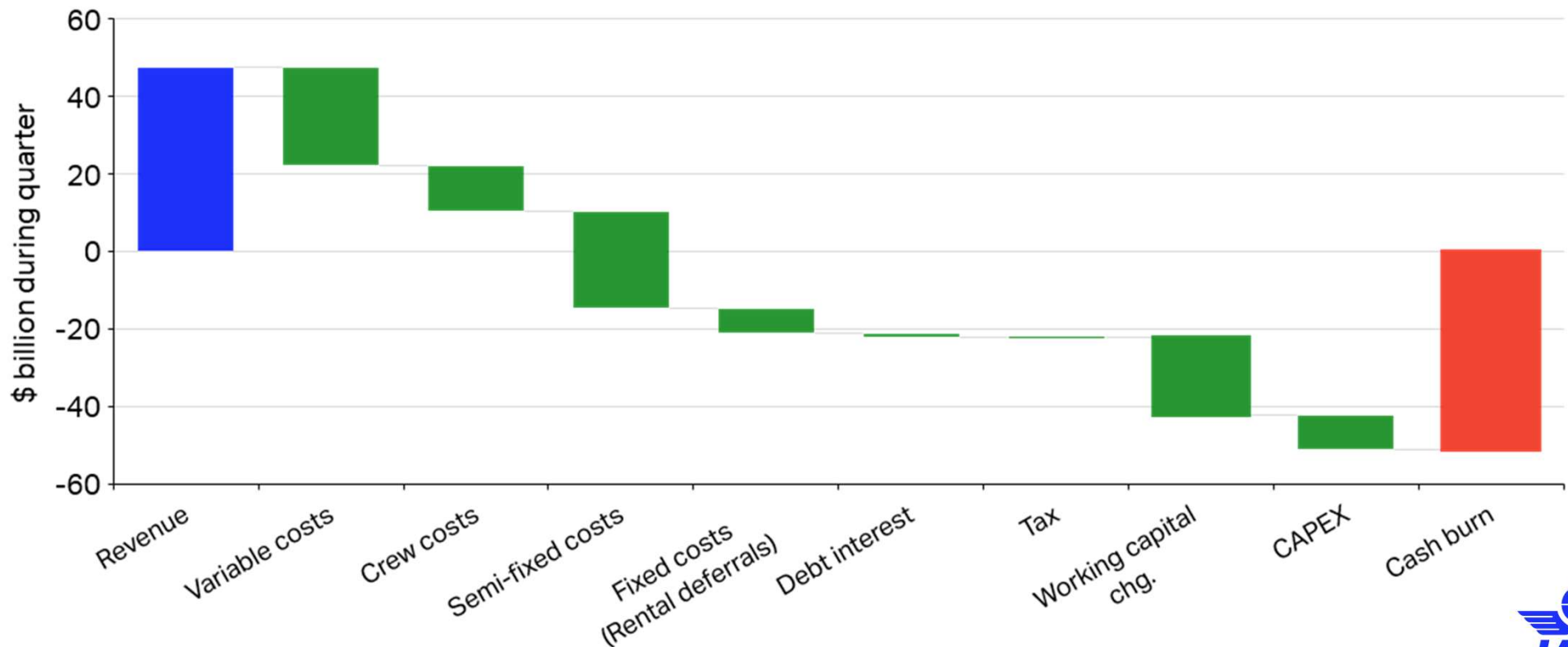


Source: IATA Economics using data from WATS and Economic Performance of the Airline Industry, End-Year 2019

# Airline cash burn peaked in Q2 2020

\$51bn cash drained by unavoidable costs, debt interest and refunds

Airline industry cash burn estimate for 2<sup>nd</sup> quarter of 2020



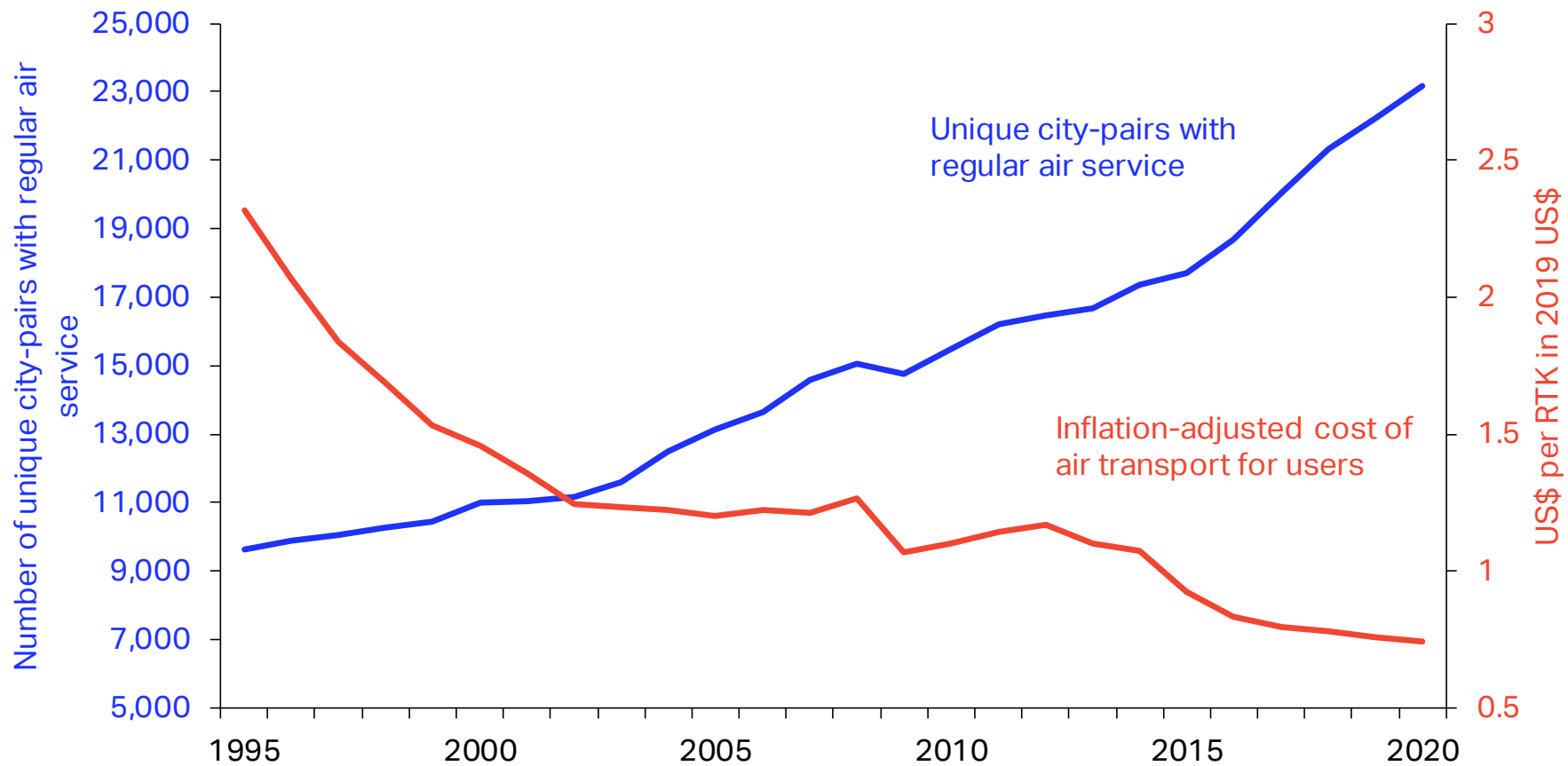
Source: IATA Economics analysis



# Pricing freedoms underpin aviation's value proposition

## Deregulation has seen boom in consumer choice and fall in fares

City-pair connections and the real cost of air transport



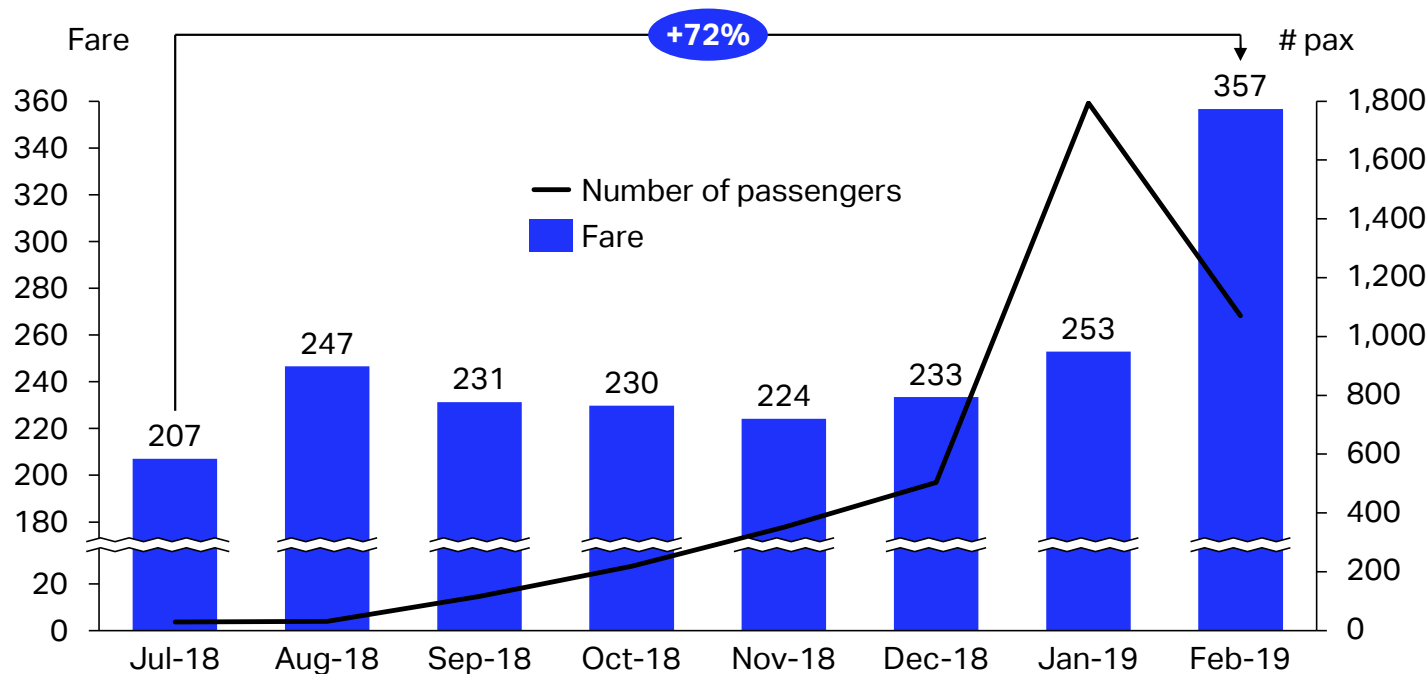
Source: IATA Economic Performance of the Airline Industry, End-Year 2019



# Non-refundable fares support dynamic pricing

## Deregulation has seen boom in consumer choice and fall in fares

Fares and number of passengers travelling from Bogota to New York in February 2019, by time of purchase, USD



- Approaching the travel date, air fares tend to gradually increase
- This dynamic pricing is similar to the pricing of other *perishable* products, e.g. car rentals
- Non-refundable fares and change fees and help preserve this pricing model
- Also ensure that airlines can plan sufficiently in advance the move of their fleet of different sized airplanes

Source: IATA Economics analysis based on DDS data





# Regulating fare rules would cause consumer harm

## Abolishing non-refundable fares would result in higher fares

If airlines were forced to allow ticket changes and ticket transfers for all tickets...

... they would likely start **pricing all tickets at the fares of currently higher ticket classes**, which already allow for changes (flexible tickets)

... they would likely narrow the gap between fares on tickets purchased far in advance and last minute

... they would have **little predictability** of the load factor of any flight, which would further complicate the planning of which aircraft to fly on a given day (airlines may fly aircraft of various sizes on a given route)

... they would fly at **lower load factors**, which could compromise their already weak profitability

... flying empty planes would **increase environmental pollution**



# Thank you

[lavind@iata.org](mailto:lavind@iata.org)

[www.iata.org](http://www.iata.org)

