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FASTEN YOUR SEAT BELTS: IT'S GOING TO BE A BUMPY RIDE FOR ALL AVIATION-RELATED BUSINESSES.

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Last night, the federal government announced that starting tomorrow the United States will ban travel from most of Europe for 30 days due to the novel coronavirus. The announcement is a further blow to the airline industry that has already been rattled by declining demand. To put things in perspective, following the September 11 attacks, the airline industry lost approximately $19.6 billion in revenue between 2001 and 2002. The International Air Transport Association now projects that revenue loss to the airlines from the impact of the novel coronavirus may reach $113 billion!

Before these travel restrictions were announced, the airlines had already announced that they would reduce domestic and international air capacity. On Tuesday, American Airlines announced that it would cut domestic capacity by 7.5% and reduce international capacity by 10%, including a 55% reduction in its trans-Pacific business. Also, on Tuesday, Delta Airlines announced that it would reduce its domestic capacity and international capacity by approximately 10-15% and 20-25%, respectively. Reduction in capacity will not be enough to brunt the blow of decreased traffic. United Airlines today announced that it has borrowed $2 billion to pay for transaction fees and capital expenses. Expect more reduction in capacity as the crisis for the airlines deepens.

While there has been large media coverage regarding the impact of the novel coronavirus on the airlines, there has been little reporting on the impact of the virus on those businesses that provide goods or services to the airlines. Maintenance, repair, parts suppliers and even caterers rely upon the airlines for their viability. A reduction in capacity for airlines means a reduction in revenue for the broader aviation industry that includes maintenance, repair and overhaul facilities. State and local governments will also feel the pain. Less air traffic means less revenue from landing and parking fees at airports.

The aviation industry has a big presence in Florida. Those businesses who cater or serve the airlines are in for a rough patch too. These businesses should be proactive about what lies ahead by, among other things, evaluating their near-term liquidity needs, including by drawing down on available lines of credit like United Airlines. A review of a company's material contracts, including its insurance policies, is also prudent. Being proactive is key to managing crisis effectively.

The COVID-19 pandemic is creating rapidly-changing issues for businesses, and government aid processes and measures designed to assist businesses may also change materially from when this post is issued. We therefore encourage you to monitor our website, review our future posts and generally remain alert for additional updates or modifications to laws and regulations.

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