

The Impact of Pandemic (Covid19) on the Malaysian Air cargo Industry

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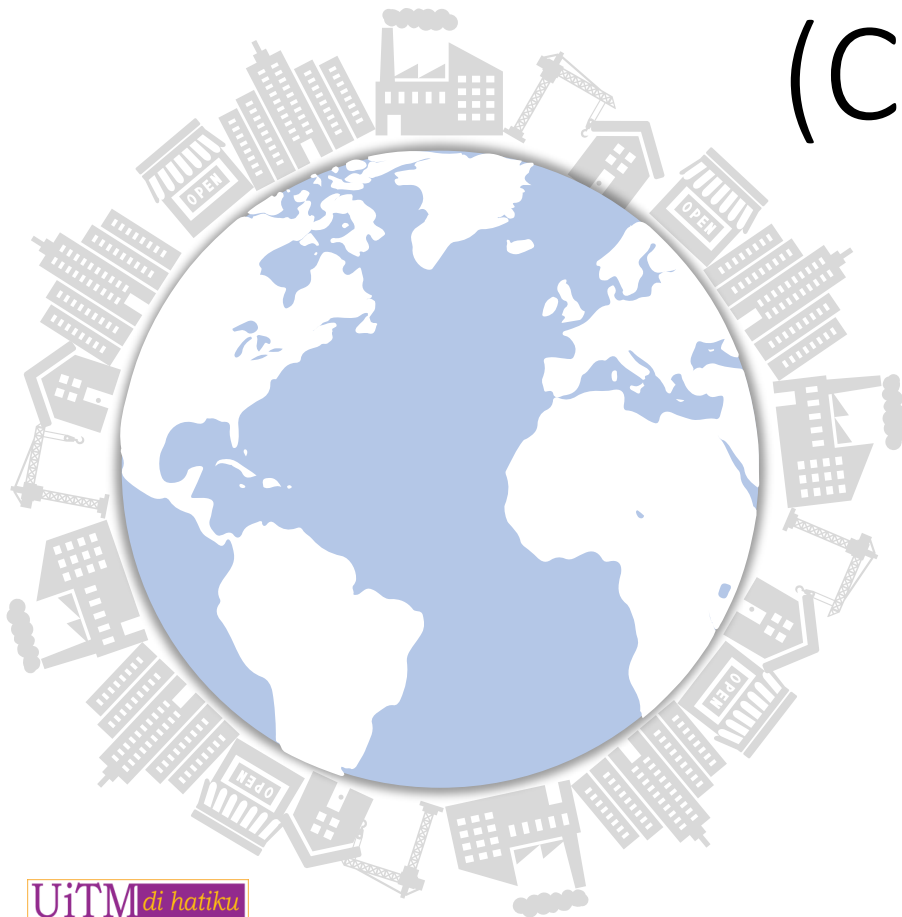
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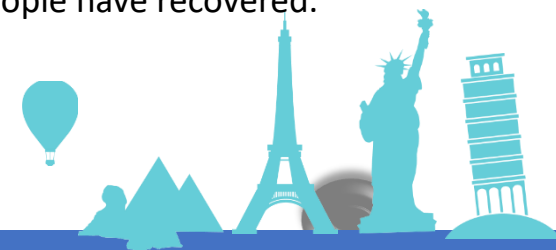
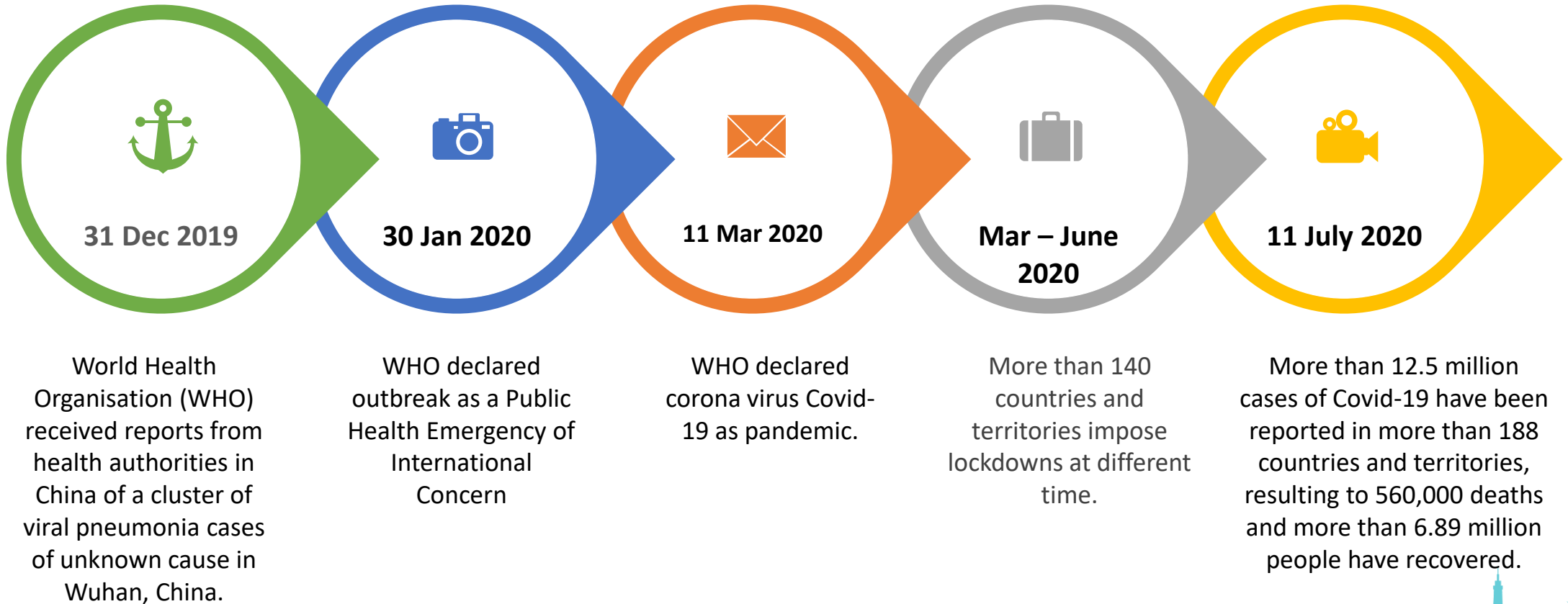
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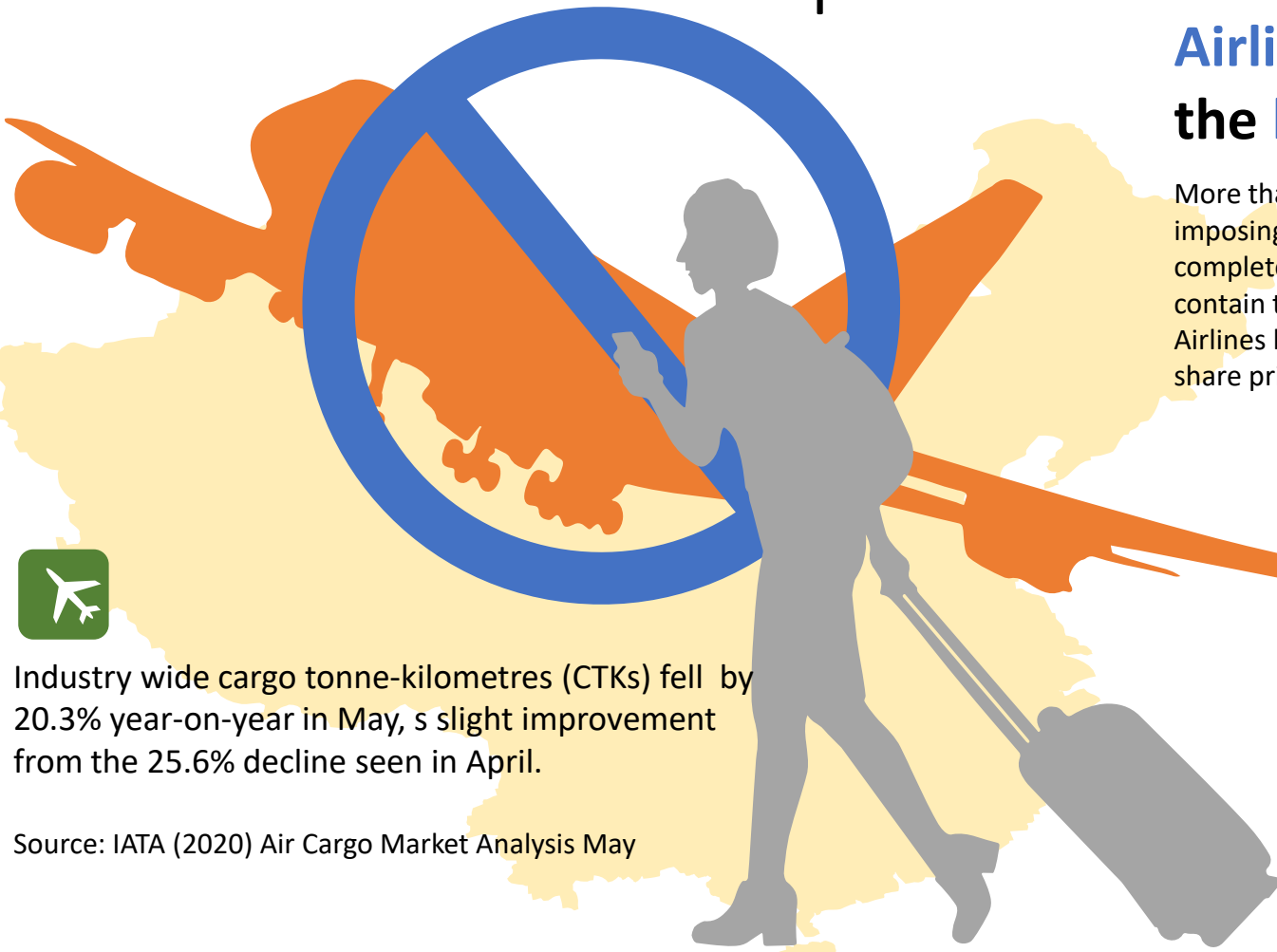
Background



Impact of Covid-19 on the Air cargo and Airport Industry

Airlines and airports have been one of the hardest hit industry

More than 140 of the 195 countries in the world have taken drastic measures, including imposing full lockdowns, shutting down airports, imposing travel restrictions and completely sealing their borders, in a desperate attempt to “flatten the curve” and to contain the COVID-19 pandemic¹. Airlines have had to ground their flights causing the plummeting of shares² where airline share prices are experiencing greater decline than during the SARS crisis in 2002/2003.



Industry wide cargo tonne-kilometres (CTKs) fell by 20.3% year-on-year in May, a slight improvement from the 25.6% decline seen in April.

Source: IATA (2020) Air Cargo Market Analysis May



Global air cargo capacity is down by 35 per cent



Only 20 per cent of belly cargo is still flying



Freighters capacity has been stable since April.



The full closure of airports to passenger traffic, and at the same time the airport and airside infrastructure remains open, which means that the overall cost base for operations remains almost the same, as most airports costs are fixed.

International Airport Review (2020) How is the air cargo industry reacting and responding to the COVID-19 pandemic, <https://www.internationalairportreview.com/article/115426/air-cargo-industry-reacting-responding-covid-19/>, 1 May



Impact of Lockdown on the Air Cargo Industry

As passenger flights were cancelled, the cost of sending cargo by air changed rapidly. The cost of sending cargo across the Pacific Ocean tripled by late March. Air freight rates rose, from \$0.80 per kg for transatlantic cargoes to \$2.50–4 per kg, attracting passenger airlines to operate cargo-only flights, while cargo airlines bring back into service fuel-guzzling stored aircraft, helped by falling oil prices.

Adjusted cargo capacity fell by 4.4% in February while air cargo demand also fell by 9.1%, but the near-halt in passenger traffic cut capacity even deeper as half of global air cargo is carried in passenger jets' bellies.

At the end of March, cargo capacity was down by 35% compared to the previous year: North America to Asia Pacific capacity fell by 17% (19% in the opposite direction) Asia-Pacific to Europe was down by 30% (reverse: -32%), intra-Asia was down by 35%. Lagging the capacity reductions, demand was down by 23% in March, resulting in higher freight rates: from China/Hong Kong, between March 2 and April 6, +158% to Europe and +90.5% to North America

The cargo shortage may evaporate if the global economic crisis depresses demand: the World Trade Organisation (WTO) forecast a global trade contraction of 13–32% in 2020.

International mail between many countries stopped completely, either due to suspension of domestic service or lack of transportation.



Air Cargo Market Analysis

Air cargo improved in May but full recovery will take time

Widespread rebound in international cargo tonne kilometer (CTKs)

Supply chains remain disrupted...

Airlines in Africa back at the top of the growth chart

CTKs lifted from their Apr low but recovery will be slow

While North America returns to single-digit decline...

Manufacturing is stabilizing worldwide, rising in China

... and Latin America, Middle East show large recoveries

Modest recovery in belly capacity

More modest improvements seen in Asia Pacific Countries (APAC), Europe



How the Pandemic Change the Air Cargo Operations?

- Utilization of passenger aircraft,
- Expanded use of the charter flights,
- demands on the flexibility in bi-lateral and multi-lateral regulations,
- New standards for operations,
- New standards of protection of personnel
- Introducing new procedures and logistics arrangements almost every day.

Impact of Covid-19 on the Malaysian Airlines Industry

Before Covid-19

In 2019, Malaysian carriers transported 64 million passengers, comprising 27.8 million domestic passengers and 36 million international passengers to/from Malaysia. with the balance of a few hundred thousand carried on fifth freedom routes.

Local aviation industry was already at a critical juncture even before COVID-19, with all six airlines unprofitable in 2019 and the market suffering from overcapacity, irrational competition and loss-making airlines situation.



During Covid-19

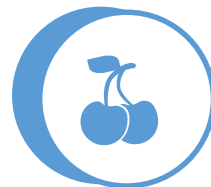


The COVID-19 pandemic which has caused global economic shutdown with the risk of recession somehow provides an opportunity for Malaysia to reset its aviation industry and become profitable.

Estimated that Malaysian airline passenger traffic has declined by around 85%.



With many other airlines also taking similar measures, the supply of international flights had plummeted. This negatively impacted air freight as passenger flights also use their belly hold for cargo shipments.



With air freight demand now far outstripping supply, rates can jump between 2 and 10 times higher depending on the type of airfreight. Even for those paying premium rates for air freight, the shortage of air freight meant that it would be hard to even guarantee that your parcels would get space.





Impact on Malaysian Air Cargo Industry

- Despite severe impact faced by the passenger airlines, a contradict scenario gained by the air cargo industry.
- The air cargo operator changed freighter schedules to manage high priority cargo movements to ensure medical equipment arrives safely in Malaysia and the rest of the world. They work around the clock to ensure Malaysians have access to much needed medical equipment and supplies. Working closely with the National Disaster Agency of Malaysia (NADMA) and various Malaysian ministries on flight plans and cargo space management of the medical goods being flown into the country mostly from China.
- High demand for freighters fulfilling charter requests on top of the scheduled flights, a very high utilization rate. Charter flights mostly medical equipment for frontline healthcare workers as well as urgent goods amid the coronavirus pandemic.

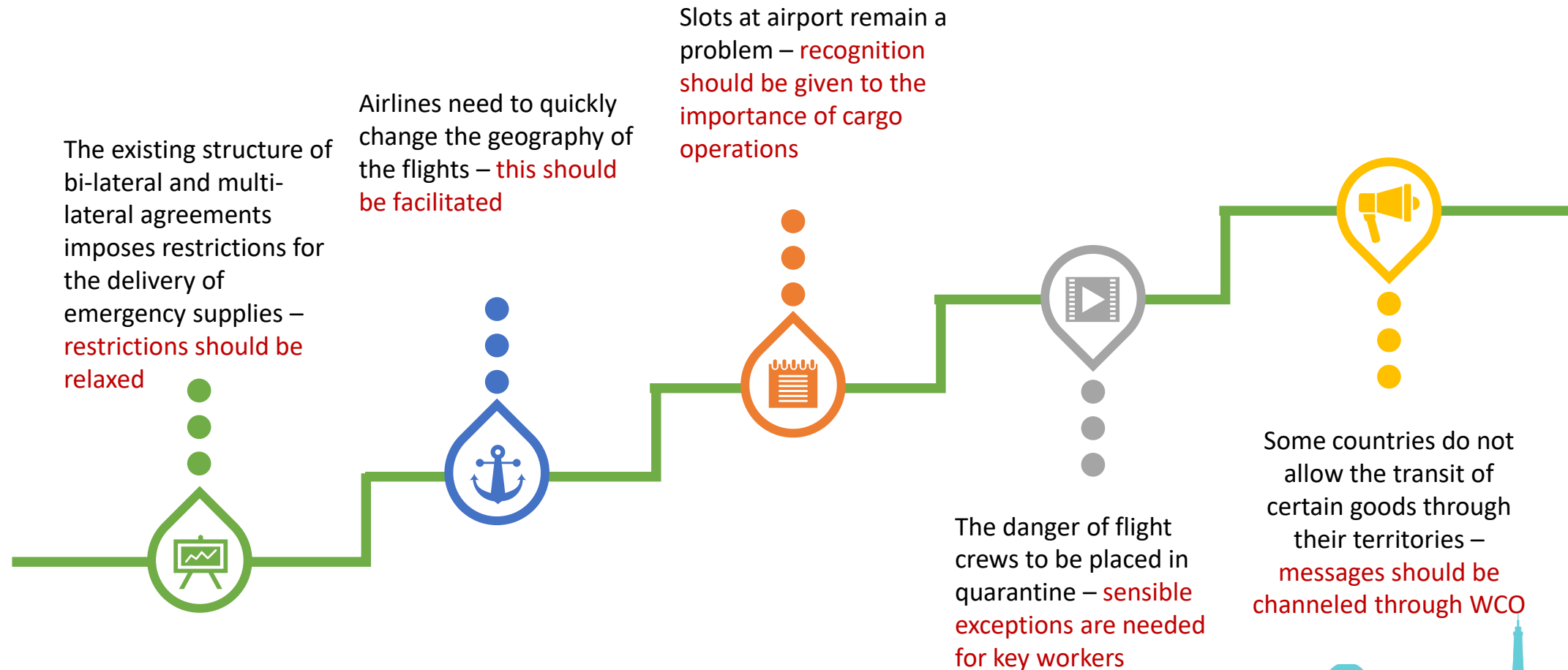


Impact on Malaysian Air Cargo Industry

- Successfully implemented P2C project, i.e. using passenger aircraft to carry only cargo.
- MasKargo freighters record highest aircraft utilization ever in March 2020,
 - utilised more than 100 P2C flights since 22 Mar and more than 250 flights are being planned up to 31 May 2020.
 - Use Malaysia Airlines' A330 passenger aircraft to only move cargo to complement freighter services
 - A330-200 Malaysia Airlines returned to Amsterdam carrying more than 50 tonnes of medical supplies since last 4 years flew into Schiphol Airport
 - Flying A380 aircraft to London carrying only cargo with 26 tonnes of mostly e-commerce goods originating from Guanzhou as a solution to deal with airport restrictions due to insufficient capacity for cargo.



Support System Required for the Air Cargo Operations in the event of Pandemic



International Airport Review (2020) How is the air cargo industry reacting and responding to the COVID-19 pandemic, <https://www.internationalairportreview.com/article/115426/air-cargo-industry-reacting-responding-covid-19/>, 1 May



Lesson learned

- Appeal to state administrations for concerted efforts and collaboration.
- Procedures involving employees and their health and safety.
 - create emergency plans to anticipate this type of crisis namely:
 - ✓ analysing and managing risks,
 - ✓ training employees
 - ✓ implementing pre-established procedures for a quick response (stocking and supplying protective equipment, monitoring staff wellbeing, managing schedules, setting up internal arrangements with emergency teams, managing IT systems to optimise remote working and protecting personal data). For aviation in particular, greater importance needs to be placed on air cargo and on adapted procedures, for example, to maintain activity despite the decline in capacity (running charter flights and adapting aircraft to carry cargo when passenger flights are impossible).



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