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International Aviation Policy and Covid-19

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International Aviation Policy and Covid-19

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International Aviation Policy and COVID-19

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Abstract

The pandemic of COVID-19 since January 2020 brought a serious impact on the global economy, in particular, aviation-related industries have been seriously affected as many countries implemented strict border control measures to prevent spread of virus. This situation urged many countries to consider prompt remedies to assist the industry to continue operation in terms of maintaining employment and public transportation network. We could say that this should be a necessary measure to be justified for public welfare, however, it might be a sort of countermeasure to global aviation deregulation policy to jeopardize fair competition in airline industry. It is true that only government could subsidize airline industry under this extraordinary situation, but at the same time it is so important to implement measures for recovery of air traffic as early as possible. Considering that the vaccine against COVID-19 would not be available shortly, one of the feasible measures should be immediate global coordination

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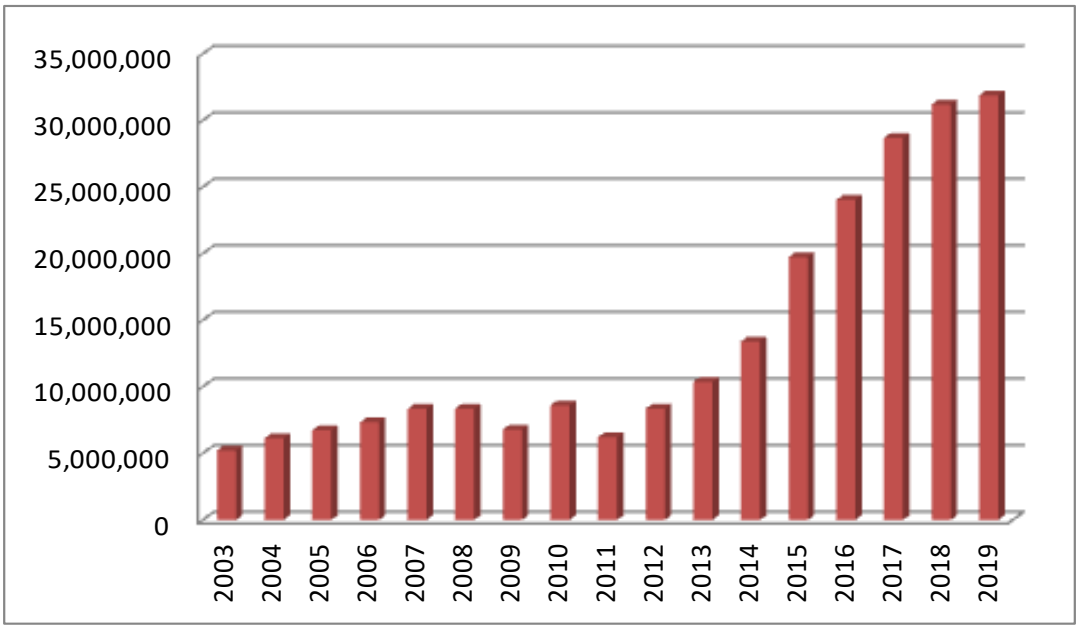
and cooperation for passengers to travel safely. This means implementation of new travel guideline to create of air traffic demand in "New Normal Society".

Keywords: COVID-19, Aviation-related industry, economic impact, bailout, public transportation, deregulation policy, "New Normal Society"

1. Introduction

Japan had been enjoying economic benefits brought by inbound tourists in the past decade. The Japanese government implemented the campaign named "Visit Japan" in 2003 to aim at 10 millions of inbound tourists in 2010 that was equivalent to the double against 2003. Not only by the campaign but also by favorable currency exchange rate or visa waiver programs to enable foreigners to visit Japan easier than previous time, we could see the steady growth of number of inbound tourists to Japan as shown on Figure-1.

Figure-1: Number of inbound tourist to Japan (2003-2019)



(Unit: Person)

Source: Author based on public information of Japan National Tourism Organization (JNTO)

Also, we could say that international aviation made a huge contribution to the growth, namely brought by the increased slot capacity in Haneda and Narita Airport and inauguration of low cost carriers (LCC) supported by deregulation aviation policy. This helped airlines not only to offer attractive airfare to inbound tourists but also to provide many flight options including arrival/departure airport to facilitate their trip in Japan. Although Japan expected the continuous growth after the 2020 Olympic/Paralympic Game followed by 2019 Rugby World Cup, the global pandemic of COVID-19 started in January 2020 has completely changed the situation and brought huge numbers of suspension and cancellation of international flight because almost all of countries in the world implemented strict border control measures to prevent spread of COVID-19 in their territory. Therefore, aviation-related industry is in critical situation as revenue brought by passenger traffic has been mostly lost and they are now struggling to continue their operation. When we consider functions and roles of aviation-related industry in terms of public transportation besides economic contribution, it is so important to discuss how we can normalize air traffic operation to allow passengers to travel across borders as before.

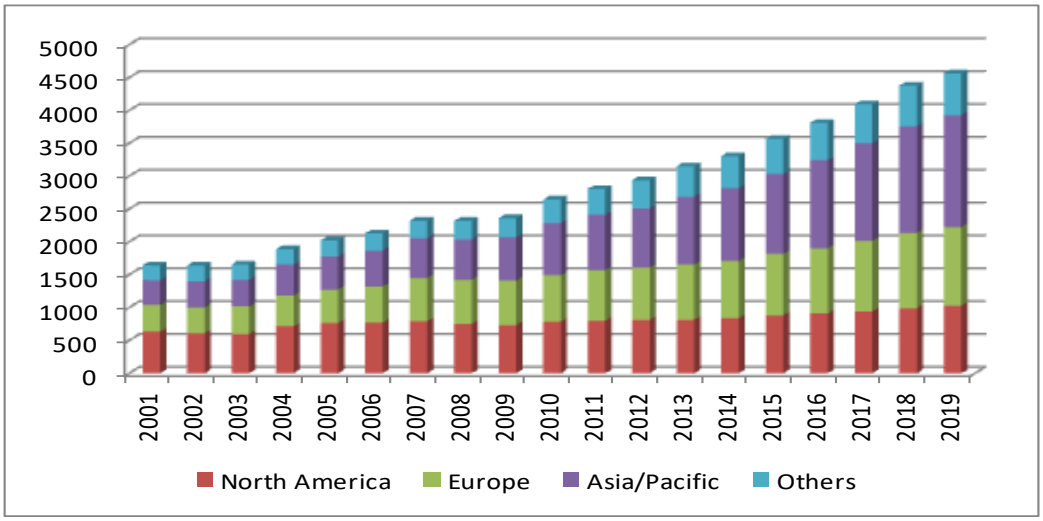
2. Impact on Civil Aviation by COVID-19

Before the pandemic, the number of world air passenger traffic had been continuously growing as shown on Figure-2. Even in 2008 and 2009 when the world economy suffered from the financial crisis originated in the bankruptcy of Lehman Brothers, the upward tendency had been supported by strong demand especially in Asia-Pacific region.

However, the impact by COVID-19 has brought the drastic decrease of world air passenger traffic that we have never seen before. After 11 March 2020 when the World Health Organization (WHO) declared the global pandemic of COVID-19, many countries have implemented strict border control measures to block infection in their countries. Followed by the pandemic in Asia-Pacific region in January and February, it has been promptly spread to Europe and North-American region in where most of the

countries declared "Lockdown" as a state of emergency in March. As shown on Figure-3, we can see the serious impact on the worldwide flight operation after the March although we normally see high volume of air traffic in the said two regions during the Easter holidays. Also domestic traffic has also been seriously affected by the lockdown therefore aviation-related industries have lost source of revenue. The scale of economic impact on airline and airport industries since January 2020 can be seen on Figure-4 and 5.

Figure-2: World Air Traffic Passenger Growth (2001-2019)

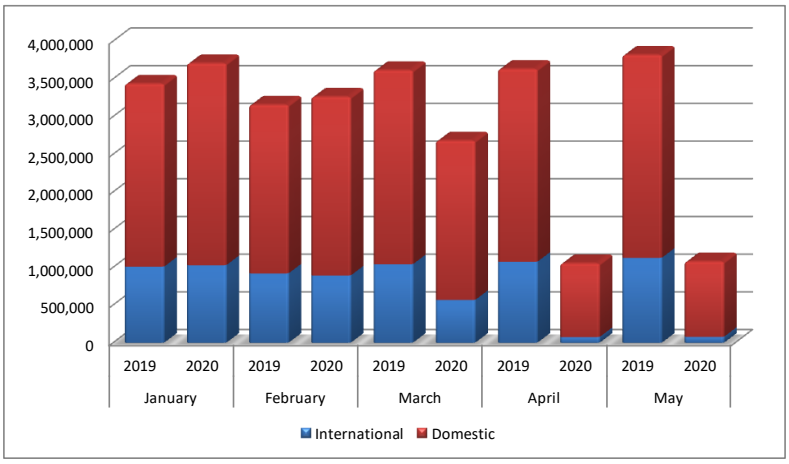


(Unit: 1 Million)

Source: Author based on public information of The International Air Transport Association (IATA)

Figure-3: Comparison of Number of Worldwide Flight Operation

- January - August 2019/2020 -



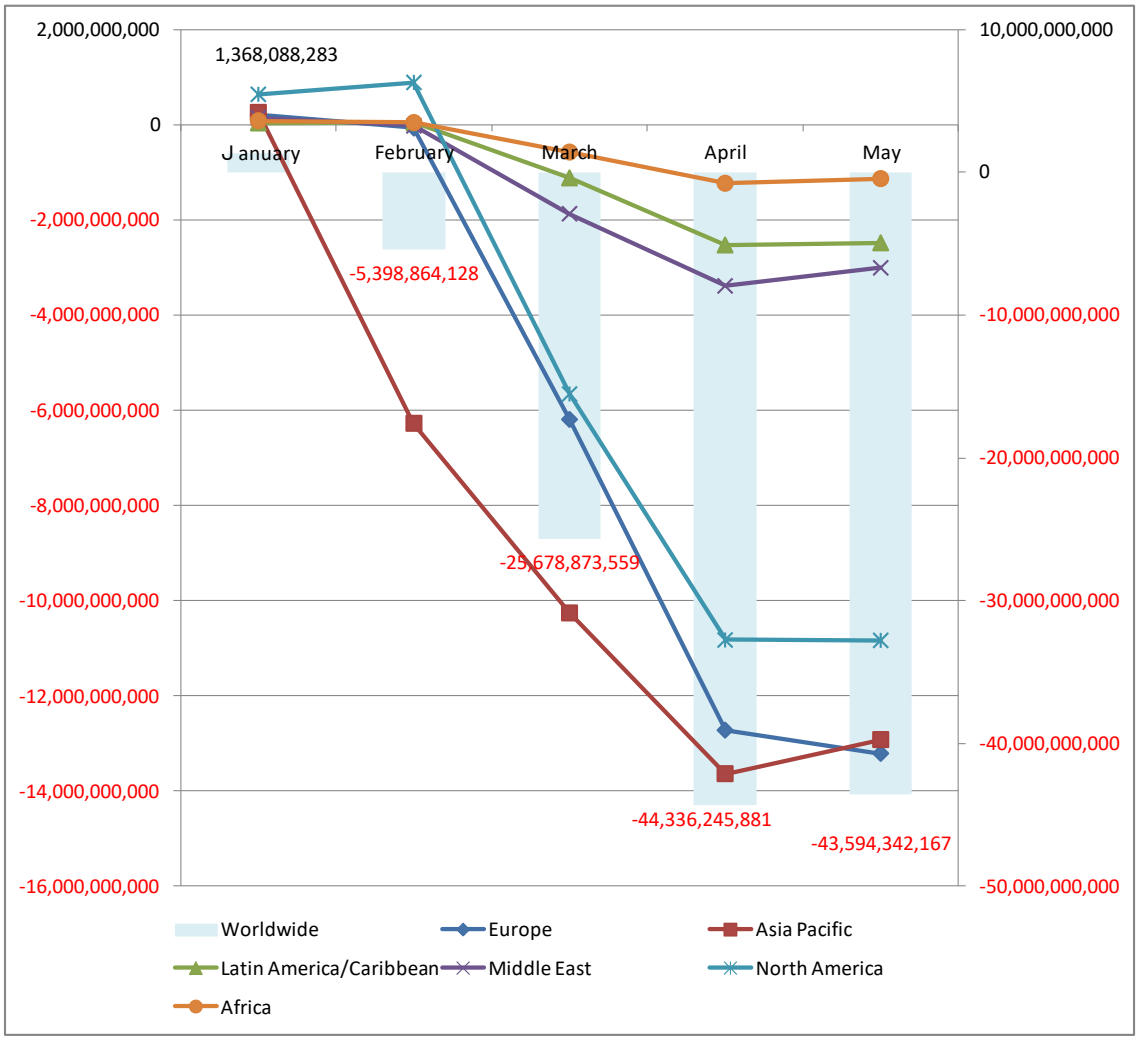
(Unit: Person)

Source: Author based on public information of The International Civil Aviation Organization (ICAO)

Figure-4: Revenue Loss of Air Carrier since January 2020

- Worldwide and Breakdown by Region -

(Regional) (Worldwide)

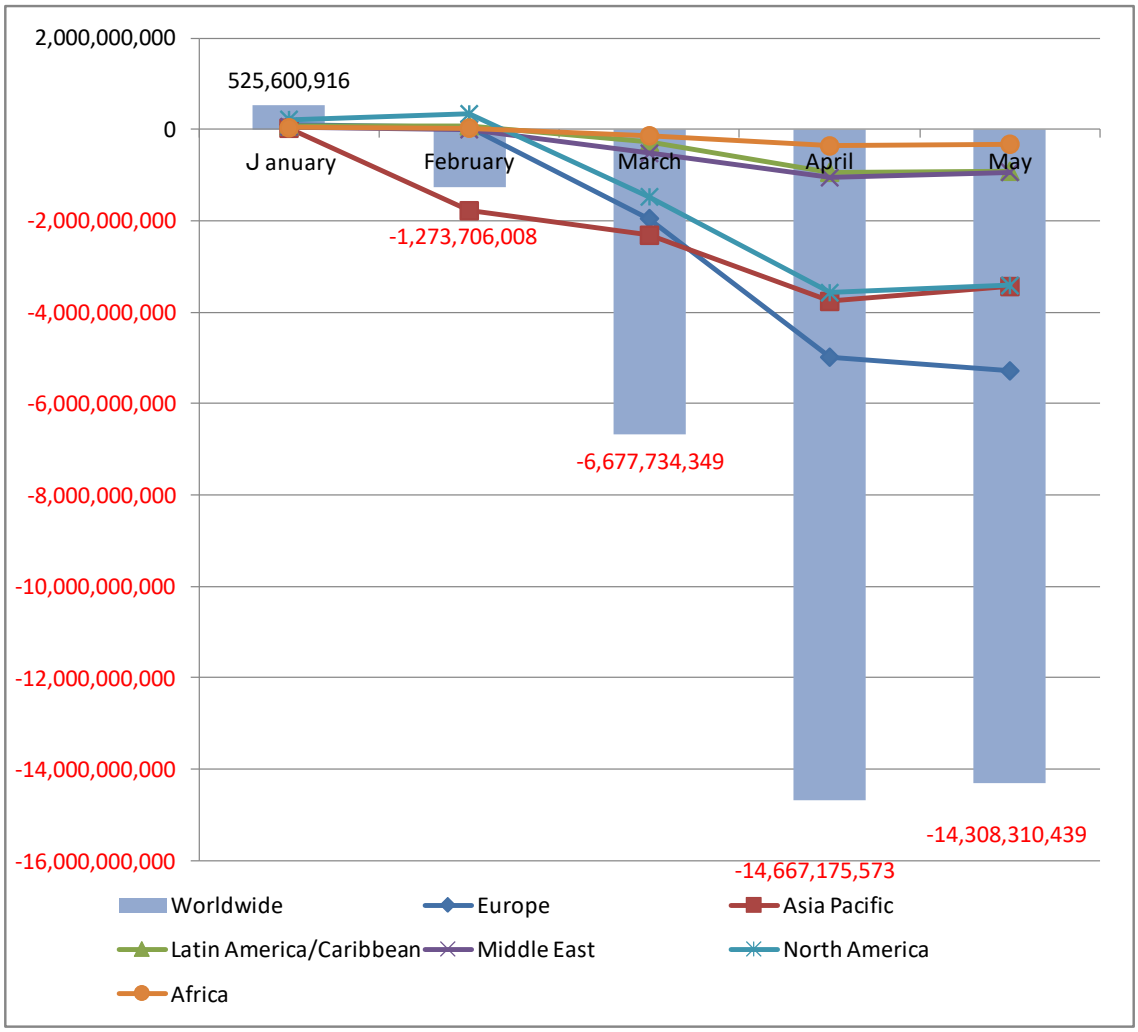


(Unit: USD)

Source: Author based on public information of The International Civil Aviation Organization (ICAO)

Figure-5: Revenue Loss of Airport since January 2020

- Worldwide and Breakdown by Region -



(Unit: USD)

Source: Author based on public information of The International Civil Aviation Organization (ICAO)

We can observe the coincidence of time series and geographical trend of spread of COVID-19 with economic impact. Quite a few airlines have been suffering from cash flow to continue business and obliged to suspend their operation. Some of the airlines had been in critical situation before the outbreak of COVID-19 due to severe competition or inefficiency, however, the pandemic brought more serious impact on them to declare bankruptcy as presented on Figure-6. The fact that even a state-own airline is not allowed to continue operation tells us how serious the current situation is. When we consider a peculiarity of airline industry that requires a large capital and huge

number of labor force, we must say that economic impact on national economy is so strong in terms of revenue and employment. In addition to economic point of view, airline industry takes a role of public transportation system. Considering that the vaccine against COVID-19 would not be available shortly and we have to expect several years to resume air traffic demand as the International Air Transport Association (IATA) estimated that it would be 2024 to recover the same air traffic volume before the pandemic, even if an airline could avoid bankruptcy as the worst case of scenario, it would be inevitable to take necessary measures to prevent further loss for survival under this situation including pay cut, lay off or downsizing business by selling aircrafts or suspension or cancellation of route network.

Figure-6: Declaration of Bankruptcy of Major Airlines since the Pandemic of COVID-19

	Airline	Country
March	Fly Be *	United Kingdom
April	Virgin Australia	Australia
	Air Mauritius	Mauritius
May	South Afirican Airways	South Africa
	Avianca	Colombia
	Thai Airways International	Thailand
	LATAM	Chile

* Low Cost Carrier (LCC)

Source: Author

3. Remedy for aviation-related industries

This exceptional situation has urged many governments to announce bailout package for aviation-related industries, in particular, for airlines primarily to maintain employment and route network as presented on Figure-7. For example, the United States government implemented USD 25 Billion's bailout package to domestic airline operators in exchange for their commitment to suspend pay cut, lay off, stock buy-back,

stock dividend and payment of executive's remuneration until 30 September 2020. Although quite a few airlines in the United States had experienced to announce bankruptcy under the Chapter 11, Title 11 of the U.S. Code once before, the government has never been involved in individual cases after 9.11 Terrorist Attack. However, this stands for the critical situation for airlines that even the US government can't ignore considering consequential scenarios of massive unemployment and loss of public transportation network.

Also, major European Union countries including France, Netherland and Germany announced their bailout package for their airline. For Italy, the government announced the nationalization of Alitalia in April. In Asian countries, Singapore Airlines and Cathay Pacific Airways that have been recognized to have stable financial situation received the subsidy package from their government to keep their cash flow.

These countries had been so aggressive for deregulation of aviation to promote "Open-Sky Policy" that brings the freedom to allow airlines to inaugurate or suspend flights between destinations. Especially, the European Union has adopted a competitive industrial policy that doesn't allow governments or public sectors to provide subsidy or bailout package to individual companies by the European Union competition law. Considering this exceptional situation and the necessity to secure air traffic as public transportation network, we could say that it is justifiable for counties to introduce such a remedy to airlines in terms of public welfare. However, it might be a sort of countermeasure to global aviation deregulation policy to jeopardize fair competition in airline industry. The liberalization policy has provided many benefits and innovations to markets. Competition that brought cheaper air fares and active presence of LCCs in market has made contribution to creation of new air traffic demand. It is true that governments need to take actions to protect airline industry under this critical situation, but we should keep our eyes on market to prevent emergence of oligopoly or monopoly in airline industry after the pandemic.

Figure-7: Major Bailout Package by Government

Announced Timing	Country	Payee	Amount by Local Currency	Amount Equivalent to JPY
March	Singapore *	Singapore Airlines	SGD 15 Billion	1148 Billion
April	USA	10 Major Airlines & 83 Regional Airlines	USD 25 Billion	2640 Billion
	France	Air France	EUR 7 Billion	859 Billion
May	Germany	Lufthansa	EUR 9 Billion	1104 Billion
June	Hong Kong	Cathay Pacific	HKD 39 Billion	532 Billion
	Netherland	KLM Royal Duth Airlines	EUR 3.4 Billion	417 Billion

* Singapore implemented the bailout through "Tamasek", the investment fund that the government holds its share.

Source: Author

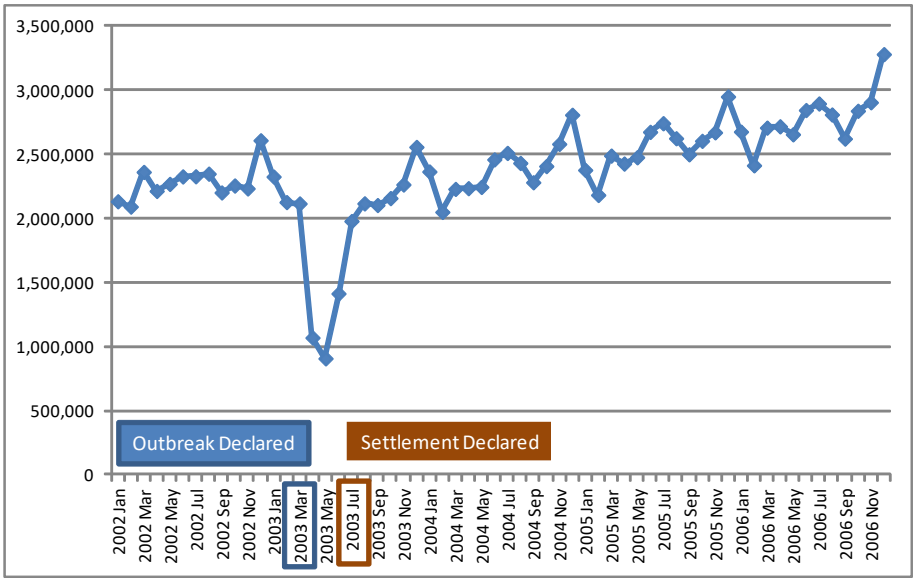
4. Conclusion - Discussion of Feasible Measures for Recovery of Air Traffic

All Countries are under pressure to continue socio-economic activities. While international aviation is an indispensable means of transportation between countries, we must recognize the risk that aviation helps to spread infected people across borders easily. Also, it has been pointed out that it would be so difficult to resume tourism demand as there have been many restrictions on border entry and domestic movement. Furthermore, we might face the possibility of permanent decline of business travel demand due to the growing awareness of remote-working and online conference. So, there is an urgent need to develop a global framework that allows passengers to use international flights safely while controlling the risk of spread of infection. Among the main actors in the field of international civil aviation, the International Civil Aviation Organization (ICAO), which is the UN's specialized technical institution, and the International Air Transport Association (IATA), which is composed of the world's airlines and the Airport Council International (ACI), which is made up of airport operators around the world, are jointly considering travel guidelines for the New Normal Society that notion of public health is taken into accounts in order to recover from the rapidly declining international aviation demand. This means that immediate global coordination and cooperation are indispensable.

For countries and regions where the spread of infection has been controlled, measures such as immigration restriction should be reconsidered as early as possible. To ensure passengers' health, it is expected that official documents or certifications should be issued to prove that a passenger is in good health condition to facilitate immigration, transit and quarantine. That means to decrease one's opportunity cost for air travel. While airlines and airport operators are expected to carry out temperature measurement and PCR tests before departure, we expect various costs to operate such facilities that requires capital investments, therefore we need further discussion for who should bear the cost. After the terrorist attacks on the United States in September 2001, when various new measures were introduced to strengthen the security system for in-flight and airports, the cost could be collected from passengers through ticket sales channel to receive a benefits of security. It is one of the generalized cases but it is suggestive for further discussion to implement a new quarantine system in aviation.

We have to expect several years for the recovery of air traffic. We had a similar situation in 2003 when Asian countries experienced the outbreak of Severe Acute Respiratory Syndrome (SARS). At that time, the duration of outbreak period was approximately 6 months and it was limited only in some Asian countries, the overall impact on international aviation was not serious and demand of air traffic was resumed shortly after the declaration of settlement of outbreak as shown on Figire-8 that presents the number of departure and arrival passenger in Singapore around the outbreak period. Although Singapore reported 33 death cases by SARS which was of the fourth worst in Asia it can be observed that the air traffic demand got back to the previous level within 1 year.

Figure-8: Recovery of Departure/Arrival Passenger by Air in Singapore in SARS Outbreak Period



(Unit: Person)

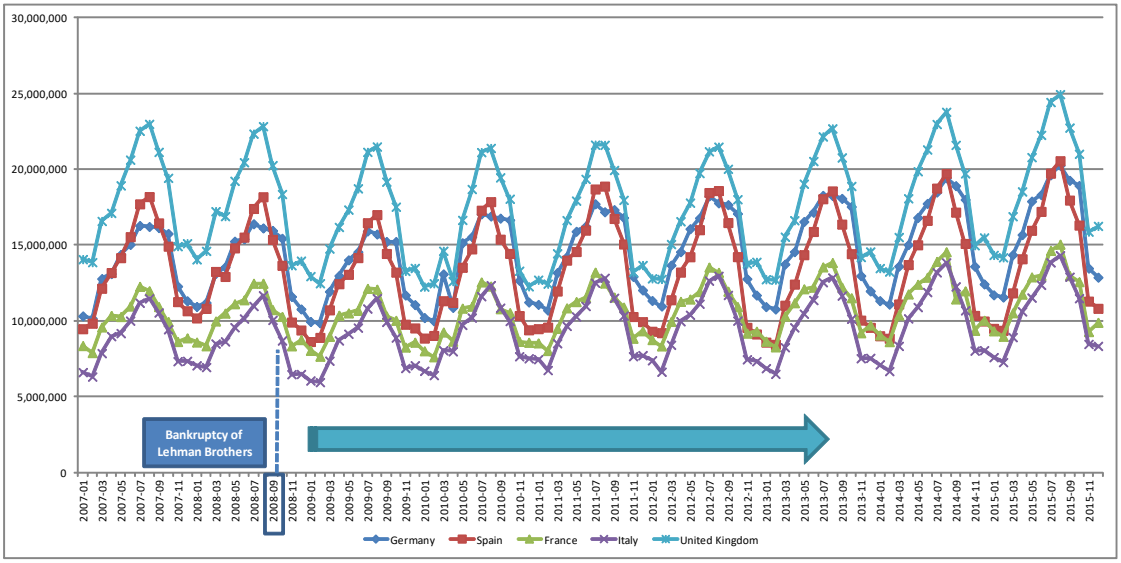
Source: Author based on public information of Department of Statistics of Singapore

However, considering the scale of pandemic of COVID-19, we can't see an optimistic scenario for recovery as we have to take economic factors into accounts. The pandemic might cause massive unemployment to diminish travel demand itself for certain duration. For economic impact, when we experienced the serious recession by the bankruptcy of Lehman Brothers started in 2008, European countries had to wait approximately 2 to 5 years for the recovery of air traffic demand as shown on Figure-9. This was due to genuine economic impact as there had been no travel restrictions caused by epidemics.

Japan also required approximately 2 years on Lehman Shock period and 1 year and half on 2011's East Japan Earthquake period to resume air traffic demand as shown on Figure-10. Therefore, considering the current global economic situation and the seriousness of pandemic, we need to estimate at least 5 years as IATA's forecast or more to resume the previous level of air traffic demand. However, we have to bear in mind that travel behavior would be completely changed in "New Normal Society" and it

should be difficult to utilize the same methodologies to estimate the recovery of air traffic demand.

Figure-9: Air Traffic Passenger Movement in Major European Countries around "Lehman Shock" in 2008



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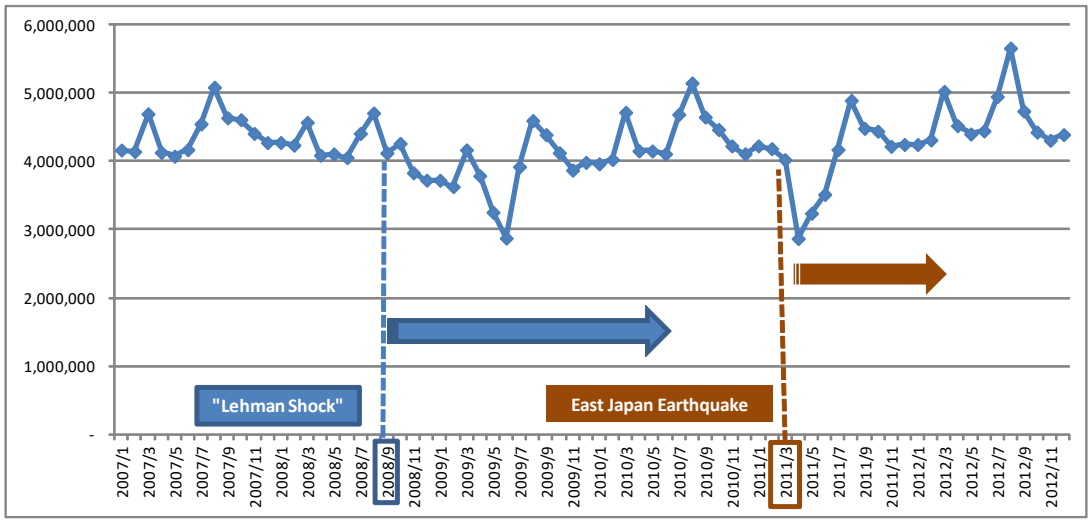
Source: Author based on public information of Eurostat

Figure-10: Air Traffic Passenger Movement in Japan around "Lehman Shock" and East Japan Earthquake Period



(Unit: Person)

Source: Author based on public information of Ministry of Justice, Japan

Since it is unlikely that the optimistic increase in passenger demand forecasts based on macroeconomic development would be effective, in order to resume tourism and business demand other than essential demand for visiting friends and relatives (VFR), it is necessary to have the consistency of policy by governments around the world and to put more focus on passenger health which was less conscious than aircraft safety and security before the pandemic. At the same time, it is an urgent issue for us to maintain worldwide route network and aviation infrastructure such as airports to facilitate smooth movement of passengers.

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