

# COVID-19

## Government Action for Market Stimulation

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# Governments Need to Stimulate Travel Markets

## Current Risks

- \$173 bn provided in aid but more needed
- Advances in testing and vaccines but bookings still low
- Airlines not cash positive until Q4 2021
- Risk of widespread failures and inability to support economic recovery
- Urgent need to reopen borders and stimulate demand

## Market Stimulation Benefits

- Support **faster recovery**
- **Avoid distortion of competition** by being available to all airlines
- Boost demand and **benefit entire aviation value chain**
- **Benefit passengers** and local economies
- **Easy application /exit** for governments

# Proven Market Stimulation Options for Governments



## What's in it for airlines

- Lower 'external' costs boost demand
- Can operate routes even if unviable on commercial terms
- Support low load factor/yield flights
- More stability in bookings and support for cash flow
- Lower overall cost of travel boosts demand

1

### Charges, taxes and fees

Ensure affordability of air travel by suspending taxes, airport/ANSP charges, visa and testing fees

2

### Route subsidies (e.g. for PSOs)

Ensure accessibility (e.g., remote areas) by subsidizing domestic routes during scale-up

3

### Incentives for flights/seats

Provide financial incentives e.g., per pax, seat or based on load factor

4

### Advance payments/vouchers

Pre-purchase tickets to address liquidity needs and support financial sustainability

5

### Passenger travel subsidies

Launch programs which subsidize travel including flights and accommodation

## What's in it for governments

- Improve affordability of travel
- Connect rural communities and businesses; revive tourism
- Travelers multiply investment through money spent in the economy
- Kick start markets and provide direct benefits to passengers
- Help affordability and generate benefits for tourism and economy



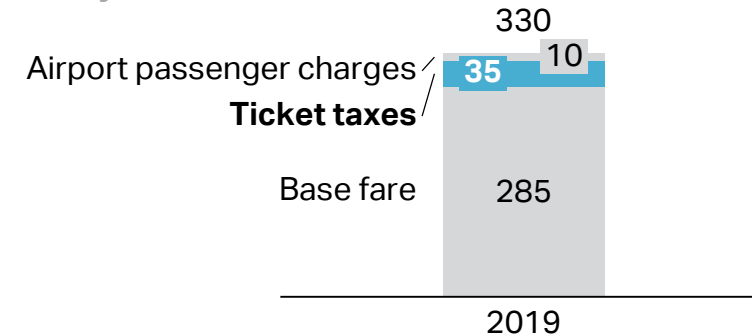
# 1 Case study: Suspension of US ticket taxes

## Description of the initiative

- The **United States provided extensive relief** to airlines under the CARES Act
- The **CARES Act** includes the **suspension of certain aviation related taxes** from 28 March through 31 December 2020
  - taxes on aviation fuel
  - the domestic ticket tax
  - the federal flight segment tax
  - the international arrival/departure tax
  - the tax on cargo
- In a regular year of operations, these taxes would have amounted to a cost of **cc. USD 17bn** for airlines (over 12 months)

## Effect on the market – demand stimulation

Average cost of international travel from the US, 2019, economy class

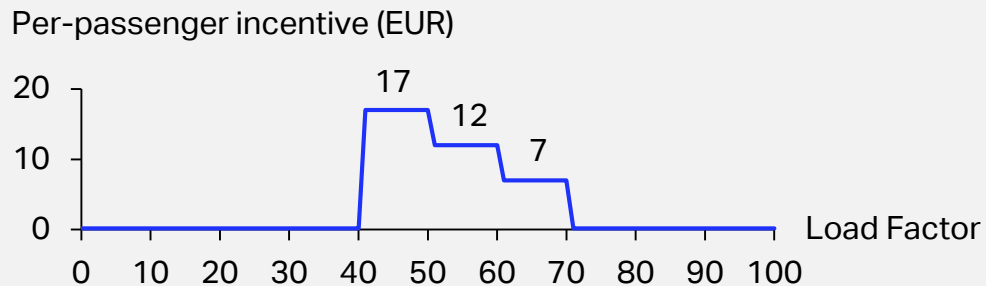


- International ticket taxes of cc. **USD 18** per passenger were suspended
- This represents **5% of average cost of travel** from the US for economy class passengers

## 2 Case study: Cyprus route subsidy

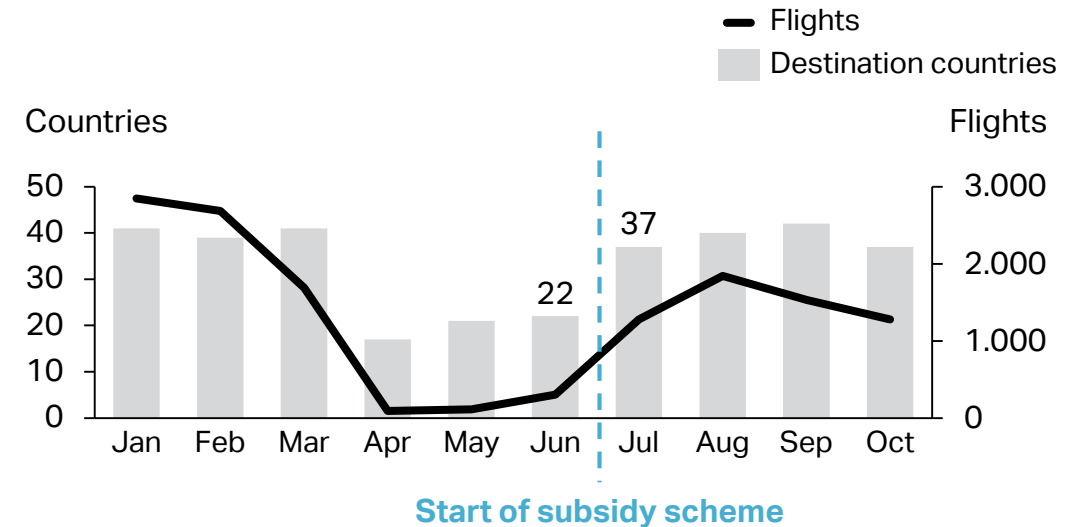
### Description of the initiative

- Cyprus introduced a **connectivity scheme** on 1 July
- Subsidies are offered to **all airlines** operating to and from Cyprus until the end of 2020
- Airlines receive **EUR 7-17 per passenger** if their **load factor falls between 41% -70%**
- Support is **capped at EUR 800,000** per airline



### Effect on the market – supply stimulation

International connectivity of Cyprus, Jan-Sep 2020



- The international connectivity of Cyprus was partially restored with flights from **about 40 countries**

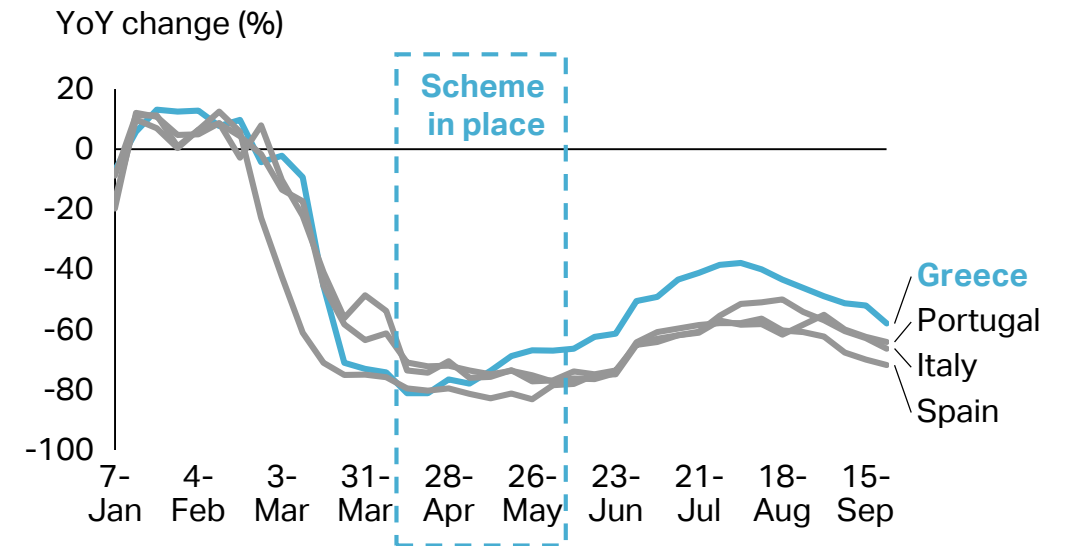
### 3 Case study: Greek incentive scheme

#### Description of the initiative

- The Greek government provided an **incentive for airlines to restart operations**
- The incentive scheme was in place in April and May 2020
- The incentive amounted to **EUR 20 + VAT per airline seat**
- Overall, the government paid out **EUR 6 mn** to airlines

#### Effect on the market – supply stimulation

YoY change in airline passengers from Europe to selected countries



- **Recovery started sooner** and was **more dynamic** than in peer countries

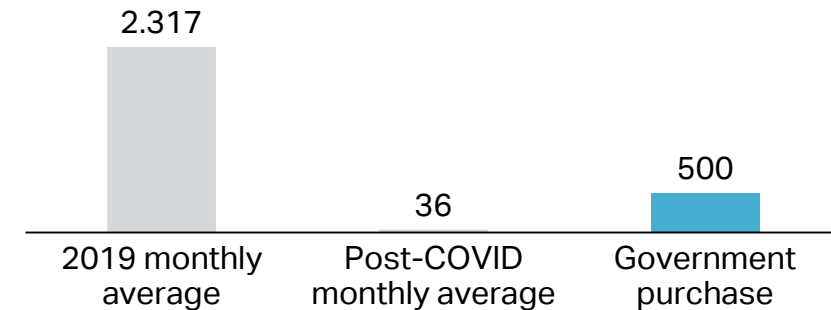
# 4 Case study: Advance purchases in Hong Kong

## Description of the initiative

- Government owned Airport Authority of Hong Kong (AAHK) **advance purchased 500,000 airline tickets** from four home-based carriers
- The measure was intended as a way **to inject cash**
- The tickets will be distributed to Hong Kong residents and foreign visitors through a **'lucky draw'**
- Airlines benefitted from the measure based on their traffic share in 2019 so as to **avoid a distortion of competition**
- The total value of the relief is about **USD 258mn**

## Effect on the market – demand stimulation

Number of airline tickets purchased by government vs. average monthly ticket sales by four carriers concerned before and during COVID-19 (thousands)



- The government purchase provided **much needed liquidity support** to airlines
- The public distribution of tickets means **benefits are passed fully to passengers**

# 5 Case study: Thai travel subsidies

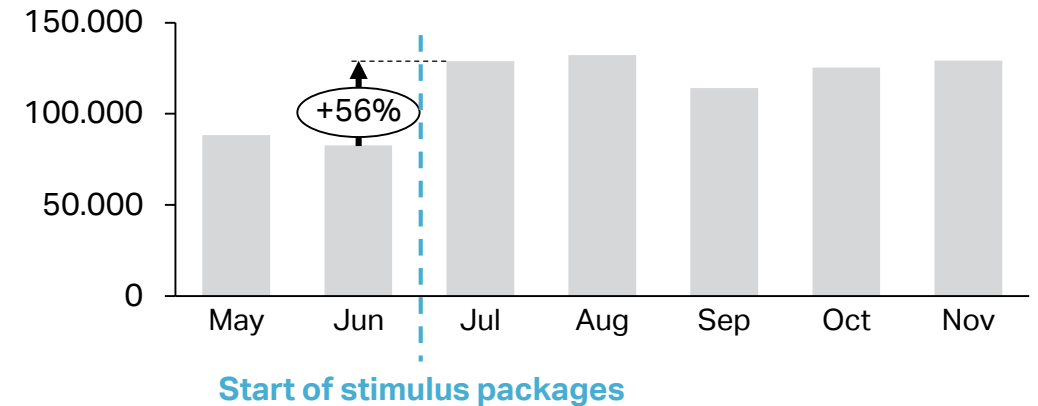
## Description of the initiative

Thailand has launched **three stimulus packages** to run from July 2020 to January 2021:

- **"Happiness-sharing trips"** (USD 64m) - subsidy for domestic travel fares for 2 million travelers covering **up to 50% of expenses**
- **"Moral support"** (USD 77m) - travel fund for healthcare workers
- **"Traveling together"** (USD 577m) - 5 million nights worth of hotel accommodation subsidized at 40%

## Effect on the market – demand stimulation

Number of airline passengers on Thai domestic routes, May-Nov 2020



- Domestic travel **increased substantially from June to July** and has remained around the same level since



# Conclusion

We call on governments to **add market stimulation initiatives to** the support that is urgently needed...

... **stimulate the demand** for air travel by

- Cutting charges, taxes and fees
- Advance purchasing airline tickets
- Launching travel subsidy programs

... **stimulate the supply** of air travel by

- Subsidizing important airline routes
- Providing airlines with financial incentives to operate flights

# Examples of Market Stimulation Initiatives



# 1 Charges, taxes and fees

## Examples of suspensions for industry taxes

Region	Country	Relief Measure	Validity
Americas	USA	Federal excise tax	End 2020
Europe	Norway	Air Passenger tax	End 2020

## Examples of waivers for visa fees

Region	Country	Relief Measure	Validity
Africa and Middle East	Egypt	For tourist resort cities	Apr 2021
Africa and Middle East	Saudi Arabia	For all passengers	TBD

## Examples of suspensions for fuel taxes

Region	Country	Relief Measure	Validity
Asia Pacific	Australia	Excise tax for domestic	Oct 2020
Asia Pacific	Thailand	Excise tax for domestic	End 2020

## Examples of waivers for airport charges

Region	Country	Relief Measure	Validity
Africa and Middle East	Ghana	Ghana network	Jun 2020
Americas	Mexico	MEX airport	Aug 2020
Asia Pacific	Maldives	MLE airport	Mar 2021
Europe	Norway	Avinor network	TBD

## Examples of waivers for air navigation service charges

Region	Country	Relief Measure	Validity
America	Paraguay	En route and TNC	Jun 2020
Asia Pacific	Australia	Domestic only	Nov 2020

**Waivers and suspensions of charges, taxes and fees are common across geographies. Such actions help maintain operations by cutting costs (for all airline users or passengers).**

## 2 Route subsidies (e.g. for PSOs)

Examples of financial support provided for operations of routes

Region	Country	Relief Measure	Validity
Africa and Middle East	Jordan	US\$1.4 million for 3 carriers to operate domestic flights: Amman - Aqaba	N/A
Asia Pacific	Australia	US\$ 122 million for regional and domestic air network assistance package	Jan 2021
Asia Pacific	New Zealand	US\$193 million for critical freight capacity of key routes	Nov 2020
Europe	Cyprus	EUR 6.3 million in grant available for any airline operating routes to from Cyprus (max EUR 800 k per company)	End 2020
Europe	Denmark	US\$ 21 million to support domestic aviation routes	Dec 2020
Europe	Norway	EUR 300 million for domestic air routes	N/A

**Several governments have supported domestic operations through aid for routes flown, mainly to sustain Public Service Obligations (PSOs) and provide connectivity to rural communities. Route subsidies may not be common for international flights but examples are available to simulate key tourism routes.**

### 3 Incentives for flights/seats

Examples of compensation provided to airlines to support low load factor/yields

Region	Countries	Relief Measures	Validity
Europe	Greece	Compensation of EUR20 per seat for commercial flights	Apr- May
North Asia	China, Mainland	Compensation to airlines to help maintain operations, including financial incentives based on ASK (passenger flights) or distance flown and MTOW (cargo flights)	Mar - TBD

**Government incentives for flights or seats flown are more applicable for international flights. They help sustain low load factor/yield airline operations and can be made available to all airlines flying into a country or specific airport. These types of government incentives would be key to supporting growth in international flights.**

## 4 Advance payments / vouchers

Examples of government initiatives to pre-purchase tickets to kick-start passengers

Region	Country	Relief Measure	Validity
Asia Pacific	Korean, Republic of	Pre-purchase of airline tickets by government agencies and public organizations.	N/A
Europe	Russian Federation	US\$ 41 million for Russian airlines operating on 138 regional routes through subsidy of air tickets sold to travelers under 23 years and over retirement age.	N/A
North Asia	China, Hong Kong SAR	The government owned airport authority pre-purchased 500,000 tickets from four Hong Kong-based airlines with a view to giving them away to global visitors and Hong Kong residents.	N/A

**There are good examples of governments pre-purchasing tickets (for later distribution) to help kick-start passengers on flights. Such initiatives are applicable to both international and domestic operations and have the added advantage of supporting cash flow in airlines while ensuring direct benefits to passengers.**

## 5 Passenger travel subsidies

### Examples of government packages to boost tourism

Region	Country	Relief Measure	Validity
Asia Pacific	Fiji	\$185 per passenger provided which can be used on tourism packages, for first 150,000 visitors	N/A
Asia Pacific	Japan	'Go To Campaign' to simulate domestic tourism by subsidizing 50% of travel up to \$190 per night	N/A
Asia Pacific	Thailand	Program to stimulate domestic tourism including subsidies for hotel and flight costs.	N/A
Europe	Russian Federation	Travelers receive 10% to 20% cashback on travel package tours greater than 5 days	End 2020
North Asia	China (Chinese Taipei)	'Triple Stimulus' package allowing passengers to purchase US\$100 of travel vouchers for US\$33	End 2020

Several governments have also developed incentives by subsidizing tour packages including air fares and hotel accommodation. This is another way of boosting passengers and supporting the overall tourism industry, while facilitating broader economic growth.