



**Remarks
by the Council President of the
International Civil Aviation Organization (ICAO),
Mr. Salvatore Sciacchitano,
to the SIPOTRA Webinar on Air Transport and Economic Growth**

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Distinguished participants; it is my great honour to participate at this SIPOTRA Webinar on Air Transport and Economic Growth.

Aviation is a major contributor to global economic prosperity. Through providing the only rapid worldwide transportation network, aviation is essential for global business, and generates economic growth, creates jobs, and facilitates international trade and tourism.

In the pre-COVID-19 pandemic era, aviation continued to expand and doubled in size every fifteen years with faster growth than most other industries.

In 2019, airlines worldwide carried 4.5 billion passengers, with revenue passenger kilometres totaling 8.7 trillion. Nearly 60 million tonnes of cargo were transported by air in 2019, reaching 225 billion freight tonne kilometres. Every day, more than 100,000 flights transported 12 million passengers and around USD 18 billion worth of goods.

Air transport activities globally contributed directly and indirectly USD 3.5 trillion, equivalent to 4.1% of world gross domestic product (GDP) in 2018. If aviation was a country, it would rank 6th in size by GDP, which equates closely to the GDP of Germany or France.

Aviation is also a major global employer, and supported a total of 88 million jobs worldwide. It provided over 11 million jobs directly through airlines, airports, air navigation service providers, civil aviation manufacturers, and other aviation businesses.

These figures do not include other economic benefits of aviation, such as the jobs or economic activity that occur when companies or industries exist because air travel makes them possible, the intrinsic value that the speed and connectivity of air travel provides, or domestic tourism and trade. Including these, the employment and global economic impact numbers would increase several-fold.

Many industries depend on the connectivity and speed provided by air transport to function. One of them being tourism. In normal time, approximately 1.5 billion tourists were crossing borders every year, and over half of them travelled to their destinations by air. By facilitating tourism, aviation supported around USD 900 billion a year to global GDP.

Aviation is also a driver of global trade and e-commerce. Though representing 1% of all international trade in terms of volume, the total value of goods transported by air accounted for 35% of the trade in value, amounting at USD 6.5 trillion. The advantage of speed and reliability of air transport has contributed to the market for “same-day” and “next-day” delivery services and transportation of urgent or time-sensitive goods.

Unexpectedly, the prosperity of aviation took a drastic turn to the worse in 2020, being particularly hard hit by the COVID-19 pandemic. ICAO has been continuously monitoring the economic impact of COVID-19 on aviation. The economic impact analysis of ICAO reveals that for the year 2020 as a whole, global passenger traffic fell drastically by 60% or 2.7 billion, compared with 4.5 billion in 2019. This brings global air travel totals back to 2003 levels.

Resulting from the plunge in air traffic, airline financial losses is estimated to reach USD 370 billion, with Asia/Pacific accounting the biggest losses by 32%, followed by Europe (27%) and North America (24%). Airports and ANSPs are estimated to have lost USD 115 billion and USD 13 billion, respectively.

The effect of the halt to air travel has been acute and stark across the entire aviation sector. Demand will eventually return, but it will take longer than any of the historical crises, testing the industry’s resilience to withstand the adversity.

In response to the dire economic consequence, aviation companies have taken various swift emergency actions to control cost, maximize liquidity in order to maintain financial and functional operability. Some of the common measures include route rationalization, cost control and management. The unprecedented situation engendered by the crisis has also prompt the industry to take unconventional approach to widen the source of financing. For example, we have seen airlines mortgaging their frequent flyer programme for loans, securitizing future earnings and assets, etc.

Nevertheless, the drastic fall in revenues has quite often been beyond the ability of even the most extreme cost-cutting measures taken by the industry. The greater and longer-than-anticipated financial strain has posed existential threat to aviation businesses and challenged their survival. Last year, the world has seen a trio of airline bankruptcies, mergers, restructuring and some even ceased operations, putting many jobs at stake.

Some larger and more established airlines have been able to cope with the impact of the crisis through “self-help” steps. Strong government support has also stopped some airlines from going bankrupt. For certain struggling airlines, especially those with pre-existing underlining financial difficulties before the pandemic, the sudden shock in 2020 had been the final nail in the coffin and proved the last straw.

To name a few examples, LATAM Airlines Group, one of the largest airline casualties, filed for Chapter 11 bankruptcy protection in April last year. The group continued operation while restructuring its debts and transforming its business under the bankruptcy code. The group has also been in discussions with their respective governments of Chile, Brazil, Colombia and Peru to assist in sourcing additional financing, protect jobs where possible and minimize disruption to its operations.

Around similar time, Virgin Australia, the second biggest airline in Australia, filed for voluntary administration, and was later sold to private equity firm Bain Capital. In November 2020, the airline announced that it became the first major Australian airline in history to exist voluntary administration and has unveiled its future direction including removing complexity from the business, improving cost base, re-positioning value of services to its customers.

There have also been cases of airline mergers. When times get tough and profits tumble, airlines tend to contemplate mergers and acquisitions in searching for ways to ride out the financial storm by increasing revenue pools and lowering costs. The theory being the economies of scale can be gained by joining forces.

A recent example is Korean Air's proposed acquisition of Asiana Airlines in November last year. If the deal is complete, the combined airline would become the 10th largest in the world. While the deal remains subject to regulatory approval by Korean authorities and foreign competition authorities including the United States and EU.

The COVID-19 pandemic has confronted us with grave threats to the very foundations of business continuity and financial sustainability of the aviation industry. The potential deterioration in future economic viability of the sector could affect the balance of aviation ecosystem, the repercussion of which might have far-reaching impact on broader economy at all levels.

It is therefore urgent for aviation companies to take bold and immediate steps to bolster their financial position and mitigate the impact from the massive revenue shortfall. In the meantime, given the reliance of so many sectors dependable and reliable air transport services, it is also important that States take appropriate actions to stabilize and support the beleaguered aviation industry.

To support the efforts by States and aviation industry in coping with the economic fallout of the pandemic, ICAO Secretariat has developed a Guidance on Economic and Financial Measures summarizing a range of possible measures to alleviate the financial strain and strengthen the industry's resilience to future economic downturn.

In concluding now, let me please recall how, in less troubled times, international aviation once connected our world and let billions of passengers fulfill their potential each year as true global citizens.

It is now more than ever important for States and industry to work together to overcome the crisis and bring aviation back to its role in providing connectivity, driving national economy and supporting jobs, and as an enabler in the economic recovery.

Thank you.