



WORKING PAPER

ASSEMBLY — 41ST SESSION

ECONOMIC COMMISSION

Agenda Item 35: Economics Regulation of International Air Transport – Policy

Agenda Item 36: Economics of Airports and Air Navigation Services – Policy

**ECONOMIC AND FINANCIAL MEASURES AND EXPERIENCES OF STATES IN
ADDRESSING THE IMPACT OF THE COVID-19 PANDEMIC**

(Presented by the Council of ICAO)

EXECUTIVE SUMMARY

This paper presents the economic and financial measures to address the impact of the COVID-19 pandemic, based on the ICAO guidance and the recommendations of the Council Aviation Recovery Task Force (CART) and the High-level Conference on COVID-19 (HLCC 2021). It summarizes a range of possible measures that can be explored by States and industry to mitigate liquidity and financial strain, along with the key principles for government support. Concrete examples and experiences of the implementation of these measures are provided in the guidance. The paper also presents ICAO's plan for future work on this aspect, focusing on identifying additional measures according to the evolving situation, providing implementation assistance and promoting cooperation among all parties on financial support to aviation.

Action: The Assembly is invited to:

- a) review the work accomplished by ICAO in paragraph 3;
- b) endorse the Organization's work plan as presented in paragraph 4; and
- c) consider the information contained in this paper for the update of Assembly Resolution A40-9, Consolidated Statement of continuing ICAO policies in the air transport field.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objective — <i>Economic Development of Air Transport</i> .
<i>Financial implications:</i>	The ICAO activities referred to in this paper are expected to be undertaken within the resources available in the 2023–2025 Regular Budget and/or from extra budgetary contributions, including the Voluntary Air Transport Fund (TRAF), as guided by the ICAO Business Plan 2023–2025.

<i>References:</i>	<i>ICAO Guidance on Economic and Financial Measures to Mitigate the Impact of the Coronavirus Outbreak on Aviation</i> https://www.icao.int/sustainability/Pages/Economic-and-financial-measures.aspx <i>ICAO Council Aviation Recovery Task Force (CART) Report</i> https://www.icao.int/covid/cart/Pages/default.aspx <i>A41-WP/12-EC/2, Report on Developments Regarding the Economic Aspects of Airports and Air Navigation Services</i> <i>A41-WP/14-EC/4, Report on the Updated Long-term Traffic Forecasts with Post-COVID-19 Scenarios</i> <i>A41-WP/17-EC/7, Consolidated Statement of Continuing ICAO Policies in the Air Transport Field</i> <i>ICAO Business Plan 2023–2025</i>
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1. INTRODUCTION

1.1 The COVID-19 pandemic has had a devastating impact on civil aviation globally. The precipitous decline in air traffic and the resulting revenue losses have caused severe financial strain to all stakeholders in the value chain, including but not limited to, airlines, airports, air navigation services providers and aerospace manufacturing. In response to the economic consequences, the industry took a series of “self-help” actions aiming at cost control, maximizing liquidity and increasing operational efficiency.

1.2 Nevertheless, the massive revenue shortfall has been beyond the ability of even the most extreme cost-cutting measures taken by the industry. Considering the crucial role of aviation in the national economy and in the overall recovery from the pandemic, various forms of government support have been provided by States to the beleaguered aviation industry so that it can maintain financial stability and continue operations.

2. RECOMMENDATIONS OF THE ICAO COUNCIL AVIATION RECOVERY TASK FORCE (CART) AND HIGH-LEVEL CONFERENCE ON COVID-19

2.1 The ICAO CART established ten (10) key principles and twenty (20) recommendations on globally- and regionally-harmonized, mutually-accepted measures for a safe, secure and sustainable restart and recovery of the aviation sector. Key Principles 8 and 9 underscore the need for financial relief strategies to help the aviation industry and to ensure its economic sustainability, while Recommendation 10 underlines a “safeguard” in implementing economic and financial measures to support financial viability of the industry.

2.2 CART Recommendation 10 states that “Member States should consider appropriate extraordinary emergency measures to support financial viability, and to maintain an adequate level of safe, secure and efficient operations, which should be inclusive, targeted, proportionate, transparent, temporary and consistent with ICAO’s policies, while striking an appropriate balance among the respective interests without prejudice to fair competition and compromising safety, security and environmental performance”.

2.3 Support to aviation industry was further highlighted at the Ministerial Plenary Sessions of the ICAO High-level Conference on COVID-19 (HLCC 2021) held in October 2021. While stressing the need to continue to provide adequate financial and regulatory support measures when deemed necessary,

there was a common view that in the face of limited availability of resources for crisis response and competing priorities, orchestrated efforts are required from all relevant entities, including financial institutions, international partners, and the private sector.

2.4 The Ministerial Declaration adopted at the HLCC 2021 confirmed “the importance of support provided for the aviation sector, including economic and financial support, to sustain operations and ensure the provision of essential services while safeguarding fair competition and equal opportunities.” The summary of discussion of the Ministerial Sessions and the Ministerial Declaration are available at: <https://www.icao.int/Meetings/HLCC2021/Pages/ministerial-plenary.aspx>.

3. ICAO GUIDANCE ON ECONOMIC AND FINANCIAL MEASURES

3.1 In line with CART Recommendation 10, ICAO developed the *Guidance on Economic and Financial Measures to Mitigate the Impact of the Coronavirus Outbreak on Aviation* (<https://www.icao.int/sustainability/Pages/Economic-and-financial-measures.aspx>) to help States and industry cope with the economic fallout of the COVID-19. The guidance is available on the ICAO website in all ICAO official languages.

3.2 Recognizing that States have the primary responsibility for their aviation recovery, key principles that States should follow are highlighted at the outset of the guidance material, followed by a range of measures that can be explored by States and industry to alleviate the liquidity and financial strain. The potential implications and constraints of each of these measures are also examined to help policymakers and industry leaders make appropriate decisions, in accordance with their unique circumstances and needs. The guidance on each measure is further supplemented with concrete examples and experience of how they have been implemented practically by States or industry in different regions.

3.3 *States’ Economic and Financial Measures*. Government support should be the “last resort” when the severity of the liquidity crisis is beyond the self-supporting efforts, conventional or innovative, by the industry. It takes various forms, i.e. financial, regulatory or a mixture of both.

- a) **State financial support** can be provided directly or indirectly to the aviation industry in the following forms: a) capital injection as grants; b) government equity stakes; c) government loans and loan guarantees; d) financing of restructuring; e) operating subsidies or route specific grants; f) wage subsidies or guarantee; g) general taxation relief; h) relief of aviation related taxes, charges and fees; and i) integrated financial support package.
- b) **State regulatory support** intends to provide regulatory relief and operational flexibilities to support industry to sustain businesses and operations suffering from a very low demand environment. These measures include: a) a temporary suspension of airport slot allocation rules; b) a temporary alleviation of regulatory restrictions to air cargo operations; c) a temporary exemption from competition laws; and d) the relaxation of restrictions on market and capital access.

3.4 The type and duration of government support significantly affects the recovery of the sector, and has implications on future structure, conduct and performance of the industry and market in general. Thus, a clear framework for States’ support should be established with good governance. As such, seven key principles, drawing from the existing ICAO economic policies and guidance, should not be

neglected, even in extraordinary times like the COVID-19 pandemic, to safeguard fair competition and avoid market distortion. These principles include: well-defined objectives, data-driven evaluation, broadly inclusive and non-discriminatory, targeted and proportionate, transparency and consultation, striking appropriate balance among all stakeholders, and time-bound.

3.5 **Industry Financial and Operational Measures.** A series of “self-help” steps from financial to operational can be taken by the industry in order to control cost, maximize liquidity and increase operational efficiency.

- a) **Industry financial measures** are normally implemented to replenish cash reserves and restore balance sheet in the short to medium term, and to sustain operations in response to the demand-reduced environment. These measures consist of, inter alia: a) cost control and management; b) contractual negotiation with lessors, suppliers and/or providers; c) equity financing; d) debt financing and restructuring; e) monetizing the value of frequent flyer programme; f) securitization of future earnings and assets; and g) rehabilitation or reorganization under bankruptcy law.
- b) **Industry operational measures** can help optimize operational efficiency and are implemented before seeking external support. They include: a) route rationalization and fleet rightsizing; b) diverting excess passenger capacity to cargo-only or charter operations; c) flexible fare adjustments; d) cooperative arrangements; and e) mergers and acquisitions. To the extent possible, the industry is also expected to utilize the opportunities brought by the aforementioned government regulatory support such as operational flexibilities and temporary alleviation of regulatory restrictions.

3.6 While the measures listed in the guidance are non-exhaustive, they can be considered by States and industry when devising strategies and actions to mitigate the economic impact of the pandemic. Bearing in mind that there is no ‘one-size-fits-all’ approach, both States and industry need to apply an appropriate approach in accordance with their position and needs.

4. FUTURE WORK

4.1 As the renewed outbreaks and the spread of new virus variants continue to take their toll on travel, international air traffic particularly, will remain below the pre-crisis levels. Even in the long term, there may be a permanent downward shift on traffic levels due to the change in travel patterns (A41-WP/14-EC/4, *Report on the Updated Long-term Traffic Forecasts with Post-COVID-19 Scenarios* refers). Hence, the aviation industry is likely to contend with depressed travel demand and financial distress for a prolonged period.

4.2 The potential deterioration in future economic viability of the sector could affect the balance of the aviation ecosystem, especially in relation to the funding of and financing for modernization and development of quality aviation infrastructure to meet post-pandemic capacity needs (A41-WP/12-EC/2, *Report on Developments Regarding the Economic Aspects of Airports and Air Navigation Services* refers). Considering the ever-changing situation and associated consequences, continued efforts will be made on supporting the safe and efficient recovery of the sector and fostering its economic resilience to future exogenous shocks. In accordance with the ICAO Business Plan 2023–2025, Operating Plan Outputs DEV 1 and DEV 3, the Organization will, inter alia:

- a) continuously monitor and assess the evolving economic fallout of the pandemic to identify additional measures that can be taken by States and industry, including those

for service providers, and update and expand the guidance, as deemed necessary, to address emerging issues;

- b) encourage the sharing of experiences among States and industry, and provide assistance, as required, through global and regional webinars and trainings, to support the implementation of economic and financial measures using the ICAO guidance; and
- c) promote coordination and cooperation among States, financial institutions, regional and international partners and the private sector on providing financial support to the aviation industry.

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