EU AND GCC AVIATION AND TOURISM: FROM A HISTORIC CRISIS TOWARDS A SUSTAINABLE RECOVERY

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DR. MARI LUOMI

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Bussola Institute
Square de Meeûs 28
1000 Brussels, Belgium

This publication can be downloaded at no cost at www.bussolainstitute.org
Executive summary

Aviation and international tourism are major employers and sources of economic income in both the EU and GCC. Together Europe and the Middle East account for more than a third of global air passenger traffic and almost half of total earnings from inbound international tourism. Airlines from both regions rank among the world’s leading industry players.

Yet aviation is also a fast-growing source of carbon dioxide emissions: in 2018 it accounted for approximately 2.5% of global emissions. Emissions from international aviation were projected to grow two to four-fold between 2015 and 2050. The scope for reducing emissions has been limited: technological options have not yet reached technological maturity or price parity with conventional ones and policy tools have not been implemented on a scale large enough to prevent emissions from growing in the sector. An international market-based offsetting scheme, CORSIA, was agreed in 2016 and has been expected to contribute to carbon-neutral growth in international aviation from 2020 onwards.

Pre-Covid-19 industry growth projections were already mixed. EU airlines had on average been faring better than their GCC counterparts, but demand overall was projected to keep growing over the longer term. The Covid-19 pandemic has thrown the air travel and tourism industries into their deepest crises in history, with global passenger traffic currently expected to return to pre-pandemic levels in 2024 at the earliest. Covid-19 brought global aviation to a near-standstill in April and May 2020 and recovery since then has been slow, also impacting tourism destinations dependent on international visitors, particularly in the Gulf and Southern Europe. Mid-2020 job loss estimates for the European and Middle Eastern travel and tourism industries stood at 14–30 million and 3–5 million respectively.

In the short term financial support from governments is the most effective way to support the aviation industry. EU and GCC governments have already pledged billions of Euros in rescue packages, the great majority of which have not included climate change-related conditionalities that could help speed up the decarbonisation of the sector in line with what is required, based on climate science.

Factors influencing the future demand for aviation are largely not in the hands of the industry itself; they include the duration and severity of the pandemic, government decisions relating to safety measures, the depth of the global recession and shifts in travel behaviour by tourists and business travellers.
Industry experts have suggested that factors for the long-term success of airlines could include large domestic and/or intra-regional markets, low-cost models, a lower reliance on long-haul connecting traffic and strong state backing. The EU is better positioned for recovery given its large internal aviation market, but strong state backing is likely to help keep many national carriers in both the EU and GCC afloat. Aircraft manufacturers are expected to suffer significant losses, impacting the EU in particular, while cargo traffic could fare better.

The June 2020 decision by the International Civil Aviation Organization to recalculate the baseline for CORSIA’s pilot scheme is a disincentive to a lower-carbon recovery, but countries themselves can undertake various measures. Because a ‘green recovery’ in aviation could involve much larger trade-offs between environmental and socioeconomic sustainability than in other sectors, related policies need to be well-designed and supported. In the EU the European Green Deal package bodes well for a greener and more inclusive recovery, despite initial airline bailouts that contain few climate conditionalities. In mid-2020 the GCC countries had yet to outline publicly the broad contours of their economic recovery visions.

Going forward both the EU and GCC should align their Covid-19 recovery measures for the aviation and tourism sectors under two core targets: creating decent, sustainable jobs and aligning with the global climate goals.

1. Introduction

At the end of the 2010s, aviation supported 66 million jobs worldwide, including 37 million jobs in the tourism industry. It generated a total of US$2.7 trillion in economic activity, representing close to 4% of the global GDP. Air transport carried more than 4 billion passengers, comprising two-thirds of all tourists worldwide and one-third of world trade measured in value. If aviation were a country, it would be a candidate to join the Group of Twenty.¹

But if it was a country, aviation would also rank among the 10 highest greenhouse gas (GHG) emitters.² As a fossil fuel-intensive industry, the growth of aviation has also meant rapidly increasing environmental impacts. In the past three decades the number of air travellers worldwide quadrupled, driven by demographics and the falling costs of flying.³ Over the next three decades, if left unabated, international aviation-related emissions alone could increase more than threefold, taking up a quarter of the world’s remaining carbon budget (or emissions that can still be emitted) in order to remain below 1.5°C of global warming.⁴

The Great Lockdown

Government-imposed restrictions related to COVID-19, declared a pandemic in March 2020, threw the global aviation industry into the deepest crisis in its history. At the time of writing, in August 2020, the industry was expecting an annual fall in passengers of up to 52% compared to baseline

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⁴ Carbon budget is a concept popularised by the IPCC in 2013, which represents the cumulative amount of carbon dioxide/greenhouse gas emissions that humanity can safely emit to keep global temperature rise below a specific threshold. The Paris Agreement refers to two such thresholds, namely ‘well below 2°C’ and 1.5°C. Many small island states and other vulnerable countries consider the latter as the maximum permissible level. ICAO, *ICAO Global Environmental Trends—Present and Future Aircraft Noise and Emissions*, A40-WP/54, 2019.
expectations (equal to 3 billion passengers) and total losses of up to $392 billion. International tourism is also expected to suffer significant revenue losses. The airline association IATA projects that airlines alone may cut one million jobs, whereas the World Travel and Tourism Council estimates the total job loss potential in the travel and tourism sector in 2020 to be 100 million.

These painful impacts evolved amidst an equally deep fall in aviation-related emissions: at the peak of global lockdowns in April 2020, global aviation emissions were 60% below 2019 levels. As in other sectors, aviation emissions correlate directly with related economic activities, rising as traffic picks up. In the EU in particular, the pandemic has drawn attention to the industry’s environmental impacts and civil society groups and experts have called on governments to include conditionalities in their airline stimulus packages to avoid ‘brown recoveries’ which would perpetuate unsustainable growth.

Recoveries of many shapes and colours

The recovery of global aviation from COVID-19 will depend on numerous variables, including the duration and severity of the pandemic, government-imposed travel restrictions, changes in consumer confidence and behaviour, and airlines’ financial resilience. The v-shaped recoveries from previous economic recessions or disease outbreaks are unlikely to materialise following the current crisis, and so major structural changes are on the horizon for the industry. Since the most effective way to reduce emissions from aviation is to fly less, a ‘green recovery’ in aviation may involve much larger trade-offs between environmental and socioeconomic sustainability than in other sectors. For tourism, however, the picture is more mixed.

Impacts and prospects in the EU and GCC

The European Union (EU) and the Gulf Cooperation Council (GCC) host some of the world’s largest airlines and airports, and their aviation industries contribute significant shares of jobs and GDP in many of their member countries. There are also important interlinkages between the two regions in the sector.

Despite structural and strategic variations, governments in both regions are faced with similar short-, medium- and long-term challenges and options with regards to sectoral recovery from the COVID-19 shock. In the short term, businesses will need a significant amount of economic support to prevent closures and minimise job losses.

At the same time, the GCC and EU aviation and tourism industries also need to start laying the ground for a longer-term structural transformation, in line with climate science and planetary boundaries. The COVID-19 pandemic should be used here as an opportunity to introduce fundamental reforms into certain economic sectors that would prevent a return to business as usual and to lay the groundwork for more sustainable policies. Already squeezed by narrowing profit margins and growing pressures to address environmental externalities, the aviation and tourism sectors will have little choice but to reinvent themselves amidst the pandemic while ensuring economic, social and environmental sustainability across their operations.

This paper examines how the COVID-19 pandemic is transforming aviation in the EU and GCC and the roles that governments have in the sector’s future. It focuses on the following questions:

How has COVID-19 impacted civil aviation and related tourism in the two regions?
What measures have governments and the industries in both regions taken so far?
What are the possible recovery paths and, specifically, how could the two regions promote sustainable recoveries?

The paper first examines aviation and tourism in the EU and GCC in the context of global trends pre-COVID-19. It then documents and compares short-term impacts on the industries as well as related initial government and industry responses and policies. The paper then analyses emerging recovery options and agendas in light of longer-term industry projections. It concludes with an assessment of the prospects for green, resilient and inclusive recoveries in both regions and makes related recommendations.

2. Aviation and Tourism in the EU and GCC Economies

Carrying the world

Europe and the Middle East together account for more than a third of global air passenger traffic and almost half of international tourism receipts (total earnings from inbound tourism). As a whole, the EU is a significantly larger market for both industries: a total of 19% of global air passenger traffic takes place within Europe, and the region receives 39% of international tourism receipts. In 2018, there were four EU airlines in the global top-25 ranking of airlines, measured in passenger kilometres flown (RPK) (See Figure 1).

The GCC’s share of global aviation is smaller, but individual Gulf countries rank among the world’s leading industry players. In 2018, Dubai’s carrier Emirates ranked as the world’s fourth largest airline in terms of RPK. Together with Qatar Airways (11th) and Etihad (25th), the three GCC airlines are known as the ‘Middle East three’ or ‘Gulf three’, given their large share of the regional market, among other things.

A number of airlines from the EU and GCC also rank in the top-25 of global cargo traffic (Figure 1).

Figure 1 Top 25 Global Airlines Ranked by Passenger and Freight Traffic

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8 IATA, WATS, 2; UNWTO, “Tourism Performance.”
The major airlines in the EU and GCC have diverse profiles. Of the two regions’ six major airlines, all but one are full-service network carriers and only Ireland-headquartered Ryanair is a low-cost airline. In the EU, all major airlines have been privatised, whereas the three major Gulf carriers are all government-owned. On average, the major EU airlines are much older than their three major GCC counterparts, which were established between 1985 and 2003. Ryanair, established in 1984, again constitutes the exception. The major EU carriers all grew organically over several decades and the past two decades have been marked by a number of major mergers. The younger GCC airlines, in turn, have adopted widely varying business and marketing strategies. (See Box 1.)

**Box 1: Diverging Strategies among Major Airlines in the EU and GCC**

The EU’s major airlines based on passengers and RPK are Ryanair, Lufthansa and Air France (KLM). Lufthansa, Air France and KLM were established in 1953, 1933 and 1919, with the latter two merging in 2004. Ryanair launched its low-cost business model significantly later, in 1984. Following a period of organic growth, the EU airline industry has seen major mergers, including Air France and KLM, Lufthansa’s acquisition of Swiss International Air Lines and Austrian Airlines and the merging of British Airways and Spain’s Iberia into the International Consolidated Airlines Group (IAG).

The EU and GCC markets enjoy different levels of liberalisation, with the sector being fully liberalised in the EU in the 1990s. In Saudi Arabia, the government opened the sector to foreign airline operators in 2011. In the UAE, two carriers have foreign ownership of their shares: Air Arabia and Wizz Air Abu Dhabi.

In the GCC, the three major national carriers, Emirates, Qatar Airways and Etihad, were established in 1985, 1994 and 2003 respectively. Major presently-existing low-cost airlines in the Gulf include Air Arabia (Sharjah), FlyDubai, Flynas (Saudi Arabia) and flydeal (Saudi Arabia), all founded from 2003 onwards. Following a global trend of cooperation between full-service and low-cost carriers, Emirates has since 2017 partnered with Flydubai in code sharing, and Etihad announced plans to collaborate with Air Arabia on ‘Air Arabia Abu Dhabi’.

Other Gulf national carriers were founded in the 1940s and 1950s: Saudia in 1945, Gulf Air (presently owned by Bahrain) in 1950 and Kuwait Airways in 1954. With the exception of Saudia, they have since been dwarfed by the newer companies. Today, Saudia ranks among the top GCC airlines in terms of seat capacity, with domestic flights accounting for almost half of its operations. Oman Air (est. 1993), which reportedly gained more passengers after the start of the diplomatic dispute between Qatar and its neighbours, was in 2019 the fifth largest carrier in the Middle East based on seat capacity.

The major ‘Gulf three’ airlines’ growth strategies have been markedly different, with Emirates opting for organic growth and positioning Dubai as a destination. Qatar Airways focused on business and transit travel and Etihad expanded through ‘equity alliances’ to gain additional hubs and regional markets. Qatar Airways also owns minority stakes in a number of airlines.

Unlike all major EU full-service carriers, Emirates has not joined any major airline alliances and Etihad has set up its own equity alliance with airlines in which it holds shares, which in 2020 included Air Seychelles, Air Serbia and Virgin Australia. In the past, Etihad also held large minority stakes in Air Berlin, Jet Airways and Alitalia. The former two have ceased operations and the latter had been struggling for years, with the Italian government taking full ownership in 2020. Qatar Airways joined the Oneworld alliance in 2013 but has been considering leaving since 2017 due to disagreements with other members.

Albeit neither region’s primary market, air traffic between Europe and the GCC grew rapidly over the past decade. This was driven primarily by the expansion of the ‘Gulf three’ which managed to both position themselves as hubs between Europe and Asia and, in the case of the UAE, to establish their host cities as popular tourist destinations. For Europe, its domestic market is by far the most important, accounting for 19% of all global passenger air traffic. North America (12%) and Asia (10%) are Europe’s primary external markets. For the Middle East, in turn, air links with Asia and Europe are the most important, accounting for 8% and 5% of global passenger traffic respectively.

Providing jobs

Aviation is a major contributor to economic prosperity in both regions: if indirect impacts, including tourism enabled by air transport, are included, the sector contributed close to one trillion US$, or 4% of the GDP of the two regions in total. The industry is also a significant source of jobs. In 2016, it supported an estimated 12.2 million jobs in Europe and 2.4 million in the Middle East. Even though the European industry is six times the size of that in the Middle East, aviation directly and indirectly accounts for approximately 3% of all employment and 4% of the GDP in both regions. (See Figures 2 and 3).

Figures 2 and 3
Employment and Economic Contribution of Aviation in Europe and the Middle East


10 For cargo (FTK), the busiest markets for Europe are Asia (21%) and North America (14%). For the Middle East, they are Asia (7%) and Europe (6%). IATA, WATS, 2. Between 2007 and 2017, the number of passengers between the Middle East and Asia grew by 145%. ATAG, Aviation Benefits Beyond Borders, October 2018, 26. A breakdown for the GCC is not available.
In a number of individual EU and GCC economies, aviation, including related services and manufacturing industries and the tourism it catalyses, plays a vital role in employment. In 2016, it supported 1.1 million jobs in each of the EU’s two largest economies, Germany and France, and 1.7 million jobs in Spain. In the GCC, it is also an important source of remittances through the large number of expatriate workers the industry employs.

In addition to airlines and handling agents (flight dispatchers), the industry also provides direct employment in airports and aircraft manufacturing. Dubai International (DXB), which ranks among the busiest airports in the world with more than 86 million passengers in 2019, has been employing 90,000 people. The EU’s busiest airports Paris Charles de Gaulle (CDG), Amsterdam Schiphol (AMS) and Frankfurt (FRA) have similar passenger levels, at 76, 71 and 70 million respectively. In Europe, civil aircraft manufacturers employed 341,000 people in 2016 and the industry generated a US$123 billion turnover, with its exports totalling US$85 billion.

Aviation’s symbiotic relationship with tourism

According to industry estimates, aviation-enabled tourism has accounted for 42% of all aviation-enabled jobs in Europe and 54% in the Middle East. In the latter, this positive impact has been particularly pronounced in the region’s most popular tourist destination of Dubai where, according to industry sources, aviation contributed 27% of the emirate’s economy in 2013 and supported 21% of all jobs. For example 25% of annual retail sales in Dubai have been made by foreign visitors. In Saudi Arabia, religious tourism has provided the economy with a major non-oil source of revenue and has also supported the country’s airlines, most prominently the national carrier Saudia.

Tourism at large (including non-aviation-catalysed) is a significant employer and a source of income for a number of EU economies. Based on some estimates, the travel and tourism industry as a whole generated US$2 trillion in Europe and US$245 billion in the Middle East in 2019 and was

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11 ATAG, Aviation Benefits.
12 Dubai Airports flyer, n/d; Port Authority NY NJ, 2019 Airport Traffic Report, 2020, 30. The second second busiest airport in the Middle East, Qatar’s Hamad International (DOH), received 39 million passengers in 2019.
13 ATAG, Aviation Benefits, 22, 44.
Characteristically, tourists in the Middle East use air travel as their preferred mode of transport (72%), followed by road transport (27%). In Europe, air travel (53%) and road travel (40%) are almost equally popular – explained by the fact that 85% of European tourism is intra-regional while in the Middle East this share is only 58%. Traveller profiles also present differences in the two regions, with 44% of tourism in the Middle East involving visiting friends and relatives and religious tourism, 44% on holidays and 12% on business travel. In Europe, leisure (59%) is the leading purpose of visitors, followed by visiting friends and relatives and religious tourism (27%) and business travel (14%).

Figure 5
Transport Modes and Purpose of Travel of Tourists Visiting Europe and the Middle East


Figure 4 Aviation and Tourism in Selected EU and GCC Economies

Total employment supported by aviation (direct and indirect)


Share of tourism in the GDP


Malta, Cyprus, Greece, Portugal and Spain are the most economically dependent on tourism. In the GCC, tourism generates approximately a tenth of the GDP in the UAE and Saudi Arabia. (See Figure 4).
While global tourism has grown exponentially over the past 15–20 years, the regional shares of global tourist arrivals have remained relatively constant, with Europe attracting approximately half of all international arrivals and the Middle East 4%. Receipts, however, are on average higher in the Middle East (US$1,340 per arrival), which in 2019 captured 6% of global receipts, compared to 39% by Europe (US$770 per arrival), reflecting the positioning of Gulf cities as luxury destinations.18

3. Trends and Pressures Affecting the Aviation Industry Pre-COVID-19

Even prior to the impact of the COVID-19 pandemic on overall economic activity, a number of other drivers and trends have put pressure on the aviation industry’s profit margins. From the late 1990s onwards, low-cost airlines began transforming the global air traffic market. They have contributed to growing competition among airlines, with continuously falling air fares and the blurring of the lines between full-service and low-cost carriers. At the same time, a growing middle class in emerging economies and millennials have significantly increased demand. The 2000s introduced tightened security measures, prompted by the 9/11 attacks. Fuel prices have also impacted airlines’ competitiveness, albeit less so from the mid-2010s onwards, and have driven important improvements in fuel efficiency.19 Simultaneously, aviation and the tourism industry have made commendable progress in digitisation and e-commerce, connected devices and artificial intelligence, among others – major technology trends that are expected to continue driving transformation and workforce transitions in the industry.20

The massive expansion of global civil aviation has not come without negative impacts. The most pronounced one has been the rapid increase in GHG emissions, which technological and operational improvements have been unable to offset. In 2018, at 905 million tonnes (MtCO2) and with an annual growth rate of 5.2%, carbon dioxide emissions from aviation accounted for approximately 2.5% of global emissions.21

Seeking growth amidst tightening economic conditions

Before COVID-19, industry growth projections were already mixed. On the one hand, growth had been slowing in the Middle East in particular. On the other, demand was projected to keep growing over the longer term.

If compared financially, airlines in the EU had been on average faring better than their GCC counterparts. In 2018, IATA reported that Middle East airlines posting a minus 2% operating margin, compared to 6.2% in Europe and a global average of 5.8%.22 Following a series of unfortunate investments (see Box 1), Etihad reportedly suffered US$5.6 billion in cumulative losses between 2016 and 2019 and had devised plans to become profitable by 2023.23 Saudi Arabia, in turn, has been betting on tourism, announcing US$50 billion of projects to boost religious tourism alone.24

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18 Ibid.
22 IATA, WATS, 12.  
The industry group ATAG’s forecast from 2018 included two scenarios: in a scenario based on industry forecasts, it expected air transport demand (RPK) to increase by 4.3% per year through the late 2030s; in a more protectionist world, demand would increase by 2.6% per year. Through the mid-2030s, the European aviation industry was expected to grow by 2% per annum while demand for additional ‘capacity in the air and on the ground’ in the GCC was expected to keep growing. IATA estimated that the contribution from aviation and tourism to the UAE’s GDP would grow 2.7-fold between 2020 and 2040.

Low-cost carriers had been faring comparatively better: AirArabia reported a 2019 net profit of US$272 million, and flydubai announced a RPK growth of 11.4% and US$53.9 million in 2019, despite taking a hit from the grounding of 14 Boeing 737 MAX aircraft.

The GCC’s hospitality industry had also been under pressure owing to the fall in oil prices in 2014 and subsequent lower government spending, combined with an increasing number of new hotels. While numbers of tourists kept growing, revenue per available room fell, resulting in a 30% decline in hotel values on average. Plans for growth pre-COVID-19, however, remained ambitious, with Saudi Arabia in particular seeking to convert tourism into a major contributor to its non-oil GDP, creating 1 million jobs by 2030.

Even in the EU, airlines had seen increasing pressure on their profit margins from fuel prices, taxes and the overall economic slowdown. Their long-haul networks had also been squeezed by the Gulf carriers.

Minimising environmental impacts

At the same time, both consumers and policymakers have grown increasingly aware of the problematically high environmental footprint of aviation. While a 2019 survey suggested that a sizeable share of travellers in Western countries had reduced air travel because of climate change-related concerns, there was little evidence of reduced demand caused by ‘flight shame’, with the exception of short-haul traffic in some European countries. In line with upward global demand projections, in 2019, the UN International Civil Aviation Organization (ICAO) projected that fuel consumption from international aviation would grow 2.4–3.8 times between 2015 and 2050. (International aviation accounts for ca. 65% of global aviation emissions.) The ICAO’s analysis concluded:

‘Achievement of carbon neutral growth at 2020 emissions levels out to 2050 would require nearly complete replacement of petroleum-based jet fuel with sustainable alternative jet fuel and the implementation of aggressive technological and operational scenarios. […]’

However, this level of fuel production could only be achieved with extremely large capital investments in sustainable alternative fuel production infrastructure, and substantial policy support.

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25 ATAG, Aviation Benefits, 76.
26 ATAG, Aviation Benefits, 44, 48.
31 PwC, “The European airline landscape is changing: Can airports keep up?,” The new normal” for airport investment, 20.
Options for reducing emissions include technological improvements for fuel efficiency, fuel switching/improvements, operational changes (e.g. in air traffic management), and regulatory or economic tools (e.g. certification schemes, subsidy removals and carbon pricing). However, to date, technological options have not yet reached technological maturity or price parity with conventional ones and policy tools have not been implemented at a scale large enough to prevent emissions growth in the sector.

The EU, frustrated by the slow progress on the mitigation agenda under the ICAO, announced it would include all flights under the EU Emissions Trading Scheme (ETS) from 2012 onwards. Any international airline operating flights to and from the EU would need to participate. Faced with fierce opposition from the US, China, India, the Gulf and elsewhere, in the same year, the EU announced a temporary suspension for international flights (currently confirmed through 2023), so as a result only flights in the European Economic Area have since participated in the EU ETS.

The EU ETS caps sectoral emissions at 95% of 2004–2006 levels and any emissions exceeding these levels need to be compensated through allowance purchases.

A condition for the EU’s partial ETS suspension has been making progress on an international emissions offsetting scheme under the ICAO. This scheme, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), was formally agreed upon in 2016. CORSIA’s aim is to support ICAO’s ‘aspirational goal’ of carbon-neutral growth in international aviation from 2020 onwards (see Figure 6). The offsetting obligations focus specifically on carbon dioxide (CO2), which is the main GHG emitted by aviation. The ICAO also has an aspirational fuel efficiency improvement goal of 2% per year, which ICAO itself estimates as unlikely to be met by 2050. In addition the ICAO has in place goals for aircraft noise and local air quality.

Figure 6 ICAO’s ‘Basket of Measures’ for Achieving its Aspirational Climate Goals

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35 E.g. Sven Maertens et al., “Options to Continue the EU ETS for Aviation in a CORSIA-World,” *Sustainability* 2019, 11, 5703.
36 The Paris Agreement does not explicitly cover emissions from international aviation and maritime transport.
37 Some studies, however, suggest that the impact of aviation on the climate could be two to four times higher if non-CO2 emissions were counted. IPCC, *Aviation and the Global Atmosphere*.
CORSIA has various phases: a pilot phase running from 2021–2023; a first phase from 2024–2026 and a second phase from 2027–2035 (see Figure 7). As at 2020, 87 countries representing 77% of international aviation emissions have confirmed participation from 2021, including all EU member states, and from the GCC, the UAE, Saudi Arabia and Qatar. By 2027, all countries (with certain exemptions) are expected to participate. Experts and environmental advocates have expressed concerns about the absolute emission-reducing impacts of qualifying offset credits. They have also noted that the carbon-neutral growth target represents a political compromise and does not constitute a scientifically-recognised response to climate change: Climate Action Tracker has estimated that CORSIA is ‘highly insufficient’ and in line with ‘a 3–4°C world’. From an environmental sustainability perspective, the transformational challenge for the airline industry therefore remains significant, and, in the absence of cost-competitive alternative fuels and technologies, growth in the sector will inevitably run counter to its environmental performance.

**Figure 7 Distribution of CORSIA Offsetting Requirements**

![Figure 7](image)


**Competing and collaborating**

Outside overall industry trends, the EU and the GCC are also competitors in the market, although examples of cooperation exist. The main source of contention has been what European (and US) airlines have alleged to be an unfair competitive advantage enjoyed by Gulf airlines, given the region’s ‘nebulous state-business landscape’. Since 2015, the European Commission has been promoting ‘comprehensive aviation agreements between the EU and GCC’ to create ‘growth based on common rules and transparency’. ‘Unfair competition’ has often been cited by EU airlines, which is understood to refer to perceived advantages enjoyed by the Gulf national carriers including, but also going beyond, subsidies. The EU and Qatar signed an open skies agreement in 2019 and talks with Oman and the UAE have been reported.
At the same time, Gulf airlines own or have owned stakes in a number of European airlines, including IAG, Air Berlin and Alitalia, and Qatar Airways shares the Oneworld with a number of European companies. Gulf carriers are also significant clients for Europe’s manufacturer Airbus, with 1,319 aircraft orders signed in 2017 for the subsequent decade.\(^4\) Abu Dhabi’s investment vehicle Mubadala and Airbus have held a strategic partnership since 2008, under which Mubadala’s aerospace manufacturing arm Strata, located in Al Ain, the second city of the emirate of Abu Dhabi, which employs 700 people, has been delivering materials and components to Airbus.\(^5\)

Within the GCC, the political and trade embargo imposed on Qatar by its neighbours in 2017 caused losses for Qatar Airlines in nearby markets and pushed the airline to rebuild its network.\(^6\) Related disputes have been considered both by ICAO and the International Court of Justice (ICJ). Qatar has argued that the blockade violates the ICAO’s Convention on International Civil Aviation, which the blockading countries challenged in the ICJ. In July 2020, the court affirmed ICAO’s jurisdiction over the issue.\(^7\) However, at the time of writing, the embargo and economic boycott still remained in place.

4. Short-term COVID-19 Impacts and Government Responses

The above described situation and trends have been turned upside down by the COVID-19 pandemic. Starting in March 2020, the aviation industry has been plunged into the deepest crisis in its history. The hospitality sector too has been under enormous pressure. The impacts of the pandemic on aviation and tourism in the medium and long term are still hard to predict, given the complex and still constantly changing situation at the time of writing in August 2020. The short-term impacts, however, are shown by the devastation caused to the industry both on the supply and demand sides.

Squeezed by border closures

Due to COVID-19-related border closures, lockdowns and health measures, international aviation and tourism have been among the worst hit sectors worldwide. Between January and July 2020, international travel fell by 96% on average, according to the International Air Transport Association (IATA).\(^8\) The impact on the industry has been severe, with passenger traffic collapsing and airlines facing huge losses.

COVID-19 brought global aviation to a near-standstill in April and May 2020, when commercial flight activity worldwide was down 71–74%, compared to 2019 levels. In May, the EU's busiest airport, Paris CDG, recorded a 97.8% decrease in traffic. In the UAE, apart from repatriation flights, airports remained closed for regular passenger flights from late March to late May. The EU closed its borders for non-EU nationals in March 2020 and significant restrictions still remained in place in August. The GCC countries enforced varying degrees of restrictions to entry, with only nationals and residents still allowed to enter in most cases at the time of writing. A large number of expatriates were left stranded abroad when the lockdowns started and in mid-June, 200,000 UAE residents still remained outside the country, according to official estimates. By August, those with valid residency visas were allowed to return and some European citizens in the country took advantage of the loosening border restrictions to travel ‘home’ for holidays.

In Europe, where the summer is the main holiday season, traditional holiday destination countries in Southern Europe have been desperate to minimise losses. Some were quick to lift travel restrictions applied to Northern European countries, with Greece for example opening its borders for tourists in July. In the same month in the Gulf, Emirates Airline ran an ad declaring ‘Dubai is open’ and is ready to welcome visitors. Between mid-June and mid-July 2020, 1,700 flight departures were tracked from Dubai DXB, equivalent to approximately one tenth of the average

52 See e.g “Emirates restarts regular flights with updated safety rules, including free hygiene kits for all passengers,” The National, 22 May 2020. In April and May 2020, on average 100 flights per week departed from DXB, according to: Dubai Chamber, COVID-19: Dubai Business Recovery Dashboard, 25 May 2020.
54 See e.g. “Coronavirus: What are the travel restrictions in the Middle East? Which borders are closed?,” The National, 17 March 2020, https://www.thenational.ae/lifestyle/travel/coronavirus-what-are-the-travel-restrictions-in-the-middle-east-which-borders-are-closed-1.993741#:~:text=There%20will%20be%20no%20entry,been%20in%20China%20or%20Iran.
monthly departures in 2019. By late August, indicating some improvement, this monthly average had doubled to 3,300.59

A historic crisis by all indicators

By mid-2020, EU airlines had sought €33 billion in government bailouts, of which €29 billion had been agreed.60 In June, after suffering losses of ‘€1 million every hour’, Lufthansa accepted a record €9 billion rescue package that involved the German government taking over 20% of the company’s shares.61 Alongside reports of wide salary cuts and furloughs, news on job losses also began coming in. In July, Air France/KLM announced plans to cut 6,500 jobs over a two-year period; aircraft manufacturer Airbus, with its production already down by 40% due to stifled demand, said it would cut 15,000 jobs, comprising more than 10% of its total workforce; and Ryanair announced plans for 3,000 job cuts, equal to 15% of its workforce.62

In the GCC, airlines have been under similar – if not more – distress, given their reliance on international flights (with the exception of Saudi Arabia and Oman, GCC countries have no domestic flight market to speak of). Indicating the scale of losses, Emirates announced it had refunded AED1.9 billion (€450 million) to 650,000 customers during May and June 2020.63 GCC governments have pledged financial support for local airlines, but specific amounts have not been disclosed. Press reports have suggested that Emirates, for example, has also been seeking loans from local and international banks in the range of billions of US dollars.64 Similarly to Europe, airlines in the Gulf were forced to resort to salary cuts, furloughs and job cuts. The Emirates Group, which employs 105,000 people, was reported in May 2020 to be mulling 30,000 job cuts.65 Qatar Airways has been quoted to be preparing for a 20% reduction among its 47,000 employees.66 According to industry sources, work at the region’s airport projects in execution stages was still ongoing in June, but the outlook for ones under tender was uncertain.67

62 “Emirates refunds Dh1.9b to 650K customers in two months,” Khaleej Times, 2 July 2020, https://www.khaleejtimes.com/business/aviation/emirates-refunds-dh19b-to-650k-customers-in-two-months#:~:text=Dubai%27s%20flagship%20carrier%20Emirates%20has,650%20%0d%0arequests%20today%20date.
Calling for tourists

Early losses in the tourism industry offer equally bleak reading: a hospitality sector trade union reported in April that ‘of the approximately 12 million workers in European hospitality, almost all have either been furloughed or made redundant’.68 A fifth of Spain’s 300,000 hospitality establishments had closed by June. In Denmark, the COVID-19 lockdown alone led a 70% drop in revenue for businesses in the sector, while in the Czech Republic, this fall was 40%.69

In the UAE, leisure sites, including beaches, swimming pools, cinemas, spas and gyms, as well as malls and restaurants (except for deliveries) were closed for varying periods between March and July and strict movement restrictions were in place between March and June (with the strictest lockdowns applied around the clock in Dubai in April). In Dubai, 100% of respondents to a business survey in April expected the travel and tourism industry to decline by >75% in Q2 of 2020. A total of 74% of surveyed travel and tourism businesses and 47% of hotels and restaurants in Dubai expected to go out of business within the next month.70 While data on revenue and job losses was not yet available at the time of writing, Figures 8 and 9 provide an illustration of the trends in international tourism in the two regions during the first five months of 2020.

**Figures 8 and 9**

International Tourist Arrivals (Thousands) in Europe and the Middle East

![Graphs showing international tourist arrivals in Europe and the Middle East](https://www.unwto.org/international-tourism-and-covid-19, accessed in August 2020.)

The constantly changing movement-related restrictions, social distancing and hygiene-related requirements and fear all contributed to the lower demand for hotels, restaurants and even retail outlets in tourist destinations across Europe and the Gulf. According to a survey of consumers in six major European economies in May 2020, 40% of respondents expected to reduce their international travel ‘once the coronavirus situation has subsided’, while only 15% expected to increase it.71

While international tourist arrivals remained low in the early summer of 2020, hotels in the UAE saw domestic demand pick up, even though summer is traditionally not a peak season for Gulf

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70 The survey was answered by 1,228 Dubai-based CEOs and Managers from various sectors. Dubai Chamber of Commerce and Industry, Impact of COVID-19 on Dubai Business Community, 19 May 2020.
destinations due to the heat. In July 2020, the local press reported that staycation tourism was on the rise in Abu Dhabi – a predictable result of a unilateral border closure by which entry from the other six UAE emirates since June was strictly limited, leaving the emirate’s residents with few hotel options, but a similar trend was observed elsewhere.72

In addition to the deterrence of travel-related restrictions implemented by countries worldwide, anecdotal evidence suggests that the appetite for outbound summer tourism from GCC countries was also stifled by the constantly changing, travel-related rules and limitations, with the perceived prospect of getting stranded abroad also playing a role in many non-nationals’ travel decisions. In the EU too, consumers were largely opting for domestic summer tourism, with July press reports suggesting that hotel bookings in Italy were down 80% and that hotels in the Spanish Canary Islands were operating at 20% of total capacity – both countries rely significantly on foreign tourism.72

In both regions, rising unemployment and economic uncertainty are also undoubtedly affecting consumers’ willingness and ability to fly abroad. This, and the constantly changing COVID-19 situations and travel-related restrictions around the world have equally affected business travel. Despite data not yet being available, business travel is likely to have been similarly affected in both regions, with videoconferencing replacing in-person meetings and companies cutting non-essential costs.74

Major events and gatherings have also been cancelled, postponed or moved into a virtual format worldwide, with Expo 2020 Dubai and Saudi Arabia’s G20 presidency among the most prominent ones in the GCC. The Expo, which was postponed by a year (to October 2021–March 2022), was expected to attract 11 million visitors and to make a total economic contribution of US$33 billion between 2013 and 2031.75 In Europe, in addition to cancellations of major events, an EU-China summit planned for September, which was expected to spur progress in investments and on the climate change agenda, was also postponed.76

This year’s annual Muslim pilgrimage, the hajj, coincided with the summer, taking place in late July to early August. As per the Saudi government’s ruling, participation was restricted to 10,000 people residing in the kingdom. This meant possibly US$10 billion or more in forgone revenue – 2.5 million (including 1.8 million visitors from abroad) performed the hajj in 2019. Umrah pilgrimages, which take place throughout the year and are another significant revenue source, have been similarly impacted.77

The hotel industries in both regions have been vocally calling for government support, some of which has been already delivered. In some European countries, governments have opted to pay

72 Entry into Abu Dhabi was initially conditional on obtaining a special permit and later showing a negative COVID-19 test result. See e.g. “Movement ban between regions within Abu Dhabi and in and out of the emirate extended by one week,” Emirates News Agency (WAM), 9 June 2020, https://wam.ae/en/details/1395302847293.
74 In the UAE, the liberalisation of several VoIP services including Zoom and Microsoft Teams since March 2020 has greatly facilitated communications for businesses and individuals alike, as Skype and WhatsApp calls were previously blocked by the state in an attempt to safeguard the lucrative business of its two national telecommunications companies Etisalat and du. See e.g. Aarti Nagraj, “Will access to Zoom, other VoIP services continue in the UAE? TRA responds,” Gulf Business, 11 June 2020, https://gulfbusiness.com/will-access-to-zoom-other-voip-services-continue-in-the-uae-tra-responds/#:~:text=TRA%20responds,-In%20March%2C%20the%26text%3DApps%20such%20as%20Zoom%20and%20does%20not%20lie%20with%20them.
for a share of employees’ salaries to prevent lay-offs.\textsuperscript{78} In Saudi Arabia, the government announced in June the formation of a US$4 billion Tourism Development Fund that will support the development of new destinations and will strengthen the tourism value chain and ‘technologically-enhanced tourism’.\textsuperscript{79} The different emirates of the UAE granted hotels exemptions from municipality fees (taxes levied on services) and in some cases provided reductions in utility and rental costs, but hotel industry leaders signalled that this was far from enough, noting that they were in ‘survival mode’.\textsuperscript{80}

**Laying the ground for new emissions trajectories**

The drastic reduction in air travel also meant emission reductions at comparable levels, with global emissions from aviation estimated to have fallen by a third in March 2020 alone.\textsuperscript{81} While the temporary reduction in aviation emissions will have a negligible impact on global GHG concentrations,\textsuperscript{82} the COVID-19 crisis will nevertheless set aviation emissions on a different growth trajectory. Environmental groups in the EU have called for governments to seize this opportunity to avoid ‘brown recoveries’ in the aviation sector, but so far governments have been reluctant to attach any conditionalities to the emergency support provided to airlines.

NGOs calculated that only €7.5 billion out of the EU’s €28 billion emergency support granted by the end of August 2020 contained some level of climate change-related conditions. Air France’s €7 billion bailout requires the airline to halve emissions from its domestic flights by 2024 and Austrian Airlines will be required to reduce its emissions by 30% by 2030, compared to 2005. Environmental groups have deemed both to be insufficient as they are not expected to result in significant emissions reductions and have called into question the lack of clarity over their legal bindingness.\textsuperscript{83} (See Table 1).

\textsuperscript{78}Michalopoulos, “Europe’s hospitality sector makes last appeal,” op.cit.
\textsuperscript{79}Zawya, “Saudi Arabia announces Tourism Development Fund,” op.cit.
\textsuperscript{80}The industry in the UAE has for example called for utility and tax waivers and staff accommodation subsidies. Webinar on “The Way Ahead for Gulf Hospitality,” organised by MEED and Mashreq Connect, 20 May 2020, https://www.meed.com/a-new-model-for-hospitality.
### Table 1

Climate Change-related Conditionalities in EU Airline Bailouts Sought and Agreed

<table>
<thead>
<tr>
<th>Airline</th>
<th>Amount (million €)</th>
<th>Status</th>
<th>Climate change conditionalities and dividend bans</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air France-KLM Group (France)</td>
<td>7,000</td>
<td>Agreed</td>
<td>No dividends in 2020. Weak climate conditions (no strict legal constraints).</td>
<td>Loan and loan guarantee</td>
</tr>
<tr>
<td>Lufthansa AG - Austrian Airlines</td>
<td>450</td>
<td>Agreed</td>
<td>No dividends and no manager bonuses. Climate conditions.</td>
<td>State aid and loan</td>
</tr>
<tr>
<td>Lufthansa AG - Lufthansa</td>
<td>6,840</td>
<td>Agreed</td>
<td>No dividends</td>
<td>Loan/partial takeover</td>
</tr>
<tr>
<td>TUI Group (Germany)</td>
<td>1,800</td>
<td>Agreed</td>
<td>No dividends</td>
<td>Loan</td>
</tr>
<tr>
<td>Lufthansa AG - SWISS / Edelweiss</td>
<td>1,420</td>
<td>Agreed</td>
<td>No dividends</td>
<td>Loan</td>
</tr>
<tr>
<td>Air France-KLM Group (Netherlands)</td>
<td>3,400</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Loan and loan guarantee</td>
</tr>
<tr>
<td>TAP</td>
<td>1,200</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Loan</td>
</tr>
<tr>
<td>SAS</td>
<td>1,130</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Credit guarantee</td>
</tr>
<tr>
<td>Finnair</td>
<td>826/414</td>
<td>Agreed/Under Discussion</td>
<td>No conditions</td>
<td>Credit guarantee and recapitalisation</td>
</tr>
<tr>
<td>IAG – Iberia</td>
<td>750</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Loan</td>
</tr>
<tr>
<td>Ryanair</td>
<td>670</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Loan</td>
</tr>
<tr>
<td>Condor</td>
<td>550</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Loan</td>
</tr>
<tr>
<td>Wizzair</td>
<td>344</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Loan</td>
</tr>
<tr>
<td>All airlines operating in Sweden</td>
<td>318</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Loan guarantee</td>
</tr>
<tr>
<td>Lufthansa AG - Brussels Airlines</td>
<td>290</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Loan</td>
</tr>
<tr>
<td>Norwegian Airlines</td>
<td>277</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Loan guarantee</td>
</tr>
<tr>
<td>IAG - Vueling</td>
<td>260</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Loan</td>
</tr>
<tr>
<td>Air Baltic</td>
<td>250</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Recapitalisation</td>
</tr>
<tr>
<td>SATA Air Açores</td>
<td>133</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Loan</td>
</tr>
<tr>
<td>Widerøe and other small regional carriers in Norway</td>
<td>121</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Loan guarantee</td>
</tr>
<tr>
<td>Blue Air</td>
<td>62</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Loan</td>
</tr>
<tr>
<td>Nordica</td>
<td>30</td>
<td>Agreed</td>
<td>No conditions</td>
<td>Recapitalisation</td>
</tr>
<tr>
<td>Alitalia</td>
<td>3,000</td>
<td>Under discussion</td>
<td>No conditions</td>
<td>Takeover</td>
</tr>
</tbody>
</table>

| Total agreed | 28,121 | Source: Transport & Environment, ‘Bailout tracker’, updated 27 August 2020, |
| Total (agreed + under discussion) | 31,535 | https://www.transportenvironment.org/what-we-do/flying-and-climate-change/bailout-tracker |
With climate change awareness rising, the bailout discussions in Europe have been controversial. A campaign group of 158 NGOs and scientists, ‘Stay Grounded’, has called for any public bailouts for the aviation sector ‘to ensure that workers and the climate are put first’. The Brussels-based NGO Carbon Market Watch has argued that the aviation industry, through industry associations (including IATA), has been using the pandemic to seek to reduce environmental regulation across the board. It also expressed concern over transparency, given the pace at which related decisions have been taken. Albeit from a purely economic perspective, Ryanair’s CEO too has criticised the bailouts for distorting competition, with most aid going to national airlines in a few major economies.

Given their different political systems and cultures, the GCC countries have not seen public debate on airline bailout conditions, nor has related data been made available. Media sources, however, suggested that in March 2020 the Arab Air Carriers’ Organization, which represents all major Gulf carriers, called on Arab governments to implement a series of relief and financial support measures, which included: tax relief for a period of two years; financial support for employee retention; a government-supported grace period for lender and supplier payments; exemptions from airport and air navigation user charges and passenger rights regulations; slot rule suspensions; and compensation for sanitisation and pandemic monitoring costs. As a nod to environmental measures, Etihad announced in July that it would be performing sustainable flight tests with Boeing, and Sharjah’s International Airport became the first GCC airport to achieve carbon neutrality accreditation.

### Coordinating national responses

Despite the transboundary character of the COVID-19 pandemic, governments’ initial crisis responses vis-à-vis the aviation and tourism industries were strikingly unilateral in both regions – similar to those elsewhere in the world. While in both the GCC and EU, the aviation authorities exchanged information and cooperated in a number of ways, as noted by industry analysts, ‘COVID-19 dismantled Europe’s single aviation market’, with individual EU Member States imposing unilateral travel restrictions since March 2020 and with the subsequent ‘piecemeal’ approach to airline state aid. In the GCC as well, entry restrictions were placed on citizens of other GCC countries at the start of the pandemic.

In the GCC, where the social security system does not extend to the expatriate population (and governments have been reluctant to install salary support schemes for non-nationals), the pandemic has brought about significant economic plight and unemployment among the six

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88 According to Etihad’s CEO, COVID-19 would not “overshadow the work that was going on and the commitments we’ve made to sustainability.” “Etihad and Boeing launch sustainable Dreamliner test flights,” [The National](https://www.thenational.ae), 20 July 2020, [https://www.thenational.ae/lifestyle/travel/etihad-and-boeing-launch-sustainable-dreamliner-test-flights-1.1052007](https://www.thenational.ae/lifestyle/travel/etihad-and-boeing-launch-sustainable-dreamliner-test-flights-1.1052007).
countries’ large expatriate populations. European expatriates on average are not the most vulnerable, as they generally work in medium- to high-salary jobs and have therefore been able to pay for their repatriation flights or draw from their savings to wait out the crisis. Unlike some Asian countries with larger and poorer expatriate populations in the Gulf, repatriation flights from the UAE to many EU countries (and vice versa) for example operated throughout the spring lockdown months.  

5. Medium- and Long-term Industry Projections

In August 2020, the ICAO estimated that the year would see a global air transit passenger reduction of 54%–60% (equal to 3 billion fewer people) and operating revenue losses of up to US$392 billion compared to the annual baseline. Job loss estimates for the European and Middle Eastern travel and tourism sector still varied widely, from 14 to 30 million and 3 to 5 million respectively, as did projected GDP losses, from US$770-1,600 billion in Europe and US$100-180 billion in the Middle East.  

The known unknowns

History may not provide lessons, given the unprecedented depth of the decline in air travel from the dual shocks of restricted supply and demand (see Figure 10). None of the past disease outbreaks has had a similar impact compared to COVID-19, which has already surpassed the 2003 SARS epidemic that resulted in revenue losses of US$6 billion and that supressed passenger levels in the Asia-Pacific from ‘business as usual' for a period of six months (see Figure 11).

91 GCC countries have extended the validity of residence visas as a support measure towards stranded and/or jobless expatriates.
Perhaps more than in many other sectors, factors influencing the future demand for aviation are largely not in the hands of the industry itself.\(^93\)

- The duration, intensity and ‘geographies’ of the pandemic will influence government regulations regarding borders and travel-related rules and measures. The pandemic is not likely to be over until widespread immunity is achieved globally through vaccination. The timeline for this is as of yet unknown.

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\(^{93}\)ICAO has listed (1) the duration and magnitude of the outbreak and containment measures, (2) availability of government assistance, (3) consumer confidence and (4) economic conditions as the main factors influencing the impact of the pandemic on global aviation. ICAO, Economic Impact Analysis, 26 August 2020.
• Government decisions relating to safety measures, such as two-week self-quarantine requirements or aircraft capacity limitations, are contingent on various factors other than airline profitability.

• The likelihood of the emergence of a standardised and coordinated global regulatory approach to border regulations affecting air traffic through an international body is low at a time of rising geopolitical tensions. (ICAO has made some headway though with its ‘CART Take-off guidance’.)

• The duration and depth of the global recession is yet to be seen. This will undoubtedly impact, among other things, the demand for air travel in the coming months and years.

• Consumer willingness to travel and travel-related preferences are likely to change, possibly in unforeseen ways.

• The longer-term impacts on business travel (which in most cases accounts for a large share of airline revenues) because of the growing shift to teleconferencing are yet difficult to forecast.

• Upward pressures on ticket prices, due to lower occupancy and airlines’ rising debts, coupled with a global recession, would, if they materialised, also be likely to suppress demand.

Success factors for recovery

In predicting possible medium-term recovery trajectories, the ICAO has developed four scenarios (see Figure 12). Some of the options foresee the possibility of not returning to pre-COVID-19 levels for the foreseeable future. IATA estimates that a return to 2019 levels is unlikely to happen before 2024. In the short term, faced with limited options to boost sales, airlines have focused on boosting consumer confidence: Etihad, for example, introduced ‘Wellness Ambassadors’ to provide information on, and to enforce, health regulations. Emirates offers free medical cover for COVID-19-related expenses for all its travellers.

Factors for overcoming the impact of COVID-19 and ensuring long-term success include:

• Having large domestic and/or intra-regional markets: Domestic passenger traffic may recover ahead of international. The EU enjoys a large internal market, which might increase its airlines’ resilience.

• A low-cost model: Both regions boast a number of profitable low-cost carriers, with two more launched in the UAE alone in 2020.

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95 At the time of writing, the IMF was predicting a global GDP contraction of 4.9–5.2%. ICAO, Economic Impact Analysis, 26 August 2020.
99 International passenger traffic represents a high share of the traffic mix in both regions – 74% in Europe and 79% in the Middle East in 2019 – but in Europe the share of intra-regional seats out of the international seats is significantly higher – 79%, compared to 30% in the Middle East. ICAO, Economic Impact Analysis, 22 July 2020.
100 Air Arabia Abu Dhabi, a joint venture between Air Arabia and Etihad, started operations on 14 July 2020, and Hungarian low-cost airline Wizz Air, which moved its operations from Dubai World Central to Abu Dhabi International in July 2020, has announced plans to launch “Wizz Air Abu Dhabi” by the end of the year. Wizz Air Abu Dhabi to become UAE’s sixth national airline,” The National, 1 July 2020, https://www.thenational.ae/business/wizz-air-abu-dhabi-to-become-uae-s-sixth-national-airline-1.1041267#:~:text=Wizz%20Air%20Abu%20Dhabi%2C%20the%20UAE’s%20sixth%20national%20carrier.
• A lower reliance on long-haul connecting traffic: Analysts suggest that Gulf carriers will be among the most affected, given their specialisation in long-haul travel.¹⁰¹

• Strong state backing: At the same time, many GCC (and EU) national carriers’ strong state backing is likely to help to keep them afloat.

• Lower prevalence of COVID-19 cases in the main markets: Both the EU and GCC have so far been relatively successful in containing the outbreak, but uncertainty over the future remains the same for all the countries in these regions.

• Adopting ambitious emissions and other environmental targets: With governments worldwide passing increasingly stringent environmental policies and regulations, early adopters of clean technologies are likely to benefit in the long term.

**Figure 12**
ICAO Scenarios for Passenger Seat Capacity Compared to the Baseline through 2021¹⁰²

There will be clear winners and losers from the crisis: aircraft manufacturers are expected to suffer significant losses from delayed or cancelled deliveries, with airlines expected to focus on retiring older fleet and repaying debt instead. Cargo traffic, in turn, is expected to continue to benefit from the pandemic, with fewer passenger flights translating into less cargo space on those flights, which in turn has increased the demand for cargo flights. Growth in the first half of 2020 was helped by the conversion of passenger aircraft into cargo-only flights, a strategy that could help airlines to avoid some losses also in the future. Private aviation is another winner: although this industry has been under similar pressures to commercial airlines, interest in ‘flightpooling’, or sharing the costs for a private jet flight, has spiked. Industry representatives believe that first class travellers may increasingly opt for this option as long as the pandemic continues.¹⁰³


¹⁰² The recovery paths can be described as follows:
- V-shaped: the normal shape for a recession with a brief period of sharp economic decline followed by a relatively quick and smooth recovery
- U-shaped: a prolonged contraction and muted recovery
- L-shaped: long-term downturn in economic activity (depression), steep drop followed by a flat line with possibility of not returning to trend line growth
- W-shaped: a double-dip recession, ‘down up down up’ pattern before full recovery
- ‘Nike swoosh’-shaped: sharp bounce back but blunted quickly as well

International tourism is another major loser, at least in the short to medium term. In June 2020, the World Tourism Organization’s scenarios suggested that international tourist arrivals could fall by 60–80% compared to the previous year, leading to revenue losses of up to US$1.2 trillion.\footnote{UNWTO, “New Data Shows Impact of COVID-19 on Tourism…,” 22 June 2020, https://www.unwto.org/news/new-data-shows-impact-of-COVID-19-on-tourism.} Hotels will also incur additional costs from health-related capacity restrictions and stricter hygiene standards. At the time of writing the hospitality industry in the UAE was betting on a rebound of corporate travel in the final quarter of 2020, which is the peak demand season for the country.\footnote{Waheed Abbas, “Mice, Expo keys for UAE hospitality sector,” Khaleej Times, 23 August 2020, https://www.khaleejtimes.com/business/local/mice-expo-keys-for-uae-hospitality-sector.} However, with large uncertainties still remaining regarding the pace of recovery of international travel - both tourism and business - tourism-related economic diversification plans in the UAE, Saudi Arabia and elsewhere in the Gulf could still become at least a medium-term loser in the pandemic.

**A greening opportunity lost forever?**

In a major blow to ambitious climate change policies, the ICAO Council approved in June 2020 new baseline rules for its CORSIA offsetting scheme, which included a change in the year(s) used for calculating the baseline, from 2019–2020 to 2019 only. According to the ICAO, using an average of 2019 and 2020 would have created ‘an inappropriate economic burden to aeroplane operators, due to the need to offset more emissions although they are flying less and generating less emissions’;\footnote{ICAO, “ICAO Council agrees to the safeguard adjustment for CORSIA in light of COVID-19 pandemic,” press release, 30 June 2020, https://www.icao.int/Newsroom/Pages/ICAO-Council-agrees-to-the-safeguard-adjustment-for-CORSIA-in-light-of-COVID19-pandemic.aspx.} The decision was lobbied by IATA and openly supported by the EU.\footnote{European Council, “Aviation emissions: EU adopts its position on adjusted CORSIA baseline to take account of the consequences of COVID-19 pandemic,” press release, 9 June 2020, https://www.consilium.europa.eu/en/press/press-releases/2020/06/09/aviation-emissions-eu-adopts-its-position-on-adjusted-corsia-baseline-to-take-account-of-the-consequences-of-covid-19-pandemic/.} (Information about the GCC countries’ positions has not been disclosed.\footnote{The ICAO Council members in 2019–2022 include 5 EU Member States and 2 GCC member states.})

According to IATA, the change could save airlines US$15 billion in offsetting costs.\footnote{“Airlines could save $15 billion from new emissions baseline: IATA,” S&P Global Platts, 19 May 2020, https://www.spglobal.com/platts/en/market-insights/latest-news/coal/051920-airlines-could-save-15-billion-from-new-emissions-baseline-1ata.} As noted above, the Association estimated in mid-2020 that global RPK is unlikely to return to 2019 levels until 2024. This would exempt airlines from any offset obligations for several years, remove the incentives for investing in lower-emitting operating models and obliterate the demand for offset credits and related emission reductions.

\footnote{108 The ICAO Council members in 2019–2022 include 5 EU Member States and 2 GCC member states.\[19\]}  
6. Conclusions and Recommendations: Towards a Green, Resilient and Inclusive Recovery

In July 2020, the aviation and tourism sectors in both the EU and GCC remained by many measures in crisis response mode, as illustrated in the previous sections. Sectoral post-pandemic recovery plans were still largely on the drawing board in both regions, given the high uncertainties surrounding even medium-term trends and trajectories, as discussed above. However, a marked difference could be observed between the two regions as to how they approach the future, with one taking a decidedly proactive stance in seeking to align post-COVID-19 recovery with climate action and broader sustainability goals. For both regions, the window of opportunity to ‘recover better’ still remains open.

Governments at the crossroads

Governments are now faced with two clear options: to seek a return to previous, unsustainable growth trajectories or to chart a new, more sustainable way forward. Recovery strategies in line with the first option aim to perpetuate the status quo and to focus on enabling the industry to rebound to pre-COVID-19 levels of travellers and revenue, while navigating the new economically challenging environment. A future recovery projection based on this ‘economy-first’ approach is described in Box 2.
Uneven recovery in terms of markets: Europe’s large internal aviation market points to the possibility of a faster recovery compared to the GCC’s ‘super connectors’ that are reliant on long-haul passengers. However, a lack of coordination in border openings/closures and quarantine regulations could hamper recovery, even in the intra-European market. In the Gulf, aviation, tourism and retail sectors are likely to enter a period of contraction, translating into unprecedented levels of job losses affecting the region’s 25-million expatriate population and into significant decreases in remittances to poorer developing countries.\textsuperscript{110}

Government stimulus shaping competition: In both regions, governments have indicated strong backing for national carriers, but bankruptcies and mergers are likely to happen in both the EU and GCC. In the GCC, a prolongation of low oil prices would affect the fiscal space available to stimulate the industry. Despite persistent rumours about an inevitable merger between the UAE’s Emirates and Etihad, these airlines’ strong ties to their local identities and the external brands of their respective emirates mean that asset mergers in other sectors are significantly more likely. Low-cost airlines could strengthen their positions in both regions unless stimulus packages favour full-service carriers, which generally have longer-standing ties with governments.

Slow and uneven recovery of tourism destinations: In both regions, traditional tourist destinations, including Southern Europe, major EU cities and Dubai in the Gulf, are likely to continue investing in maintaining the tourism industry in the future. Bankruptcies, acquisitions and mergers are to be expected in the industry. In the Gulf in particular, the slowdown of tourism in the medium term will also have negative ripple effects on other sectors, including retail and construction, and in Saudi Arabia plans to expand the tourism sector are likely to be scaled back.

Shifting traveller geographies and profiles: Although the global population keeps growing, the demand for aviation and tourism may be suppressed for years due to weakening consumer spending power. Travel-related preferences may shift over time, but the exact directions are still too early to predict. A possible increase in preference for domestic and shorter-haul travel could benefit some European countries but disadvantage South European destinations. In the Gulf, the demand for staycations in domestic and regional destinations might see some sustained increase, but possible changes in the demographics and segments of travellers are hard to predict. High uncertainties are also associated with the recovery of business travel, in the Gulf at least.

Persistence of environmental externalities and social structural shortcomings: With short-term economic performance being prioritised over environmental and social sustainability and in the absence of strong international frameworks to reduce emissions, the aviation sector, in particular, will invest less in emissions reductions, leading to rising emissions and possibly higher job losses.


\textsuperscript{110} The GCC offers no social security for non-nationals, visas are mostly tied to employment contracts and COVID-19 stimulus support measures have mostly only supported retention of nationals. According to some estimates, as many as 3.5 million or 6% of the GCC’s total population could be forced to leave by the end of 2020. N. Janardhan, “Expatriate Outflow Adds to Economic Woes in Gulf Arab States,” AGSIW Blog, 14 July 2020, https://agsiw.org/expatriate-outflow-adds-to-economic-woes-in-gulf-arab-states/.
Recovery policies that seek to build on the current industry and business models alone will however be inherently unsustainable, as they ignore various underlying long-term pressures and structural ‘unsustainabilities’. These include the imperative of limiting global temperature rise to safe levels and the need to make tourism more environmentally and socially sustainable and resilient. Emissions from aviation are projected to keep rising, ‘overtourism’ is endangering local ecosystems, vacation rental businesses are provoking gentrification and a high economic dependence on tourism makes economies overly exposed to external shocks, including natural disasters, disease outbreaks and global economic downturns.111 These in turn increase social vulnerability, in particular in countries where governments are unable, or choose not to, invest heavily in job retention policies during downturns. Also, digitalisation, automation and technological change will continue to act as disruptive forces in the industry, leading to workforce transitions and reskilling needs.112

The alternative option for governments is to address these structural challenges as an integral part of the recovery process. Sustainable recoveries have already become a rallying point for various international organisations and governments, including the United Nations, the International Monetary Fund and the World Bank, the EU, South Korea, US presidential candidate Joe Biden, the International Energy Agency, as well as businesses and civil society organisations. Climate change alone provides a sufficiently strong incentive for action: for a chance to limit global temperature rise below 2°C, global GHG emissions should fall by 2.7% every year between 2020 and 2030. Until 2019, emissions had been rising by 1.5% per year.113 While only 0.2% of the US$12 trillion allocated to the COVID-19 response through June 2020 went to ‘green’ projects,114 the scale of the funds yet to be allocated presents a historic opportunity to place the global economy – and aviation and tourism as part of it – on the right trajectory.

112 WEF, Digital Transformation Initiative.
Where next?

So where will the EU and the GCC place their bets? In mid-2020, signals from governments indicated that the EU and GCC might be opting for different policy trajectories. There have been strong indications that the EU’s European Green Deal, launched by the European Commission in 2019, would become a central element in the Union’s recovery efforts. In the GCC, in turn, wide-ranging economic recovery plans were still in the making and/or had not been public by August 2020. Given the scale of the impact, however, major announcements are to be expected and whether they deviate from past models remains to be seen.

The European Green Deal is a major long-term sustainability initiative of the European Commission. First presented in December 2019, its main goal is to make the EU climate neutral by 2050. Additional goals include decoupling economic growth from resource use and leaving ‘no person and no place’ behind. It also includes a roadmap to reach a circular economy, restore biodiversity and reduce pollution. The package is underpinned by financing, including a Just Transition Mechanism, which will seek to mobilise €150 billion between 2021 and 2027 to support affected people, companies, sectors, countries and regions in the transition. Policy areas covered by the Green Deal include energy, infrastructure, mobility, biodiversity, food systems and agriculture and climate action. The package includes a proposal to enshrine the climate neutrality target into law, thus making it binding.

Support for the Deal and a green recovery has overall been strong and the European Parliament voted in January 2020 in favour of the initiative. In May 2020, it passed a resolution calling for an ‘ambitious recovery plan with the Green Deal at its core’. A financial package was agreed politically by the European Council in July, which includes a commitment by all Member States to prepare national recovery and resilience plans for 2021–2023 that contribute to green and digital transitions, boost growth and jobs and reinforce countries’ economic and social resilience, with disbursements conditional on meeting agreed targets.

A €750 billion Next Generation EU recovery package will complement the Union’s €1,074 billion seven-year Multiannual Financial Framework budget (2021–2027) through grants and loans, with capital raised from financial markets. Of the total expenditure, 30% will be allocated to climate change-related projects and expenses will be aligned with the EU's 2030 GHG reduction target (40% below 1990 levels, which the Commission has proposed to increase to 55% below 1990 levels), its 2050 climate neutrality target and the Paris Agreement on climate change.

There have been indications that COVID-19 might lead to some initial elements of the Green Deal being delayed to 2021, including sustainable aviation and maritime fuel initiatives. A budget allocation to the Just Transition Fund (part of the Just Transition Mechanism), initially proposed by the Commission in May 2020, was cut in the negotiations from €30 billion to €10 billion. However, no elements of the Deal have so far been cancelled. Some disagreements nevertheless prevail among Member States over the timeline, with coal-reliant Eastern European countries preferring less stringent climate targets. The Parliament is expected to approve the Multiannual Financing Framework by the end of 2020.

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The Next Generation EU package also includes an agreement to explore extending the EU ETS to (international) aviation and shipping and to use proceeds towards the repayment of the funds borrowed. By 2021, the European Commission is expected to present a proposal on the scope and rules of the EU ETS for aviation from 2023 onwards. At the moment, experts do not expect the EU to consider leaving CORSIA, but the pressure to include international aviation in the ETS’ scope could grow in the coming years. The Commission will also consider different options for increasing the share of auctioned allowances (and reducing the share of free allocations) for the aviation industry from the current 15%, which would increase the cost of emitting in the sector.119

The EU currently includes all intra-EU aviation under its ETS. Despite an initial fall from €25 in February to as low as €10 in March, emission allowance prices soared to €30 in July, their highest in 14 years, signalling investor trust in the EU’s Green Recovery promises.120

Elements of a sustainable recovery in aviation and tourism

With ‘business as usual’ growth erased by COVID-19 for the time being, governments and the aviation and tourism industries in the EU and GCC have the opportunity of the century to position the sector onto a sustainable trajectory that aligns with the goals of the Paris Agreement and creates resilient jobs and well-being. Brown recoveries, in the form of unconditional bailouts and short-sighted policies aimed at returning to pre-pandemic patterns of growth, may seem like the logical go-to choice as governments seek to prevent further job losses and to protect major companies. However, in the long term, they will prove counterproductive as they would leave aviation even further behind in a world moving away from fossil fuels and towards low-carbon, climate-resilient economies. While curbing emissions from aviation could involve some trade-offs with the medium-term growth of the sector, the urgency of the climate crisis requires bold choices to be made now.

The COVID-19 pandemic will remain in history as a turning point for the aviation and tourism industries, but whether it becomes the turning point that makes the industry compatible with a socially just and environmentally sustainable world is now to a large extent in the hands of governments, including those of the EU and the GCC. While common goals can be identified, the precise shapes of sustainable recovery policies will need to be tailored to the different national circumstances of each country. The design of sustainable or green recovery packages will also be a normative exercise, with different societal groups prioritising different values and goals, such as economic growth, jobs or environmental performance. However, these goals can all be pursued and achieved. If a sustainable recovery is defined as one that respects the limits to GHG emissions set by climate science and the Paris Agreement, that ensures social inclusion and jobs, and that builds resilient societies and economies over the long term, two core target areas can be defined for the aviation and tourism sectors that apply both to the EU and GCC:

1. Creating decent, sustainable jobs:

   • Rescue packages that go to companies may not end up benefiting individuals. In addition to ensuring that the benefits of industry rescue packages reach employees, governments should provide strong, social safety networks and other forms of temporary relief. Migrants working in the Gulf act as significant sources of remittances to a number of poorer, developing countries and disruptions in these flows will hit the most vulnerable the hardest. In higher-skill

120 “Price of EU carbon credits soars to 14-year high,” Financial Times, 13 July 2020, https://www.ft.com/content/ab7abf9f-d05a-4c0c-85d8-96a4c0727603.
jobs, rehiring employees can also be an important added cost and losing residents in this income bracket in particular will also lead to economic losses through depressed consumer demand.

- Policies to revitalise the travel industry should in turn focus on creating jobs that support green trajectories, including sustainable tourism and alternative modes of transport, such as trains and even local public transport. In the Gulf, the GCC railway project, which has suffered from repeated delays, could become the backbone of sustainable regional travel. Incentive schemes that encourage aircraft fleet modernisation could both help to preserve jobs in the manufacturing industry and to reduce emissions. In some cases, entire industries can be converted to preserve jobs, such as in the case of the UAE-based aircraft parts manufacturer Strata, which has shifted to N95 mask production during the pandemic.

- In the longer term, focus should be on education and retraining programmes, which can achieve numerous objectives, including improving employment rates, human capital and productivity, and global competitiveness. The tourism industry in particular has ample space for innovation around sustainable business models and strategies, and it has significant potential to support economic diversification in the longer term in the Gulf in particular. Investing in research and development (R&D) into sustainable technologies can also create jobs. A survey of G20 financial leaders in April 2020 identified clean technology R&D spending and clean energy infrastructure investments as recovery policies with the highest positive multiplier impacts on both the climate and the economy in the long term. Investments in the development of sustainable aviation fuels would be particularly beneficial, given the scale of the potential emissions reductions they could enable.

2. Aligning with global climate goals:

- At the same time, governments should ensure that the travel industry is placed on a Paris Agreement-compatible trajectory. First and foremost, they should avoid sending confusing economic and regulatory signals, such as unconditional airline rescue and stimulus packages or watered-down environmental performance requirements. The need for new airports should also be re-evaluated, in particular in places where short-haul travel can be replaced with other modalities and where sufficient infrastructure already exists.

- No silver bullet exists at the moment for rapid reductions in aviation emissions. A mix of policies and measures are therefore needed. In the medium term, the only way to achieve the needed emission reductions will be through significant, absolute reductions in air travel or comparable levels of high-quality emission offsets. In the absence of a more ambitious CORSIA baseline, governments could also explore more ambitious domestic policies. These could include fuel and technology mandates, policies designed to encourage modality shifts (i.e. from planes to trains) and investments in R&D into clean fuels and technologies. More ambitious and expanded coverage for carbon pricing (carbon taxes or market-based mechanisms) would both help to guide consumer behaviour and the industry towards further decarbonisation and provide a source of revenue that could be re-invested into supporting R&D or clean jobs.

- Green stimulus measures could also be introduced in the form of incentives for companies that opt for more environmentally and socially sustainable practices. Compliance could be ensured by making assistance conditional on meeting/maintaining sustainability standards or targets.

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• Credible and accurate growth projections on industry trends will be a key enabler for successful recovery policies and can also help to reduce the wastage of resources and brown lock-ins (e.g. airport expansions or excessive hotel capacity).

• Finally, the aviation and tourism industries should be encouraged to align operating models and strategies with the 17 UN Sustainable Development Goals.122

Similarities and differences between the EU and the GCC and the potential for cooperation

While the EU has already set its sights on carbon neutrality by 2050, each Member State will still need to ensure that this goal is translated into detailed implementation plans and action on the ground. In the GCC, climate change is not yet a defining issue on the policy agenda, but its importance has risen steadily over the past decade. The region’s countries have already recognised multiple co-benefits between economic diversification and climate action. The next step would be the realisation that economic competitiveness and diversification in an increasingly carbon-constrained world will require ambitious climate targets at the core of industrial policy strategies. Should the EU and other countries gain a head start in decarbonising their aviation sectors, this would give them a competitive advantage over airlines in the Gulf.

Given that tourism has more potential than aviation to support green recoveries in the short term, it could provide a sustainable source of job creation in the EU in particular, which is expected to see a faster revival of tourism than the more international air traveller-dependent Gulf. Even in the GCC, however, the summer of 2020 has shown the region’s potential for creating domestic, and later regional, demand. This could be further expanded by adding cultural, ecological and active tourism destinations, which have so far been niche markets in the region.

The current global geopolitical context does not bode well for stronger international cooperation. Countries’ pandemic health and border responses and their recent aviation industry rescue packages have revealed a tendency to turn inwards rather than to collaborate on recoveries. Perceptions of ‘unfair’ government recovery support could also run the risk of re-igniting pre-COVID-19 tensions between EU and GCC airlines.

At the same time, the benefits of cooperation and pooling resources are evident and the EU’s Green Deal offers some hope in this regard, albeit within the European context. Given their proximity and industry linkages, the two regions could benefit by strengthening their cooperation in this area. The EU’s Green Deal offers obvious lessons for sharing with the GCC, including developing emissions trading systems and regional cooperation mechanisms for funding labour transitions. Gulf airlines, however, have also demonstrated leadership by joining CORSIA and by initiating a number of sustainability initiatives, which they could further develop and strengthen in collaboration with the EU. Carbon pricing, kerosene taxes or sustainable aviation fuel mandates, for example, require a concerted effort to prevent unfair competition. Kick-starting dialogue between the two regions on carbon pricing already in 2020 will be particularly important, given the EU’s 2021 and 2022 deadlines for reviewing the rules and scope of the EU ETS and for developing a border carbon adjustment mechanism (a border tax on imports from jurisdictions not applying carbon pricing) respectively. R&D is a further area in which the two regions could join forces, in particular on sustainable aviation fuels and efficiency improvements. Moreover, green hydrogen (including for aviation) could form the basis for a mutually beneficial new trade relationship between the EU and GCC.\textsuperscript{123}

\textsuperscript{123} See the European Commission’s hydrogen strategy: \textit{A hydrogen strategy for a climate-neutral Europe}, COM(2020) 301 final, Brussels, 8 July 2020.
About the Author

Dr Mari Luomi is a policy-oriented social scientist, best known for her work on climate change policy in the Gulf. In her other core area of expertise, global climate governance, she has a decade of hands-on experience having participated in United Nations climate change negotiations in various capacities, including capacity development and reporting. She has worked for leading sustainable development and foreign policy research institutions, including the Oxford Institute for Energy Studies, International Institute for Sustainable Development, Georgetown University and Finnish Institute of International Affairs. She also established and led a research program at the Emirates Diplomatic Academy on energy, climate change, and sustainable development. Luomi holds a PhD in Middle Eastern Studies from Durham University and an MSSc in international politics from the University of Helsinki.