



# What Will Recovery Look Like?

## The Tale of Two Countries

### Article 3 – Mapping out a Post COVID-19 Recovery

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#### Overview:

*For the last year, predicting how and when the airline industry will recover has been part science and part mystery. Originally, few people expected the very necessary steps to contain the COVID-19 pandemic to last long. But with the onset of second and third waves, variant strains, and delayed vaccination deployment, it has been difficult predicting when and how the economy and most importantly travel will recover. Lately, the picture is coming clearer as the rapid introduction of vaccines and approaching warmer weather will loosen restrictions and things will get started again. But for now, this article examines the differences and impacts from Canadian and the US decisions and approaches to restricting and then re-introducing scheduled air transport.*

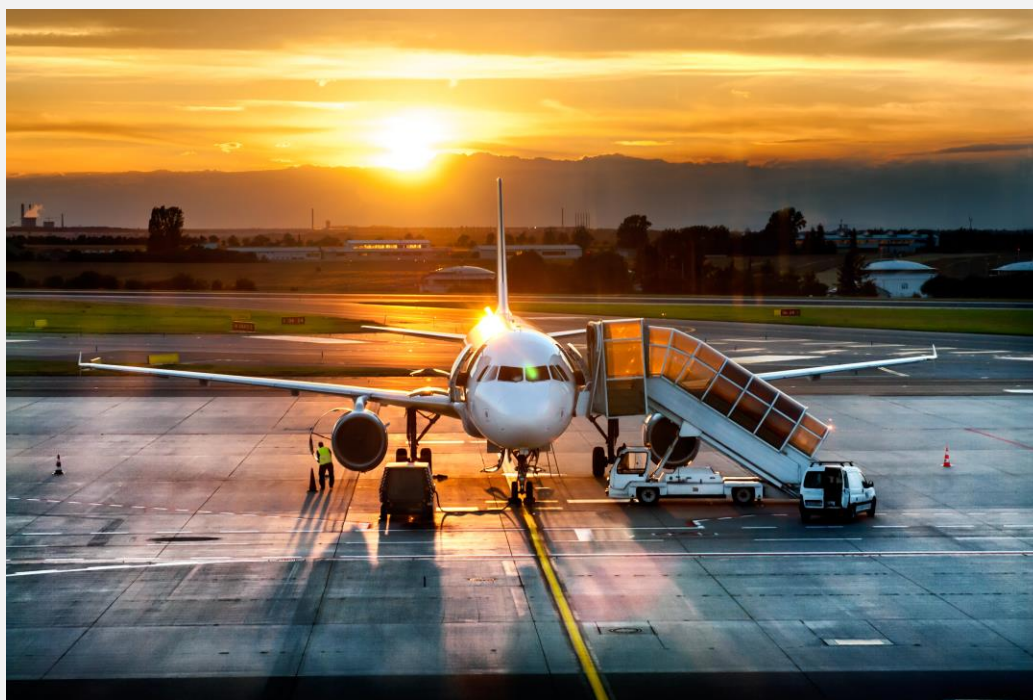


Photo from Mykyta Starychenko | Dreamtime<sup>1</sup>

#### Steps to mitigate the impact of the pandemic were not universal

At the outset of the pandemic, travel restrictions were a critical first step in containing the spread of the virus. At the international level, many countries first banned travel from China, thought to be the source of the virus. As the spread continued, countries like New Zealand and the Australian states instituted



international arrival travel bans, the wearing of masks and personal protective equipment (PPE), as well lockdowns, including bans on inter-state travel in Australia. Additionally, Australia and New Zealand established government secured quarantine facilities for international arriving passengers early on and continue to strictly enforce isolation regulations.<sup>2</sup>

Canada's laws place most of the health regulations in the hands of the provincial and territorial health officers, along with medical professionals charged with assessing the situation, creating, and enforcing the emergency health orders under the individual Provincial Health Acts. This included non-essential travel bans, mask orders, restrictions on gatherings, workplace regulations to maintain social distancing, and discouraging travel between health regions. Like Australia, this too created a patchwork of regulations that generally had the effect of dampening travel demand over the last year.<sup>3</sup> The Maritime provinces and the far northern territories, at first, banned entry from all other provinces and then created adjacent province travel bubbles (like B.C. and the Yukon) and the "Atlantic Bubble", which still exists today. Other provinces have had some form of "lockdown" limiting gatherings and non-essential travel throughout the pandemic. Only recently with a second wave and the introduction of highly transmissible COVID-19 variants has Canada instituted government-controlled quarantine requirements for arriving international passengers along with pre-flight COVID-19 testing.<sup>4</sup>

In the United States, aside from guidelines provided by federal agencies like the Surgeon General and the Centers for Disease Control, the power and authority to manage the pandemic were vested in each state's government, sometimes even down to the county and city levels. This created an even more complex patchwork of regulations often resulting in a more politicized approach to containing the virus in certain states. Here again, 14-day quarantines on positive COVID-19 cases were not strictly enforced across the country. As of this writing, state travel regulations vary widely from no restrictions (Texas) to guidelines (California) to requiring arrival documentation on interstate travel (New York)<sup>5678</sup>

### **Pandemic support for travel also varies by country**

It has been interesting to note the diverse approaches each country in the G-7 has taken to support airline transportation and travel in general during the pandemic, particularly Canada and the U.S.

As the pandemic took hold of North America just a year ago, all governments took legislative steps to support its taxpayers, a vast number of whom were economically impacted by government-imposed restrictions and closures on businesses ranging from restaurants to retail. Both Canada and the US created direct-to-taxpayer programs that provided cash relief and other moratoriums on things like evictions and extensions to pay taxes. These relief measures highlighted how government and commerce was still an in-person business<sup>910</sup>

For the travel industry, the impact was decimating in both countries. Travel demand fell 95% overnight. Hotels temporarily closed, some permanently<sup>11</sup>, car rental companies started to liquidate fleets of cars to stem losses while some went into bankruptcy protection<sup>12</sup> and the cruise industry was completely shut down in North America by banning ships from docking in ports. In Canada, this ban continues until 2022<sup>13</sup>

Where things diverged was the level of government support supplied to the aviation industry.



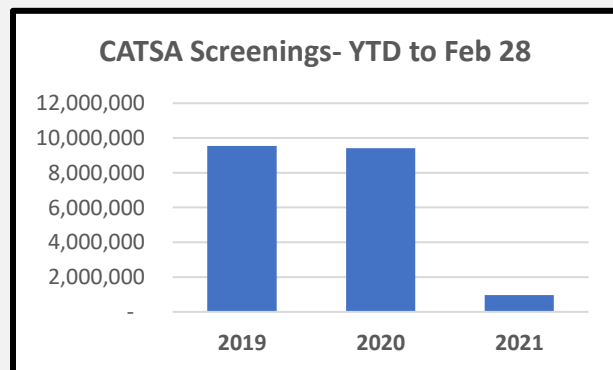
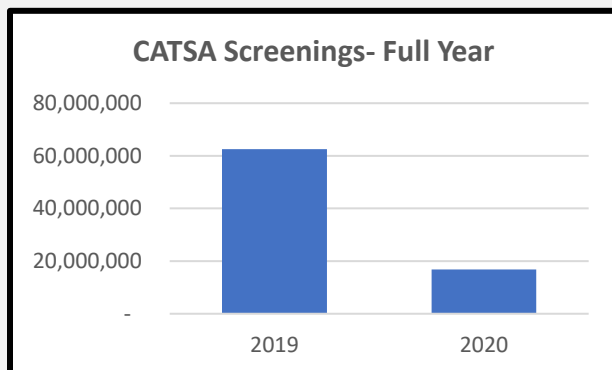
## The Canadian Approach: Stifle demand and provide direct to taxpayer support

Canada passed a comprehensive CAD\$322B COVID-19 relief package through numerous direct-to-taxpayer programs like the Canada Emergency Wage Subsidy<sup>14</sup>. This approach prevented a massive burden on the antiquated Employment Insurance system and encouraged companies to keep employees on the payroll by covering 75% of the cost, even though they were not needed for work. Businesses were also loaned up to \$40,000 through the Canada Emergency Business Account<sup>15</sup>. For most though, this was a band aid and did not provide any level of support to the capital-intensive airline industry, where losses were as high as \$14M per day in the third quarter of 2020 at Air Canada<sup>16</sup>. Although the government allowed for a moratorium on refunds for cancelled flights, Canada became the only country in the G7 that did not provide any direct to airline financial support<sup>17</sup>.

The impact became apparent in the fall of 2020 when both Air Canada<sup>18</sup> and WestJet<sup>2021</sup> started to withdraw services from airports on their networks, some of them provincial capitals. Without government support, Canadian carriers have taken the unprecedented move to downsize their businesses and some of them with permanent effect. Air Canada took steps to consolidate its regional flying contracts under one vendor (Jazz), thereby putting Air Georgian<sup>22</sup> and Sky Regional<sup>23</sup>, their other two vendors out of business.

Additionally, provincial governments and health authorities took communication steps to discourage nonessential travel within and between provinces and internationally. As mentioned previously, travel bans, and travel bubbles remain in force in certain regions. This went so far as to government and media participating in a number of travel shaming events that occurred during the 2020 winter holiday season. Numerous municipal, provincial, and federal politicians along with several industry leaders were criticized in the media or by government for taking nonessential flights, even though transborder, international and domestic flights were available for purchase and travel<sup>24</sup>. In some cases, industry executives lost their jobs<sup>25</sup>. Following this, the government took further steps to restrict and discourage international travel by imposing testing requirements prior to entry as well as imposing isolation in government run quarantine facilities for arriving international passengers.<sup>26</sup>

The result to date is that COVID-19 aviation recovery in Canada is at a standstill. Using passenger screening data from the Canadian Air Transport Security Agency (CATSA), at the beginning of March 2021, passenger departures remain at 10% of pre-COVID-19 levels.



Source: CATSA Retrieved March 1, 2021



In addition, normally during the winter months Canadians fly south for vacations. Because of COVID-19, the Canadian government places restrictions on cross border flying such that the Canadian airlines seized their south bound vacation flying. This significantly hurt the Canadian airline industry.

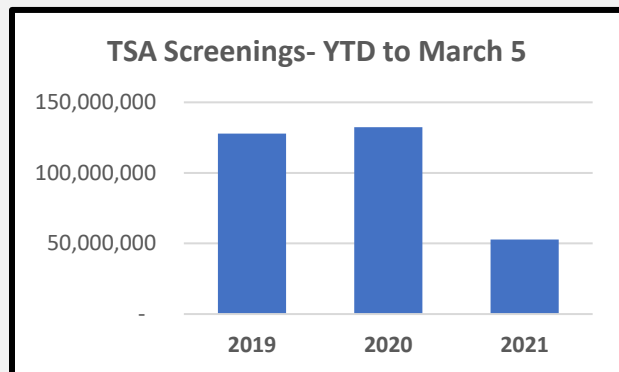
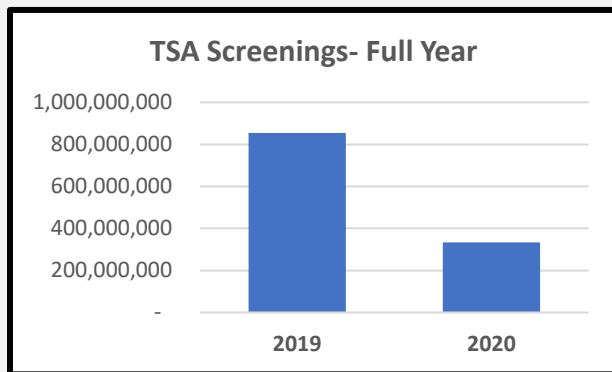
### The United States: Keep the economy moving

The US has had a different result. From the outset of the pandemic, the US Federal government’s role was to provide financial support to the economy, regulate and control the pandemic where there was federal jurisdiction (such as on an inter-state basis) and provide country wide guidance from agencies like the NHA and the CDC while leaving the states to manage the pandemic on the ground based on local conditions.

For airlines, there were earmarks in the \$2.2 Trillion 2020 Coronavirus Aid, Relief, and Economic Security Act (the CARES Act)<sup>27</sup>, the \$900B COVID-19 Stimulus Supplement<sup>28</sup>, and the current \$1.9 Trillion 2021 American Rescue Plan Act (ARPA)<sup>29</sup>. All three Acts provided direct to taxpayer support like Canada but also direct relief to US carriers. The CARES Act provided the airline industry with \$25B in payroll support, loans, and grants<sup>30</sup>; the Stimulus Supplement provided an additional \$17B<sup>31</sup>; and the ARPA is set to provide a further \$14B<sup>32</sup>. Totaling \$56B, this direct aid to US airlines had the effect of keeping air routes intact, maintaining staff on the payroll and continuing to support the traveling American public.

Further, there was little discussion of travel shaming from government, health officials or the private sector. In fact, as Spring Break season approaches, states such as Florida and Texas are taking steps to open bars and restaurants in order to stimulate their local economies with visitors seeking a respite from the cold further north within the USA. Also, transborder flying from the USA to Mexico has never been curtailed and Mexican resorts like Cancun are taking similar steps to encourage visitation during the same period.

Using passenger screening data from the US Transportation Security Agency (TSA), as of March 5, 2021 passenger departures have recovered to 40% of Pre-COVID-19 levels.



Source: US TSA, Retrieved March 6, 2021

Like Canada, the first two months of 2020 were ahead of the previous year (2019).



## So, what does this all mean and what will recovery look like?

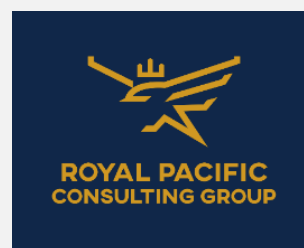
The US has a significant head start on Canada in airline traffic recovery, even though both countries are aggressively rolling out vaccinations and Canada is now negotiating a reportedly \$7B airline relief package for this spring<sup>33</sup>. US carriers are now making new route and capacity announcements, and ticket sales are seeing double digit week over week growth whereas Canadian carriers have been reluctant to reinstate routes and reopen airport stations until there is more certainty, particularly in the areas of COVID-19 variants that may force further restrictions, on the reopening of the Canada US border, and the further easing of travel restrictions by the health authorities. Most importantly, Canadians are waiting for the government to advise them that it is safe to resume traveling.

The sum of it will be a more rapid recovery to pre-COVID-19 traffic levels in the US while Canada may again see a sluggish recovery after this summer's normally elevated passenger levels. It is estimated that the Canadian domestic travel will pick up first with demand most likely coming from people who have been waiting for over a year to visit family. Should the variants not take hold, and the country can achieve vaccinating a significant percentage of the population of Canada by the fall of 2021, then winter travel to the US, Mexico and the Caribbean may resume in late November 2021 to January 2022. However, if health passport restriction requirements create the need for any sort of quarantines (e.g., having only one dose of a two-dose vaccination program), the winter for Canadian airlines may result in less passengers than 2019 on vacation routes to sun designations. International travel to Asia and Europe will most likely resume in the summer of 2022 if governments can agree on additional protocols around health passports, PCR testing, and reduced quarantine restrictions.

It is clear that the USA is ahead of Canada on its airline recovery. The test for Canada to close the gap with the USA will be found in the Canadian vaccination program and how it is received by other countries.

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## End Notes

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