

## **When will Aruba's tourism industry recover?**

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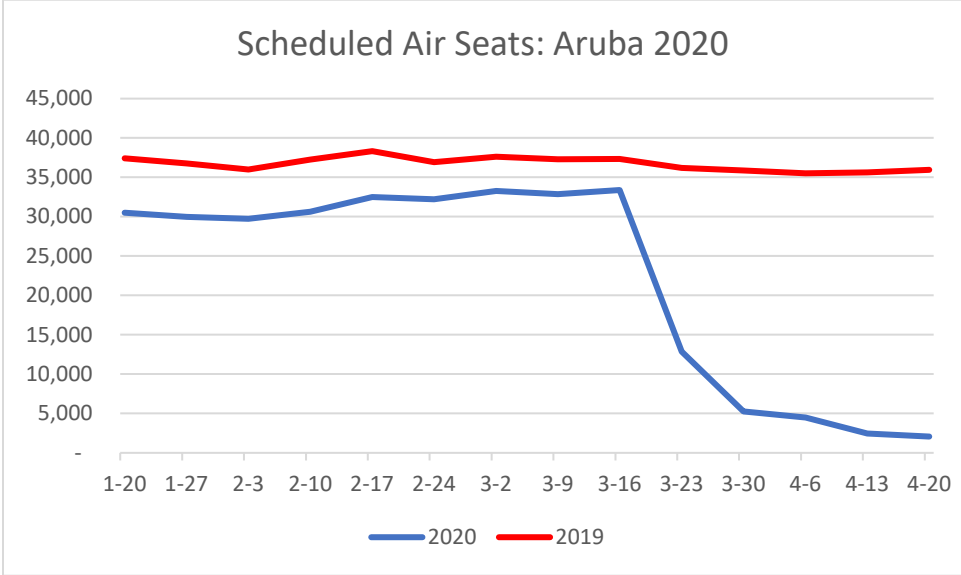
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Background.

As of April 25 2020, much of Aruba’s tourism industry has shut down as the Government attempts to slow the rate of infections from the COVID19 virus.

By way of background: -

- On March 15<sup>th</sup> regulations were put in place regulating the entry of visitors to Aruba.
- On March 21<sup>st</sup> the Aruban border was closed indefinitely to incoming visitors and returning residents. On the same date a curfew from 9 pm until 6 am was implemented.
- On Sunday March 29<sup>th</sup> a Shelter in Place order was implemented whereby the population was confined to their homes. This is in place until April 28<sup>th</sup> 2020. All bars, restaurants, nightclubs, casinos, stores, malls, and other related facilities were deemed non-essential and were closed.
- The airline industry responded to these regulations, and to other similar regulations being implemented elsewhere, by almost immediately suspending air service to Aruba.
- According to the Official Airline Guide (OAG), between March 16<sup>th</sup> and April 20<sup>th</sup> Aruba lost 94% of its air seats, falling from 33,338 seats for the week of March 16<sup>th</sup> to 2,070 seats for the week of April 20<sup>th</sup>, a drop of 31,268 seats, with further cuts to come.



- Many airlines have indicated they will not be flying to Aruba during the month of April with indications that the suspension of these flights could continue into May and June. While both American Airlines and JetBlue have scheduled flights to Aruba in the first week of June, and Air Canada has stated it will also resume service between Toronto and Aruba as of June 6<sup>th</sup>, KLM has indicated it will not resume service to Amsterdam until July 4<sup>th</sup>. It should be stressed that whether or

not flights resume as scheduled is (a) completely dependent upon when the Aruban Government re-opens its borders to visitors and returning residents and (b) demand.

- Many cruise lines suspended operations on March 13th and stated they did not plan to recommence their cruises again until at least May 11th. However, on April 9th the CDC put in place an order prohibiting cruise ships leaving US cruise ports before July 18th although some cruise lines appear to be defying this and have scheduled cruises for late June and early July.
- As of April 25, Aruba has reported it had 100 positive cases of COVID 19, that is 885 cases per one million persons. The USA reported 927,316 positive cases on the same date, that is 2,806 cases per one million persons. Curacao reported 16 cases, that is 98 cases per one million persons. The global average is 364 cases per one million persons.

### Aruba and its economy.

Aruba has an official population of 113,000 persons. Of these, 24.3% are between 0 and 19 years old, 61.6% are between 20 and 64 years old, and 14.1% are 65 years old or older. This is significant inasmuch as those countries with a higher proportion of persons of 65 years old or older have seen relatively higher mortality rates.

The Aruban economy is almost completely dependent upon its tourism industry. According to the **World Travel and Tourism Council** in 2019 tourism accounted for 98.3% of Aruba's GDP of US\$ 2,876 billion and generated 99% of all employment. Aruba has a labor force of about 58,000 persons. The WTTC estimated that visitors spent US\$1.876 billion in Aruba in 2019.

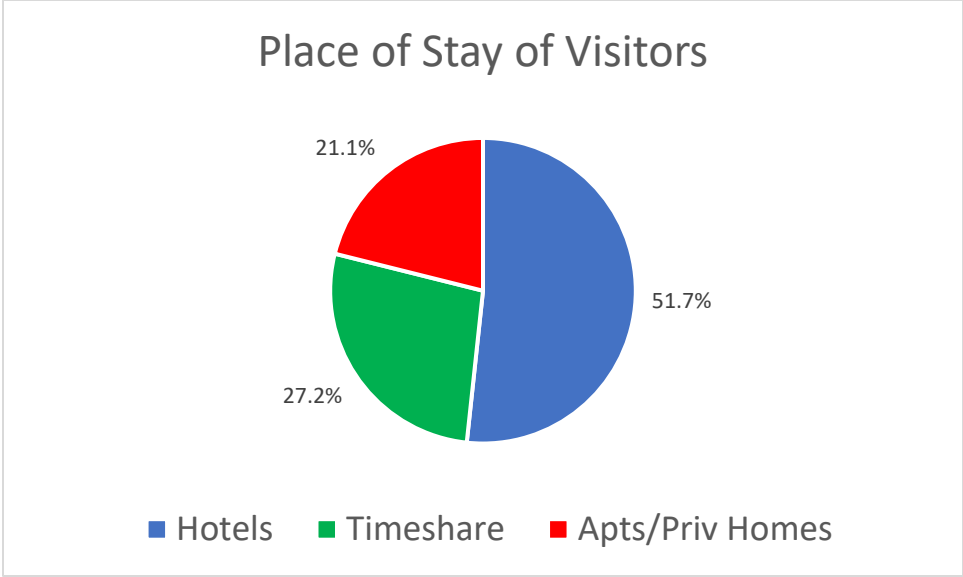
In 2019 Aruba received an estimated 1,113,840 stopover visitors and 832,001 cruise visitors. According to the Central Bank of Aruba these visitors generated an estimated total of 3.741 billion florins (US\$2.089 billion) in tourism credits. (Tourism credits are defined as tourism receipts plus timeshare maintenance fees).

Stopover visitors stayed 7.3 nights on average while cruise ships typically spent about ten hours on average in port here in Aruba. Consequently, stopover visitors generated about 3.554 billion florins (US\$ 1.985 billion and 95% of all tourism credits) while cruise visitors generated about 180 million florins (US\$ 100.6 million and 5% of all such credits).

In 2019 75% of Aruba's visitors came from the USA, with 4% coming from Canada and 4% from the Netherlands, with the balance coming from the rest of the world.

Again in 2019, 52% of Aruba's visitors from the USA came from the five states of New York, New Jersey, Massachusetts, Connecticut and Pennsylvania. New York was by far the most important state, generating 20% of all visitors from the USA.

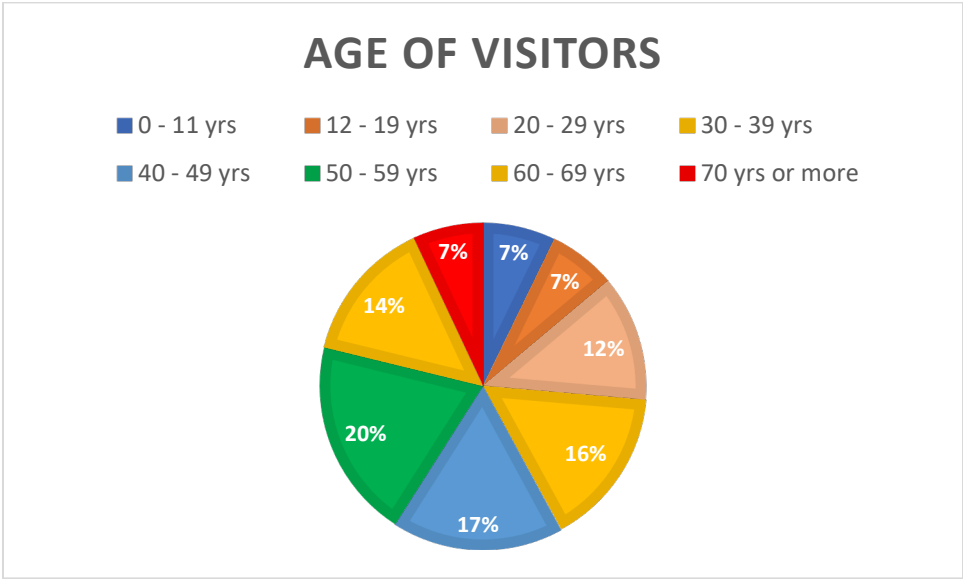
In 2019 on average 52% of our visitors stayed in a hotel when visiting Aruba, 27% stayed at a time share resort and 21% stayed in an apartment or in a private home, either rented or with friends and family.



On average:-

- 14% of our visitors were 0 – 19 years old
- 65% were between 20 and 59 years old
- 21% were 60 years old or older

And with visitors from the USA, the percentage 60 years old and older increased to 23%.



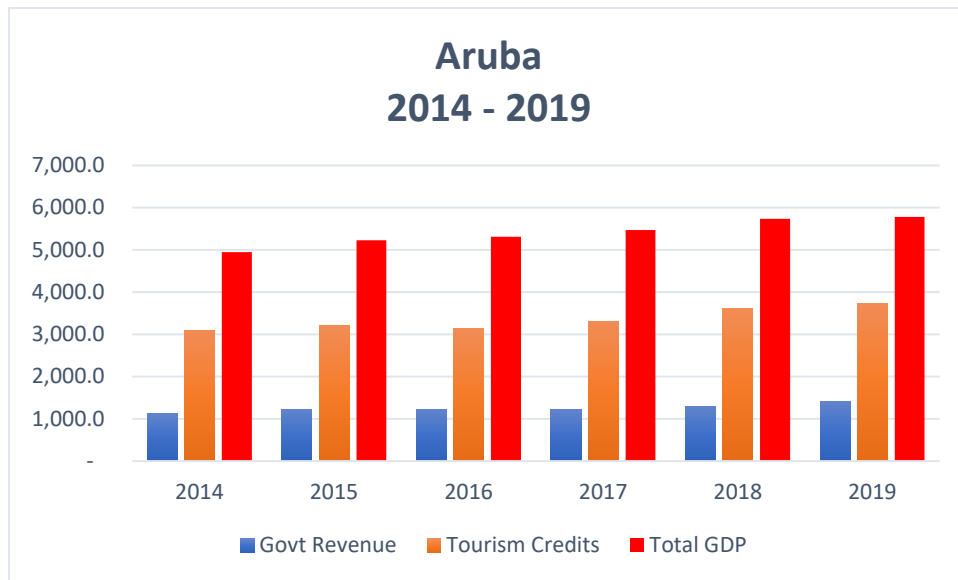
Again, on average, 54% of our visitors were visiting for the first time with 46% having visited before.

Tourism credits have grown steadily since 2014.

Since 2014 Aruba has seen a relatively steady increase in tourism credits, seeing an average increase of 3.9% per year over those five years.

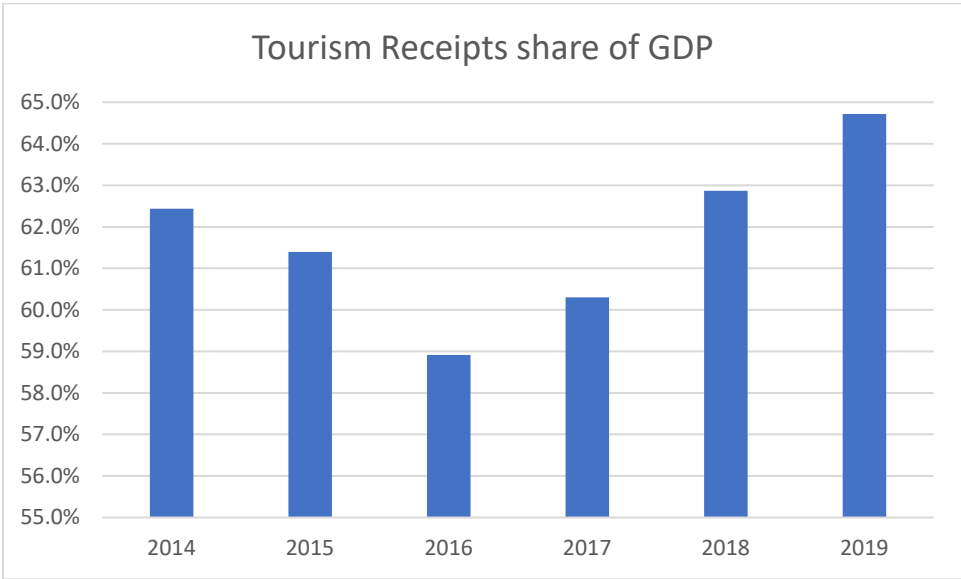
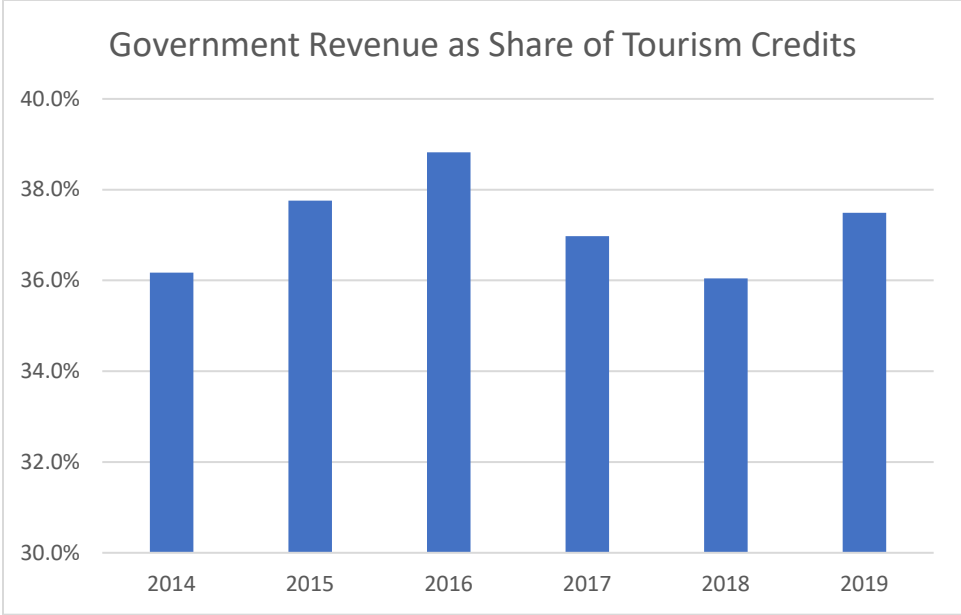
Government revenue averaged about 37% of projected tourist receipts.

Tourism receipts averaged between 59% and 65% of Aruba’s GDP in the six years of 2014 through 2019, with the overall average being 61.8%.



	Govt Revenue	Tourism Credits	Total GDP
2014	1,117.9	3,090.7	4,950.0
2015	1,211.5	3,208.6	5,226.0
2016	1,214.4	3,127.9	5,309.0
2017	1,220.0	3,299.2	5,471.0
2018	1,299.4	3,604.9	5,734.0
2019	1,402.4	3,740.8	5,780.0

In millions of florins



## The recovery of the tourism industry will depend upon four things

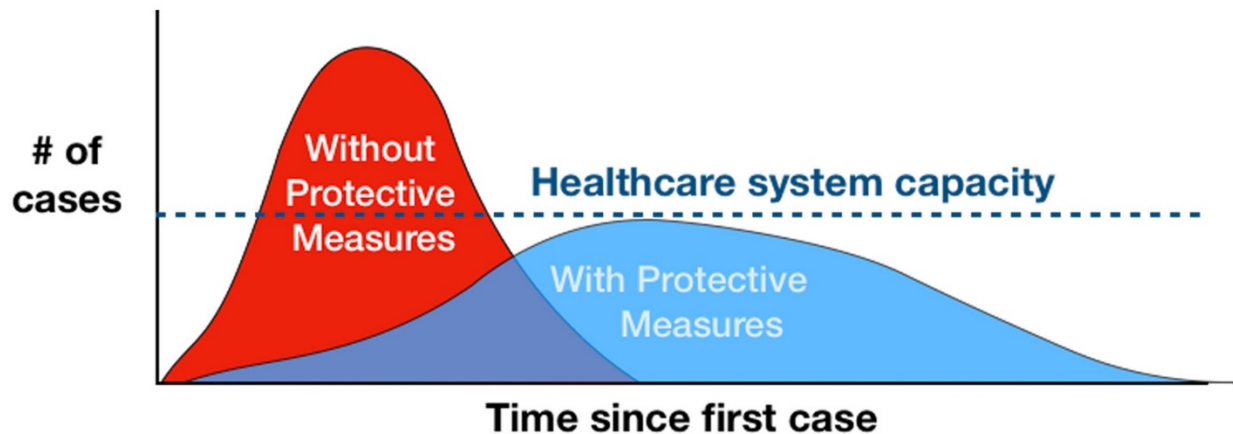
- How the pandemic is eventually brought under control
- The speed of recovery in demand
- The situation here in Aruba
- International and national restrictions and regulations pertaining to international travel.

## What do we know about COVID 19?

We know: -

- COVID 19 is a novel (new) virus for which there is no effective vaccine.
- The virus is mutating which is not unexpected and is not necessarily a bad thing.
- It is thought it will take at least 12 to 18 months to develop an effective vaccine. It will then take a further amount of time to produce the vaccine in large quantities and to administer doses.
- It is highly contagious.
- It can take a number of days before infected persons display symptoms.
- The global mortality rate of those infected is 7.0% but this varies very much from country to country. For example, in Italy, the mortality rate is 13.5%, in the Netherlands, 11.9% and in Spain 10.2%. In the USA it is currently 5.7%.
- It is thought the actual mortality rate is less than 1% when the number of deaths is calculated as a percentage of all who are likely to have been infected by the virus but have not been tested.
- That for a variety of reasons the data measuring the number of persons infected, the rate of infection and the mortality rates, are deeply flawed
- The overall global policy response has been to “flatten the curve”, that is to try and slow the increase in the rate of infections to prevent health care facilities becoming overwhelmed and thus mitigating the number of deaths. However New Zealand is attempting to eradicate the virus completely but knows this will be very difficult to achieve over the long term.



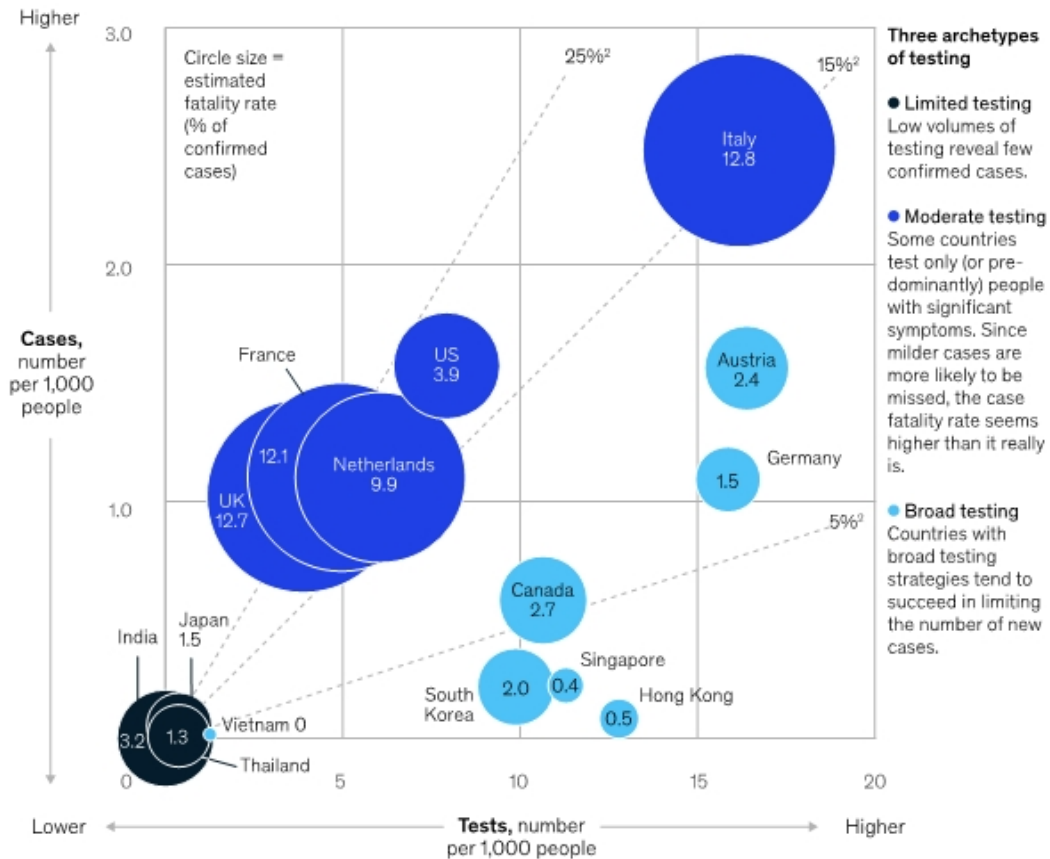


*Adapted from CDC / The Economist*

- To achieve this many countries have implemented “social distancing” policies, that is minimizing contact between members of the resident population and by implementing Shelter at Home policies.
- The most effective long-term policy is “test and trace”. This requires thorough effective testing of as many people as possible, isolating those who have been infected and tracing those with whom they have been in contact. This also requires significantly expanding the health care facilities especially hospital facilities and having enough supplies such as masks and ventilators, to deal with the rise in the number of patients.

**Countries with the widest testing tend to have the fewest cases per 1,000 people.**

**COVID-19: Confirmed cases, tests conducted, and estimated fatality rate<sup>1</sup>**



<sup>1</sup>Current as of Apr 12 (Austria, Canada, Japan, South Korea); Apr 11 (India, Italy, United Kingdom, United States, Vietnam); Apr 10 (Thailand); Apr 7 (France, Netherlands), Apr 6 (Singapore); Apr 5 (Germany); Mar 31 (Hong Kong).  
<sup>2</sup>Percent of positive tests among tests conducted.  
 Source: Johns Hopkins University; Government of Hong Kong Special Administrative Region; Our World In Data; Singapore Government; World Health Organization situation reports

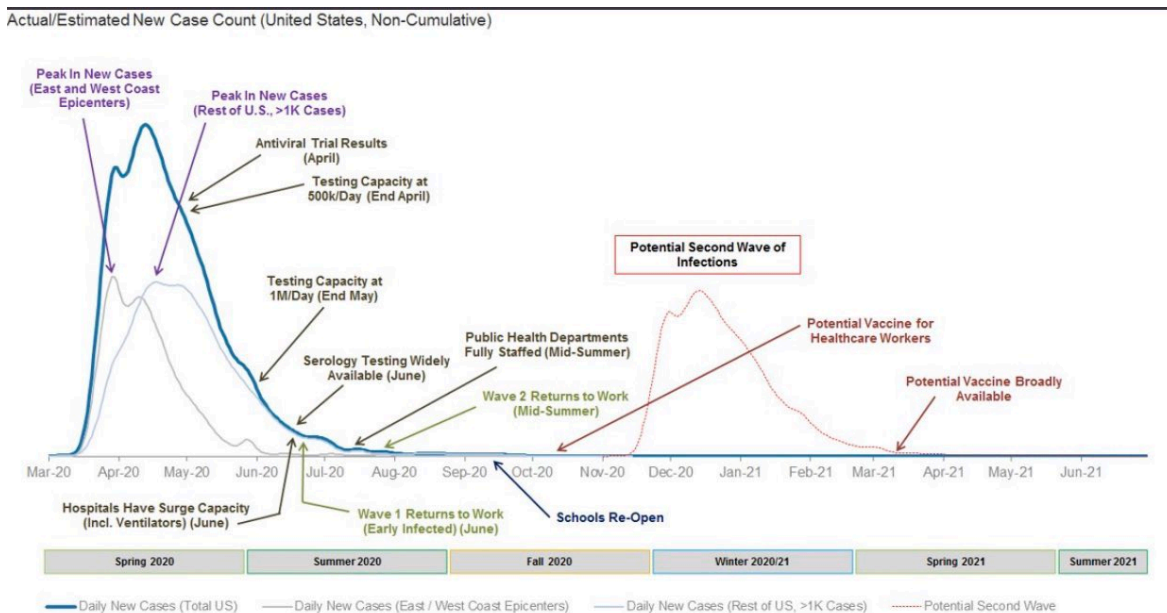
**McKinsey & Company**

- In some countries, where local transmission has been significantly slowed (China and South Korea), new infections are being caused by visitors from outside resulting in such countries either closing their borders to foreigners or imposing very rigorous testing at its borders.
- It is highly probable that the virus will become endemic, like flu, and will reappear again and again in the future.

## What we do not know: -

- How many people are infected? The numbers are skewed by the rate of testing. As testing gets better and more widely administered the number of cases will increase but that does not mean we know how many persons overall are infected. The number of infections at the moment is grossly underestimated. It is thought that a significant number of individuals are infected but are asymptomatic, that is do not show any symptoms of the disease.
- We do not know how many deaths are ascribed to COVID 19 or ascribed to other causes such as pneumonia or some other respiratory ailment, so the mortality rates are inexact.
- We do not know if an individual having tested positive for the virus, and having recovered, is immune to a second bout of infection or for how long they will be immune.
- We do not know if social distancing works. This should be clearer by the end of April.
- We do not know if, like influenza, the rate of infection will slow during the summer months but reappear in the fall.
- We do not know whether or not there will be a second or possibly third wave of infections.
- And we do not know how long it will take to develop an effective vaccine.
- Nor do we know if effective antibody testing can be put in place.

Morgan Stanley has produced a chart indicating their thinking of what may happen in the USA which suggests the number of positive cases will peak in early May and by August the population will begin to return to work. There is a view that their projections are somewhat optimistic.



As of April 25, social distancing policies in the USA are to remain in place until April 30<sup>th</sup> and will only be relaxed by state governors once it is obvious the rate of infections has slowed. There are indications that certain states may begin to relax their restrictions in phases as of May 1<sup>st</sup>.

One model suggests however that by August 4<sup>th</sup> 2020 that, even if all procedures and regulations are followed exactly as required, about 66,000 Americans will die as a result of this pandemic.

It is important to understand however, even if the social distancing policies work, in the sense that the curve has been somewhat flattened,

- The pandemic does not go away.
- People will continue to get infected.
- People will continue to die.

There are three possible endgames for the pandemic.

There are three possible ways the global pandemic will be halted.

1. Every nation on earth bring the virus under control at the same time . This is not at all likely.
2. That the virus infects so many people that a “herd immunity” is established whereby the majority of the population is immune. This can only come at the cost of many millions of dead.
3. That governments use the test and trace approach stamping out outbreaks until an effective vaccine is produced.

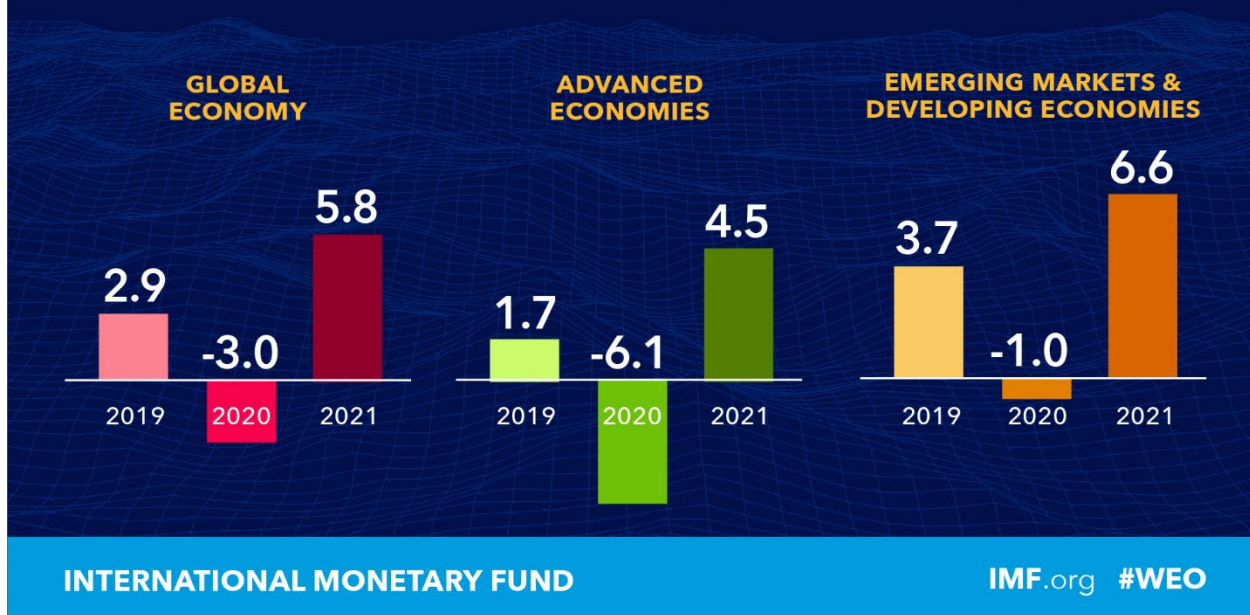
Given the above, in simple terms, the effects of the pandemic will be prevalent for at least another 18 months, with social distancing having to be reintroduced when there are deemed to be outbreaks which need such a response.

The economic consequences of the pandemic.

The IMF has projected that as a result of the pandemic the global economy will contract sharply by 3.0 percent in 2020, a much larger decline than during the 2008–09 financial crisis. In a baseline scenario—which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound—the global economy is projected to grow by 5.8 percent in 2021 as economic activity normalizes, helped by policy support.

# GROWTH PROJECTIONS

The COVID-19 health crisis will have a severe impact on economic activity in 2020



The IMF believes the risks for even more severe outcomes, however, are substantial. Effective policies are essential to forestall the possibility of worse outcomes, and the necessary measures to reduce contagion and protect lives are an important investment in long-term human and economic health. Because the economic fallout is acute in specific sectors, policymakers will need to implement substantial targeted fiscal, monetary, and financial market measures to support affected households and businesses domestically.

And internationally, the IMF believes strong multilateral cooperation is essential to overcome the effects of the pandemic, including helping financially constrained countries facing twin health and funding shocks, and for channeling aid to countries with weak health care systems.

Whether the advanced economies are willing to do this remains to be seen.

## The US economy is already in a recession

Millions of people in the USA are now unemployed with no real sense when they will go back to work. In the four weeks since March 13<sup>th</sup> when a state of emergency was declared, the USA has seen 26 million persons file as unemployed, 16% of the labor force.

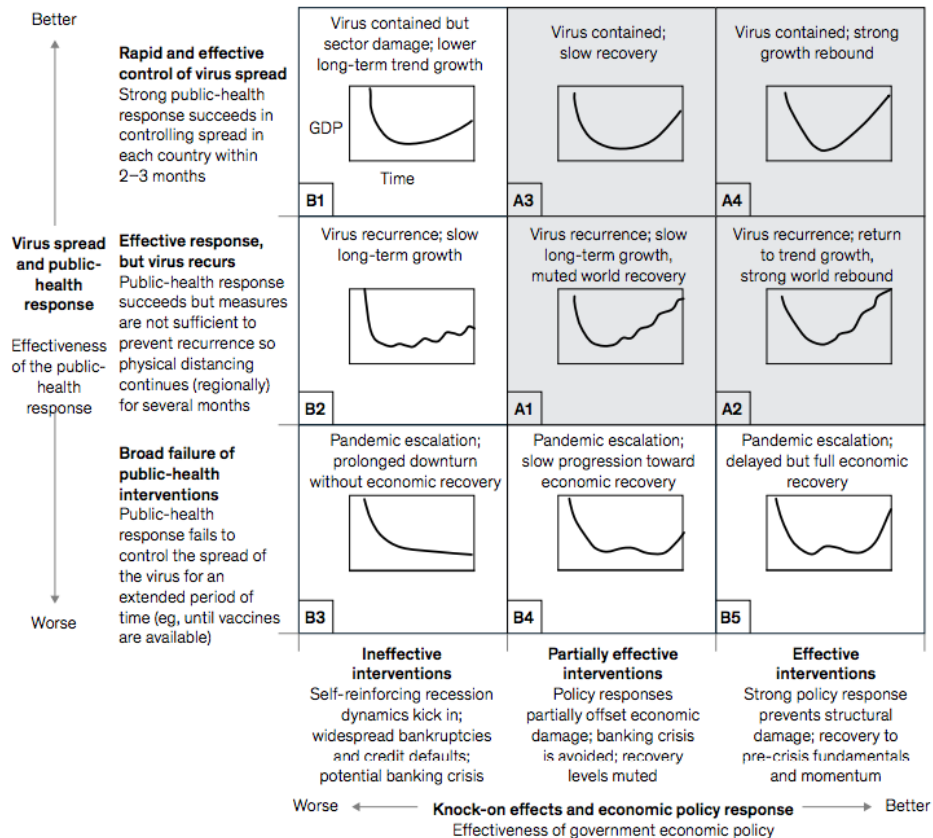
It is thought the USA has already entered a recession and could well fall into a depression. Some economists believe that the GDP of the USA will shrink by 12% in the second quarter (Bank of America) while other believe it could shrink by 30% (Morgan Stanley). The US Federal Reserve estimates unemployment in the USA could reach between 30% - 35%.

The simple fact is the situation is totally unprecedented and no one can know for sure what the economic impact will be although they do know it will be hugely significant.

McKinsey Partners have suggested nine alternative scenarios for recovery.

### Scenarios for the economic impact of the COVID-19 crisis

GDP impact of COVID-19 spread, public-health response, and economic policies



The firm currently expects one of four more optimistic scenarios to take place, (the scenarios A1 through A4 at the top right of the chart) with COVID-19's spread controlled and "catastrophic structural economic damage avoided." The outcomes range from sharp V-shaped recoveries to turbulent U-shaped trends, as global output slides to historic lows before activity swiftly returns to past norms.



Yet other, more dire situations can't be ignored, the firm said. A so-called "black swan of black swans" could bring lasting structural damage to the US as the virus rampantly spreads until an efficient vaccine enters the market (Scenario B3 at the bottom left).

A wave of bankruptcies and layoffs would spread economic chaos through the nation, leaving government policy ineffective and suffocating credit lifelines. These scenarios would result in W- or L-shaped GDP trends, bringing either short-lived bouts of recovery or dooming the US to years of suppressed activity, according to McKinsey.

### **Demand for Aruba comes primarily from the USA.**

As has been indicated the USA is by far the primary source of visitors to Aruba. It could be argued that visitors from the USA generate 74% of Aruba's GDP, while visitors from New York state alone generate 15% of the country's GDP.

So, if Aruba continues to follow its existing business model, that is a strong focus on marketing to the USA, the recovery of Aruba's tourism industry will be heavily dependent upon recovery in demand from the USA and particularly from the north-east USA.

It might be possible to diversify our source markets, but this will take aggressive marketing and having enough airlift in place and could take a considerable amount of time.

["When will things get back to normal?" is the wrong question.](#)

Some hold the view that once the peak infection rate is reached and the infection rate begins to diminish, social distancing regulations can be relaxed and people will be allowed out of their homes, will go back to work, and will pick up the pieces of their lives. Some think this could happen as early as May 2020.

But there is an increasing number of experts who suggest there will be no "getting back to normal", that the way communities operate will have to change substantially.

As one public health expert said "Everyone wants to know when this will end. That's not the right question. The right question is: How do we continue in a COVID19 reality?", that is how do we manage in this new environment?

Another, Stephen Kissler, the Harvard disease modeler, said "Over the coming months, we need to normalize COVID in the public psyche, and reinforce that this will be a part of our day-to-day lives. Many people I've spoken with are aghast at the thought. We thirst for a swift and decisive 'victory.' But I'm reminded of images from World War II as people in London walked to work, briefcases in hand, against a backdrop of bombed-out buildings. I think we are in store for a similar period in history, as we learn to make greater peace with the world's chaos and our own mortality."

The coming months and years are completely uncharted territory.

No one really knows how this is all going to play out as this situation is truly unprecedented. It's a combination of the aftermath of 9/11 (fear) and the Great Recession (financial constraints) with a new variable - Government restrictions.

So when will customers travel?

They'll travel:

- when they're allowed to,
- when they feel it's safe to do so,
- when they have money to pay for it,
- when the transportation options are available.

Various attempts are being made to gauge the mood of the traveling public.

The U.S. Travel Association has engaged **MMGY** to conduct an ongoing survey to monitor the impact of COVID-19 on U.S. travelers. The online survey designed and analyzed by MMGY Travel Intelligence is conducted bi-weekly among 1,200 U.S. residents who have taken an overnight trip for either business or leisure in the past 12 months. The maximum error at the 95% level of confidence for a sample of 1,200 +/- 2.83%.

These are the results for **Wave II April 4-11, 2020**

- 90% of travelers surveyed had some type of travel or travel related activity planned prior to the COVID-19 outbreak. 23% had planned an international flight and 13% had planned a cruise.
- 80% of those either canceled or postponed those plans. 47% cancelled their international flight while 37% postponed the flight. 49% cancelled their cruise while 37% postponed it.
- As COVID-19 impact grew, consumer sentiment around personal safety related to travel showed a drop in the most current wave results. Travelers who said they felt safe staying in a hotel, or a resort declined from 20% in Wave 1 to just 13% in the current wave. And, traveler sentiment about taking an international flight fell into the single digits, with just 9% of respondents saying they would feel safe doing so with a similar number, 9%, saying they would feel safe taking a cruise.
- Once the COVID-19 pandemic passes, more than half of the respondents to the current wave will be eager to travel for leisure. And, 4 in 10 will likely travel by plane, while 1 in 3 are likely to take a vacation closer to home than they were before COVID-19. 35% indicated it was likely they would take an international flight while 21% said it was likely they would take a cruise.



- Consumer intent to travel in the upcoming 6 months, for both leisure and business, continues to decline however as the COVID-19 pandemic expands and intensifies. Intent to travel for a leisure vacation has fallen from 39% in Wave 1 to just 31% in Wave II. And, intent to travel for business in the next 6 months fell from 26% to 21% in Wave II.
- More specifically, consumers are increasingly less likely to engage in specific travel activities. Intent to stay in a hotel or resort in the next 6 months fell from 41% to just 33% in Wave II, and the likelihood of taking a domestic flight dropped from 39% to 31%. The likelihood of taking an international flight fell from 21% to 18% and for taking a cruise fell from 17% to 13%.
- Early indications are the ages of those who will be the first to travel will skew younger as evidenced by their intent to engage in almost every type of travel related activity in the next 6 months as compared to their older counterparts. Less than 10% of those interviewed who were 50 years old or older said it was likely they would take an international flight while just 5% of those 50 years old or older said it was likely they would take a cruise.

Another survey suggests travel will start to grow in the late second quarter but

- They'll stay in the country. International travel will fall out of favor as people stay closer to the safety of home.
- They won't travel far from home. "Staycations" and road trips will be favored over flying or cruising.
- They'll make it quick. A softer economy will mean the traditional two-week summer vacation could turn into a long weekend.

The **Harris Poll** of 2,023 Americans conducted on March 21/22 indicated 18% said it would be 4-6 months before they fly again with 22% saying it would be a year or more before they take a cruise with 10% saying they would never again take a cruise.

Between April 17 and 19 **Destination Analysts** interviewed 1,238 American travelers as to their travel intentions.

- American travelers continue to feel better that the worst of COVID-19 may be on the horizon. Excitement levels towards taking a getaway in the next month and interest in learning about travel destinations remain low but are at a 5-week high
- When presented a list of leisure and personal activities and asked to select the first things they were going to do when shelter-in-place restrictions are lifted, 22.5% said taking a trip would be among their top 5
- Regarding timing, American travelers increasingly don't believe or are unsure that the pandemic will be resolved by the summer travel season. The number reporting trip cancellations increased, particularly in May and June. Nevertheless, half continue to feel they will be traveling in Fall, with reported increases in travel plans for September and October

- The number of American travelers saying they will choose regional rather than long-haul destinations for leisure travel this year continues to grow and is at the highest recorded level since this study began
- 36.5% of American travelers say they agree to some degree with the statement “I’m not traveling until there is a vaccine”; 43.2% disagree
- Nearly 8 in 10 American travelers say they would approve of mandatory health screenings for flights between destinations inside the continental United States and over 60 percent expressed this would increase their confidence traveling
- Over two-thirds of American travelers say they do not want other travelers coming to their community right now

**Longwoods** conducted a poll of 1,000 Americans on April 8<sup>th</sup> and found the same thing. There was relatively high interest in domestic vacations and a substantial drop in interest in international trips.

According to a recent survey conducted among U.S. consumers by **McKinsey & Company**, the coronavirus pandemic could indeed have a lasting impact on international travel. 37 percent of the 1,063 U.S. adults surveyed by McKinsey stated that they expect to reduce their international travels once the crisis has subsided compared to just 18 percent who expect to travel more.

And it must be noted that many customers will have been financially harmed by the consequences of the social distancing regulations imposed in March and April and **Tourism Economics** is of the view that the industry will show a substantial decline in 2020 with modest recovery in 2021 and full recovery not occurring until 2023 although the high end luxury market may bounce back more quickly than the overall market. They project a \$519 billion decline in travel spending in the US in 2020 which will translate into a total economic loss of \$1.2 trillion in economic output. This is more than nine times the impact of 9/11 on travel sector revenue.

The airline industry will be very different in 12 months’ time.

It is also thought the airline industry will be very different in 12 months’ time from what it is today, with probably fewer airlines and fewer available air seats. Suggestions have been made that airlines will not assign passengers to the middle seat. For a typical 160 seat B737-800 narrow body jet that could account for a total of 48 seats. So, a flight might be restored but with 30% less capacity than under normal circumstances.

Several new forecasts see travelers beginning to return to the sky in considerable numbers as soon as June but as late as the fourth quarter that begins in October. However, those same estimates put a return to 2019 traffic levels, when around 926 million people flew in the U.S. alone, at least a few years off.

“We anticipate that traffic growth will improve beginning in [the fourth quarter of 2020], but not reach 2019 levels until 2022 at the earliest,” wrote Cowen analyst Helane Becker in a report on March 27.

Raymond James analyst Savanthi Syth does not expect passenger numbers to hit the previous peak until around 2023. She expects something of a “new normal” with passenger demand, at least in the U.S., holding at around 10-15% lower than 2019 levels by the end of 2020.

**IATA** recently commissioned a survey of recent travelers in eleven countries, including the United States, Canada, and Great Britain, and found 60% anticipate a return to travel within one to two months of containment of the COVID-19 pandemic but 28% of the respondents said that they will wait six months or more to travel, while 8% will wait at least one year and 4% answered that they are not even considering getting on a plane in the near future.

IATA is estimating that domestic flights will begin to recover in the third quarter of the year, but that the openings of international flights will be slower. 42% of passengers travel on international routes, while 58% do so in domestic markets, the strongest being the United States and China. IATA reports indications of this cautious return-to-travel behavior are seen in the domestic markets of China and Australia, where new coronavirus infection rates have fallen to very low levels:

Domestic market behavior is a critical indicator as the post-pandemic recovery is expected to be led by domestic travel, followed by regional and then intercontinental as governments progressively remove restrictions.

“In some economies, the spread of COVID-19 has slowed to the point where governments are planning to lift the most severe elements of social distancing restrictions. But an immediate rebound from the catastrophic fall in passenger demand appears unlikely. People still want to travel. But they are telling us that they want clarity on the economic situation and will likely wait for at least a few months after any ‘all clear’ before returning to the skies. As countries lift restrictions, confidence boosting measures will be critical to re-start travel and stimulate economies,” said Alexandre de Juniac, IATA’s Director General and CEO.

According to IATA most airlines operate with breakeven load factors of between 60% - 70%. Consequently, it is highly probable that airlines will require revenue guarantees to achieve at least breakeven before they reinstate and maintain service to Aruba.

### As will the cruise industry.

And the cruise industry could well operate very differently in the future. Interviews with cruise line executives, longtime industry watchers, health officials and the destinations where cruises operate, suggest that key changes could occur when cruise vessels finally return to the world’s oceans.

- No more self-service buffets
- Restrictions on who can cruise
- New health screenings
- Enhanced cleaning on board
- Lower pricing

- Less crowded ships
- Fewer ships
- Shorter, closer-to-home itineraries
- Relaxed cancellation policies

In the Caribbean it is not likely that all ports will open to cruise ships at the same time, these decisions being dependent upon each Government's policies, and this could severely impact the itineraries of many cruises.

Government restrictions will play a major role in the speed at which travel recovers.

And it should be noted that the US government may continue to keep its borders closed to foreign visitors and returning residents well into the second half of 2020, if not longer, to prevent the importation of the virus from other countries. This is the policy currently pursued by China in response to second wave infections being imported from overseas. This would mean that travel by Americans overseas would be severely restricted if not completely banned.

And it is possible that the US federal and state governments mandate that leisure trips can only be made within the USA to help revive the country's own tourism industry.

It should be noted that New Zealand, which has a population of 4.8 million persons and received 3.9 million international visitors in 2019, has indicated that its tourism industry will pivot in the second half of 2020 and in 2021 toward catering to its domestic market and the Government will put in place substantial restrictions on accepting arriving visitors. Domestic tourists generated about 58% of all tourist related expenditures in 2019. Australia has indicated it will follow a similar policy and its citizens have been prohibited from traveling abroad until 2021.

### **International travel may begin to recover late in 2020.**

Given these constraints, it would be reasonable to suggest that demand for international travel will probably not begin to become significant until well into the third quarter of 2020 and will begin to start slow recovery in the fourth quarter, provided there is no second wave of infection. This slow rate of growth could continue during 2021.

### The situation in Aruba.

The Government of Aruba is pursuing a policy of "flattening the curve", that is slowing the rate of infections to allow its health care system to continue to function. To do this it has pursued aggressive social distancing policies which could remain in place until the end of April. Aruba is probably two/three weeks behind the USA which in turn is behind Italy and Spain so it is likely the rate of infections in Aruba will not peak until early/mid-May.

Should those policies succeed then the rate of increase of local transmission should be substantially reduced although clearly there would still continue to be infections.

But the Government of Aruba faces a huge challenge.

The economy of Aruba is almost completely dependent upon welcoming visitors from abroad. Aruba needs visitor spending to generate income and provide employment. So, there will be enormous pressure to re-open its borders to visitors.

However, once Aruba opens its borders it is inevitable that infected persons from overseas will enter the country and could infect members of the local population who will in turn infect other residents. It is worth noting that New York state generates 20% of all visitors from the USA and will, in all likelihood, have the highest level of infections of any state in the USA.

If the Government chooses to open its borders, as it must if it is to revive its economy, then it is going to have to accept that infections will continue to occur as will deaths resulting from severe cases of infection.

The Government will then have to decide what is an acceptable level of mortality for its population.

**There could be a multi-pronged strategy to address this.**

Various solutions are being explored to address this issue.

In the UK a platform is being developed which can be used in conjunction with a government approved Covid-19 testing kit that confirms and validates whether the holder has been tested negative or positive for coronavirus or has the antibody present. In future updates, it will include confirmation that they are vaccinated. Once the test has been completed, the results will be updated to an individual's digital passport this creating a digital health passport. This approach is also being explored in Germany.

However, the **World Health Organization** has indicated it is strongly opposed to issuing such so-called "immunity passports" or "risk-free certificates" as a way of easing lockdowns and to facilitate travel. It said there was "no evidence" that people who had developed antibodies after recovering from the virus were protected against a second infection. Such a move could actually increase virus transmission, it warned.

Second, airlines themselves are testing systems to examine passengers at check in prior to allowing them to fly. Etihad could potentially become the first airline to implement a new technology that would screen passengers for dangerous medical conditions, like early stages of COVID-19. Emirates has also tested the idea of blood tests at check in to determine the health of the passenger.

If a passenger's vitals indicate any potential illness, the self-service process would automatically stop and alert a qualified staff member on-site to further assess the passenger.

Third, it has been suggested that accepting visitors can only be mitigated by stringent testing at the airport and cruise port using procedures such as are currently in place in South Korea and Hong Kong as this will prevent further infections coming in from the outside. Such testing would have to remain in place for at least 18 months, that is until an effective vaccine is developed and distributed. Such tests need to be inexpensive, accurate and fast.

Fourth, a number of countries have implemented a system of quarantine for all arriving visitors and returning residents. Australia, New Zealand, Germany, Greece and Singapore are among countries that have already implemented such a system which is also being considered by the United Kingdom.

What impact that will have on the desirability of Aruba as a tourist destination is hard to say but it is likely that many other Caribbean countries will employ similar tactics to address this conundrum.

### **Our industry may well be smaller by the end of 2020.**

At the same time, it is worth noting that the level of tourist plant inventory, the hotels, resorts, casinos, restaurants, attractions etc, could well be substantially reduced by the second half of the year. A number of resorts could close and not re-open. A number of hotels may close parts of their property and consolidate business into other parts of the complex. Casinos and restaurants may close permanently. Tour companies may go out of business. All of this will result in lower aggregate spending than in 2019.

At the same time, Aruba's attractiveness is heavily dependent upon its beach experience. It may be that a relatively high level of infections will result in a public health policy that demands that social distancing be rigorously enforced on Aruba's beaches. This could make our product significantly less attractive to visitors.

It has been estimated that unemployment in Aruba could reach at least 50% of the workforce with many persons out of work and who will be without their normal income for many weeks, if not months. A major concern has to be that crime begins to rise substantially as persons attempt to obtain income to support themselves and their families. It will be important in the long run that Aruba protects its image as a safe destination and that rigorous law enforcement practices are put in place to prevent any largescale upswing in crime.

Aruba, like many other destinations, will have to spend considerable sums of money on marketing to bring back business. At the same time, it may well have to invest large sums of money to guarantee airlift at a time of reduced demand. Whether those funds will be available in sufficient quantity is debatable.

Finally, it is possible that many of our best and brightest may emigrate from Aruba to the Netherlands or elsewhere in search of work, leaving us with diminished skill levels in our work force.

## The local tourism industry has mixed opinions when it will re-open.

A survey of eight local hotels, resorts and tourism businesses conducted over the weekend of April 18<sup>th</sup> determined that: -

- Six of the eight businesses were closed with two properties remaining open. One of the closed properties planned to reopen in May, three in June, one in July and one planned to reopen in October.
- The general sense was that management would re-open their properties in phases dependent upon demand.
- Most felt that the USA would be the first market to rebound with two properties also looking to Europe to generate traffic.
- The general feeling was that Baby Boomers would probably be the first to start traveling although some concern was expressed that potential travelers over 60 might find it difficult to travel being hampered by an inability to find affordable health insurance and with possible government restrictions put in place limiting their ability to travel. Concern was expressed that younger travelers, particularly millennials, would be severely impacted by the economic situation and would find it difficult to afford international travel.
- Larger hotels thought that loyalty program customers would be amongst the first to start traveling with adult couples and then families traveling for leisure coming second. It was thought that Group and Incentive travel would take a considerable time before it recovered. The timeshare resorts indicated there was strong interest among their regular customers and this could result in a faster than average growth in that business.
- Management indicated their preferred marketing strategy would be to hold rates and to offer customers added value rather than to deeply discount rates.

## The Aruba Hotel and Tourism Association projects the hotels will reach 55% occupancy by December.

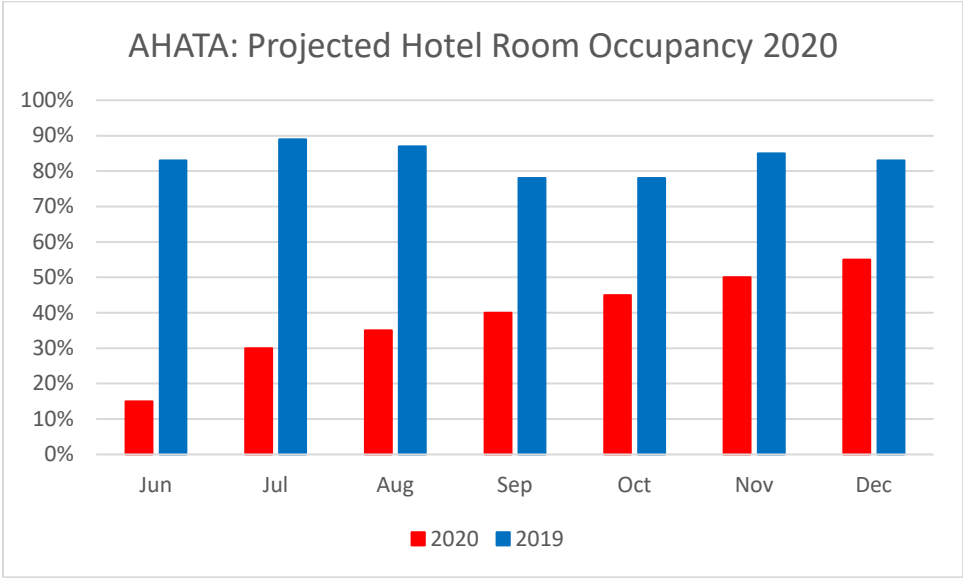
Aruba Hotel & Tourism Association conducted a survey within its hotel members during the second week of April to gauge the current expectations for occupancy rates for the rest of 2020. These current expectations are based on the possibility that Aruba's borders and of other countries could open back up by June.

There is little knowledge at this point about the ability of various countries to get the virus under enough control to open their borders, or of the number of seats that airlines can offer to Aruba. Another aspect that shall affect the volume of visitors is the immense financial toll this crisis shall take on individuals worldwide.

The new normal of travel with new social distancing and safety rules, as well as new tourism strategies to ensure a more sustainable and responsible approach, will also influence the volume of tourists.

With these factors in mind, coupled with perceived demand for travel and vacationing, the current projection for the average occupancy for Aruba’s hotels is a very gradual trajectory of recovery that culminates in 55% occupancy by December of 2020.

June	July	August	September	October	November	December
15%	30%	35%	40%	45%	50%	55%



These levels of occupancy fall under the break-even point for the industry and many local businesses that depend on tourism for revenue shall be operating at a loss during the recovery trajectory the rest of this year and beyond.

Should these projected occupancy numbers come to pass this would result in between 60% - 65% fewer hotel visitors in 2020 than in 2019.

**Past Experience**

Previous incidents such as 9/11, SARS, the Holloway Incident, and the financial crisis of 2008/2009 all suggest that it will take two/three years for the volume of arrivals to get back to previous levels, in this case to the levels achieved in 2019.

**Key concerns for Aruba**

**First, our dependence on the US market.** 75% of Aruba’s tourists come from the United States. If our tourism industry is to recover it will because we are able to rebuild our US business. But and this is a very big but, it is widely thought the USA has handled management of the pandemic crisis extremely badly and will continue to do so. To quote



Joseph Stiglitz, the noted Nobel prize winning economist, “We were unprepared but, even given the degree of unpreparedness, Trump’s decision to make this about politics rather than about science has meant we have responded far more poorly.”

The concern for Aruba has to be when we open our borders to visitors from the USA there is a high likelihood that we will be allowing infected visitors into our country and we will have to manage the consequences of that. Secondly, because of the way the crisis has been mishandled, the likelihood of a severe economic recession which depresses customers’ ability to purchase travel is far more likely.

**Second, the demographic profile of Aruba’s tourists** skew towards the elderly, with 41% of Aruba’s visitors being 50 years old or older. The fact that the elderly are thought to be more vulnerable to the disease may well disproportionately reduce their willingness or ability to travel.

**Third, on the positive side, 27% of Aruba’s visitors use timeshare accommodation** with these visitors being particularly loyal to Aruba which could result in higher than expected visitation numbers.

These factors suggest that the projected rate of recovery for Aruba’s tourism sector will skew more towards a pessimistic rather than optimistic outcome.

### Three Scenarios.

Three possible scenarios are suggested:-

- Optimistic
- Likely
- Pessimistic

These scenarios reflect the worst possible outcome, a base case of what is considered to be the most likely outcome, and the best-case scenario. It is important to note that all scenarios herein reflect our opinion, based on our assumptions, assessments, and currently available data to date, and are likely to change as the situation continues to unfold.

#### **Optimistic:**

This assumes the following

- That the USA manages to substantially slow the rate of infections during the month of April and that the social distancing regulations are relaxed, if not removed, by May 1<sup>st</sup>.
- That the US government removes all restrictions on entry to the USA from foreign countries by foreigners and returning residents.
- That unemployment peaks in late April at about 25% - 30% of the workforce.
- However, people start going back to work in May and the economy begins to recover.

- That as a result of the workforce having income, that demand for discretionary purchases begins to grow.
- That similar success is achieved in major source markets in Europe, particularly the Netherlands.
- That the airline industry responds positively to this demand for travel and flights are reinstated.
- That the cruise lines also respond positively to this demand and reinstate cruises.
- That the hotel industry and related tourist inventory within Aruba is not badly impacted by the suspension of traffic during March and April.
- That social distancing and related policies implemented within Aruba are successful and that the infection rate is minimized.
- That the Aruban Government opens its orders to foreign visitors sometime in May 2020 without requiring mandatory testing at a port of entry.

**Likely Scenario:**

- That the USA manages to slow the rate of infections during the month of April, but the infection rate continues to grow at an unacceptably high level and that the social distancing regulations continue through the month of May and possibly into June.
- That the US government keeps all restrictions on entry to the USA from foreign countries by foreigners and returning residents in place through May and into June.
- That unemployment peaks in May/June at about 30% - 35% of the workforce.
- That people slowly go back to work with most not re-entering the workforce until July/August
- That as a result the workforce has a substantially less income and that demand for discretionary purchases only comes from a small affluent cohort of the population.
- That a similar pattern is demonstrated in major source markets in Europe, particularly the Netherlands.
- That the airline industry responds to this demand for travel and flights are reinstated but not until August/September
- That the cruise lines also respond to this demand and reinstate cruises but do not reach a significant number of cruises until October/November.
- That the hotel industry and related tourist inventory within Aruba is impacted by the suspension of traffic during March through June but is not fatally damaged.
- That social distancing and related policies implemented within Aruba are reasonably successful and that the infection rate is minimized.
- That the Aruban Government opens its borders to foreign visitors sometime in June 2020 but with mandatory testing of all visitors at the airport and presentation of clear evidence by all cruise lines that all passengers are virus free.

## **Pessimistic:**

- That the USA manages to slow the rate of infections during the months of April and May, but the infection rate continues to grow at unacceptably high levels and that the social distancing regulations continue through the months of June and July and possibly into August.
- That the US government keeps all restrictions on entry to the USA from foreign countries by foreigners and returning residents in place indefinitely.
- That unemployment peaks in July/August at about 40%% of the workforce.
- That people slowly go back to work with many not reentering the workforce until September/October although the economy will be substantially smaller by then
- That as a result the workforce has a substantially less income and that demand for discretionary purposes only comes from a small affluent cohort of the population.
- That a similar pattern is demonstrated in major source markets in Europe, particularly the Netherlands.
- That the airline industry responds to this demand for travel and flights are reinstated but not until the fourth quarter of 2020 but only in limited numbers. The airline industry is substantially smaller than in 2019 and has limited capacity.
- That the cruise lines also respond to this demand and reinstate cruises but do not reach a significant number of cruises until the fourth quarter. The cruise industry finds strong resistance from Aruba and all Caribbean countries to receiving their visitors without clear evidence that all cruise passengers are virus free.
- That the hotel industry and related tourist inventory within Aruba is severely impacted by the suspension of traffic during March through September and is substantially reduced in size.
- That social distancing and related policies implemented within Aruba are moderately successful and that the infection rate is minimized but is still at a relatively high level.
- That the Aruban Government opens its orders to foreign visitors sometime in June 2020 but with rigorous testing of every arriving visitor.

**Marla Dukharan**, a leading Caribbean economist with Bitt Inc, and who was previously Group Economist for RBC Financial Caribbean, published her analysis on March 30 2020 assessing the likely impact of COVID19 on Caribbean economies.

With regard to tourism she generated three scenarios, best, likely and worst case. Her assumptions were: -

- Worst case: assumes 100% drop in stopover arrivals - i.e. ZERO stopover arrivals for the remainder of the year.
- Likely case: 80% decline in stopover arrivals for the rest of the year.
- Best case: 60% decline in stopover arrivals for the remainder of the year.
- No cruise arrivals to the Caribbean for the remainder of 2020 under all scenarios.

For Aruba this translated into: -

- Best case = 50% drop in stopover arrivals for all of 2020
- Likely case = 67% drop in stopover arrivals for all of 2020
- Worst case = 83% drop in stopover arrivals for all of 2020

With a similar rate of decline in tourist expenditures.

### **Projections elsewhere.**

Thierry Breton, the **European Union's** (EU) commissioner for internal market and services, stated "Tourism was the first sector to be hit by the coronavirus, and I am sure that it will be the slowest to recover and come out of this phase," Breton told a European Parliament committee via video-link on Tuesday (April 21).

International trade groups have told Breton that an estimated 275 and 400 billion euros (\$300 to \$435 billion) will be lost for the tourism and travel sector because of the [coronavirus](#). When all of the data are in, Breton said he expects global travel to be off by nearly a third and that the EU's tourism economy could take a hit of between 45 percent and 70 percent.

On April 14th the **UNWTO** estimated that in 2020 global international tourist arrivals could decline between 20-30%, down from an estimated growth of 3% to 4% forecast in early January 2020.

And **Tourism Economics** is projecting a decline of 54% in international tourist travel to the USA in 2020 assuming the partial opening of borders in the second half of the year.

## Scenarios: Volume of Tourist Arrivals to Aruba.

2019						
		First	Second	Third	Fourth	Total
Stopovers		294,183	281,466	273,192	265,000*	1,113,841*
Cruise		292,922	142,190	120,413	276,476	832,001

\*estimate

	2019	2020					2021	
	Total	First	Second	Third	Fourth	Total	Total	% change
<b>Stopovers</b>								
Best	1,113,841	230,000	84,440	136,596	159,000	610,036	793,047	30.0%
Likely	1,113,841	230,000	42,220	68,298	92,750	433,268	498,258	15.0%
Worst	1,113,841	230,000	14,073	40,979	53,000	338,052	354,955	5.0%
<b>Cruise Visitors</b>								
Best	832,001	255,384	49,767	72,248	165,886	543,284	706,269	30.0%
Likely	832,001	255,384	28,438	42,145	124,414	450,381	517,938	15.0%
Worst	832,001	255,384	7,110	24,083	69,119	355,695	373,480	5.0%

		First	Second	Third	Fourth	Total
<b>Stopovers</b>						
Best		-21.8%	-70.0%	-50.0%	-40.0%	<b>-45.2%</b>
Likely		-21.8%	-85.0%	-75.0%	-65.0%	<b>-61.1%</b>
Worst		-21.8%	-95.0%	-85.0%	-80.0%	<b>-69.6%</b>
<b>Cruise Visitors</b>						
Best		-12.8%	-65.0%	-40.0%	-40.0%	<b>-34.7%</b>
Likely		-12.8%	-80.0%	-65.0%	-55.0%	<b>-45.9%</b>
Worst		-12.8%	-95.0%	-80.0%	-75.0%	<b>-57.2%</b>

The likeliest scenario is that Aruba re-opens its borders sometime in May of 2020. Airlines will be slow to provide service as demand for international travel will remain weak. June through September will see some visitor traffic but probably at levels 70% - 80% below those of the same months of 2019. Demand should begin to pick up in October and continue to grow throughout the balance of the year but probably at levels about 60% - 70% below those for the same three months of 2019. 2021 will see slow growth in demand with recovery not coming until the latter half of 2022.

As previously indicated eight senior managers of local hotels and tourism businesses familiar with these projections were surveyed in mid-April. Of the eight, two thought they were too optimistic, three thought they were about right, and one thought they were too pessimistic. One thought they would change almost daily depending upon developments while one had no opinion.

Given the above it would seem: -

- **2020 could see stopovers falling by 61% and cruise visitors falling by 46%.**
- **2021 could see some recovery with both stopover and cruise arrivals about 15% higher than in 2020.**
- **2022 could see continued recovery**
- **2023 could see arrivals return to levels achieved in 2019.**

We need to plan now for our recovery.

Clearly this is a crisis of huge proportions. Aruba depends almost completely upon its tourism industry for its way of life and our tourism industry must be revived as quickly as possible. We need : -

- A task force created now to plan how we will revive our tourism industry. This must involve all key stakeholders.
- Identify and develop new product in tune with these changed times.
- A detailed plan of action with clear targets, responsibilities and budgets.
- To identify the funds which will be needed for marketing and to support airlift as quickly as possible and ensure these funds are dedicated to the recovery process.
- To train as many of the workforce as possible to adjust the new situation.
- To move as quickly as possible and be a first mover.
- To implement new and innovative marketing techniques to attract the visitors we will require.
- To identify and implement rigorous testing procedures to be used at Aruba's ports of entry similar to those used in South Korea.
- To implement a highly effective Test and Trace policy for the population of Aruba.

Jamaica has provided an example of such a task force. Its Minister of Tourism recently announced that a Government Task Force will

- establish a realistic view of the sector's baseline or starting position.
- develop scenarios for multiple versions of the future.
- establish the strategic posture for the sector as well as a broad direction of the journey back to growth.
- establish actions and strategic imperatives that will be reflected across various scenarios.
- establish trigger points to tackle action, which includes a planned vision in a world that is learning to evolve rapidly.

New Zealand is also taking the opportunity to rethink its approach to tourism.

Tourism Industry Aotearoa chief executive Chris Roberts indicated there needed to be a rethink of the industry and believed there was an opportunity to make it "better than what it was before".

"While we're in this quiet period, there's a chance to address shortcomings with infrastructure and come up with ways to avoid congestion.

"Our industry already had a very strong commitment to sustainability, but there's an opportunity to make it even more sustainable, and focus on the needs of the environment and the wider community.

"We have a chance to think about tourism in the long term. We have to deliver for everyone, but not at the expense of the environment."

Despite the grim short-term outlook, Roberts said he was still hopeful for the future.

"I am optimistic that we can come out the other side of this, but the industry will be different."

## Number of Positive Cases as of April 25 2020

Cases of COVID-19 as of April 25 2020					
	Cases	Population	%	Cases Per Million	
1	Spain	223,759	46,754,778	0.4786%	4,786
2	Belgium	45,325	11,589,623	0.3911%	3,911
3	Switzerland	28,541	8,638,587	0.3304%	3,304
4	Italy	192,994	60,461,826	0.3192%	3,192
5	USA	927,316	330,500,000	0.2806%	2,806
6	Netherlands	37,190	17,134,872	0.2170%	2,170
7	UK	143,464	67,886,011	0.2113%	2,113
8	France	122,577	65,273,511	0.1878%	1,878
9	Germany	155,054	83,783,942	0.1851%	1,851
10	Sint Maarten	73	42,763	0.1707%	1,712
11	Austria	15,068	9,006,398	0.1673%	1,673
12	Canada	43,888	37,742,154	0.1163%	1,163
13	Cayman Islands	70	68,076	0.1028%	1,028
14	Iran	86,194	83,992,949	0.1026%	1,026
15	<b>Aruba</b>	<b>100</b>	<b>113,000</b>	<b>0.0885%</b>	<b>885</b>
16	Dominican Republic	5,749	10,847,910	0.0530%	530
17	USVI	54	104,425	0.0517%	517
18	Puerto Rico	1,276	2,860,853	0.0446%	446
19	Barbados	77	287,375	0.0268%	268
20	South Korea	10,718	51,269,185	0.0209%	209
21	Bahamas	73	393,244	0.0186%	186
22	Cuba	1,285	11,326,616	0.0113%	113
23	<b>Curacao</b>	<b>16</b>	<b>164,093</b>	<b>0.0098%</b>	<b>98</b>
24	Jamaica	288	2,961,167	0.0097%	97
25	Trinidad & Tobago	115	1,399,488	0.0082%	82
26	Saint Lucia	15	183,426	0.0082%	82
27	China	82,816	1,439,323,776	0.0058%	58
	<b>Global</b>	<b>2,828,772</b>	<b>7,779,543,800</b>	<b>0.0364%</b>	<b>364</b>

\*The numbers for China are considered to be under-reported.



## Number of Cases in South America as of April 25 2020

Cases of COVID-19 as of April 24 2020					
	Cases	Population	%	Cases Per Million	
1	Ecuador	22,719	17,643,054	0.1288%	1,288
2	Panama	5,338	4,314,767	0.1237%	1,237
3	Peru	21,648	32,971,854	0.0657%	657
4	Chile	12,306	19,116,201	0.0644%	644
5	French Guiana	107	298,682	0.0358%	358
6	Brazil	52,995	212,559,417	0.0249%	249
7	Uruguay	563	3,473,730	0.0162%	162
8	Colombia	4,881	50,882,891	0.0096%	96
9	Guyana	73	786,552	0.0093%	93
10	Argentina	3,595	45,195,774	0.0080%	80
11	Bolivia	807	11,673,021	0.0069%	69
12	Paraguay	223	7,132,538	0.0031%	31
13	Suriname	10	586,632	0.0017%	17
14	Venezuela	318	28,435,940	0.0011%	11
15	USA	927,316	330,500,000	0.2806%	2,806
16	Aruba	100	113,000	0.0885%	885
17	Curacao	16	164,093	0.0098%	98
	<b>Global</b>	<b>2,828,772</b>	<b>7,779,543,800</b>	<b>0.0364%</b>	<b>364</b>

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