

# European Needs Analysis on Crisis Management for Tourism SMEs

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Part 2: Online Research



Navigating  
Tourism  
Crisis Recovery



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# CONTENTS

<b>INTRODUCTION .....</b>	<b>1</b>
Iceland.....	2
Ireland.....	4
Germany.....	5
Spain .....	6
Scotland.....	7
<b>POLICY REPORTS .....</b>	<b>9</b>
Iceland.....	9
Ireland.....	14
Germany.....	19
Spain .....	20
Scotland.....	25

## INTRODUCTION

The final report for Intellectual Output (IO) 1 contains six elements:

- Introduction and Methodology
- Online Research
- Good Practice Case Studies
- Literature Review
- Analysis of Industry Interviews
- Competence Framework and Conclusions

All of these resources are designed for either self-learning or to be used in a more formal educational structure. This document forms part two: Online Research. Please visit <https://www.tourismrecovery.eu/resources/> for the full suite of IO1 reports.

## INDUSTRY REPORTS

### Iceland

In Iceland, tourism became the countries’ most important export industry after the financial crash 2008. In 2017, tourism was 42% of the total exports; fisheries, 17%, and aluminium 16%. International tourist numbers rose from half million in 2010 to 2,3 million in 2019 (Icelandic Tourist Board, 2021, January 15), the annual increase being between 19-39%. During this time, many Icelanders turned to tourism as their main economic activity.

In 2018, Iceland ranked in the third place, after Mexico and Spain, of all the OECD countries in proportion of tourism of the total GDP of the country (OECD, 2020). The percentage of people working in tourism compared to the whole economy was the highest in Iceland, of the OECD countries even higher than in Spain (ibid).

Iceland is amongst the countries in Europe that have experienced biggest decrease in tourism numbers as a result of the Covid-19 pandemic (European Travel Commission, 2020), with -76% decrease in international tourism numbers (Icelandic Tourist Board, 2020, January 15), and the number of people working in tourism have decreased considerably. According to the short-term economic indicators for tourism the decrease had been 46% from October 2019 to October 2020. Reduction of staff was most prominent in travel agencies, tour operator companies, and booking services (-63%), the accommodation sector then following with -59% reduction of employees (Statistics Iceland, 2021, January 20 a).

News about the pandemic started to spread in late January 2020, and the first Icelandic Covid-19 infection was diagnosed on February 28. Although the borders were open for foreign tourists until the end of April, tourist numbers started to decline as soon as the news started to spread around the globe in February (see figure 1). From March to June tourism operation was nearly none.

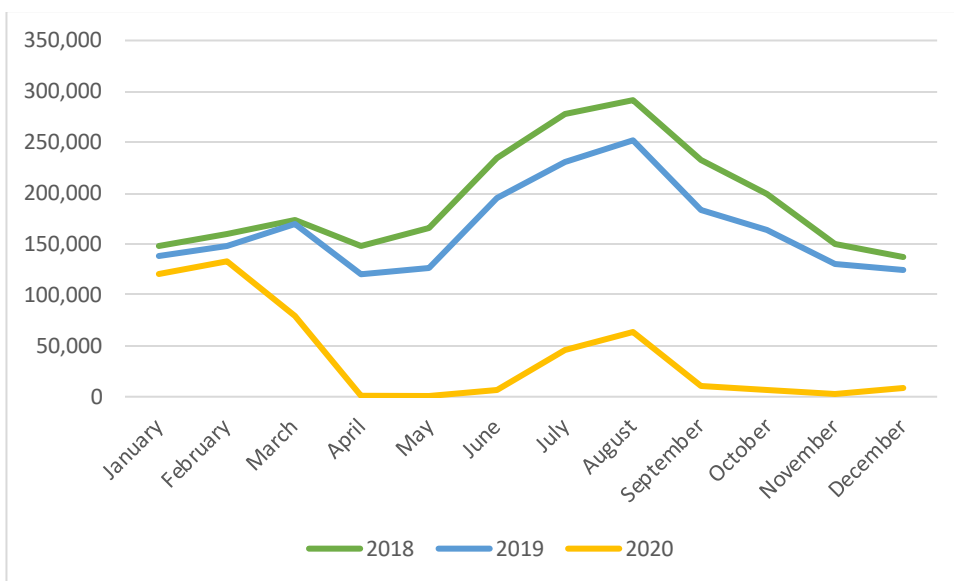


Figure 1. Number of foreign tourists through KEF international airport (Statistics Iceland, 2021, January 20 b)

In midst of June (15th), border regulations for foreign tourists changed from 14-day quarantine to the possibility of doing a screening test on the border. Also, general disease control measures were eased. The numbers of foreign tourists’ arrivals went up, from 1035 international tourists in May to 45,000 in July (Icelandic Tourist Board, 2021 January 15). Added to that, Icelanders, who usually travel a lot abroad, were not able to do so and started to look for travel possibilities domestically. Icelanders, who spent around one million pounds abroad in the year 2018 (Baldur Guðmundsson, 2019, April 17) had nowhere to turn except to travel in their own country.

Domestic tourists had not been the focus for many tourism companies since they were all too busy managing the

surge of foreign tourists' arrivals. Added to that, the domestic market is small, 350.000 Icelanders compared to 2,2 million foreign tourists. During the summer of 2020, however, many saw the small domestic market as an opportunity to do something and adjusted their business model and marketing material to domestic tourists and many lowered their prices considerably (Gallup & The Icelandic Tourist Board, 2020, November). The government also encouraged domestic tourism by giving every Icelander a travel voucher that could be used in Icelandic tourism companies (Jelena Ćirić, 2020, May 26). The travel voucher and the related campaign stimulated, without doubt, domestic tourism. Since the bulk of the Icelandic nation lives in the Capital region, tourism companies outside that region were the main beneficiaries of the increased domestic tourism. Some small rural enterprises, for example restaurants, experienced a very good summer with even more customers than the summer before.

In August, as a result of increasing number of Covid-19 outbreaks, stricter screening measures at the border were launched along with other measures in the society. This resulted in an instant cancellation of bookings and foreign tourists' arrivals came to a halt (Ministry of Finance and Economic Affairs, 2020, November).

The effect of this pandemic on tourism businesses in Iceland will not be clear anytime soon. However, some of the companies were nearly without any income in the year 2020 (KPMG, Icelandic Tourism Cluster & the Icelandic Travel Industry Association, January 2021). Most companies have taken various actions to minimize the damage caused by the Covid-19 pandemic such as cost cuts in the operation, laying of staff, freezing loans, re-negotiating rent payments, etc. (KPMG & The Icelandic Tourist Board, 2020, December). Despite hard times, a survey done by KPMG for the Icelandic Travel Industry Association and the Icelandic Tourism Cluster in January 2021 showed sign of positivity and resilience amongst tourism operators. Thus, 92% of the respondent said they intended to carry on as usual instead of merging or to cease operations.

It is important to realise that the challenges are different based on what subsector of tourism the tourism businesses are located within, and the fact that they have different resources to deal with the crisis (KPMG & The Icelandic Tourist Board, 2020, December).

**Recreational businesses** income follows the development of tourist arrivals to the country during the year. The recreational businesses income relies mainly on the summer season, especially companies in rural areas. Most companies are financed so that liquidity can support 1-2 months fixed operating costs but there is a risk that poor operating conditions have already used up these reserves. Weak operating months during the winter tend to use up cash. Prepayments are commonly used to cover part of fixed operating costs of the low season. Mortgages of assets are often limited as operating assets are specialized for the activity in question, e.g. ice tunnels, exhibits, specialized trucks, whale watching boats etc. (KPMG & The Icelandic Tourist Board, 2020, April).

**Accommodation:** There has been a lot of investment in the accommodation sector and leverage is very high. Unlike the recreational businesses, the price list of hotels varies by periods. However, most of the cost is fixed and limited measures are possible to lower the operational cost. Many of the hotels have been closed to minimize the operation cost (KPMG & The Icelandic Tourist Board, 2020 April, 2020 December).

**Restaurants:** The fixed cost in restaurants is often not high, and they have some flexibility to reduce operation. Many restaurants have shortened opening hours, and even closed the operation for some time (KPMG & The Icelandic Tourist Board, 2020, December). Domestic tourists are often a big part of the customer base of the restaurants (ibid). Many restaurants in the rural part of Iceland had better summer than expected as they were populated with domestic tourists (Gallup & The Icelandic Tourist Board, 2020, November).

**Car rentals:** The status of the car rentals is high indebtedness and money tied up in assets that are not in use. Car rentals have decreased their operation cost by reducing number of cars, reduced number of employees and have also not invested in new cars. They also have been able to resell many of the cars in the domestic car market (KPMG & The Icelandic Tourist Board, 2020, December).

**Travel agencies** in addition of having high labour cost, have had trouble with liquidity to repay their customers for prepaid tours. Travel agencies receive prepayments from customers and use the payments to prepay suppliers. However, due to the pandemic the suppliers have not been able to pay back. Thus, the agencies have had difficulties with refunding their customers (KPMG & The Icelandic Tourist Board, 2020, April). The Icelandic government has responded to this trouble of refunding by establishing a travel guarantee fund which is a temporary measure were

travel agencies can apply for a loan to reimburse their customers for package tours that were not taken due to the Covid-19 epidemic (Law: 95/2018; EFTA, 2020 July 2).

**Group tour companies** (bus companies and excursions) is a sector in a difficult situation. The companies are considerable indebted & money tied up in assets. The ability to sell big buses/cars in the domestic market has been difficult and the transportation cost too high to sell them abroad. Some have been able to find work in the public transport (KPMG & The Icelandic Tourist Board, 2020, December).

The Icelandic government has introduced various support measures to assist people and companies because of the pandemic, and 65% of the support has gone straight to tourist companies (Ministry of Finance and Economic Affairs, 2020 November) which have made a difference for many of them. The most widely used measure have been the reduced employment ratio where the reduced employment ratio measure is a special type of unemployment benefit in cases where the employer and the employee enter into a temporary agreement on a reduced employment rate. The employee can then apply for and receive a grant from the Unemployment Insurance Fund that corresponds to the reduced employment rate (Directorate of Labour, n.d.). The reduced employment rate was much used by small companies (Ministry of Finance and Economic Affairs, 2020 November). The main measures provided by the government for tourism were:

- Reduced Employment Ratio with government bridging part of the salary reduction
- Government funding a part of employee layoff compensation
- Closure subsidies
- Immediate support loans for small and medium-sized companies
- State-backed bridging loans
- Deferrals of tax payments
- Infrastructure funding
- An international marketing campaigns
- Government funded domestic travel vouchers for Icelanders

## Ireland

Tourism was one of the first sectors to be deeply impacted in Ireland by the pandemic, as measures introduced to contain the virus led to a near-complete cessation of tourism activities around the world. The Irish tourism sector also risks being among one of the last to recover, with the ongoing travel restrictions and the global recession.

Rural Ireland relies heavily on the viability of the tourism sector As a result, these rural regions are markedly less resilient than others to COVID-19 shocks and will be directly impacted, with fewer alternative sectors that could compensate for job losses. Accommodation and Food Service Activities is the sector with the highest number of people in receipt of the Pandemic Unemployment Payment (PUP) on November 03 with 98,233 recipients, followed by Wholesale and Retail Trade (51,921), while almost 11,400 employees in the Arts, entertainment and recreation are also currently availing of PUP supports. Accommodation and Food Service Activities is the sector with the highest number of people in receipt of the Pandemic Unemployment Payment (PUP) on November 03 with 98,233 recipients, followed by Wholesale and Retail Trade (51,921), while almost 11,400 employees in the Arts, entertainment and recreation are also currently availing of PUP supports.

Based on the official data, it is conservatively projected that up to 150,000 people across the wider range of businesses dependent on tourism are currently in receipt of Government wage support. The sector is currently under a closure order, at a cost to the State in the region of €40m per week. It is evident from the official data that tourism related businesses have not seen a level of recovery apparent in other sectors when compared to the peak impact of the initial lockdown in early May. The negative impact has been most severe in the greater Dublin area, and the Western Seaboard, counties from Waterford to Donegal, all key tourism destinations and employers.

## Germany

In the state of Saxony-Anhalt, there were a total of 16,505 employees in tourism, hotel and restaurant occupations in 2020. In 2014, there were 1,161 fewer employees. The increase in the number of employees between 2014 and 2020 represents an increase of 7.6 %. However, the development of the individual occupational groups has varied greatly in recent years. While the number of employees in the hotel industry has fallen by about 15 %, the number of employees in the catering industry has risen by about 20 %.

In Saxony-Anhalt, there were 8.6 million overnight stays in 2019. Compared to 2014, this represents an increase of 16.3 %. This means that Saxony-Anhalt is developing better than other federal states such as Saxony (9.8 %) or Thuringia (5.3 %). Since 2014, overnight stays in Saxony-Anhalt have thus steadily increased. The increases were strikingly high in 2017 (plus 4.4 %) and 2019 (plus 5.0 %) due to the Reformation and Bauhaus anniversaries respectively. It is also worth mentioning how the seasonal fluctuation in overnight stays was reduced by attractive offers in the low season. From May to October 2019, 61.5 % of overnight stays took place in the state.

Of the 8.6 million overnight stays in 2019, 6.7 % were by foreign guests. The most important countries of origin for foreign overnight guests in Saxony-Anhalt are the Netherlands, Poland, Denmark, Austria and Switzerland. Guests come to Saxony-Anhalt to visit cities, but also to spend their holidays in the countryside or in the mountains; the length of stay in 2019 was around 2.4 days.

In the middle of 2019, there were 1,066 establishments in Saxony-Anhalt with ten or more beds. In total, 57,442 beds could be offered. This figure also includes 80 campsites with around 20,000 beds. Since 2014, the number of beds has increased by 8.7 %. Compared to Germany, the business structure in Saxony-Anhalt is more fragmented. In 2019, there were 68.2 beds per establishment in Saxony-Anhalt, with an average size of 74.7 beds per establishment.

With a share of almost 40 % of the total overnight stays in the federal state, the region of the Harz and the Harz foothills is of particular importance for tourism in Saxony-Anhalt. The Harz and the Harz foothills will account for around 3.34 million overnight stays in 2019.

Tourism in Saxony-Anhalt represents an important revenue generator and stable economic sector. Tourism contributes to improving the quality of the location, the recreational value and the quality of life. It also has positive effects on the utilisation of infrastructure facilities. The citizens of the federal state benefit significantly from the tourism sector of Saxony-Anhalt as a business location. Positive effects occur above all in investments in infrastructure, both as new investments and for maintenance, as immaterial effects, such as a better image, higher degree of recognition or more residential value, and through the increased tax income.

The tourism industry made a gross turnover of about 3.23 billion euros in Saxony-Anhalt in 2019. This figure is based on the sum of days spent (99.7 million) and daily expenditure per capita (about 32.40 euros). In 2014, the gross turnover was still 2.68 billion euros, which corresponds to an increase of around 21 % compared to 2019.

If one takes a look at the direct beneficiaries of tourism, these can be divided into three economic sectors: the hospitality industry, retail trade and services. Expenditures for the hospitality industry include all expenditures made by guests for sleeping, eating and drinking. Retail trade includes expenditure on food as well as expenditure on other goods. Service expenditures are expenditures for leisure, sports and entertainment, fees for local public transport, as well as parking fees. The largest share of the 3.23 billion euros, about 44 %, falls on the hospitality industry. About 35 % is accounted for by retail and about 21 % by services.

The gross turnover generated from tourism can be classified on two turnover levels. At the first level of turnover, direct expenditure by guests is recorded. This includes expenditure in gastronomy, food shops and other retail outlets. In addition, there are entrance fees for, for example, thermal spas and baths, museums, tickets for local public transport and expenditure on accommodation. Direct revenues amount to 962.6 million euros and thus account for 33 % of the total net turnover (about 2.86 billion euros). At the second level of turnover, intermediate inputs are included. This includes, among other things, supplies by bakeries, breweries or nurseries, but also advertising poster design by advertising agencies or sales generated by the construction industry. In total, a volume of 1.93 billion euros is to be expected here, whereby, calculated with a value-added ratio of 30 %, about 579.6 million euros in salaries, wages and profits accrue to the intermediate input suppliers.

Tourism-related tax revenue from VAT and income tax less input tax amounted to approximately 309 million euros in 2019.

## Spain

If the 'economic pandemic' has hit Spain so hard, it is largely a consequence of the collapse of international tourism. Between January and September, the country lost no less than €43 billion in revenue from abroad tourists, according to data from balance of payments from the European Central Bank (ECB). It is a hard blow with no historical precedent, and which explains the magnitude of the crisis. By way of comparison, the Gross Domestic Product (GDP) lost in the first three quarters of the year (between January and September) was close to €100 billion (seasonally unadjusted data).

This means that the €43 billion lost due to the drop in international tourism represents a third of the drop in GDP. The entire drop in tourism revenues is not passed onto the GDP, since part of the goods and services purchased are imported (are produced abroad), but the vast majority is. However, there is another comparison that reflects the magnitude of the blow: the 43 billion that Spain lost in revenues exceeds the impact of France and Italy combined. In other words, the tourism crisis cost Spain as much as the other two European tourism powers combined; already having a lower GDP than both of them.

France, the second European country most affected by the tourism crisis, lost €22.4 billion in revenues from international tourism between January and September, while Italy, the third most affected, lost €20.1 billion. Between both, that is €42.5 billion less than the €42.8 billion lost by Spain in those months. This information confirms that the deep economic crisis in Spain was mainly due to the slump in international tourism.

One of the keys to explaining the poor performance of the Spanish economy is that its 'sun and beach' tourism is concentrated in late spring and summer, the very months affected by the pandemic. This explains why the slump in international tourism in Spain has been so costly, and the urgency in being able to guarantee that next summer will take place with a certain degree of normality. In France and Italy (to a lesser extent in the latter), tourism is less seasonal and more constant throughout the year. In fact, in many parts of France, the high summer season is not so different from the low winter season. This means that the comparison is likely to improve during the fall and winter months.

The slump in tourism, in turn, created "secondary" effects on other economic activities, affecting such sectors as commerce, restaurants, and transportation. It was a hard blow that was only partially compensated by domestic tourism. With the borders closed, summer travel was limited to within the national borders of each country. Residents in Spain spent just €6 billion abroad between January and September, representing a saving of €12.5 billion. This figure does not overwrite the 43 billion lost in revenues, but it does cushion them.

The problem is that Spain is not, by far, the country with the highest expenditure in tourism abroad, meaning that it did not achieve great savings from its residents in travels abroad, something that France and other countries in the north of the continent did achieve. This makes the tourism account balance even worse for Spain. In the case of France, its residents' spending on international tourism was reduced by almost €17 billion, and Germany saved no less than €32 billion.

The result is that, when compared to the same period from the previous year, the picture for Spain is much more dramatic. The country lost a net €30.3 billion compared to the previous year, a figure that is more than double the sum of resources lost by France and Italy combined. Specifically, France lost €5.6 billion as a result of the international tourism crisis and Italy lost €7.6 billion, according to balance of payments figures from the European Central Bank.

The tourism impact suffered by Spain is comparable only to that of Greece, which is also highly dependent on summer tourism. The country lost 12.4 billion in revenues from international tourism. And this despite that the Greek situation health-wise was very good, compared to the rest of the Mediterranean competitors. However, with the borders closed and the authorities' warnings about foreign travel, all tourist countries were hit hard, regardless of their health status. Greece has the aggravating circumstance that, following the severe crisis it has been experiencing since 2008, its



citizens can hardly travel abroad. And the result was that the closing of borders barely saved the country €1.4 billion abroad. As such, the account balance of tourism suffered a heavy blow of €11 billion, worse than France or Italy, much larger countries.

In central and northern Europe, on the other hand, border closures stimulated the domestic economy, as tourists who usually traveled to the Mediterranean had to stay within their own countries. In Germany, the savings amounted to €32 billion, i.e., its residents' spending abroad was half the usual amount. This decrease in tourism spending contributed no less than 1.8 points in GDP growth over three quarters of the year compared to the same period last year. This policy of border closures during the summer was very profitable for these countries since it promoted their domestic tourism, but it was a hard blow for the entire northern Mediterranean arc.

For Spain, the inflow of international currency from tourism is one of the major economic drivers. This is one of the country's competitive advantages thanks to its many attractions, ranging from 'sun and beach' to culture, gastronomy, nature, etc. The €30.3 billion deterioration in the tourism account balance represented a direct 3.3 points in decline in GDP. This is a very high figure, but not higher than that of other southern European countries highly dependent on the tourism sector. For example, Portugal suffered losses equivalent to 4.1% of its GDP, while the figure rises to 8% in Greece and Malta.

Dependence on international tourism explains the magnitude of the crisis in Spain. Between March and October 2019, Spain earned more than €56 billion thanks to the arrival of foreign travelers. In the same months of 2020, it barely earned €8 billion (according to the latest data from the Bank of Spain), which represents a turnover loss of 86%.

The tourism account balance, which in previous years left a surplus of close to €39 billion between March and October, has barely contributed €4.5 billion in 2020. This is a drop close to 90%, a figure that best reflects the magnitude of the loss of international tourism. For Spain, it is imperative to restore normality in the health and sanitation sector for the coming summer, as the shock of another blank summer would be fatal for many companies in the sector. In addition, it would aggravate the public deficit and the country's debt, as it would force the extension of the 'social shield': extraordinary unemployment benefits, termination of activity, and ERTE.

In national accounting terms, the tourism, transportation, and commerce industries accounted for almost 60% of the fall in value added in Spain in the first three quarters of the year, compared to the same period from the previous year. In total, they generated losses of more than €48 billion (the months of January and February offset the negative impact of the following months). In Europe, on the other hand, these activities accounted for less than half of the fall in GDP: 44% in the Eurozone and 45% in the European Union. In other countries neighboring Spain, such as Italy and France, these industries closely related to tourism have caused less than 40% of the fall in their GDP.

This means that if the crisis has been so deep in Spain, it is to a large extent, a consequence of the border closures and restrictions on international tourism. In addition, tourism creates a lot of employment, as it demands low-mechanized services that are labor intensive. This means that the impact on the job market has been more profound in Spain due to its dependence on tourism.

In total, these activities accounted for 70% of the fall in the wage bill (including social security contributions) during the first three quarters of the year. In the European Union, the impact on income is less than 60%, in Italy, it barely reached 42%, and in France, it was 35%. The impact of tourism on the Spanish economy has been profound, both in terms of activity and employment. The die is not yet cast, however, for 2021. The success or failure of the vaccination process will have a major impact on the Spanish economy: the country has much to gain, but also much to lose if it spends another year without tourism.

## Scotland

In simple terms, tourism businesses lost a substantial part of their trade for the remainder of 2020 on top of the income lost through the lockdown period; this was exacerbated further where additional restrictions were put in place to respond to local case rises (STERG, 2020). A 2020 VistScotland survey of over 2,200 tourism businesses in Scotland found that:

- 99% of businesses responding experienced cancellations/decline in bookings or fewer visitors.
- 54% of respondents were owner-run businesses with no employees; a further 33% were micro-businesses with up to 10 FTEs.
- 58% of respondents (with employees) stated they have had to reduce staff numbers to with a likelihood of further losses.
- The majority of respondents claim to have lost up to £50,000 (€55,000), with some claiming substantially higher losses.
- These losses could be compounded by strong seasonality of the tourism industry, as restrictions were still in place in many countries in some of the stronger summer months.
- There were other identified issues, such as business interruption insurance not paying out and those using their own home still having to pay existing bills.

It was considered by respondents that the average length for survival of the business without direct support was only three months (VisitScotland, 2020). In the UK, the government initiated the *Coronavirus Jobs Retention Scheme*, also known as 'furlough', to pay some of the wages of people who can't do their jobs because their workplace is closed, or there is no longer enough work for them (BBC, 2020). This was replicated in a number of other EU countries, in the *Kuzarbeit* scheme in Germany, for example, or the *Temporary Wage Subsidy Scheme* in Ireland (Guardian, 2020). It was recognised however, that there were businesses which 'fell between the cracks' in support measures announced, such as recent start-ups (VisitScotland, 2020). In Northern Ireland, for example, 47% of businesses surveyed indicated they were not eligible for the UK furlough scheme as they do not operate a pay-as-you-earn scheme (TourismNI, 2020).

These findings were reflected by surveys undertaken in other EU countries. In Northern Ireland, for example:

- 63% of businesses stated that Covid-19 would have a severe impact on their business in the longer term (4 months+).
- Cashflow and access to funding/working capital was cited as a major concern for many businesses, in particular those with no means of generating an income due to restrictions in place.
- A number of business openly stressed that they may not survive (TourismNI, 2020).

Due to the dramatic contraction in the tourism industry, many workers may become unemployed or displaced. While employment can increase in other sectors not linked to tourism, absorbing some of the displaced workers from the tourism industry, it may be difficult to find employment in other sectors during the economic downturn. Low-skilled, casual and temporary workers are likely to be the first to lose their jobs and may find it difficult in seeking employment in other sectors of the economy. Workers under 35 years of age and female workers are likely to be particularly badly hit (UNCTAD, 2020)

## POLICY REPORTS

### Iceland

This chapter gives an overview of the main results of reports that document the effect the COVID-19 crisis has had on tourism businesses in Iceland. The name of the subchapters is an English translation of their title. A list of the reports can be found in appendix A.

#### Annual survey on running a business in tourism

An annual survey of Icelandic tourism businesses done by KPMG for the Icelandic Tourism Cluster and the Icelandic Travel Industry Association (KPMG, Icelandic Tourism Cluster & the Icelandic Travel Industry Association, 2021 January). The survey was done in January 2021 and 191 people responded.

Around 35% of the respondents were nearly without any income in the year 2020. In general, tourism operators are optimistic, and most of them aim to continue their business operation (92%), 7% are in the process of merging, and 1% said that they would probably need to close their business.

When asked about the factors most important for their business in 2021, main concern was:

1. The flight availability to Iceland
2. Marketing
3. Operation streamlining

Many (79%) of the respondents used the down time for good. About 68% used the time for innovation and product development. Little less than half had invested in education for either their staff or/and key managers. However, 58% of the respondents had not used the time for action to increase sustainability in their operation.

Most respondents (84%) believed that the government needed to take further action to strengthen the tourism industry. In particular, the need to speed up the support measures and related application processes was emphasised.

According to the survey, the main opportunities for tourism in Iceland are:

1. Iceland handling the Covid-19 pandemic in an efficient way
2. Few people, sparsely populated areas
3. Safe destination
4. Good image and marketing
5. Domestic market
6. Smaller groups and individuals
7. Unique nature
8. The exchange rate of the Icelandic krona
9. Slow tourism

According to the survey, the main threats for tourism in Iceland are:

1. The Covid-19 epidemic
2. Competition from other destinations
3. Exchange rate development
4. Financial standings of tourism companies
5. Border operations – uncertainty
6. Vaccinations - timing and amount
7. Bankruptcy and submission in the industry
8. Flight availability to and from the country

#### Financial analysis

An analysis made by KPMG, the global network of auditing firms, for the Icelandic Tourist Board (KPMG & The Icelandic

Tourist Board, 2020 December). This analysis is based on annual accounts from 2019 of number of tourism companies, dept information from Central bank of Iceland and other official data. The report analyses the financial situation of the Icelandic tourism in the end of 2019 in order to evaluate the situation in 2020.

#### Summary of results

- The years before COVID-19 were characterized by rapid growth and large investments in the tourism sector. During these years, competition also increased. In recent years, the performance of certain sub-sectors in tourism got worse.
- The state of the industry deteriorated in 2019, which is mainly due to the bankruptcy of WOW Air. Analysis of the financial figures of tourism companies in the end of 2019 shows that the financial position of many companies in the industry was tight. Many of them were, therefore, ill-prepared for the fight against COVID-19 in the beginning of the year and now at the end of 2020.
- Companies in the industry are generally in a worse position to deal with increased indebtedness.
- The financial status of the companies and their challenges vary greatly by subindustries, regions and between individual companies.
- If market adjustment is assumed with the liquidation of companies that were not viable at the end of 2019 and thus reduced capacity, KPMG's forecast model shows that the industry's performance is positive at 1,230,000 tourists.
- Without market adjustment, the forecast model shows that profit will start to be generated at 1,735 thousand tourists.

#### Governmental measures because of the epidemic -Utilization of homes and businesses

The ministry of Finance and Economic Affairs published a report in November 2020 about the central government actions available for homes and businesses to fight the pandemic (Ministry of Finance and Economic Affairs, 2020 November). The report is an analysis of how much of the action have been used.

#### Short summary:

The government has introduced several economic measures because of the pandemic that directly benefit households and businesses.

- The government provided state guarantee on credit lines to Iceland's only international airline; Icelandair.
- A special government guarantee has been provided to travel agencies.
- The measures aimed at businesses had been used by about 3,000 companies. Of those, 800 are in tourism.
- About 65% of the amount had gone to companies in tourism.
- The tourism industry has been the largest recipient of all the largest measures, except for closure subsidies.
- Reduced Employment Ratio is the most extensive measure for individuals, about 36 thousand individuals have received that.

#### *Case study of the impact of COVID-19 on Tourism and Society in the municipality of Hornafjörður:*

This research was done in the municipality of Hornafjörður which is in the south-east of the country. In recent year, tourism has become a vital whole year around industry for the municipality. The aim of the research project was twofold. First, it was about examining the consequences of the first wave of COVID-19 epidemic on tourism companies in the municipality, their owners, and employees, and both economic and psychological factors were considered. Second, the study focused especially on foreign employees of tourism companies in the municipality, their well-being, and rights.

#### *Consequences on tourism companies:*

Great insecurity following COVID-19 was a consistent theme in all interviews. However, many of the interviewees seemed to take the situation somewhat calmly and chose to look at the situation with realistic eyes and work with what they had. All interviewees seemed to agree that the summer of 2020 was better than expected but at the same

time they also agreed that times ahead would be heavy and tricky.

Most of the interviewees welcomed the quiet time that COVID-19 brought, despite the difficult conditions. For many, this was their first break in years as they had been busy handling the extensive growth in international tourist numbers.

There was indication that interviewees who had run the business for a long time, seemed calmer regarding the future of the company, while interviewees who had entered the tourism business more recently, expressed more concern about the future of their company.

#### *Consequences for foreign employees:*

The interviewees experienced weak social relations with the locals and felt a certain separation between them and the locals. In general, the interviewees seemed to feel insecure about their job or job opportunities, even those who were experienced in their field. That uncertainty was higher amongst those living in a house provided by the employer. Many were unaware of about the government's resources aimed for individuals, and also on their rights when came to resignation.

#### *The summer 2020 and the prospects ahead – A survey amongst tourism companies*

A survey made for the Icelandic Tourist Board by Gallup (Gallup & The Icelandic Tourist Board, 2020 November). The purpose of the survey was to provide statistical information to be able to evaluate the performance of tourism companies in the summer of 2020 in comparison with the summer of 2019, the mitigation measures that companies have taken, the use of government's measures, as well as the prospects ahead. A total of 537 responses were collected.

The results have been analysed down to the size of the company based on turnover, and location in the country, and by tourism subindustry. In some of the cases by number of employees.

#### *How was the summer?*

About 65% of tourism companies had similar opening hours during the summer of 2020 as 2019. Only about 5% were closed in the summer of 2020. A total of 7% of companies with 1-3 employees closed their business before the summer, compared to 2% of companies with 4-10 employees and 2% of 10 employees and more.

About eight out of ten companies took action to attract Icelanders the summer of 2020. For example, by accepting the travel gift<sup>1</sup> (52%), lowering prices (48%), having special offers (45%) and adapting the range of products and services to the needs of Icelanders.

Of those participating in the survey, 41% reduced their product supply during the summer.

On average, prices were reduced by 35% to attract Icelanders.

The number of customers decreased on average by 86% in the summer of 2020 compared to summer 2019. Turnover decreased for nine out of ten of the participating companies. The decrease in turnover was on average 65% between the summer of 2020 and summer 2019.

For 93% of the smallest companies with 1-3 employees, number of customers decreased, compared to 83% of the companies with 4-10 employees and 80% of the companies with 10 employees or more.

Icelanders were on average 57% of the tourism customers summer 2020 and 54% of the turnover was due to them. In comparison, Icelanders were on average 27% of customers in the summer of 2019 and about 26% of companies' turnover could be traced to them on average. Icelanders were 56% of hotel service customers in the summer of 2020, compared to 16% summer of 2019. About 80% of restaurant customers were Icelanders, compared to 54% summer 2019.

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<sup>1</sup> The travel gift is a digital gift certificate in the amount of ISK 5,000 (c.a. 31 eur) to Icelanders to spend in domestic tourism, as a part of governments effort to support the economy and particularly the tourism industry. (Government of Iceland. <https://www.stjornarradid.is/rikisstjorn/covid-19/>)

For two out of five, this summer's business exceeded expectations. About a quarter thought the demand was in line with expectations and about a third expressed the demand of being below expectations. The business mainly exceeded the expectations of companies in rural areas, mainly restaurant services (80%).

23% of companies returned EBITDA margin in the summer of 2020, 17% did not return a margin and 61% had a negative margin.

#### *Government measures and countermeasures of the companies*

The vast majority of companies (94%) had taken counter measures to adapt to the business environment following COVID-19. The actions have mostly revolved around: Reducing staff (76%), Utilize government support measures (68%), Reduce the proportion of employees (66%), Reduce operating costs (65%).

Two out of five companies have reduced the company's capacity or taken assets out of use or renegotiated with creditors and suppliers. Three out of ten companies have since increased borrowing and about a fifth sold assets owned by a company.

86% of the respondents had used the government support measures and of them 94% had use the reduced employment ratio measure<sup>2</sup>. For those who had not used the governmental measures (6%) the main reason was that the company did not meet the criteria of the measures (40%) and that the measures did not suit their line of businesses (26%). Little less than one third (26%) expressed no need to use the governmental measures.

An equal number was satisfied (36%) and dissatisfied (36%) with the government's support measures for the tourism industry. Just over a quarter were neither satisfied nor dissatisfied. Companies with the highest turnover (+500 million) were happier with support measures than those with the lowest turnover. The companies that had been operating for more than ten years were happier with the government measures than those that had been operating for a shorter period.

#### *What lies ahead?*

Almost half of the tourism companies (45%) intended to have the operation open in the winter of 2020-2021 if disease control measures allowed and have similar opening hours as last winter. The smallest companies were more likely to have unchanged opening hours.

The vast majority (74%) of the respondents intended to try to regain their strength as soon as possible after the epidemic.

This report was published in October 2020 and contained a scenario analysis of possible development of the tourism industry in Iceland in the nearest future (KPMG, Icelandic Tourist Board & Tourism Task Force, 2020 October. The scenario analysis was shaped by involvement of different people with knowledge of tourism, economics, and administration.

Four scenarios: The scenarios are shaped by two main driving forces: The recovery process in Iceland's main tourism market areas and the competitiveness of Iceland as a tourism destination. The four scenarios (Fig. 6) describe a possible working environment of the tourism industry, challenges, and opportunities.

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<sup>2</sup> The reduced employment ratio measure is a special type of unemployment benefit in cases where the employer and the employee enter into a temporary agreement on a reduced employment rate. The employee can then apply for and receive a grant from the Unemployment Insurance Fund that corresponds to the reduced employment rate (Directorate of Labor)

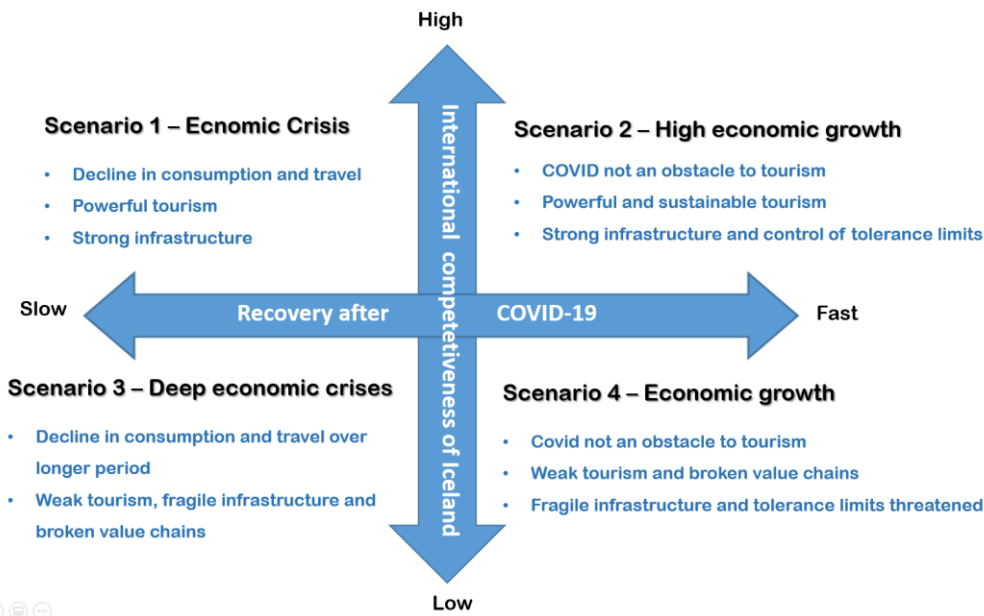


Figure 2. Scenario analysis of the state of tourism in Iceland after COVID-19

An online survey done by Visit South Iceland (Visit South Iceland, 2020 September). The aim of the survey was to identify the actions companies in tourism in the area have taken in response to the epidemic. This survey was running from 28<sup>th</sup> of September to 5<sup>th</sup> of October and respondents were 173.

About 67% of companies had adapted their products and services to meet the changed situation and 22,4% said that they had not. Over 60% of the participating companies had taken some measures in their operations due to the situation.

Circa 40% of the respondents had not applied for government support, more than half had done so and 4,1% were aiming to use the gov. support. The reason for not applying for support was most often that the support measures did not suit the company (89,7%), around 22% said that they had no need to use it.

In general, respondents were optimistic regarding their survival possibilities, thus 71.3% thought it is more or very likely that they would survive the effects of Covid-19.

Survey done by the Icelandic tourism cluster in late August and early September 2020 (Icelandic Tourism Cluster, 2020 September). A total of 56 companies answered the whole survey, but more companies answered part of the questions.

Seven out of ten tourism companies in the survey expressed the need of some form of emergency or short-term financing because of the coronavirus virus. Most companies consider themselves in need of assistance for six to twenty-four months. 32 % did not express this need.

In terms of the companies' countermeasure, the vast majority (89.3%) had been focusing on reducing fixed operations costs, 62.5 % had used the government's resources and just over 73 % had made a short-term survival plan for how the company could survive the next six months. One third had closed their operations temporarily, or for 1 to 6 months, but only 4% had closed their operations completely.

Most respondents were optimistic about the future of Icelandic tourism and looked forward to good operations in 2024.

A survey on the effects of Covid-19 on tourism companies in North of Iceland

An online survey done by Visit North Iceland (Visit North Iceland, 2020 September). The aim of the survey was to identify the actions companies in tourism in the area have taken in response to the epidemic. This survey was running from 25<sup>th</sup> of August to 5<sup>th</sup> of September and respondents were 165.

- The majority (76%) believes that their companies will get through the difficulties caused by the COVID-19 pandemic. 12% say that they do not know if their businesses will survive this pandemic.
- More than half of the respondents (57%) had changed their product supply in some way. Either price, or offers, decreased their supply, changed their product toward serving the domestic market.
- Most businesses were open during the summer and were busy, although the income was low.
- The companies were preparing for a hard winter and were aiming their marketing efforts towards domestic tourists. A total of 75% of the respondents were going to have their business open during the winter.
- Half of the respondents had used government support, and 80% of them used the reduced employment ratio. About 25% of the respondents did not need to use government support.

## Ireland

### Restricted Travel on International Markets

A significant decrease in the number of International tourists visiting Ireland. Optimism that more Irish people may choose local holidays providing an opportunity to target this market but lack of consumer confidence is still at risk. A worst-case scenario of no overseas visitors for the remainder of the year, in addition to a 20 per cent decline in domestic tourism, could lead to an overall loss to the economy of €2.3 billion, it said. The study added that 75% of the sector is “deeply dependent” on overseas visitors with only a proportion of this expected to be offset by a rise in domestic tourism.

- Northern Ireland Tourism along the border is particularly reliant on visitors from the North. In 2017, Fáilte Ireland estimated that visitors from Northern Ireland spent €141 million in the region. For the duration of COVID Northern Ireland borders were closed. FÁILTE IRELAND IS considering launching a new campaign to attract Northern visitors across the border as part of efforts to encourage ‘staycations’ amid the ongoing Covid-19 pandemic.
- Intra EU last minute bookings. Only 14% of holidaymakers across Europe took a break in another European country.
- April bookings down (Summer Holiday bookings) in July 2020 the Irish Hotels’ Federation reported occupancy rates of between 23% and 26% for the summer months.
- American tourists who represent a quarter of overseas visitors. A lucrative market who stay longer and spend more compared to other visitors
- Domestic travellers were also drawn to a halt in Ireland, when it restarts it will only partially compensate for the loss of inbound tourism. Must consider COVID and focus on COVID friendly spaces (open, uncrowded spaces...). Natural areas, regional and local destinations are expected to drive the recovery, and shorter travel distances may result in a lower environmental impact of tourism. Domestic tourists are often more price-sensitive and tend to have lower spending patterns.

### Employment

Tourism is a €9.4 billion industry in Ireland, employing about 260,000 people, according to Fáilte Ireland. Its broad geographic spread makes it a vital source of jobs and income in rural Ireland, reaching into practically every nook and cranny on the island. Travel restrictions and a drop in consumer demand have led to a dramatic fall in international tourism, affecting virtually every country. Tourism accounts for one in 10 jobs worldwide and is a major source of employment due to its labour-intensive nature. In the Republic of Ireland, over 12% of employees in the accommodation and food sector are already on the Temporary Wage Subsidy Scheme. This sector is at the heart of a job-intensive eco-system which creates opportunities locally, as a result several sectors will be affected by its slowdown which could lead to a domino effect.

Tourism jobs have slumped by 25 per cent this year as the impact of the Covid-19 pandemic wreaks havoc in the tourism sector. Both job postings and searches containing keywords such as “tourism” and “hospitality” fell by 25 per



cent in Ireland compared to 2019. However Ireland, along with Germany, remained one of the least affected European countries in terms of job declines.

The Irish tourism industry attracted nine million visitors to this country last year. A government report acknowledged that up to 200,000 jobs could go in the sector over the next year due to anti-virus restrictions. The data shows a stark contrast to years previous when Ireland had a buoyant tourism industry which had seen a 7 per cent growth in jobs between 2016 and 2019.

Jack Kennedy, an economist with Indeed, said tourism is vitally important to the Irish economy, particularly in rural areas.

“Last year Brexit was the biggest threat facing the sector, however Covid-19 has brought a fresh wave of challenges,” he said.

“Tourism is vital to the Irish economy. It employs many in rural communities across Ireland, acting as an economic pillar that provides jobs and opportunity, especially for younger people. It also has a big knock-on effect on the informal economy in these regions, due to the multiplier effect it has on jobs’.

### *Impacts by Tourism Sector*

**Aviation** The current impact of COVID-19 is hard to quantify accurately with many of the flights that did fly almost empty but the number of flight departures from Dublin Airport was down 90% between 18 March and 16 April. With widespread lockdowns, closed borders and calls for those abroad to return home urgently, an entire industry has been stopped in its tracks.

- **Ryanair** The impact of Covid-19 on air travel was perfectly illustrated last week in a trading update from Ryanair, the biggest budget airline in Europe. It is currently operating fewer than 20 flights a day as against a normal schedule of 2,500 daily. It cannot provide any guidance on profits for the current financial year because it simply doesn't know when air travel will resume or gauge accurately the level of consumer demand after the lockdown. Many carriers around the world will go bust in the coming weeks and months.
- **Aer Lingus** reported an operating loss of €3.2bn (before exceptional items) for the first nine months of the year on passenger revenues down by 71%. IAG's already strong balance sheet has been boosted by a recent €2.7bn rights issue Aer Lingus, the group's leading source of revenue and profit in recent years, is well positioned as a 'value airline' on the North Atlantic, and the airline's leading source of revenue and profit in recent years, is well positioned to gain first mover advantage on transatlantic services as soon as demand resumes. US airlines are likely to be slower to restate services on thinner US-Europe routes providing a distinct advantage to Aer Lingus in gaining market share of both the Ireland inbound and outbound markets as well as attracting greater numbers on routes from North America to Europe via its Dublin hub.

**Hospitality** Hotels Federation survey estimates 9.5m bednights were lost last year as Covid-19 battered industry costing Irish hotels €2.6bn in 2020 alone (Irish Hotels Federation (IHF) That's a 60% drop in revenue, and room occupancy dropping to 30%.

- **Dalata Hotel Group** is Ireland's biggest hotel chain. It has closed 29 of its 44 hotels, with the balance providing accommodation to healthcare staff and other essential workers.
- **Citywest** in Saggart, the biggest hotel in the country, has been converted into a HSE facility to treat patients with Covid-19. Dalata chief executive Pat McCann, an industry veteran, expects restrictions to last until September. If that is true, summer has effectively been cancelled, which would be devastating for towns and villages across the country that rely on revenues from the peak tourism season.

### *Impacts on Tourism Businesses*

March 2020 Hospitality Sector (bars, restaurants and hotels) were the hardest hit. The Hospitality sector is a key component of the Irish economy worth up to €7.6bn and employing 180,000 people (71% of sectoral employment is outside of Dublin). In March 100,000 people approx. (over half the sector) were laid off. This severely damaged the

economy as taxation is huge in tourism. Payroll expenditure generates a weekly economic contribution of €87.7m, including exchequer related payroll payments of ~€5.14m. Firms within the accommodation and food services sector made €791m worth of VAT, Corp. Tax and CGT related payments in 2018. The sector itself is also a key buyer from Irish suppliers with purchases totalling €3.2bn in 2016

It was predicted that the government spend would be €64bn to resolve the crisis. (These figures are still not finalised or released). Tourism enterprises have since benefited from supports such as the COVID Resilience Support Scheme, the VAT reduction, the rates waiver and tourism specific schemes. These measures played an important ensuring survival for the sector. It is predicted that the tourism and hospitality businesses account for approximately two thirds of the payments under the \*CRSS Covid Restrictions Support Scheme or €114 million.

Without these supports – impacts such as economic loss, damage to the brand and social fabric would have been huge and difficult to recover from. In March the income continuance scheme was estimated to cost net €2.4m per week for the Hospitality sector. We would argue that bold and early action will ultimately be more positive and impactful. For example in March 2020 it was predicted that example the bar with food trade - would need to be able to sustain 62 weeks of negative cash before returning to the black.

\*CRSS Advance Credit for Trading Expenses (ACTE) is payable for each week a business is affected by the restrictions. The CRSS is expected to continue until 31 March 2021. The ACTE is equal to 10% of the average weekly turnover of the business in 2019 up to €20,000, plus 5% on turnover over €20,000. In the case of new businesses, the turnover is based on the average actual weekly turnover in 2020. The ACTE is subject to a maximum weekly payment of €5,000.

#### *Labour/Employment*

- Majority of full time and all part time staff laid off immediately.
- Anticipation is to try and re-employ all when operating again.
- Focus on trying to retain key staff but for how long is uncertain.

#### *Supply Chain*

- Limited cash reserves available to pay a number of key suppliers/ staff.
- Focus on maintaining future supply chain by paying key suppliers.
- Trying to support the small local suppliers.

#### *Fixed Overheads*

- Ensure cash is available to cover immediate overheads.
- Insurance - potential to claim loss cover v future premium increases.

#### *Cashflow Shortages*

- Concern surrounding how finance/credit will be obtained when operating again.
- Fear of cash shortages and availability of funding
- Accumulated negative cash balances from period of shut down.

#### *Profitability*

- Intense price competition amongst hotels in an attempt to increase occupancy rates.
- Negative impact on profitability if widespread price competition occurs.
- Overall, increased competition

#### *Permanent Closure*

- Risk of newer businesses without cash reserves being unable to reopen.
- Loss of rural bars and restaurants feared.
- Food Ireland ecosystem at risk and unlikely to recover quickly

### *Long Term Impacts Brand*

- Risk of long term damage to the sector through shuttered properties, slow recovery and squeeze out of quality players

### *Corporate Spend*

- Corporate bookings for the remainder of the year are being cancelled.
- Reduction in corporate events being held for the foreseeable future.
- Corporate travel to Ireland is likely to be curtailed.

### *Short term government solutions*

1. Government to provide 75% of the net take home pay to 180, 000 employees in the sector (€1.16 bn hospitality sector contributes to Exchequer)
2. Benefit capped at the equivalent of an annual salary of €50,000 per annum and strictly limited to one week after the end of social distancing
3. Provide a 0% loan based support interest free to provide working capital for the industry to start itself

### *Businesses Will Need to Adjust*

- Be able to continue to respond to fast-evolving government restrictions
- Target new markets (and niche), especially locally
- Focus on experiences that have safety protocols and contactless tourism experiences
- Minimising group transport and guests preferring private transport will cost more and have a negative effect on the environment
- Change their offering to meet customer expectations and health authority guidelines
- Negotiate revised funding structures with lenders
- Invest to adapt their operations to be more COVID friendly
- Will need to upskill, train and invest in digitalisation especially in tourism services to accelerate, including a higher use of automation, contact-less payments and services, virtual experiences, real-time information provision...
- Continue to have bills to pay, while having no revenues
- Additional expensive investments required to manage new sanitary or health requirements could be substantial and will impact their profitability. Many are wondering if it will be worth reopening this summer or if they should wait until the end of COVID-19. But can they?
- The brutal fallout from Covid-19 still lies ahead, and many businesses will not reopen
- Rebooting the industry once restrictions begin to be lifted will be extremely challenging. Social distancing will continue to be a feature of life until a vaccine has been developed and is widely available, and people around the world will naturally be slow to travel abroad again for fear of putting themselves in the way of danger.
- Remain in survival mode until well into 2021 when hopefully international tourism returns

### *Vaccine Rollout Implications*

The demand and supply factors need to be managed where economic and health consequences are interlinked – i.e. where does Tourism lie in the ‘queue’ the vaccine is the best solution to assist with building consumer confidence and travel behaviour, build back up the tourism economy, minimise the crisis impacts and continued uncertainty.

- Social distancing will continue to be a feature of life until a vaccine has been developed and is widely available
- Vaccine roll out will take some time, and the sector is potentially facing stop/start cycles for some time.

- This will further damage business and traveller confidence, and business survival prospects. Despite the proven resilience of the tourism economy to previous shocks, the sheer scale and combined economic and health nature of this crisis means that the road to recovery is highly uncertain.
- Especially festivals and events, leisure and business tourism, sports events will be negatively impacted long term. All cancelled to avoid peaks with restrictive measures. Gatherings are seen to be something of the far and distant future.

### *Public Sector Response*

The sector will need a series of initiatives will be needed to help kick-start the industry again. Fáilte Ireland is already scoping out the possibility of another version of the Gathering, a 2013 tourism-led initiative to encourage the diaspora to return home to visit family or attend an event.

Innovation is required: In the wake of the financial crash, a special VAT rate of 9 per cent was introduced to support the hospitality sector before being scrapped last year. The State lost €2.6 billion in tax revenue but the measure boosted competitiveness at a crucial time in our recovery and helped drive visitor numbers to record levels. Marketing initiatives such as the Wild Atlantic Way were also launched with success.

Similar innovation will be required this time around and the industry will also have to play its part in providing value for money to consumers. The public sector also suffered impacts as a result of COVID.

- A decrease in taxes generated or supported by tourist spending
- Cost to supporting affected businesses continues to grow
- Have to prioritise health spending during the worst pandemic the country has seen for a century.
- Ability of the industry to retain its accommodation capacity and skilled workers will depend on an ambitious and coordinated plan from public and private stakeholders. Strategic and evidence-based decisions will need to be made before the summer season to give clarity to tourism businesses and these actions could need to be maintained for at least two years
- Flexible policy solutions are needed to enable the tourism economy to live alongside the virus in the short to medium term, it is important to look beyond this and take steps to learn from the crisis, which has revealed gaps in government and industry preparedness and response capacity. Co-ordinated action across governments at all levels and the private sector is essential.
- The Irish government needs to 'rethink Irish Tourism' and consider the longer-term implications of the crisis, while capitalising on digitalisation, supporting the low carbon transition, and promoting the structural transformation needed to build a stronger, more sustainable and resilient tourism economy.
- It is also an opportunity to take look at invest and take advantage of new technologies, implement green recovery strategies, and shift to policy and business practices that better balance the environmental, social and economic impacts of tourism e.g. part of the recovery plan incorporating sustainability and resilience models of tourism development

### *The Public Sector Will Need to Implement Short Term and Long Tourism Business Solutions*

#### *Short Term Solutions (Possible)*

- A considerable, rapid and sustainable financial support package, tailored to the needs of each tourism sub-sector (e.g. accommodation, attractions, live events, business tourism, pubs and restaurants)
- Responsive operational support to tourism businesses (e.g. strategy, liquidity, HR, insurance, debt)
- Restoring traveller confidence
- Supporting tourism businesses to adapt and survive
- Promoting domestic tourism and supporting safe return of international tourism
- Providing clear information to travellers and businesses, and limiting uncertainty (to the extent possible)
- Evolving response measures to maintain capacity in the sector and address gaps in supports
- Strengthening co-operation within and between countries

- Building more resilient, sustainable tourism sectors in regions

#### *Long Term Solutions (Possible)*

- A forward-looking plan to address the challenges and capitalise on the opportunities of this crisis for the Irish tourism offering
- A coherent 'Team Ireland' approach to keep building on the attractiveness of a destination that has consistently been punching above its weight for the last decade
- Must continue the longstanding Irish tradition of welcoming visitors with open arms and our famous hospitality in order to fight this.

People are predicated almost certainly to remain reluctant to travel. They will remain in fear for their health and safety in the context of COVID-19 and a potential additional surge in the pandemic that could occur later this year. If we compare to other countries recovery from terror attacks and virus (SARS in Thailand, EU Terror Attacks) it took between six and nine months to return to pre-crisis activity levels. However COVID is global. Elderly, those with underlying conditions will be most reluctant to travel and may have difficulty accessing suitable travel insurance.

The affordability and access to disposable income to travel will be unlikely. As in recovery it is predicted Ireland's key tourism markets including the Eurozone (-2.6%), the US (-1.8%) and the UK (-1.6%) which will be more affected than emerging countries such as China (-0.7%) according to Oxford Economics April 2020 forecast. Even as incomes stabilise, the current uncertainty and crisis mentality may make consumers less likely to spend extravagantly, preferring to instead save for a rainy day.

## Germany

### Regional measures to support tourism

As already noted, both government restrictions and the decisions of the demand side are reflected in the economic situation of entrepreneurs. At the same time, a part of employment that varies according to the location is jeopardised. The question is which and to what extent regional and state measures should be taken. In any case, the guideline is to only make such expenditures that do not defeat their purpose. The purpose is the preservation of healthy enterprises that got into the crisis through no fault of their own; to be distinguished from this for efficient aid are in turn those enterprises that got into the crisis through their own fault and would be kept alive artificially by the measures. To this end, state support measures could be designed and approved on the basis of the following principles:

Firstly, the companies and the industry should be placed in the same position as they would be without the damaging event (the restrictions). Thus, those who previously operated profitably and safely should be given a presumption in favour of the subsequent period.

Secondly, the government measures do not serve to compensate for wrong business decisions or developments that originated before the pandemic.

Thirdly, state aid should be granted as a priority to those companies that experience reduced revenues or liquidity bottlenecks as a direct result of state-imposed closures. In connection with this, attention should also be paid to whether the companies could benefit from any catch-up effects, so that lasting damage in particular can be avoided. Depending on the likelihood of post-crisis recovery, different instruments should be used. Therefore, it is necessary to determine the post-crisis recovery.

Especially in the services sector, only limited catch-up effects can be expected. After all, needs could already be met through a one-time use of service providers, so that the turnover losses of the crisis period cannot be recovered to a large extent. The only thing that can help here is to replace the lost income. Loans and the associated interest burdens would in turn require the possibility of repayment, which, as explained, is not possible if revenue losses do not recover. It is questionable whether this finding is conclusive.

However, catch-up effects are to be expected where long-lasting consumption desires are only postponed or even accumulate and are postponed. A car that should have been bought before will most likely be bought again at the next possible opportunity. In this case, a liquidation bottleneck due to the loss of income is possible, but lasting damage resulting in insolvency can be ruled out. In such cases of impending liquidity bottlenecks, the German government has launched comprehensive programmes for liquidity assistance through the Kreditanstalt für Wiederaufbau (KfW). Loans are granted at favourable interest rates and liability is assumed for bridging loans with house banks. To remedy the time pressure and largely prevent insolvency, loan disbursement is accelerated through a simplified risk assessment. Nevertheless, consideration must be given to the possible repayment and interest burden of, for example, a small company that is already financed by other loans and also has to meet this liability within a more rigid period of time. Therefore, it is advisable to design the maximum term and the repayment rate in such a way that it takes into account any existing interest burden. For example, a term of up to 12 years and an extension of the grace period to up to four years could be agreed upon without major costs for the public sector.

Such grace periods of a loan term would then also be a set of instruments that can also become useful to enterprises and sectors without post-crisis recovery. The Schleswig-Holstein state government also recognised this and developed the IB-SH 2020 SME programme. It offers five-year interest-free and two-year repayment-free loans with optional follow-up financing, as well as a loan liability assumption of 90 %. The partial demand for a 100 % assumption of liability for loans is disproportionate, and the consideration must also take into account the need to prevent possible future loan defaults and windfall profits from the point of view of the public purse.

Here too, however, in view of small businesses that are essentially dependent on tourism, it becomes apparent that revenues can probably only be generated by large crowds and that this precondition will practically only be met when the pandemic ends. In addition, since catch-up effects will be largely absent, a safeguard is required in these cases that also goes beyond liquidity supply with relaxed redemption provisions. Thus, as already mentioned, for certain companies without a catch-up effect, "compensation" in the form of a state subsidy is certainly necessary. The federal government subsequently addressed this problem and developed the "Corona-Überbrückungshilfe III" (Corona Bridging Assistance III) package. In this package, the federal government provides proportional fixed-cost subsidies to entrepreneurs in relation to the size of the business and the drop in turnover. Approval is tied to conditions that are probably met by the majority of the tourism industry; however, it remains to be determined to what extent the bureaucratic hurdles and payment processes deny effective assistance, especially in view of the tourism industry's total loss of revenue.

Another possibility, which, however, has not yet been implemented in Germany by the federal government and the state governments, is a protective umbrella for planning security in the event and tourism industry. For example, Austria, through the Austrian Hotel and Tourism Bank, grants reimbursement to event organisers for expenses incurred by the companies that cannot be recouped directly due to restrictions or due to cancellations by guests in connection with the restrictions.

A regional approach, on the other hand, is provided by the Paderborn Cultural Office with a best-practice approach that takes into account the local economic and social conditions and, instead of financial resources, can provide supplementary, especially non-material resources.

## Spain

### *Central Administration measures*

The Central Government has announced a series of measures that we group into six categories, which are summarized below, without pretending to be exhaustive:

#### a) Cross-cutting measures

- Plan for the Transition towards a new normality
- European Recovery Plan to support the tourism sector

#### b) Aid for the liquidity of companies and the self-employed

- Official Credit Institute financing line, endowed with € 400M and guaranteed by the State to all companies and self-employed workers with tax domicile in Spain that are basically included in the economic sectors of passenger transport, accommodation, and restaurants.
- Creation of a line of guarantees and public guarantees of up to 100,000 million euros. The Government approved on March 24 the conditions of the first tranche of the guarantee line for an amount of 20,000 million euros, of which 50% will be reserved to guarantee loans for the self-employed and Pymes
- CESCE guarantee a line of 2,000 million euros for internationalized companies or in the process of internationalization and that face a liquidity problem or lack of access to financing as a result of the impact of the COVID 19 crisis on their economic activity, favouring especially SMEs.
- In the case of ERTes, the employer will be exonerated from the total business contribution of Social Security contributions, if the company has less than 50 workers. If you have 50 workers or more, the exemption from the obligation to contribute will reach 75% of the business contribution.
- Specific regime of suspension of public contracts, with an extension of terms and compensation of salaries, to avoid the loss of employment.
- Through regulatory reform, companies from countries outside the EU are prevented from controlling Spanish entities in strategic sectors.
- Extension of the mortgage moratorium on properties affected by economic activity for entrepreneurs and professionals whose activity has been suspended due to the state of alarm or whose billing has dropped significantly.
- Moratorium of six months, without interest in the payment of social security contributions for the self-employed and companies.
- Postponement of payment of debts to Social Security until June 30 for companies and self-employed workers that do not have another postponement in force.
- Measures so that the self-employed and companies that have been affected by COVID19 can make the payment of basic supplies such as electricity, water, or gas more flexible, even reaching the possibility of suspending their payment. Amounts owed will be paid no later than six months after the end of the alarm state.
- In the case of self-employed individuals, it establishes that beneficiaries of the benefit for the cessation of activity may pay the contributions for March corresponding to the days before the declaration of the state of alarm after the deadline and without surcharge.

#### c) Tax obligations

- Suspension for one year and without any penalty of the payment of interest and amortizations corresponding to the loans granted by the Secretary of State for Tourism.
- The flexibility of the deferral of the payment of tax debts with the Administration for six months, upon request, with a partial reduction in interest rates to avoid possible treasury tensions of the self-employed and small and medium-sized companies

#### d) Employment measures

- Extension of the bonus to discontinuous fixed contracts from February to June in the tourism, commerce, and hospitality sectors linked to tourism.
- Employees are allowed to adapt or reduce their working hours up to 100% to meet the conciliation and care needs derived from this crisis.
- Teleworking is established as the main measure of flexibility when circumstances permit.
- Flexibility of ERTes. Those caused by the COVID-19 crisis will be considered force majeure and workers will have the right to the contributory unemployment benefit, even if they do not meet the required prior

contribution requirement. The collection of this benefit will not count towards the subsequent collection of the unemployment benefit.

- For the self-employed, access to the cessation of activity and the collection of their benefits in the event of financial difficulty is made more flexible.
- A recoverable paid leave is regulated for non-essential service workers to reduce the mobility of the population in the context of the fight against COVID-19.
- The group of potential recipients of the electricity social bonus is expanded, to which people who have been affected by employment regulation measures of their companies or, in the case of self-employed, have ceased their activity or seen reduced your income by more than 75%.
- Adaptation of the extraordinary benefit for the cessation of self-employed activity with a high degree of seasonality.
- New extraordinary subsidy is equivalent to 80% of the monthly amount of the Public Indicator of Multiple Effects Income (IPREM) for people who have completed their temporary contract of at least two months that would have expired after the declaration of the state of alarm and who do not reach the minimum contribution period to receive unemployment benefit.

#### e) Competitive intelligence: markets and competition

- Weekly reports prepared by the Tourism Councils that contemplate the changes that each issuing market is undergoing in the field of intermediation, in the characteristics of the demand, as well as the situation in the country and the prospects for recovery in each case, in light of the global pandemic.
- Campaign on social networks reinforcing the emotional bond with Spain. It is a video edited in 5 languages and disseminated from the profiles of @spain, to reinforce the emotional bond with Spain in international tourism and to remember the attractions and the country's offer.

#### f) Other measures of interest

- Declaration as essential services to certain tourist accommodation.
- The Secretary of State for Tourism, in collaboration with SEGITTUR, launched a set of training actions within the Tourism Hosts program, with the aim that professionals in the tourism sector can make the best use of the confinement situation, and be better prepared to face the exit from the current crisis.
- More flexible maintenance rules for airport slots.
- The start-up of programs to support digitization and R&D of SMEs is accelerated, which will facilitate the implementation of teleworking.
- Carrying out all the procedures with the Social Security regarding deferrals in the payment of debts, moratoriums, or returns of undue income through the RED Electronic Communication System.
- Regarding package trips cancelled due to COVID19, it is expected that the organizer or retailer can give the consumer a voucher to be used for one year for an amount equal to the corresponding refund; If not used during that period, the consumer may exercise the right of reimbursement. Complementary measures are also established to protect organizers or retailers against the non-payment of suppliers.
- Extension and reinforcement of the Thomas Cook financing line, initially foreseen by Royal Decree -Law 12/2019.
- Measures are established to ensure a moratorium on mortgage debt for the acquisition of the habitual residence, of properties related to the economic activity carried out by businessmen and professionals, and of houses other than the usual rental situation.
- Secretary of State for Digitalization and Artificial Intelligence (SEDIA): DataCOVID, the population mobility study that will help in decision-making in the face of the coronavirus.



### *Measures of the Autonomous Administrations*

As of the closing date of this report, the various regional administrations have announced some actions that we group into nine categories but which are expected to increase as the process of recovery in tourist activity progresses.

#### a) Aid for the protection of the payment chain, credit lines, and settlement of aid

- Line of credit to improve the liquidity of companies and mitigate the effects of the coronavirus pandemic (in Catalonia, Aragon, and Extremadura).
- Help to support the self-employed and SMEs in the tourism sector affected by COVID19 (in Catalonia and Valencia).
- Announcement of the reduction of the water fee in hotel establishments, campsites, and other accommodations (in Catalonia).

#### b) Tax obligations

- Suspension or extension of the instalment payment terms of personal income tax, certain self-assessments, and tax debts of the self-employed and SMEs (in Galicia and Navarra).
- Moratorium on the payment of the tax on stays in tourist establishments (in Catalonia).

#### c) Employment measures

- Inclusion of certain groups of discontinuous permanent workers in the hospitality sector and accessory activities in the temporary employment regulation files provided for in articles 22 and 23 of Royal Decree - Law 8/2020 (in the Balearic Islands).
- Assistance in monitoring and control of infection in workers and the company and in disinfection work, equipment, and facilities for measuring sanitary conditions, disinfection of facilities and people, and individual or collective personal protection and safety. For the manufacturing industry, transport, and hospitality, including hotels and campsites (in La Rioja).
- Recommendations for companies and workers on actions related to COVID-19 situations (in Catalonia).

#### d) Competitive intelligence: markets and competition

- Benchmarking on the measures taken in the issuing markets (in Catalonia).
- Monitoring report on the impact of COVID-19 on tourist activity in the autonomous community (in Catalonia and Valencia).
- Simulation study for tourist demand. Scenario simulation (in the Canary Islands).

#### e) Innovation and ICT tools

- Digital edition of a children's book with content related to the autonomous community translated into the language of the main source markets (in the Canary Islands).
- Geographic information system on the epidemiological situation (in Castilla y León, Balearic Islands, and Asturias).
- Online data collection platform that measures the economic impact of COVID-19 in the tourism sector (in the Basque Country).
- Campaign to recover the destination's image on social networks (in Catalonia and the Canary Islands).

#### f) Governance

- Technical group of tourist cities to agree on the de-escalation of the sector (in Valencia).
- Technical committees with different agents of the tourism value chain (in Andalusia and Valencia).
- Guide to aid for the tourism sector (in Murcia).

#### g) Physical distancing

- Contingency plan for COVID-19 to apply in the Tourist Info Network of the Valencian Community.

#### h) Training

- Online training initiatives (webinars) aimed at companies, destinations, and professionals in the tourism sector (in the Canary Islands).

#### i) Reactivation plans

- Preparation plan for the tourism sector to advance its reopening (world tourism safety laboratory) (in the Canary Islands).
- Shock plan to recover and reactivate the tourism sector in the face of the health and economic crisis caused by the coronavirus pandemic (in Andalusia).
- Investment plans to help the sector (in Galicia).

#### *Local Administration Measures*

There are still few local measures in these initial phases because as the de-escalation progresses, the town councils will be deploying new actions, adapting them to the measures already established by the Autonomous Communities and the Central Government. Only some examples of the first measures announced as of the closing date of this report are shown here.

#### a) Aid for the liquidity of companies and the self-employed

- Social and economic measures for the reactivation of the municipal economic fabric (in Palma de Mallorca)
- Refund of the payment, to bars and restaurants, for the occupation of the public domain of tables and chairs, of the rate corresponding to the entire year 2020 (in Calviá).

#### b) Tax obligations

- New, broader, and more flexible fiscal calendar that will mean delaying and extending the term of voluntary payment of taxes (from July 1 to November 15) (in Calviá).
- Suspension of fees and modification of the Ordinance to expand the area of the terraces of bars and restaurants (in Gandía).

#### d) Employment measures

- Social and economic measures for the reactivation of the municipal economic fabric (in Palma de Mallorca).

#### e) Competitive intelligence: markets and competition

- Survey on the behaviour of potential tourists to the province of the region after the health alert for Covid-19 (in Huesca).

#### f) Innovation and ICT tools

- Initiative to make trade and essential services visible during COVID-19, operational in each district (in Madrid).
- Website designed to consult businesses that sell at home or are collected in a store (in Conil de la Frontera).
- Campaign to recover the destination's image on social networks (in Lorca).
- PATTI RECOVERY project based on conducting Covid19 tests to establish protocols for the reopening of establishments (in Benidorm).

The objective of such wide and varied measures is to protect the tourism sector in an unprecedented crisis, however, it is still too early to rigorously evaluate the success or otherwise of these measures

## Scotland

### How Tourism SMEs Navigate their Way Effectively through Crisis

As a sectoral level, short-term policy response units, such as the Scottish Tourism Recovery Task Force, have set out a number of key priorities for the recovery of the tourism sector, including creating a sustainable destination for the safe return of visitors and boosting innovation to provide great customer experiences. More pertinent to this project, developing a skilled, valued and committed workforce and building business resilience and sustainability were also identified as priority measures (STRT, 2020).

At the individual SME level, Riskconnect (2020) proposes a number of key steps to prepare for recovery:

- Ascertain what is working, and what isn't, in your recovery plans.
- Consider all possible risks.
- Create a crisis recovery team, with appropriate accountability and leadership.
- Create a plan, and test it.

Both Riskconnect and the Executive Strategy blog identify the importance of 'gathering facts while understanding the emotional impact on the organization' and taking positive steps to resolve the issue and assuage workforce fears, with communication, to suppliers, workers, guests etc, a key consideration (Executive Strategy, 2019).

Source: Noggin (no date)

Noggin (no date) suggests that there are three stages to crisis management, as illustrated above: preparation for possible crisis, crisis response, and a form of critical self-reflection to ascertain what could be done better to handle further crisis.

More directly aimed at the tourism sector, Future Place Leadership (2020) advocates:

- Understanding the new needs of the market, focussing on segments that have the ability to bounce back more quickly, such as special interest tourism and the domestic market.
- Rebuilding with health and safety in mind, demonstrating the highest standards.
- Promoting skills development, especially digital, to advance the skillset of the sector and promote recovery.
- Collaborating across the sector, as the industry is recognised as being stronger together.

As an example of the last point, the European Travel Commission's recovery report considers that the pandemic has in many cases brought the national tourism organisations closer to the business community, as SMEs have become more reliant on the insights and guidance that they have been providing during the crisis (ETC, 2020), and made good use of (free) local or national advice (Niininen, 2013).

Future Place Leadership (2020) goes on to suggest how important it is to:

- Learn from this crisis, to become better prepared.
- Think about the future and how the current pandemic does give the industry to rethink and do things differently.
- Use digital as an enabler, for more effective promotion, communications and collection of consumer data.

Although taking a more academic perspective Niininen (2013) interviewed hotel managers and suggested some similar issues to take account of, but also drew attention to the importance of effectively managing costs during a crisis to allow an SME to bounce back quickly during recovery.

Safertourism.com (2020) suggests a number of considerations to help tourism businesses negotiate crises:

- Never assume that a crisis will not touch you – have a crisis recovery plan in place prior to a crisis.
- Often it is the media that define a crisis as a crisis. Ensure that the correct information is given to the media as quickly as possible.
- The best recovery programmes consist of a series of co-ordinated steps, not one remedy – for example coordinate advertising and marketing campaign with an incentive programme for consumers.

- During a crisis geographic confusion often occurs – again, ensure that the correct information is given to the media as quickly as possible.
- If your business/community is not closed for business make sure that you let people know.
- Encourage people to support your community by visiting it - reward those who do so.
- It is essential to train employees in crisis management and how they will present themselves, and the company they represent, to the general public.
- Do not complain; instead, emphasise the positive.
- Seek ways to gain exposure for your business and the local tourism community – invite bloggers or journalists to write articles about your recovery.
- Be creative in developing products that encourage the local population to enjoy local tourism businesses.
- Collaborate with industry partners to work together to encourage people to return.

### Crisis Management Skills Required to Help SMEs out of Crisis

Numerous academic studies have been undertaken on the development of frameworks for the development of crisis response skills, both across a range of sectors and within the tourism industry. In an attempt to amalgamate findings, they have been synthesised into four stages, using the model espoused by Hong et al. (2012):

#### 1. Pre-crisis phase – prevention and/or detection

- Creating a risk management strategy, to identify and address risks and mitigation measures (Mikušová & Horváthová, 2019).
- Having a crisis management plan or contingency plan, to establish procedures for crisis response, for example purchasing from alternative suppliers (Alves et al., 2020; Mikušová & Horváthová, 2019).
- Making the business prepared, through market diversification and product innovation (Hong et al., 2012).

#### 2. Crisis occurrence phase

- Ensuring product flexibility or diversification, eg. cafes selling more takeaways (Alves et al., 2020).
- Increasing promotional activity (Alves et al., 2020).
- Exploring new inbound consumer markets (Alves et al., 2020), and new domestic markets.
- Flexible staffing arrangements, in terms of taking annual leave, working hours, and revising HR policies (Alves et al., 2020).
- Developing a containment strategy to minimise risk (Hong et al., 2012).
- Creating and demonstrating effective leadership (Hong et al., 2012).
- Undertaking cost control - adopting IT solutions, buying cheaper substitutes and abandoning unprofitable areas of the business (Kukanja et al., 2020; Hong et al., 2012).
- Making labour-force cutbacks, empathetic to employees and without undermining training and re-employment during recovery (Kukanja et al., 2020).
- Staying abreast of and making the most of organisational support (Kukanja et al., 2020), through national or regional support agencies or membership organisations.
- Demonstrating a willingness to collaborate and co-operate with other businesses (Kukanja et al., 2020).
- Being able to restructure liabilities (Mikušová & Horváthová, 2019).

#### 3. Recovery phase

- Formulating a recovery plan (Hong et al., 2012).
- Undertaking customer-oriented marketing, focussing on loyal guests (Kukanja et al., 2020).
- Investigating and enabling product diversification (Mikušová & Horváthová, 2019).
- Undertaking effective communication with suppliers (Hong et al., 2012).
- Benchmarking performance against competing SMEs (Kukanja et al., 2020).

The Crisis Resource Center (2020) identified the importance of digital marketing as an essential element of an SME's recovery, in terms of:

- Keeping international travellers, partners, and trade informed and aware of the destination status and recovery plans.
- Undertaking direct to consumer digital marketing campaigns to audiences considered receptive to travel messages.
- Curating, purposing and repurposing content and digital resources for marketing campaigns.
- Re-purposing this content for recovery plans and future marketing.

#### 4. Resolution phase

- Undertaking a crisis management review (Hong et al., 2012), to analyse impacts, and preparedness, as well as perceptions of employees and consumers (Mikušová & Horváthová, 2019).
- Strategic planning (Hong et al., 2012).
- Restoring business credibility, as appropriate (Mikušová & Horváthová, 2019).