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Testimony

”PREPARE FOR TAKE-OFF: AMERICAN SAFE RETURN TO AIR TRAVEL"
STATEMENT OF AIRLINES FOR AMERICA (A4A)
BEFORE THE
U.S. SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
SUBCOMMITTEE ON AVIATION SAFETY, OPERATIONS, AND INNOVATION

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Thank You

Airlines for America (A4A) appreciates the opportunity to testify today to share with you the impact of the COVID-19 pandemic on the commercial aviation industry. At the outset, I would like to thank Congress, including many on this Committee, for your leadership and bipartisan support of the aviation worker payroll support program (PSP). The PSP was first established in the Coronavirus Aid, Relief, and Economic Security (CARES) Act and subsequently extended in the COVID Relief packages passed in December 2020 and March of this year. Those provisions have supplemented the U.S. airline industry’s ability to make payroll and exclusively protect the jobs of flight attendants, pilots, gate agents, mechanics and others. Without the PSP, the economic impacts of the pandemic would have been even more devastating to our workforce.

We appreciate that Congress has recognized that our employees are the backbone of the industry and its greatest resource, along with being an important component of broader U.S. economic recovery.

Congress has truly been a champion of the U.S. aviation worker and we sincerely thank you.

What Is Past is Prologue

This is the most challenging period in aviation history, but prior to the pandemic we were experiencing what many have called the “Golden Age” of air travel. U.S. airlines were flying 2.5 million passengers and more than 58,000 tons of cargo each day. In 2019, U.S airlines carried an all-time high 927 million passengers in scheduled service. Those record numbers were in large part because of two main factors: affordability and accessibility. Accounting for inflation, and including ancillary services, average domestic ticket prices fell 15 percent from 2014-2019, 22 percent from 2000-2019 and 44 percent from 1979-2019 – the 40-year period following the Airline Deregulation Act of 1978. Those lower fares made commercial air travel accessible to nearly all Americans. In fact, 42 percent of Americans who flew in 2019 had family incomes under $75,000. Further, in 1971 only 49 percent of Americans had ever flown commercially; by 2019, that figure had climbed to 86 percent.

In February 2020, before the onset of the pandemic, U.S. passenger and cargo airlines directly employed 757,000 workers and commercial aviation supported 10 million U.S. jobs and drove over five percent of the U.S. gross domestic product.

Air travel was opening doors and connecting loved ones across all walks of life and economic circumstances, not just an affluent few. It was also providing well-paying careers for hundreds of thousands of employees, all dedicated to an industry that is truly a modern-day indispensable manifestation of freedom and mobility. Our industry is working every day to rebuild the foundation necessary to restore and recover, but much has passed over the course of the last year.

The Ides of March: Economic Devastation

Almost overnight, in March 2020, the COVID-19 pandemic hit the U.S. and the bottom fell out of the airline industry. As travel restrictions and stay-at-home orders were implemented, demand for air travel declined sharply and suddenly. Though air cargo volumes have held, the pandemic eviscerated passenger air travel. Coming off all-time highs in 2019, passenger traffic on U.S. airlines rose five percent in the first two months of 2020 only to fall by 96 percent six weeks later, to a level not seen since the dawn of the jet age in the 1950s. There was a slight uptick over the summer and into the fall of last year, but passenger levels remain 40 percent below year-ago levels and revenues are down about 60 percent due to the near-absence of business travel and international travel. The Global Business Travel Association (GBTA) expects overall business travel spending in the U.S. to reach just 73 percent of 2019 levels by 2024.

Years of work to strengthen balance sheets – recognized widely by analysts and investors – were reversed overnight by COVID-19, as evidenced by a series of downgrades by the major rating agencies. After 10 consecutive years of modest profitability, U.S. passenger carriers reported $46 billion in pretax losses in 2020, with analysts currently projecting $16 billion more in 2021. To put it into perspective, 2018 and 2019 were two years of modest profit for the industry. However, when combined with 2020 and 2021, the cumulative pre-tax losses for that four-year period are expected to reach $23 billion. Quite simply, the losses have been swift and profound.

Collectively, U.S. airlines are hoping to achieve breakeven cash flow at some point in late 2021. To survive, they have worked at a furious pace to shed operating costs and trim capital expenditures. More alarmingly, they have been forced to sell assets and take on massive amounts of debt, up an estimated $58 billion from year-end 2019 to year-end 2020. This giant increase in debt translates to projected interest expense of $5 billion annually in 2021, 2022 and 2023—two-and-a-half times the amounts paid in 2018 and 2019.

Given the economic maelstrom, the U.S. airline industry will remain smaller for years to come. Rebuilding will take time. The return of demand, particularly from corporate travelers, will be key to that timeline.

Payroll Support Program for Aviation Labor Workforce

On behalf of our employees, we remain eternally grateful to Congress for their role in establishing the PSP at the U.S. Treasury Department. However, I do feel compelled to clarify the practical and factual realities around what the PSP is and what the PSP is not, as some have erroneously referred to the program as an airline bailout. This simply is not true.

The PSP is, as the CARES Act and subsequent extensions clearly state, financial assistance provided to eligible air carriers that is *"exclusively for the continuation of payment of employee wages, salaries, and benefits"* for employees defined as individuals at those carriers that are not corporate officers. More simply, PSP funds are a pass-through to airline workers.

These aviation workforce funds are truly an investment in our economy. In fact, PSP could be used as an example of a government program that works, as it has effectively met the goals and intended purpose of the program to preserve jobs. The program has the downstream benefit of helping federal/state/local income tax revenues, along with Social Security and Medicare tax contributions. The program also helps avoid billions of dollars' worth of unemployment claims at both the state and federal level. Additionally, the PSP supports multiple billions of economic spending in the U.S. economy—as every dollar spent of airline wages generates additional spending as the recipients spend that income in their local economy.

PSP is neither an airline bailout nor a panacea for addressing the economic impacts of the pandemic. As opposed to almost all other relief measures in the CARES Act, the PSP funds, under the auspices of being 'grants', came with significant eligibility requirements including workforce retention commitments; air service obligations; compensation restrictions; a repayment requirement of 29 percent of the funds with interest to Treasury; and the issuance of warrants to Treasury. Air carriers, despite only serving as simple pass-throughs of the funds, agreed to these terms in an on-going effort to support their labor workforce. Participation in the program comes at a price; for the nine largest passenger airlines—after deducting the amount repayable to the U.S. Treasury—the PSP funds covered 82 percent of payroll expenses, leaving them with a $3.7 billion shortfall for the applicable six-month period.

We mention this to explain and level-set what the PSP program has meant to airline ledgers. The same logic holds true for the recently enacted PSP3. That $14 billion is estimated to cover 60 percent of the industry's projected full-employment payroll costs from April 2021 through September 2021.

The fact of the matter is, without that supplemental relief, thousands more aviation workers would have lost their jobs or experienced reductions to wages and benefits. Support of PSP funding was an explicit recognition that the industry's financial outlook remains bleak, inundated with debt for years to come, some directly undertaken to support and maintain our labor workforces.

CARES Act Loans

U.S. passenger carriers also have access to $19 billion in CARES Act loans. As opposed to the PSP financial assistance for workers, the loans are intended to help airlines continue operations while demand remains significantly impaired. Notably, and on top of the warrants issued on PSP funds, Treasury will also receive warrants to purchase common stock equal to ten percent of the total loan amount for each participating air carrier. Combined with the PSP funds, the federal loan eligibility came at a time when carriers were in most need of immediate flexibility to deal with the lightning speed at which the pandemic decimated demand for air travel. No carrier covets taking federal loans, but the industry is sincerely appreciative of the timely relief put forward at the beginning of this unrivaled global economic crisis. They are eager to repay these loans in full as soon as financially feasible, and some have already done so.

Self-Help Measures and Private Financing

Air carriers have also engaged in significant self-help measures to bolster their liquidity which will be critical to survive this unparalleled economic event. These self-help measures include, but are not limited to:

- Accessing outside sources of cash such as, but not limited to, unsecured or secured loans amounting to more than $86 billion and $8 billion in equity sales since late February 2020;
- Restructuring aircraft order books through negotiations with manufacturers;
- Announcing the accelerated retirement of more than 600 aircraft, more than half of which exited the fleet in 2020;
- Halting almost all discretionary (not operationally critical) capital projects;
- Trimming unprofitable flying;
- Redeploying some passenger aircraft to provide essential cargo-only service to transport medical and other essential supplies;
- Negotiating with vendors and airport partners to secure relief on payment terms and timing; and
- Securing voluntary unpaid leaves of absence or salary reductions.

To the last point, we are grateful for the strong collaboration between labor and management to address the realities of this crisis. While the numbers continue to fluctuate as the economic situation evolves, since the onset of the pandemic approximately 50,000 employees have opted for early retirement or other form of voluntary separation and more than 100,000 have opted for voluntary unpaid leave of absence or voluntary compensation adjustment, which has brought much needed flexibility. We appreciate all employees who have dedicated their lives to the U.S. airline industry and are helping the industry to survive this public health crisis.

Cash Burn = ~$100 Million Per Day

Even with all the public and private actions previously outlined, U.S. carriers are currently burning an estimated $100 million of cash every day, which includes servicing the massive debt load that will burden the companies for several years. Airlines have made strides by significantly reducing operating and capital costs, but ongoing revenue declines, higher fuel prices and debt repayment with interest mean that the industry will continue to burn cash through most of 2021. While 2022 and 2023 are expected to be stronger years, 2021 will be a transition year.

Perseverance

Since the April 2020 low-water mark, demand has seen a slow climb, with the shape of recovery best described as a reclining "L" and bookings for the highly coveted corporate air travel segment—over a year into the pandemic—down a staggering 80 percent from 2019 levels. In March, air travel between the U.S. and foreign countries fell 76 percent below March 2019. For 16 of the top 25 U.S.-international country pairs, volumes were down more than 90 percent. In fact, air travel between the U.S. and Australia, Canada, China, Hong Kong, Italy, Japan, Spain, Switzerland and the UK was down more than 95 percent. While the advent of multiple vaccines is encouraging, we do not expect volumes to return to pre-pandemic levels until at least 2023. As traffic recovery eventually leads to revenue recovery, shoring up our financial condition will be paramount. Carriers will need to retire the massive sums of debt they have taken on to cope with the evaporation of demand and consequent depletion of cash reserves. It will take years, not months, to pay off that debt. Until that time, we will see a much smaller industry with fewer operations, aircraft and workers and scarce funds available for investment in their products.

The economic contribution of international travel and tourism cannot be overstated. According to the World Travel and Tourism Council, the U.S. is set to lose $155 billion from the economy due to the collapse of international travel. A strong and stable aviation industry is a key building block for a global recovery from the COVID-19 pandemic. In 2019, international travel imports totaled $196 billion, creating a $59 billion travel trade surplus. Importantly, international travel spending directly supported about 1.2 million U.S. jobs and $33.6 billion in wages.

Applied Science

Since the beginning of this crisis, U.S. airlines have relied on science to help guide decisions as they continuously reevaluate and update their processes, procedures and protocols in light of the pandemic. U.S. airlines have implemented multiple layers of measures aimed at preventing virus transmission onboard the aircraft, including strict face covering requirements, pre-flight health forms, enhanced disinfection protocols, hospital-grade filtration systems, air exchanges onboard aircraft that remove viruses, and new boarding and deplaning procedures.

Research has also shown that this layered approach makes the risk of virus transmission onboard aircraft very low, specifically:

- US TRANSCOM released a study showing the low risk of COVID-19 transmission on commercial aircraft. Technicians ran 300 tests over six months with mannequins to reproduce breathing and coughing to determine how particles moved within the cabin when a mask was on or off. The study concluded that when masks are worn, there is a 0.003 percent chance that particles from a passenger can enter the breathing space of passengers sitting next to them.

- Harvard T.H. Chan School of Public Health's Aviation (APHI) further affirmed that the risk of onboard transmission is low. The Harvard APHI research was the first to evaluate the entire inflight experience including boarding and deplaning. The results confirmed that – due to the multiple layers of protection noted above – the risk of transmission on an airplane is "very low" and that being on an airplane is "as safe if not significantly safer" than routine activities such as going to the grocery store and eating at a restaurant. Further, the Harvard researchers concluded that this multi-layered approach is so effective that the possibility of exposure to COVID-19 is reduced to a point so low that it "effectively counters the proximity travelers are subject to during flights."

The Harvard research team also published results from a second phase of their research in February. While the first phase of research focused on the "gate to gate" experience, the second phase broadened the scope to include the "curb to curb" experience at airports. The key takeaways of the second phase are also inciteful, namely that airports have been proactive in implementing measures to combat the COVID-19 pandemic and that the application of a multi-layered approach significantly contributes to risk reduction.

If there is any silver lining to this pandemic, it is the fact that industrywide, from manufacturers to air carriers, we have come to together to share information and tackle issues head-on with science and data at a level unseen before. This experience has honed a focus on a common goal that will lead us out of this pandemic and provide the science and data to address future challenges.

Recovery

Our industry has a history of being resilient. The financial priorities for airlines are clear: reduce cash burn, restore profitability and repair balance sheets. And given the freedom to do so, U.S. airlines will do just that; but the hurdle will be higher this time. Prior to COVID-19, the rule of thumb was to have a cash cushion that could withstand an event three times the magnitude of 9/11. With the reality of a pandemic now painfully apparent, boardrooms, workers and investors will all expect even stronger airline balance sheets than before, allowing these companies to tap capital markets fully and swiftly in the future—without depending on federal assistance—while avoiding extreme distress and painful cuts for employees. While the passage of time will provide much more clarity, we believe the new reality will manifest itself in many ways, including:

- 100-Year Flood Events. In March of last year, airlines were prepared for an event similar to 9/11, but the time has come again for airlines to rethink again how they manage balance sheets broadly, and cash specifically, to withstand a future crisis of the unprecedented magnitude of COVID-19. Before 9/11, the rule of thumb was to keep 10-15 percent of trailing 12-month revenues in the form of cash. Post-9/11, that rose to 20-25 percent. It has yet to be determined what the right metric is, let alone the right amount, but it is certainly something that will be seriously evaluated.

- Credit Ratings. Creditworthiness will likely be more important than ever, as carriers who enjoy better ratings are generally able to borrow larger sums of money at lower interest rates. Liquidity will be examined in close conjunction with creditworthiness. Having too much liquidity on the balance sheet is an inefficient way to run a business but having too little can put companies at undue risk of bankruptcy. Coming up with the right balance will be an important consideration moving forward as the major rating agencies assess financial health.

- Sustained Profitability. One important and simple solution to recovery entails giving airlines the freedom to right their own ships – to allow them to achieve sustained profitability, with meaningful margins — over an entire business cycle — rather than consistently trailing the U.S. average. Allowing the marketplace to work will be essential to mitigate future risk.

Time and again, our industry has proven its resilience and agility. With that in mind, we have every reason to believe that our nation's airlines will emerge from this crisis even stronger than before, in a way that helps empower the recovery of the U.S. economy and allows friends, family and businesspeople to meet face-to-face in a matter of hours once again.

Roadmap

Congress and the Administration will play a critical role in global recovery, especially as it pertains to America's aviation, travel and tourism industries. The entire aviation and tourism community shares a concerted commitment to public health measures. We also believe, given the increasing number of vaccinations and health measures in place to mitigate transmission, that there should be a path to allow travel and economic growth to safely resume. We need government leadership on the international stage to provide that roadmap.

Specifically, in conjunction with a broad spectrum of travel and tourism coalition members, we respectfully urge the federal government to partner with industry to develop a risk-based, data-driven roadmap to rescind inbound international travel restrictions issued under section 212(f) of the Immigration and National Act (INA). By developing clear metrics, benchmarks and a timeline for rescinding entry restrictions on international travelers, we can safely:

- Maintain strong risk-based protections against the spread of COVID-19 and importation of new variants;
- Encourage business and leisure travelers to prepare for and comply with requirements for a safe reopening of inbound and outbound international travel by the summer of 2021; and
- Accelerate rehiring and economic recovery in the travel and aviation industries.

To be clear, at this time, we do not support removal or easing of core public health protections, such as the universal mask mandate, inbound international testing requirement, physical distancing or other measures that have made travel safer and reduced transmission of the virus. However, the data and science demonstrate that the right public health measures are now in place to effectively mitigate risk and allow for the safe removal of entry restrictions.

We look forward to working with the Committee on the elements of that roadmap, but time is of the essence and the need to reopen international travel is urgent. The world is evolving quickly, public sentiment to get back to normalcy is on the rise and the need for leadership is palpable. We need a risk-based, data-driven roadmap if we intend to be ready for that growing reality and sensibility.

Air Cargo

In a year filled with layers of struggle and financial loss, and despite the devastating impacts of COVID-19 across global economies, the pandemic has shown the indispensable role that passenger carriers and all-cargo air carriers play in both the domestic and global supply chain. In 2020, U.S. airlines carried an all-time high 63,000 tons of freight, mail and express packages per day—an 8 percent increase from 2019. That momentum appears to be continuing in 2021, with DOT reporting that U.S. airlines carried 12 percent more cargo in January than they did in January 2019.

Through close coordination with the healthcare community and federal, state and local governments, the airline industry ensured the supply of personal protective equipment, diagnostic test kits, essential medical supplies, humanitarian aid and vaccines across the globe. They carried electronic equipment to make sure that teachers and students had access to learning resources while schools were closed. They have played an outsized role during the pandemic and will most certainly be critical to paving the way toward global herd immunity and a return to a modicum of normalcy. Until one steps back to fully appreciate the logistical effectiveness and efficiency of our all-cargo operators, it is easy to take them for granted and thoroughly recognize the incredible contribution they make to our daily lives. They are vital to our standard of living, but this crisis has shown the pivotal role they play in saving lives.

Do No Harm

Over the course of the pandemic our industry has needed to remain nimble and vigilant to many well-intended, but sometimes unnecessary, mis-guided and/or untimely, legislative and regulatory proposals. As we continue to face the challenges of today and drive toward a time when we can cross the long precipice to actual recovery and growth, we respectfully request that policymakers restrain from adopting punitive policies such as tax or fee increases or onerous rules and regulations that will otherwise cause harm to our debilitated industry. Doing so will only hamstring our ability to recover and undermine the basic underpinnings and purpose of the relief provided to our labor workforce. This crisis was not caused or brought on by the airlines and should not be used for convenient legislative opportunism to reregulate or refashion what was a highly competitive and burgeoning well-paid job creator prior to the pandemic.

Conclusion

U.S. airlines have always been critical to our nation's economy and infrastructure. Now, as our nation looks toward the future, and resumes connecting American communities, families and businesses with each other and with the rest of the world, A4A and our member carriers stand ready to work with Congress and the Administration to help speed the recovery of our industry, the nation and the world from the COVID-19 pandemic. Now, more than ever, the U.S. commercial aviation industry wants to lead the way to economic recovery while prioritizing the safety of our passengers and employees.