

The Coronavirus Aid, Relief, and Economic Security Act (CARES) in the United States and Planning of U.S. Airlines

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1. Introduction

The novel coronavirus has continued to severely impact countries' economies. The U.S. is not an exception, as almost all industries have been affected, including airlines. In light of this situation, the federal government passed the "Coronavirus Aid, Relief, and Economic Security Act (hereinafter called "CARES" or "The Act")" in order to support, relieve, and stabilize the U.S. economy impacted by the coronavirus. A large part of CARES is support for U.S. airlines. Specifically, the act divides its assistance by supporting salary payments of airlines and stabilizing company operations. These services require that beneficiary companies keep their employees. In this report, I will give a quick overview of these two aid programs targeting airlines. I will also take a look at how companies are executing human resource planning in conjunction with these relief systems.

2. Support System for Airlines Based on CARES

2.1 Payroll Support Program

2.1.1 Outline of the System¹⁾

This system is defined in Division A, Title IV, and Subtitle B of the Act. Funds will only be given for the purposes of payment for employee salaries and benefits by passenger airlines, airfreight companies, and contractors. The Act limits the total amount of funds given to companies as follows:

- Passenger Airlines 25 billion dollars
- Airfreight Companies 4 billion dollars
- Contractors 3 billion dollars

If the application is approved, target companies will be given the same amount of money they paid as employee salaries during April 1st, 2019 to September 30th, 2019. In the case that the amount exceeds the limits mentioned above, the maximum funds will be

proportionally distributed at a percentage of the approved amount for each company.

Furthermore, there are some requirements for funds received through this system. Regulations on workforce reductions may be the most important requirement. Companies who use this system are not allowed to layoff or involuntarily furlough their own or their contractors' employees, and they cannot cut employee salaries and benefits until September 30th, 2020. In addition, until September 30th, 2021, companies will be prohibited from purchasing their own company stocks and paying dividends. They will also be required to grant warrants issued by beneficiary companies, trading options, preferred stocks, bonds, promissory notes, and other financial products to the Department of Treasury. Airlines are required to keep flights that are reasonably practicable, follow routes that are considered essential by the Secretary of Transportation, and were active up to March 1st, 2020.

2.1.2 Grant Amounts for Airlines

The question is then how much grant money will each company actually receive? The following table shows the grant amounts for major airline.

Table - 1 (Unit : Dollar)

American	5.8 billion
Delta	5.4 billion
United	5 billion
Southwest	3.3 billion
Alaska + Horizon	992 million
JetBlue	936 million
SkyWest	438 million
Spirit	335 million
Hawaiian	293 million

Frontier	202 million
Allegiant	172 million

Source: Company websites

Each company is required to provide financial products worth about 30% of the received grant amount to the Department of the Treasury.

2.2 Loan Program

2.2.1 Outline of the System²⁾

This system is stipulated in Division A, Title IV, and Subtitle A of the Act. (The Payroll Support Program is defined in the same Title IV of Subtitle B). It documents that the Department of Treasury is to provide loans worth the cost of a loss caused by the novel coronavirus to relevant companies, such as passenger airlines and airfreight companies. The following lists the loan limit for the companies.

- Acknowledged companies and ticketing agents, such as passenger airlines and examination, repairing, replacement, and overhaul services 2.5 billion dollars
- Airfreight Companies 4 billion dollars
- Essential National Security Industries 1.7 billion dollars

Targeted companies are required to include the following information about their corporations when they apply:

- Their debt situation at the time of applying
- The number of employees and the total amount of compensation as of March 24th, 2020
- Consolidated financial statements for the past 3 years, including those from parent companies
- Explanation of compensation the applicants had or expected to have but lost because of the novel coronavirus
- Performance (In the case of passenger airlines, this entails available seat miles (ASM), revenue per ASM, costs per ASM in 2019 and the forecasts of costs for 2020 that must have been created by October 1st, 2019.)
- Plans for addressing financial needs for the rest of 2020, including use of loans
- Financial improvement planning

Companies seeking a loan submit applications including the information above, but like the Payroll

Support Program, this system also has some conditions to receive a loan. For examples, purchasing and making dividends on your own company's stocks is prohibited for a year after receiving the loan. Beneficiary companies must keep the same number of employees that they had on March 24th, and if possible, not reduce their workforce by over 10% until September 30th of this year. The organizations have to be established and constructed in the U.S. in accordance with U.S. laws, and over 50% of their employees have to be based in the States. Additionally, the compensation must be for losses that hindered the continuation of business operations. In line with the Payroll Support Program, applicant airlines have to keep scheduled flights for routes the Secretary of the Transportation has recognized as essential, which were operating as of March 1st.

The length of the loan is less than 5 years. Companies who receive the loan are required to issue warrants and senior bonds to the Department of Treasury.

2.2.2 Loan Amounts for Airlines

What is the status of the loans for these companies under the Loan Program? There are no airlines that have gotten a loan offer at the time of writing this report. The following table lists the companies who completed an application or whose applications are under review and the amounts they asked for.

Table - 2 (Unit : Dollar)

American	4.75 billion
Delta	4.6 billion
United	4.5 billion
Southwest	2.8 billion
Alaska + Horizon	1.1 billion
JetBlue	1.1 billion
Spirit	741 million
SkyWest	500 million
Hawaiian	364 million
Allegiant	276 million

Source: Company Websites

3. Airline Human Resource Planning

As outlined in the previous paragraph, the companies who receive support are required to keep the same number of staff in their employment. However, as demand of air travel has rapidly decreased, companies are re-planning their human resources in order to cut labor costs. In the next paragraphs, I will look into recent human resource

planning of U.S. airlines, including three major airlines.

3.1 American Airlines

American Airlines has been considering downsizing their company due to COVID-19. A report says that they have been planning to cut 30% of management and support staff members, and also consider reducing front line staff members a necessity. They will be offering voluntary vacation and early retirement options to pilots and cabin attendants from this June after lowering the number of their management staff members.³⁾

3.2 Delta Airlines

Delta Airlines will be promoting a new program to encourage voluntary resignation of employees, including discussing early retirement with the pilot association. This voluntary retirement program includes a severance package, full medical insurance, and some travel benefits. Retirement will commence from August 1st.⁴⁾

3.3 United Airlines

United Airlines announced at the beginning of this May that they are going to cut the working hours of about 15,000 of employees who work at airports and perform for baggage handling. Congress members criticized this announcement saying that it was against the policy laid out in CARES.⁵⁾ The International Association of Machinists and Aerospace Workers (IAM) filed a lawsuit against United Airlines seeking an injunction for an “illegal scheme to reduce all of our full time members to part time in violation of the Railway Labor Act and United’s agreement under the Coronavirus Aid and Relief and Economic Security Act ” after the United announced a cut to the working hours of their employees.⁶⁾ Due to this, United shifted the condition of shortening working hours from involuntary to voluntary.⁷⁾

3.4 Others

Regarding other major airlines, IAM sought for jetBlue to rectify their actions, as they were forcing their employees to take 24 days of unpaid leave by September 30th. jetBlue was also accused of doing this by a delegation of Congress members. jetBlue insists that the arrangement to take unpaid leave is voluntary. Delta Airlines has also been accused by IAM of cutting some working hours for their employees.⁸⁾

4. Conclusion

All U.S. major airlines have struggled with continuing business operations with the reduction in revenue and financial arrangements. Labor costs have been considered a business challenge in recent years, even before the coronavirus pandemic, as labor costs have become 30% of expenses for airlines, and

manpower costs have skyrocketed due to the growth of the U.S. economy. Compressing costs for human resources may be unavoidable, as this unprecedented business crisis has come on top of what was already an existing challenge. However, on the other hand, because of the nature of airline businesses, they are eligible to receive enormous subsidies and loans, and are under the protection of special legislation of the U.S. federal government, as described in this report. Is it not the case that the fact that CARES only prohibits involuntary changes, while voluntary changes of labor conditions are acceptable, only convenient for the companies? Furthermore, prohibition of involuntary changes on work conditions under CARES will not be mandatory after October 1st. We have been seeing signs of recovery in the market for domestic flights in almost all regions of the world. It is necessary that demand is fully recovered, and that a travel process is created and enforced that can remove anxiety on the safety and health of air travel. I would like to continue to pay close attention to the policies of each country and international organizations, along with policies of airlines.

References

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