

Case Studies and Policy Changes

US Provides Aid to Airlines in Historic Relief Bill

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Original post [here](#).

The [US coronavirus rescue bill](#) that the Senate passed on March 25 provides \$78 billion to the airlines in the form of loans, loan guarantees, and cash grants. The bill also temporarily suspends excise tax and kerosene taxes for air carriers.

Airline aid in the bill is split between passenger air travel, cargo air travel, and industries closely involved in national security:

- Passenger Air Carriers: \$25 billion allocated in loan guarantees, \$25 billion allocated in cash grants.
- Cargo Air Carriers: \$4 billion allocated in loan guarantees, \$4 billion allocated in cash grants.
- Air Industry Firms involved in National Security ([implicitly allocated for Boeing](#)): \$17 billion allocated in loan guarantees,
- Contractors Providing Aviation-related Services: \$3 billion allocated in cash grants.

In exchange for loan guarantees, the law also requires the government to receive warrants or other senior debt or equity of the business receiving aid. During negotiations over the bill, Treasury Secretary Mnuchin said that rather than make outright grants, the [Treasury intends to take equity stakes](#) in airlines in exchange for the cash grants (which must be used for employee wages, salaries and benefits). Such “equity stakes” would in theory permit taxpayers to benefit from the financial recovery of the firm. Equity stakes are common in government bailouts. At this time, it remains unclear how the Treasury would implement any such equity stake. In the most recent global financial crisis, the government received warrants to purchase stock (General Motors) and convertible preferred stock (AIG).

In the Senate bill, also, in return for financial assistance, air carriers may not put employees on temporary furlough status, engage in share buybacks, or issue dividends. Additionally, highly compensated employees with compensation exceeding \$425,000 annually may not receive a raise in 2020. The bill would also prevent these employees from receiving severance pay that exceeds twice the compensation they received in 2019. Employees compensated above \$3 million can receive \$3 million plus 50% of the excess received compensation in the calendar year 2019.

The authority for the airline aid program expires on March 1, 2022. The suspension of excise and kerosene taxes regularly levied on air carriers extends to January 1, 2021.

The United States previously provided aid for airlines through the Air Transport Safety and System Stabilization Act of 2001. That act provided \$5 billion in direct grants for compensation for federal actions and subsequent losses related to the 9/11 terrorist attacks and the subsequent shut down of air travel, and up to \$10 billion credit assistance in the form of loan guarantees. Airlines used approximately 10% of the program's loan capacity. Although airline bankruptcies emerged in the years that followed, some purport that the legislation [succeeded in that it prevented immediate bankruptcies](#) during the economic downturn that followed the terrorist attacks. With the assistance proposed in the Senate bill, the US joins other countries that have taken steps to support airlines during the COVID-19 pandemic. Countries have attempted to mitigate the [economic impacts of the crisis](#) in various ways. Some approaches, such as subsidies for continuing to operate ([China](#)), suspension and/or refunds of taxes ([Australia](#)), and support for laid-off employees ([Denmark](#) and [Finland](#)), appear to target short-term relief. [South Korea](#) has outlined a series of support measures, including emergency support measures, deferred payment of fees, loan screening measures for airlines requesting aid due to liquidity shortages, and guaranteeing lease deposits on leased aircraft.