

# COVID-19: US Airlines Seek \$58 Billion in Government Aid Amidst Global Turmoil

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The novel coronavirus (COVID-19) pandemic has wreaked havoc on the global aviation industry. Fueled by numerous travel bans and closed borders, international and domestic airlines have seen a drastic plunge in demand for air travel, and the airlines have responded with large cuts in the amounts of capacity. Nevertheless, airlines may find themselves running low on cash reserves, which could force historic cuts in workforces. All told, the US airlines directly employ 750,000 individuals, and the airline industry supports an additional 10 million jobs. The International Air Transport Association (IATA) has warned that most airlines are in a “liquidity crisis” and will need direct government aid to support them during any sustained period of economic uncertainty fueled by the COVID-19 onset. IATA has further cautioned that the global airline industry would need nearly \$200 billion in support to survive the COVID-19 outbreak, with projected losses directly attributed to COVID-19 exceeding \$113 billion.

On Monday, Airlines for America, a trade association and lobbying group representing the major North American airlines (A4A), recommended that US-based airlines receive \$58 billion in financial assistance from the federal government. According to the request, the proposed relief package would be comprised of 1) grants; 2) loans; and 3) tax relief, combining immediate and medium- to long-term assistance. More specifically, the relief package would take the following form:

- **Immediate Grant Assistance** – A4A recommends that grants would be made available to all Part 121 air carriers to cover liquidity shortfalls attributable to COVID-19 through December 31, 2020. Grants to Part 121 passenger airlines would be up to \$25 billion in the aggregate, and grants to Part 121 cargo air carriers would be up to \$4 billion in the aggregate. The grant assistance measures are to be designed and implemented by the US Department of Treasury (US Treasury) immediately following enactment of the enabling legislation.
- **Medium- to Long-Term Loan Program** – A4A recommends that the Federal Reserve design and implement by March 31, a voluntary liquidity facility program in an aggregate amount up to \$25 billion for Part 121 passenger airlines and \$4 billion for Part 121 cargo airlines. Under the program, the Federal Reserve would either (1) purchase financial instruments from the airlines, or (2) provide zero interest unsecured loans or zero interest unsecured loan guarantees to the applicable air carriers.

A4A recommends that based on the credit profile prior to the onset of COVID-19, the program should be open to all carriers, and no carrier should be required to collateralize any instrument as part of the relief package. Furthermore, A4A advises that instruments purchased or guaranteed under the program should be structured so as to expedite an airline’s ability to re-access the private capital markets as promptly as practical and to stabilize their existing credit ratings. Eligible financial instruments would include commercial paper and term loans.

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- **Tax Relief** – A4A recommends a two-part tax-relief measure. First, the US Treasury would give a rebate to all Part 121 air carriers of all federal excise taxes paid into the Airport and Airway Trust Fund previously remitted to the US Treasury from January 1 through March 31. Second, Congress would temporary repeal all federal excise taxes applicable to Part 121 air carriers through December 31, 2021, subject to a further extension beyond calendar year 2021 based on economic conditions. The repeal would apply to the federal taxes on the sale of tickets, carrying of cargo and purchase of jet fuel.

The A4A proposal would nearly quadruple the \$15 billion in financial assistance that was approved by Congress in the wake of the September 11 attacks, which consisted of \$5 billion in direct grants and \$10 billion in secured loans and loan guarantees. However, the industry was not then facing such a prolonged and widespread decrease in demand that the COVID-19 pandemic is supposed to cause. International air carriers, including Norwegian Air, Air France-KLM, Lufthansa, and Virgin Atlantic, are having similar ongoing discussions with their governments for financial support. In other cases, governments have taken control of airlines, including the Italian government taking over Alitalia and the Chinese government taking over HNA group – the parent company of Hainan Airlines and Hong Kong Airlines.

Ultimately, the support of the US airline industry is a national security issue. We expect the A4A proposal will be quickly considered by the White House and Congress, and the US airline industry will receive the support it needs to weather this crisis in order to reassure the American public that it has continued access to vital air transportation now and in the future.

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