

US Treasury, airlines reach deal on financial aid

April 15 2020, by Luc Olinga



US airlines will see the federal government become a minority shareholder under terms of an agreement with the Treasury, a source close to the negotiations said

US Treasury Secretary Steven Mnuchin and major US airlines on Tuesday reached an agreement on financial assistance amid the coronavirus pandemic, aiming to keep paying workers and avoid

bankruptcies in an industry that employs 750,000 people.

The Treasury came to terms with 10 airlines, including the four largest—Delta Air Lines, Americans Airlines, United Airlines and Southwest Airlines.

Some were initially hesitant to accept the money for fear of nationalization despite the damage done by the pandemic, which has brought air travel to a standstill.

US President Donald Trump said the deal means "our airlines are now in good shape, and they will get over a very tough period of time that was not caused by them."

Treasury Secretary Steven Mnuchin meanwhile said he was "working with the airlines to finalize the necessary agreements and disburse funds as quickly as possible."

Congress last month approved a \$2.2 trillion stimulus plan to rescue the world's largest economy, which includes \$25 billion for airlines to continue paying employees' salaries and benefits until September 30.

While details of the agreement were not disclosed, a source close to the negotiations said the US government would become a minority shareholder in the airlines.

In his statement, Mnuchin said the deal "will support American workers and help preserve the strategic importance of the airline industry while allowing for appropriate compensation to the taxpayers."

He added that the Treasury is evaluating applications from smaller passenger carriers and also "will provide further guidance" to cargo airlines and their contractors.

Happy airlines

US airlines hailed the agreement, with Southwest congratulating the Treasury on its move "to infuse liquidity into the economy and try to keep businesses open and people on the job—and that certainly includes the airlines and our employees."

Southwest expects to receive \$3.2 billion under the program, \$2.3 billion of which will go towards payroll for its 60,000 employees with the balance taking the form of a low-interest loan to be repaid over 10 years.

In exchange, Southwest will give the government about 2.6 million warrants—financial instruments that can be turned into stock shares and whose price was not specified but is usually fixed in advance.

That is in line with a demand the Treasury made in talks on Friday for warrants to compose 10 percent of the aid each company receives, the source said, while informing airlines that they'd have to pay back 30 percent of the money they received.

Airlines are also eligible for another \$25 billion in loans to help them resume operations after the pandemic caused air traffic to plunge, leading carriers to suspend routes, cut back on orders and cancel hundreds of flights.

American Airlines said it would apply for \$4.75 billion in those loans this week, in addition to \$5.8 billion received under Tuesday's agreement with the Treasury.

"The support our government has entrusted to us carries immense responsibility and an obligation that American Airlines is privileged to undertake," the carrier's CEO Doug Parker said in a statement.

"It is our privilege to continue flying through the downturn and to be in a ready position as our country and the world return to the skies."

Travel hit hard

American and Southwest have also promised not to lay off or cut pay for their employees until the end of September—when the Treasury program finishes.

In addition, the carriers said they had agreed to limits on executive compensation, share buybacks and dividend payments.

The pandemic has caused the cancelation of about 80 percent of US carriers' flights including many transatlantic routes.

The International Air Transport Association said on Tuesday that passenger revenues would plunge 55 percent, or \$314 billion, in 2020 due to the pandemic.

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