Airlines Hesitate Over Coronavirus Stimulus Package's Aid Terms; Industry executives seek to negotiate requirements with Treasury Department officials

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FULL TEXT

The $2 trillion stimulus package passed last month included everything airlines requested, and some restrictions they find difficult to swallow.

The aid offer includes $50 billion, half in direct payroll assistance and half in loans and loan guarantees. But the $25 billion to pay salaries and benefits this summer comes with more strings than the largest airlines were hoping for. Treasury Secretary Steven Mnuchin told chief executives Friday that 30% of that money is to be repaid and that they will need to offer stock warrants on about 10% of the loan amount, which the government could convert to shares later.

That surprised some airline industry officials who had believed the money would be in the form of grants, according to people familiar with those discussions. Airline executives spent the weekend discussing concerns with an industry trade group and seeking to negotiate adjustments to those conditions with the Treasury Department, federal officials and airline industry leaders said.

Treasury Department officials defended the terms of the assistance.

"We've attempted to treat everyone equitably and do not intend to get into individual negotiations that would require changes across the methodology," Brent McIntosh, the Treasury undersecretary for international affairs, said in an interview Sunday.

Other conditions to the aid include a block on laying off workers or slashing salaries until October, and requirements that airlines maintain a certain level of service to the cities in their networks. They must also refrain from buying back shares or paying dividends, and agree to limits on executive compensation. Airlines haven't raised objections to those requirements.

Unions that pushed for payroll grants said requiring some of the funds to be repaid could lead to layoffs and burden airlines with more debt, making their path to recovery more uncertain.

"This is wrong, this is not what the bill intended," said Sara Nelson, president of the union that represents flight attendants at United Airlines Holdings Inc. and several other airlines.

Mr. McIntosh, who is coordinating the Treasury Department's airline assistance program, disagreed with that interpretation. "It's clearly consistent with the law Congress passed," he said.

The law gives the Treasury secretary discretion to determine what constitutes appropriate compensation, and specifically refers to warrants, options, preferred stock, debt securities, notes or other financial instruments.

To determine what the government should receive for providing payroll assistance, Treasury Department officials analyzed what portion of the funds would ultimately benefit U.S. taxpayers—for example, through taxes collected on the funds and savings on unemployment benefits that would have gone to laid-off airline workers.

Mr. McIntosh said Treasury Department officials determined that the government should receive compensation for about 30% of the aid. Treasury Department officials planned to have further discussions with some airlines Monday. Once companies decide whether to accept the government terms, officials expect they can get money to

carriers quickly.
The agreements would stipulate the conditions under which warrants would convert to stock, but officials were still in discussions with airlines over the weekend about the exact contours of those terms. Treasury Department officials weren't inclined to make substantive changes to other terms.
George Novak, president of the National Air Carrier Association, a trade group that represents low cost carriers—some of which hadn't yet received terms—said some airline officials were taken aback by the terms offered to the major airlines. "There was some surprise there would be a loan component of a grant element of the law," Mr. Novak said.
The Treasury Department said Friday that small airlines in line for less than $100 million won't need to provide financial stakes or repayment in exchange for grants.
Even with government funds, airlines including United and Delta Air Lines Inc. had warned they will likely emerge from the crisis smaller. Travel demand has been decimated as the response to the coronavirus pandemic has left many people homebound, and governments have closed off international borders. Passenger volumes have dropped 95%.
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U.S. airlines have slashed flying by some 70%, and the remaining flights are often nearly empty. Thousands of airline workers have volunteered for unpaid leave.
Providing airlines a cash infusion has been contentious since airlines first raised the idea in March.
Airlines wanted to avoid the bureaucratic hang-ups that made it difficult for them to access government loans after 9/11, and they wanted to avoid taking on more debt that could cripple them when the immediate crisis passes.
Labor unions representing flight attendants, pilots and other aviation workers championed the grants, arguing that they would protect workers and keep jobs intact.
Republicans and some Democrats were initially reluctant to sign off on what they perceived to be a bailout. The final approved wording of the legislation was precise and fiercely debated, with lawmakers settling on a provision that would allow Mr. Mnuchin to take a financial stake in airlines in exchange for grants—but not require his doing so.
Unions and some lawmakers had urged Mr. Mnuchin not to demand equity stakes in airlines, fearing that such terms would be so onerous that airlines might refuse the money—something that could lead to layoffs or bankruptcies.
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