SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
"Oversight of the U.S. Airline Industry"
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253 Russell Senate Office Building

Chair Maria Cantwell
Questions for the Record

Written Questions for the Record Submitted by Hon. Maria Cantwell to Dr. Mike Tretheway

U.S. Airline Industry Relief and International Comparisons. In many ways, the United States was unique in its approach to ensuring the stability of our aviation sector and our economy with the Payroll Support Program. First, Congress acted very quickly when the pandemic hit, passing the CARES Act on March 27, 2020. Second, we set transparent and firm rules for federal relief, like limitations on executive compensation and minimum service obligations for airlines. Third, we did not choose "winners" or "losers" among airlines.

The PSP program was open to all eligible applicants. Relief was not targeted to only airline and airport workers, but also sustained jobs in the supply chain, like at repair stations, airline contractors, and service providers.

Question 1. **What are the successful features of the U.S. response that distinguish it from other models used by foreign countries? What other steps should the United States take to strengthen its aviation sector?**

Response of Dr. Tretheway:

Other nations largely focused on supporting wages and/or a specific carrier, sometimes referred to as a 'champion' carrier.

The U.S. approach focused on the key policy objectives of a) maintaining a basic level of air transport connectivity, b) maintaining a workforce that is highly trained and focused on safety and security and c) supporting the entire air transport supply chain and not merely air carriers.

The focus on maintaining connectivity should be the fundamental objective in any crisis. Air transport supports not only the continuity and effectiveness of many economic sectors, it also provides social, medical, educational, social services delivery and disaster response connectivity. In Canada, one example among many others, while wage support was provided, many communities, including at least one provincial capital, lost all scheduled commercial air service. (I note that Canada did provide support linked to maintaining connectivity in the arctic, but not elsewhere.) Wage supports were useful, but they were not focused on the fundamental objective of maintaining connectivity during the pandemic. Commercial aviation was treated as any other sector in providing wage supports, but these were not linked to a requirement of maintaining connectivity.

Regarding maintain the workforce, I commented on this in my written brief. Not only does it take months and years (especially pilots and mechanics) to train aviation workers, but it has taken decades to develop and reinforce a culture of safety and security, which could be weakened with high rates of turnover during the pandemic crisis.

Providing support for a champion carrier, and not all carriers, as was done in many nations (e.g., Germany, Singapore), undermines competition and market forces. The U.S. approach was fundamentally oriented to supporting the market, not selected champion carriers. As recovery occurs, the U.S. is in a better position to enjoy the considerable benefits of market competition. The U.S. approach lets the market be the adjudicator of success and survival, not the judgement of government.

The U.S. also recognized that airlines are dependent on an entire supply chain and the entire chain needed to continue. This included airports, ground and catering services, aircraft maintenance services and manufacturing. A chain is only as strong as its weakest link, and the U.S. policy provided support for the entire chain.

Regarding the issue of what other steps should the United States take to strengthen its aviation sector, I note that this is a very broad topic, and I will confine my comments to a few issues related to the pandemic's impact on aviation.

- First, I strongly urge action, either enforcement or new policy, on the issue raised in the oral hearing regarding passenger violence and non-conformity with safety and health regulations onboard flights and in the airport. At the very least, such behavior, if unconstrainted, should be understood will affect retention of skill employees with a safety and security values, in addition to traveler attitudes toward flying.
- Second, with the upcoming 30th anniversary of the U.S. open skies initiative, U.S. policy should 'stay the course' on relying on market determination of international airline routes and fares, a policy that originated in the U.S. and which provided significant benefits for billions of air passengers (and cargo shippers) not only on flights to and from the U.S. but elsewhere in the world. The U.S. was and still is the global leader on many aspects of air policy. In the post-pandemic period, other nations may seek to pursue protectionist policies that favor the champion carriers they chose during the pandemic. It would be a mistake for the U.S. to accommodate this.
- Third, the issue was raised in the hearing of an expanded list of passenger rights. Certainly, regulations clarifying passenger rights helps balance the playing field. But I caution against any policy that seeks to establish cost-based prices or rates for specific auxiliary services provided by airlines. This would constitute a step into re-regulation of airline industry.
- Fourth, policy should support addressing long-term shortages of the skilled aviation workforce, especially regarding pilots and mechanics. The pilot and mechanic shortage predated the pandemic, and the policies put in place by the U.S. Congress in 2020 and 2021 were critical in ensuring that the shortage did not become worse, as it has in a number of other countries, but it does remain a long-term issue.

- Fifth, I urge a study of what happened in the industry during the pandemic to draw out lessons learned and best practices. Congress has mandated reviews of transportation policy and issues in the past, such as those done the Transportation Research Board, and these have guided subsequent policy development. My own observation is that some lessons learned in previous events, such as SARS in 2003, had been forgotten and were not utilized in the early days of the COVID-19 pandemic. There are lessons to be learned *and remembered for future events*, both from the aviation and medical communities.

Question 2. **When do you forecast a return to pre-pandemic levels of air travel demand in the United States and globally?**

Response of Dr. Tretheway

There are two issues: When will air travel demand return to pre-pandemic levels and when will it return to long term trends. In answering this question, it is important to distinguish domestic from international air travel, as the latter is dependent upon policies of other nations and complex border health regulations.

While my company, InterVISTAS Consulting Inc., has prepared forecasts of air travel demand recovery, so too have others including the Federal Aviation Administration, the International Civil Aviation Organization, the International Air Transport Association, and Airports Council International. These are currently pointing to the following:

- There is increasing optimism for traffic recovery. For example, FAA's most recent forecast (November 2021) is for a more rapid recovery than it made a year earlier, in November 2020, the latter being a point in time prior to the U.S. vaccination program.

- The U.S. will have a more rapid recovery than most other nations/regions.

- Domestic U.S. travel recovery could reach pre-pandemic levels in late 2022 or early 2023. Recovery will be led by visiting friends and relatives (VFR) and tourism travel, with business travel lagging. The latter may not recover to 2019 levels until later in the 2020s. Business travel, while hard to precisely define and measure, has many segments. Some, such as conferences/exhibition and knowledge exchange events will recover fully and sooner. Other segments such as intra-corporate travel, will be permanently reduced, although to a large extent the pandemic merely accelerated a trend that was already in progress on the use of communications technologies.

- International air travel is not expected to recover to pre-pandemic levels until 2024 or later. This is a consequence of continuing and differing policies of nations for international border crossing. The requirement and inconvenience of testing, for example, raises the cash and time inconvenience costs of air travel.

- All of the forecasts also expect air travel demand to eventually return to previous long-term trends in the late 2020s or early 2030s. Here the forecasts differ in terms of whether other factors may have reduced long term travel demand, in particular regarding government policy and social attitudes regarding aviation's impact on climate change. Boeing, for example, which has an excellent record regarding long term aviation forecasts, has somewhat reduced its global long term traffic demand growth rate to 4%, down from 5% in some of their earlier forecasts.

- While forecasts became more optimistic as 2021 ended, all the forecasters indicate that there is still significant downward risk, primarily regarding potential evolution of the COVID-19 virus, with some concerns (less in the U.S. than a number of other nations) regarding downsized fleets and shortages of key aviation professionals, notably pilots and mechanics.

While Question 2 asks about air transport *demand*, markets also have a *supply* side. The policy and financial response of the U.S. Congress to the pandemic is observed to have retained the fleet capacity of the U.S. commercial airlines. This is not the case for many other nations who policies did not focus on maintaining air transport connectivity. There have been U.S. carrier fleet changes, of course. In particular (with the encouragement of Congress) the replacement of many older, high fuel consumption and carbon impact aircraft with newer more efficient aircraft. But the overall fleet capacity has been maintained and can accommodate demand recovery. This is not the case in many other nations, where fleets are now smaller. The U.S. focus on continuity of connectivity helped to retain the supply capacity needed to support demand recovery. Again, this underscores the effectiveness of the response of the U.S. Congress to the pandemic.