



**SEATS**

# Safe **E**ssential **A**ir **T**ransportation **S**eating



Allied Pilots  
Association



Professional  
Airline Flight Control  
Association



Teamsters  
Airline Division

*These labor associations endorse **SEATS** as part of any forthcoming infrastructure or stimulus legislation, or as a stand-alone strategy if required. **SEATS** uniquely satisfies the demands of reopening the economy, mitigating the risk of exposure to COVID-19, and bolstering the flying public's confidence.*

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*Revised July 14, 2020 (Professional Airline Flight Control Association and Teamsters Airline Division endorsements added)*

*Safely enabling a gradual return to pre-pandemic passenger travel while maintaining critical transportation infrastructure employment.*

**Executive Summary:** Under SEATS, the government would purchase enough seats on each flight to eliminate the need for any passenger to sit next to a stranger. Thanks to uniform social distancing, passengers would be encouraged to fly more, airlines would be encouraged to operate more flights, and the government would ensure the preservation of critical transportation infrastructure and associated jobs.

On behalf of the entire U.S. airline industry, the Allied Pilots Association expresses its gratitude to Congress and the White House for the vital economic lifeline provided by the CARES Act, which has played a crucial role in preserving 750,000 airline-related jobs in our nation. SEATS would build on the success of the CARES Act by addressing both economic and health concerns, with the pace of the airline industry's recovery determining its duration and level of support. The SEATS concept could be an effective strategy standing alone, and could also be integrated with any forthcoming infrastructure or additional stimulus bill similar to the CARES Act.

## Key Points

- The prices of empty seats would be based on industry average costs for 2019, leaving pre-pandemic business models unchanged. No carrier would gain an unfair advantage as a result of the disbursements.
- The number of empty seats bought by the government would fall as COVID-19 immunity rises.

As the United States cautiously begins to reopen in the wake of the COVID-19 pandemic, aviation will be essential

to the success of these efforts. The return of air travel is a major catalyst for economic recovery, stimulating ancillary spending well beyond the cost of an airline ticket: People who travel rent cars, ride in cabs, stay in hotels, eat in restaurants, go to sporting events, visit museums, attend conventions, and foster new business worldwide. But in order for air travel to return, passengers must feel comfortable that it is safe. They must gain confidence that their government is acting to ensure that all safety standards and protocols are being upheld and enforced.

## **How to Make Social Distancing Feasible in Commercial Aviation**

Medical guidance recommends increased social distancing to decrease the likelihood of virus spread, posing an obvious dilemma for airlines. On the one hand, an airline has to manage its operation in a manner that will allow it to stem the unsustainable financial losses it has been suffering in recent months, while on the other hand, it is urged to comply with the social-distancing guidelines appropriate for the phase of recovery. But an airline's break-even load factor can be as high as 75 percent, much higher than current load factors. Therefore, limiting seating to any percentage below that will guarantee airlines continue to lose money.

The largest U.S. carriers have removed massive amounts of capacity, and smaller carriers have followed suit, all in an effort to stem the most severe demand shock in the industry's history. In May, some carriers removed up to 90 percent of capacity from their scheduled operations. The remaining flights at times experienced nearly full aircraft, generating a great deal of concern from passengers and negative press. This must be addressed in a uniform and effective way. If one airline's policy fails or is even perceived as a failure, this will reflect poorly not just on that carrier, but on the industry as a whole. This, in turn, could lead to a major setback in the return of air travel, the negative economic effects of which will ripple well beyond the airlines. And as passenger loads return, the number of conflicts between passengers – and even between passengers and front-line crew members – could rise if this non-standard, airline-specific application of governmental recommendations is left to individual carriers' interpretation and implementation.

To date, individual carriers have adopted differing policies to limit passenger loads. What's needed is an industry-wide, uniformly applied, and effective government program requiring specific social-distancing standards onboard aircraft throughout the various stages of the recovery. At present, the formulation and implementation of distancing policies is left to each airline's individual discretion, leading to widely varying policies between carriers and confusion for the flying public. The prospect of spending hours sitting elbow-to-elbow with strangers, who may or may not be adhering to recommended COVID-19 precautions, is inconsistent with Centers for Disease Control guidance and would likely be highly uncomfortable for the majority of the flying public. Therefore, selling every available seat on an aircraft doesn't represent a viable or advisable option until widespread immunity to the disease is a reality.

Different aircraft have different cabin configurations, while seating configurations on similar airplane types can vary greatly from carrier to carrier. The objective is to create an environment aloft that allows for social distancing to the greatest extent possible, where each passenger or group traveling together (such as families and business associates) need not sit adjacent to unrelated passengers. For most mainline cabin configurations, a limit of 65 percent would create an environment permitting an aisle or vacant seat between passengers. Regional aircraft with two-by-two seating would have different social distancing metrics, likely from 50 to 65 percent load factor.

The most logical solution to this would be to have airlines add flights on routes where bookings are approaching the social-distancing threshold, rather than fill fewer flights to maximum capacity. In light of the extremely high fixed costs that all airlines have, the incremental cost associated with adding a flight is relatively small, yet the

artificial capacity controls associated with social-distancing requirements would still cause these flights to be operated at a loss.

*A short- to medium-term solution during the COVID-19 economic recovery would be for the federal government to guarantee airline costs associated with capacity-load limits required to facilitate safe onboard spacing.*

## **Airline Industry Economics**

The most significant metrics in the airline industry are:

- ASM (available seat miles, a measure of an airline's capacity)
- TRASM (total revenue per ASM, a measure of the average revenue generated by that capacity)
- CASM (cost per ASM, a measure of the cost to generate that capacity)

When TRASM exceeds CASM, a carrier earns a profit on its operations. When TRASM equals CASM, a carrier breaks even. Both TRASM and CASM vary greatly between carriers, based on their network, product, and target market. Full-service network carriers such as American, Delta, and United have a higher CASM than ultra-low-cost carriers (ULCC) such as Allegiant and Spirit, but their premium products also command a higher yield and TRASM.

As the COVID-19 pandemic spread across the globe, airlines drastically reduced operations and parked planes. This led to a decrease in ASM, which caused CASM to increase sharply (as the fixed costs of capital equipment and maintenance remain for an airplane even while it is in storage). At the same time, a reduction in both demand and average fares led to a deep decline in TRASM, causing catastrophic losses.

Looking at the current trends, it appears that CASM increases have peaked, and TRASM decreases have bottomed out. If not for social-distancing requirements, airlines may have been able to start down the road to a profitable recovery by filling aircraft to their normal load factors (about 84 percent in 2019) before adding capacity. But the average historical industry-wide load factors exceed the threshold for appropriate passenger spacing by a considerable margin. By paying the historical CASM for blocked seats across the industry, the U.S. government would mitigate COVID-19 concerns for passengers and crewmembers, while providing uniformly applied, critical financial assistance to the airlines, which would be encouraged to operate more flights.

With social-distancing requirements limiting available seats, it follows that the airlines are unable to sell the remaining portion of their capacity. Government payment of the cost of that capacity to the airlines at the industry-weighted 2019 CASM would be an extremely cost-effective and market-neutral way of assuring the economic viability of individual airlines while maintaining the relative strengths and weaknesses of each carrier. This would ensure that robust aviation infrastructure would remain almost fully intact in the interest of protecting the traveling public, the economy, and our national security, for a relatively low overall expense to taxpayers while saving tens of thousands of jobs and the tax revenue those jobs generate.

These payments would help airlines stabilize airline cash flows. And basing the payments on the previous year's industry-weighted CASM assures a level playing field is maintained, while leaving pre-pandemic revenue models mostly unchanged. No carrier would gain an unfair market advantage as a result of these disbursements and, as a result, each airline would be able to price fares to more accurately represent the true market value.

A more stable income stream would also make it easier for the individual carriers to make rational staffing decisions and would encourage airlines to return parked aircraft to service, which in turn would result in more work for the employees, which could either reduce or eliminate the need for mass layoffs and the costly future reactivation of these employees. In certain cases, it might mean the difference between a thriving airline and a bankrupt one.

## SEATS Cost

The chart below illustrates a range of airline operating scenarios and costs associated with this approach, for both American Airlines and several other representative U.S. airlines in the network, hybrid, and ULCC categories.

As background, American Airlines, a network airline, produced 285 billion available seat miles (ASMs) for the year 2019, incurring total operating expenses of \$42.7 billion, representing a cost per available seat mile of \$0.149 (14.9 cents), while also in 2019 Spirit Airlines, a ULCC, produced 41.78 billion ASMs, incurring total operating expense of \$3.33 billion, representing a unit cost per seat mile of \$0.079 (7.9 cents).

Carriers report capacity statistics to the Department of Transportation on a monthly basis. Since the March 2020 onset of COVID-19-related demand decline, in order to control cash losses, airlines have produced only a fraction of their same month 2019 ASMs, as little as 15 percent in certain cases.

SEATS payments apply in arrears to capacity actually operated in the month prior. This construct limits payments, while social distancing enhances customer and air crew confidence in health safety, and creates incentives for airlines to operate more capacity, whether with larger aircraft, added flight frequencies, or by restoring service to certain markets.

Thus, if American Airlines were to operate 40 percent of its same-month 2019 ASMs, a SEATS payment guarantee would equal an approximate monthly payment to American Airlines of \$498 million, while if Spirit were similarly to operate only 40 percent of its same-month 2019 ASMs, its SEATS payment would be \$38.8 million. Payments scale with flying. If the same carriers were over a period of months to double their ratio of capacity to 80 percent of 2019 baselines, their payments would likewise double.

MONTHLY COST OF 35% ASM COVERAGE													
	TOTAL OPEX (Billion)	ASM (billion)	CASM (Cents)	Percentage of 2019 Capacity		Own CASM (Millions)	Neighborhood CASM (Millions)	Own CASM (Millions)	Neighborhood CASM (Millions)	Own CASM (Millions)	Neighborhood CASM (Millions)	Own CASM (Millions)	Neighborhood CASM (Millions)
				Own CASM (Millions)	Neighborhood CASM (Millions)								
				40%	40%								
American	\$42.706	285.088	14.98	498.239	480.278	622.798	600.348	747.358	720.417	871.918	840.487	996.478	960.557
Delta	\$40.398	275.379	14.67	471.311	463.922	589.139	579.902	706.967	695.883	824.795	811.863	942.622	927.844
United	\$38.959	284.466	13.67	453.676	479.230	567.095	599.038	680.514	718.846	793.933	838.653	907.352	958.461
<b>Network</b>	<b>\$122.064</b>	<b>845.466</b>	<b>14.44</b>	<b>1424.328</b>	<b>1424.328</b>	<b>1780.410</b>	<b>1780.410</b>	<b>2136.493</b>	<b>2136.493</b>	<b>2492.575</b>	<b>2492.575</b>	<b>2848.657</b>	<b>2848.657</b>
Southwest	\$19.468	157.254	12.38	227.127	219.605	283.909	274.507	340.691	329.408	397.473	384.309	454.254	439.210
Alaska	\$7.685	66.654	11.53	89.661	93.082	112.076	116.353	134.491	139.623	156.906	162.894	179.321	186.165
jetBlue	\$7.297	63.841	11.43	85.132	89.154	106.415	111.442	127.698	133.731	148.981	156.019	170.264	178.308
<b>Hybrid</b>	<b>\$34.450</b>	<b>287.749</b>	<b>11.97</b>	<b>401.841</b>	<b>401.841</b>	<b>502.302</b>	<b>502.302</b>	<b>602.762</b>	<b>602.762</b>	<b>703.223</b>	<b>703.223</b>	<b>803.683</b>	<b>803.683</b>
Spirit	\$3.330	41.783	7.97	38.851	40.460	48.564	50.575	58.277	60.690	67.990	70.805	77.702	80.920
Frontier	\$2.200	26.511	8.30	25.671	25.671	32.089	32.089	38.507	38.507	44.925	44.925	51.343	51.343
Allegiant	\$1.477	16.174	9.13	17.228	15.662	21.535	19.577	25.842	23.493	30.149	27.408	34.456	31.324
<b>ULCC</b>	<b>\$7.007</b>	<b>84.468</b>	<b>8.30</b>	<b>81.793</b>	<b>81.793</b>	<b>102.241</b>	<b>102.241</b>	<b>122.690</b>	<b>122.690</b>	<b>143.138</b>	<b>143.138</b>	<b>163.586</b>	<b>163.586</b>
<b>Summary</b>	<b>\$163.521</b>	<b>1217.683</b>	<b>13.43</b>	<b>1907.963</b>	<b>1907.963</b>	<b>2384.954</b>	<b>2384.954</b>	<b>2861.945</b>	<b>2861.945</b>	<b>3338.935</b>	<b>3338.935</b>	<b>3815.926</b>	<b>3815.926</b>

This approach would prevent any “gaming” of the system, while also encouraging airlines to risk additional capacity

with larger aircraft (such as substituting a larger Airbus 321 in the place of smaller A320s or A319s, and larger 737s versus smaller variants when supported by the market, in addition to substituting mainline for regional aircraft).

Finally, this approach would help preserve – if not enhance – competition, ***while preserving critical transportation infrastructure and creating meaningful consumer and societal benefits by minimizing, to the extent possible, community transmission of disease and resulting health care costs.***

## **Program Flexibility**

As the country moves through the various phases of recovery, government guidelines in regard to social distancing on aircraft could be gradually relaxed as conditions warrant. The guarantee payment could be adjusted to reflect those changes. For example, when immunity to COVID-19 is known to be between 50 percent and 75 percent domestically, then blocking of seats could be reduced to 15 percent, and then eliminated once immunity is known to be above 75 percent. With these triggers established, the maximum theoretical cost could be determined, even as the program remains in place should progress in the fight against the pandemic stall, or turn negative during the next few years.

While the cost of implementing SEATS would be substantial, the consequences of doing nothing could be devastating. By stimulating air travel and preserving a large number of jobs, SEATS would likely provide a higher return on investment for taxpayers compared to the monetary assistance provided to the airlines earlier this year through the CARES Act. In the absence of any additional government assistance, economic pressures might leave the airlines no choice but to curtail the return to service of additional aircraft or the reintroduction of previous routes, with significant layoffs after Sept. 30, 2020 a very likely result.

The COVID-19 pandemic has challenged Congress and the White House to determine which course of action best serves the public interest. On one hand, policymakers face enormous pressure to reopen the economy, while also taking into account the importance of social distancing to mitigate the spread of the virus. Fortunately, where the airline industry is concerned, these competing pressures do not need to be addressed as an “either/or” choice.