Airlines for America®
We Connect the World

February 2, 2015

Mr. Paul Hudson
President, Flyersrights.org
218 D Street SE, 2nd Floor
Washington, DC 20003

Mr. Charles Leocha
President, Travelers United
1200 North Nash Street, Suite 554
Arlington, VA 22209

Dear Mr. Hudson and Mr. Leocha:

Although Airlines for America® (A4A) was not a direct recipient of your letters to various U.S. airline CEOs, they did share it with us and I wanted to take the opportunity to share our perspective.

Lower fuel prices are benefiting consumers every day as airlines add seats and service, invest in new products and planes, and reward employees.

Given your reputations as consumer advocates, I am sure you are aware that we are in the safest period of U.S. commercial aviation history, that inflation-adjusted fares are well below the levels experienced by passengers at the outset of deregulated domestic air service and that service options to customers are expanding. However, your letter indicates that you are not aware that airlines are adding seats to the marketplace to accommodate demand for travel. In fact, the number of domestic seats available (2.4 million per day) is at its highest point in seven years, while the number of international seats from the United States has reached an all-time high (350,000 per day).

In addition, U.S. airlines have been investing $1.1 billion per month of capital expenditures aimed at improving the product, customer experience and environmental footprint. That is the highest rate of reinvestment in 13 years. At the outset of 2014, after years of stagnation, these same airlines had $100 billion worth of new aircraft on firm order, a boon to the aerospace community and workers, the environment and airline customers.

Another outcome of our improving financial condition is that airline workers are enjoying greater job security as well as increases in wages and benefits, including profit-sharing and pension contributions. Indeed, fiscally and socially responsible management involves balancing the interests of all stakeholders, and that artful balance is well reflected in the airlines' recent use of cash. Financially healthy companies strongly benefit customers, employees and shareholders.

Market forces were very much at work when airlines were hemorrhaging cash in much of the 2000s, including in 2008 when surging fuel prices created a liquidity crisis. Recovering from the massive amount of debt accumulated over those years requires years of meaningful profitability. Like any industry, we must earn our cost of capital over the entire business cycle, so that we can continue to invest in our products, serve new and existing markets, pay our employees and provide a reasonable return to investors. Airline margins remain subpar among U.S. companies, and balance sheets are overwhelmingly still not investment grade.

After many years of weakness, including a crippling recession, the U.S. economy is a bright spot in the world and steadily improving. Accordingly, demand for air travel is improving. As one of our member airline CEOs recently stated, “Our perspective is that Brent [crude oil] was over $100 a barrel for nearly four years and it has been under $100 a barrel for merely four months. So we are going to continue to run [our airline] as though we are still operating with $100 per barrel oil. We think that is best for our investors, our team members and our customers and how we plan to keep running the business.” Another CEO stated, “We’re not going to be making decisions on any sort of short-term basis… Irrespective of fuel price, if demand were to fall off, we would appropriately size the airline to it as we always have.”

There is work left to be done, and the airlines remain focused on reducing the tens of billions of dollars they still carry in debt, providing superior service to customers, returning cash to shareholders, renewing fleets, achieving aggressive environmental goals and sharing profits with employees.

Commercial air travel continues to be an excellent value for the traveling public.

Throughout much of the period 2001-2010 when U.S. passenger airlines lost $63 billion, supply generally exceeded demand, resulting in depressed prices. While a short-term boon for consumer pocketbooks, the results in the long run harmed consumers, employees and shareholders. Wages and pensions were slashed, services were reduced, one-third of airline employees were laid off, and investment in new airplanes and equipment was cut to the bone. Ultimately, several airlines were forced to restructure in bankruptcy. Today, supply and demand are much more balanced. As demonstrated above, consumers are benefiting in many ways from the kind of competitive, market-based business models that Congress envisioned when it deregulated domestic air service.

The bottom line is this: customers ultimately determine pricing and vote with their wallets every day about what they value and are willing to pay for. Indeed, with reinvestment in new equipment and products and with better compensated, better trained employees providing the service, the experience is better than ever – all this while the real average round-trip domestic fare, including revenue from ancillary services, has fallen 10 percent since 2000, thanks in large part to price competition among the airlines and between the airlines and other modes of transportation.

For most airlines, achieving a positive return on invested capital is an unfamiliar phenomenon. So every dollar coming in now is being put to work – to reinvest in our people and our equipment, reduce carbon emissions, pay down debt and reward investors, all while maintaining a safety record that is the envy of the world. That certainly strikes the hardworking men and women of our nation’s airlines not only as fiscally responsible, but also as pro-consumer.

Sincerely,

Sharon Pinkerton
SVP, Legislative & Regulatory Policy