



COVID-19 and Funding for Civil Aviation

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The COVID-19 pandemic has created headwinds for the airline industry. Out of health concerns, customers were canceling international air travel to China and other affected countries in Asia as early as January 2020. Since then, [travel restrictions](#) imposed by [governments](#) around the world as well as suspension of nonessential travel by businesses and organizations have led to a sharp drop in air travel. These developments could also have significant implications for civil aviation programs.

The International Air Transport Association, an airline industry group, [projected](#) on March 17 that the industry's losses globally due to COVID-19 would exceed \$113 billion—more than 19% of the annual revenue—and warned that numerous airlines around the world were running out of cash. Many passenger carriers have canceled services in the face of reduced demand, and have sought to conserve cash by offering voluntary leaves of absence, placing workers on furlough, and grounding or accelerating retirement of some aircraft.

Cargo airliners are not subject to travel restrictions at this point. However, a considerable proportion of air cargo normally moves in the bellies of passenger aircraft. While this accounted for a modest 1.6% of airlines' total revenue in 2019, cancellations of passenger flights may disrupt air cargo flows. Some airlines have indicated they will convert otherwise unused passenger planes into cargo planes to meet shipper demand. On March 17, Fedex, a major air and ground logistics company, [suspended its earnings forecast](#) for 2020 but did not offer an estimate of the financial impact of COVID-19. Package carrier UPS told investors on March 3 that its financial results for the current quarter “would be impacted” by COVID-19, but offered no details.

A U.S. industry trade association, Airlines for America, [said on March 16](#) that “U.S. carriers are in need of immediate assistance as the current economic environment is simply not sustainable,” and called for the federal government to provide grants, loans, and tax relief to both passenger and cargo carriers. Separately, the Federal Aviation Administration (FAA) has temporarily [waived minimum slot-use requirements](#) that required airlines at slot-controlled airports to use their slots at least 80% of the time or risk losing them. This benefits airlines that otherwise might have been disadvantaged as a result of

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canceling flights at the three slot-controlled airports—Ronald Reagan National Airport in Washington, DC, and LaGuardia Airport and John F. Kennedy International Airport in New York.

Impact on Funding of Civil Aviation Activities

The reduction in air traffic as a consequence of the COVID-19 pandemic is likely to have significant effects on the amount of funds available for civil aviation infrastructure and activities.

- The federal government provides grants to eligible airports for infrastructure projects through the [Airport Improvement Program](#) (AIP) that provides federal grants to airport infrastructure projects. The program is primarily funded through the Airport and Airways Trust Fund, which receives revenue from passenger ticket taxes, segment fees, air cargo fees, and fuel taxes paid by both commercial and general aviation aircraft. The drop in passenger air travel will reduce revenue from ticket taxes and segment fees, while flight cancellations will affect fuel tax receipts. The decline in trust fund revenue could affect the availability of AIP grants to airports. According to the Congressional Budget Office estimate, the uncommitted balance in the trust fund was \$7 billion at the end of FY2019. The AIP program receives annual funding of \$3.5 billion from the trust fund.
- Annual funding for FAA is about \$19 billion. Part of the cost of FAA's operations and programs, such as its air traffic operations and aviation safety program, is paid from the same trust fund that supports AIP. A substantial decrease in revenue from aviation taxes and fees would require Congress to increase general fund appropriations or find other funding sources if it sought to sustain these programs at their currently funded levels.
- Federal law authorizes airports to impose a local [passenger facility charge](#) (PFC) on each boarding passenger to fund airport infrastructure, including some types of projects not eligible for AIP funding, such as passenger terminals and on-airport rail systems. PFCs are included in air ticket prices and collected by the airlines on behalf of airports. The decline in airline traffic would unavoidably lead to a decrease in airports' receipts from PFCs. This may delay some planned infrastructure improvements, and may lead to calls for Congress to increase the limit on PFCs, currently capped at \$4.50 per boarded passenger, with a maximum charge of \$18 per round trip.
- The Essential Air Service program, which provides subsidies to airlines to serve over 170 small communities, receives nearly half its funding from overflight fees paid to the FAA by foreign aircraft that transit U.S. airspace without landing in or taking off from the United States. The sharp reduction in the number of international flights is likely to lead to lower receipts from overflight fees, potentially reducing the amount available to subsidize Essential Air Service flights. If it seeks to maintain the current number of subsidized flights to all currently eligible communities, Congress may need to increase discretionary appropriations to make up for the shortfall.

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