

Testimony of Doug Parker
Chairman and Chief Executive Officer
American Airlines Group, Inc.

Before the U.S. Senate Committee on Commerce, Science, and Transportation
Hearing: Oversight of the U.S. Airline Industry
December 15, 2021

Introduction

Good afternoon. I'm Doug Parker, Chairman and CEO of American Airlines.

I would like to begin by thanking Chair Cantwell, Ranking Member Wicker, and the members of this committee for the opportunity to appear before you today.

The charge for today's hearing is to examine the impact of the federal funding provided to U.S. airlines through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the subsequent extensions of the Payroll Support Program (PSP).

American Airlines is deeply grateful for the pandemic assistance we received, and we are extraordinarily appreciative of the efforts of policymakers in Congress and two administrations who made it possible, including many members of this committee. You showed tremendous leadership at a time when it was needed most, and you demonstrated a commitment to our team members that made a lasting impact.

On behalf of more than 100,000 American Airlines team members — 85% of whom are members of a labor union and 25,000 of whom faced the stark reality of a furlough notice during the pandemic — I'd like to take this moment to say thank you, and to assure you that the support the U.S. government extended to us was well worth it.

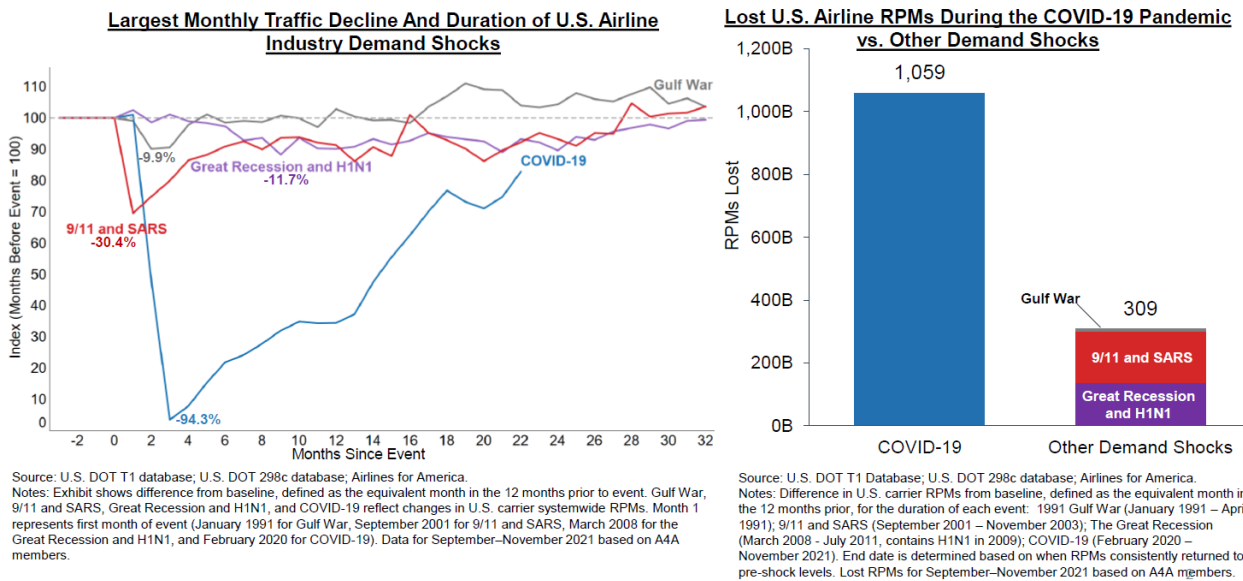
Allow me to explain why.

The impact of COVID-19 on U.S. airlines

The devastation inflicted by the COVID-19 pandemic has been profound and universal, and the gut punch we took as airlines has been well-documented. However, nearly two years removed from the start of the pandemic, it is worthwhile to recall just how severe a crisis our industry faced.

Nothing in history has ever come even remotely close to negatively impacting demand for air travel like COVID-19. In fact, from the onset of the pandemic through November of this year, the impact of COVID-19 on U.S. airline demand has exceeded the combined effect of Sept. 11, the Great Recession, SARS, H1N1, and the 1991 Gulf War by a factor of more than three.

The Negative Demand Shock from COVID-19 Dwarfs The Impact From All Previous Airline Industry Demand Shocks Combined



For American, in the final week of March 2020, our passenger revenues were 96% lower than the same period in 2019, and our load factor was 14% compared to 85% in the same week of March 2019, even though we had reduced our capacity by nearly two-thirds.

In response to the unprecedented evaporation of demand, we took aggressive self-help measures like grounding aircraft, canceling flying, and implementing a major cost-reduction program. While these actions were necessary, they were not sustainable, and unfortunately, they were not enough to eliminate the potential for a massive number of furloughs across the industry.

It was in the midst of this unparalleled crisis that the Payroll Support Program, which would go on to save the jobs and protect the livelihoods of many thousands of workers at American Airlines and across the industry, was devised.

The Payroll Support Program saved the airline industry by providing a lifeline for its workers

To state it succinctly and unequivocally: The PSP has been an overwhelming success.

I'm proud to say that American Airlines fought hard for the CARES Act and the subsequent extensions of the PSP. I'm even prouder to say we did all of it hand-in-hand with the leadership and members of this committee, in partnership with a wide swath of lawmakers from both parties, and in lockstep with our labor union partners. The PSP stands as a shining example of what can be accomplished through bipartisanship and compromise, and all those who were involved in the policymaking process deserve a great deal of credit for that.

It's not an exaggeration to say the program saved the airline industry, which Congress and the administration recognized as critical infrastructure that is as essential to the economy as it is unique. While there was relatively little debate at the time about whether the industry should be supported, there was significant debate about the form that support should take. Some suggested it should be provided entirely in loans, which we would have thankfully accepted to stay solvent, but most all of us would have survived by shutting down flying in April 2020, furloughing almost all of our teams, and waiting for demand to return to levels strong enough to justify restoring flying. As it turns out, that would have been sometime in 2021.

Fortunately, the support was ultimately structured as a combination of loans and grants, with the PSP as the critical component. It kept us flying by paying us to pay our team. In exchange, we agreed not to involuntarily separate anyone or reduce pay rates, and we agreed to maintain air service to the communities we served prior to the pandemic. The program also set limits on executive compensation, added restrictions on stock buybacks and dividends, and gave the American taxpayers a stake in the industry so they would see the benefits of our recovery.

Because of the support U.S. airlines received, our team and our industry have been able to help prevent a hyper-stressed economy, shocked by the spread of a novel virus, from grinding to a halt. Throughout the worst stages of the pandemic, American Airlines continued leading the industry in number of U.S. communities served. We carried essential workers, including medical professionals, to the locations where they were most needed. We transported critical supplies, including PPE and vaccines, on flights around the country and across the globe. In fact, in March 2020, we launched our first cargo-only flights since 1984, and by the end of the year, American had carried 167 million pounds of goods on close to 5,300 cargo-only flights.

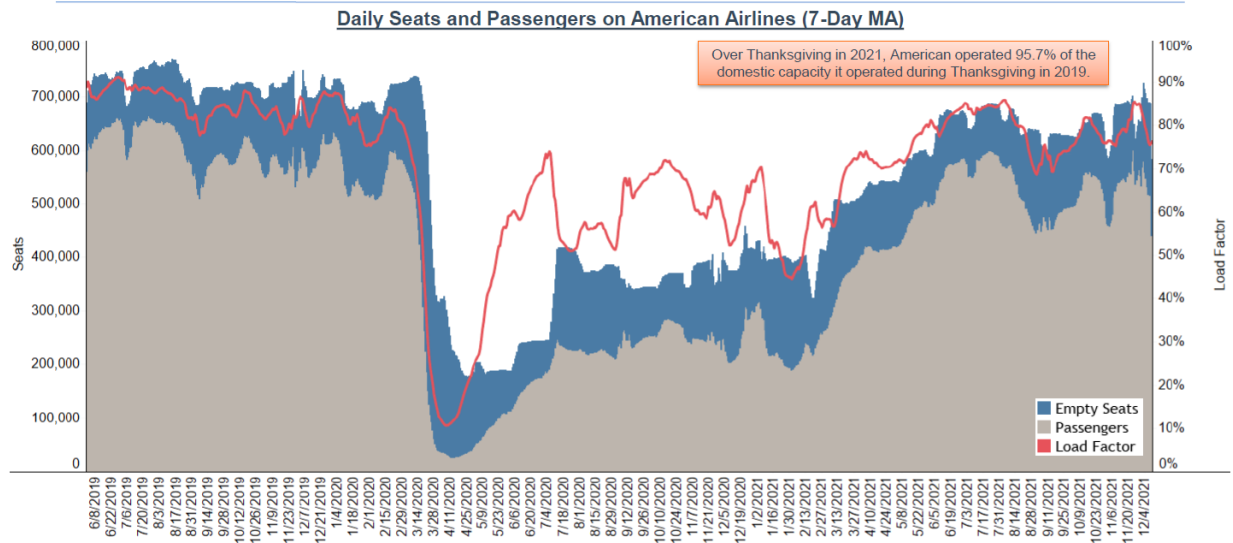
It's because of the assistance extended to us through the CARES Act and the PSP that we've been able to support a nation and a world in crisis. It's brilliant policy, written during a time of extraordinary uncertainty, and our entire industry remains incredibly grateful for it.

Fulfilling our obligation to serve as demand returns

As we made the case for the PSP, we understood that receiving financial support from the federal government would come with an obligation to serve. It was an obligation we were ready, willing, and humbled to accept.

Demand for air travel came back swiftly in the spring of 2021 as COVID-19 vaccines became available and more widely distributed. Thanks to the PSP and just as intended, U.S. airlines were ready, and we sprang into action to serve the massive influx of customers returning to the skies.

As Designed, The CARES Act Enabled American To Quickly Restore Capacity In Advance of Demand Rebounding To Help Lead the Economic Recovery



Source: American Airlines operations data. Data through December 9, 2021.

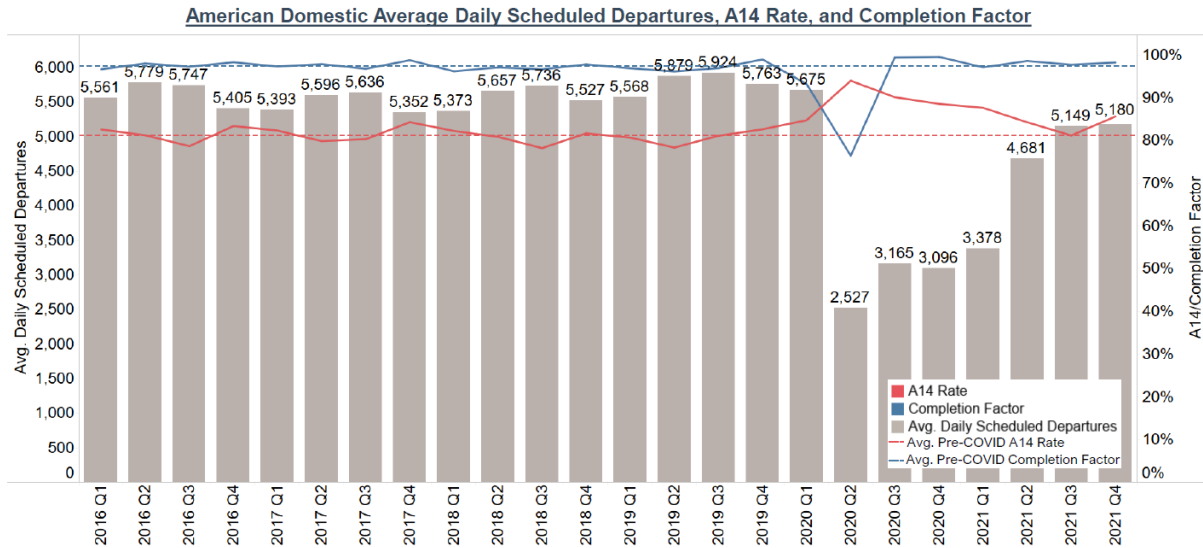
Notes: Consolidated operations, domestic and international. Seven day moving averages. Thanksgiving period defined as November 22 - December 2 for 2019 and November 19 - 29 for 2021.

At American, we grew our airline by a whopping 82% from the first quarter to the second quarter of 2021, providing significantly more service to the flying public than any of our competitors. We flew over 24 million customers in quarter one and 44 million customers in quarter two, which is about one-third more than our next-closest competitor in both cases.

This was an unprecedented ramp-up of our operation — the largest in our history, in fact. No airline has ever attempted to expand at the pace we did after a demand shock of the magnitude we experienced during the pandemic. We took this aggressive approach because the central purpose of the PSP was to ensure we were able to provide air service when travelers decided they were ready to get back to flying.

We knew we had an obligation to fulfill, and we are proud of how we have delivered.

Notwithstanding Its Fast Ramp-Up of Service, American's Operational Performance (A14 and Completion Factor) Has Met or Exceeded Its Pre-Pandemic Averages



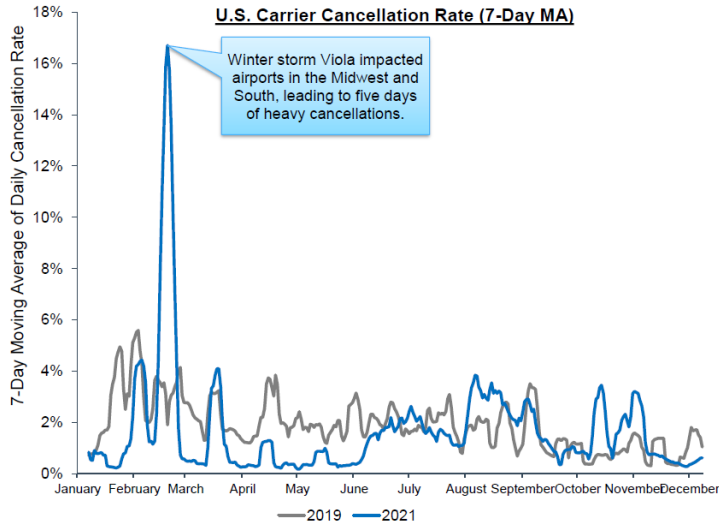
Source: American Airlines operations data. Data through December 9, 2021.
 Notes: Average pre-pandemic A14 rate (81.1%) and completion factor (97.3%) computed through 2019 Q4. Includes wholly-owned regionals (Envoy, Piedmont, PSA).

It's important to note that all of this was done with operational performance that was as good or better than before the pandemic. In fact, American closed the month of September with the best operational performance in our airline's history, 2020 notwithstanding. While flying the largest airline in the world, carrying more than 14 million customers, we recorded our most reliable September since the merger in 2013, based on completion factor, on-time departures, and on-time arrivals. More recently, over the Thanksgiving holiday period, American operated 95.7% of the domestic capacity we operated during Thanksgiving 2019, and we did so with stellar performance.

The story is the same across the industry. While there have been some high-profile challenges, the data shows that overall, U.S. airlines have been delivering operational reliability that is on par with or better than the years preceding the pandemic.

Despite the Rapid Increase in Passenger Demand, Severe Weather, The Need to Retrain Thousands of Pilots and Some Operational Challenges, Cancellation Rates in 2021 Have Remained *Below* 2019 Levels

- Year-to-date* cancellation rates in 2021 have been **1.6%** compared to **1.9%** for the same period in 2019 despite isolated periods of above average cancellation rates due to operational challenges.
- Likewise, year-to-date industrywide on-time arrival rates (A:14) in 2021 have been **84.0%** compared to **81.8%** for the same period in 2019.*
- Over the Thanksgiving holidays, American had a **99.3%** completion factor in 2021 compared to **99.1%** for the same period in 2019.**

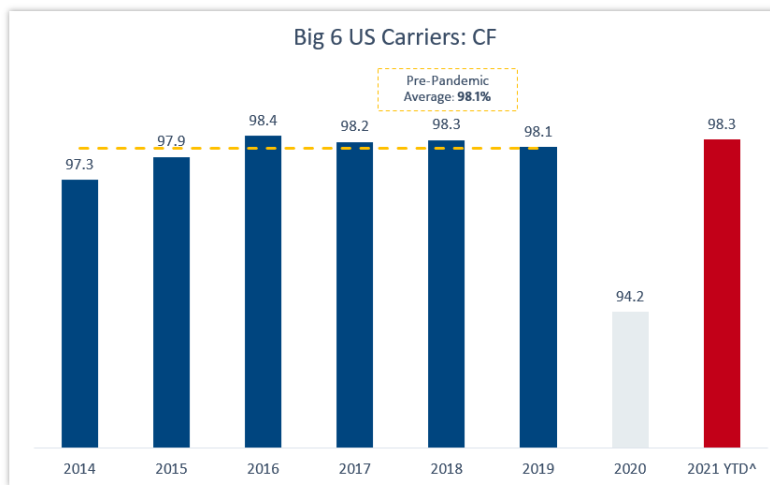


Source: Masflight.
 Notes: Includes mainline and regional flying. U.S. carriers are Alaska, Allegiant, American, Delta, Frontier, Hawaiian, JetBlue, Southwest, Spirit, Sun Country, and United. *Data from January 1, 2021 through December 8, 2021 compared to the same period in 2019. **Thanksgiving holidays defined as November 22 through December 1 for 2019 and November 19 through November 29 for 2021.

This year, the combined completion factor of the six major U.S. carriers is consistent with pre-pandemic years, and we’ve delivered an on-time arrival performance that actually exceeds pre-pandemic years.

Completion Factor

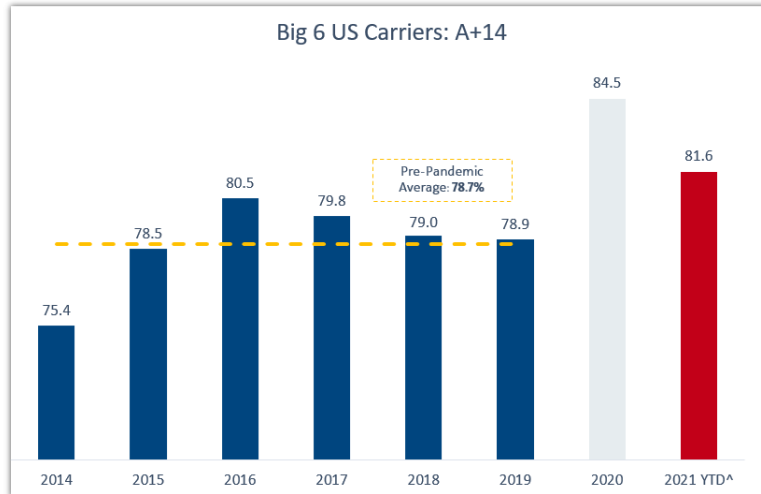
- For the Big 6 U.S. Carriers (AA, DL, UA, WN, AS, B6), 2021 CF performance remains similar to pre-pandemic years
- 2020 CF for the industry was impacted by close-in schedule pull-downs due to COVID-19



^aThrough 11/27/2021
 Combined data including ML+RG, Big 6 US Carriers: AA, DL, UA, WN, AS, B6

Arrival Performance

- For the Big 6 U.S. Carriers (**AA, DL, UA, WN, AS, B6**), 2021 A+14 performance remains at levels higher than pre-pandemic years



[^]Through 11/27/2021
Combined data including ML+RG, Big 6 US Carriers: AA, DL, UA, WN, AS, B6

U.S. airlines are meeting and exceeding operational expectations, just as we pledged.

I'm extremely proud of how the American Airlines team has stepped up as demand has rebounded. They've shown tremendous professionalism and dedication to the customers we've had the privilege to care for, and I know they've made millions of travelers' return to the skies the experience they've been waiting for.

Managing operational challenges to deliver on our commitments

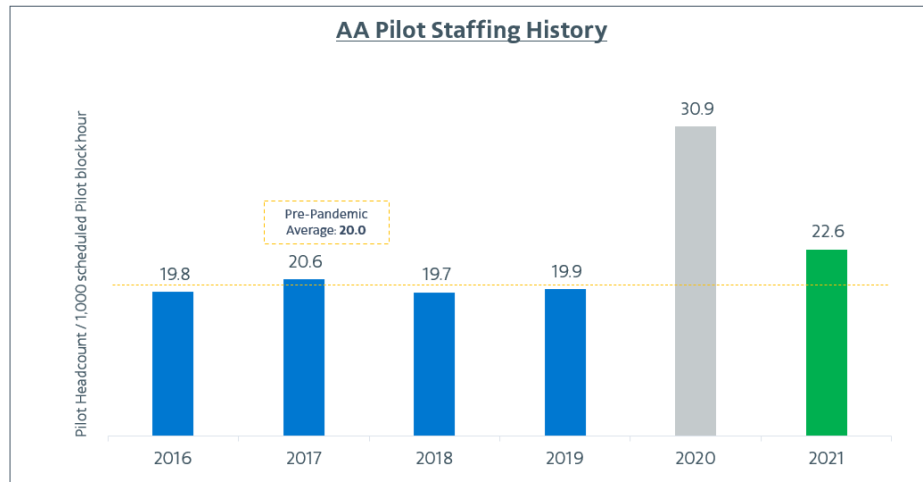
As has been the case across industries and throughout the global economy — with the ongoing supply chain crunch as a stark example — the return of demand for air travel has been intense. Like other airlines, we have experienced some operational challenges in recent months, which we have worked to manage as deftly as possible and with the utmost care for our customers and team members.

Thanks to the PSP, we have the team we need to operate the schedule we've planned. We've continued to welcome team members back to the company, and we are aggressively onboarding new hires.

To be more specific, American has as many or more pilots and flight attendants per scheduled crew block hour this year as we had in the years preceding the pandemic. This is the best

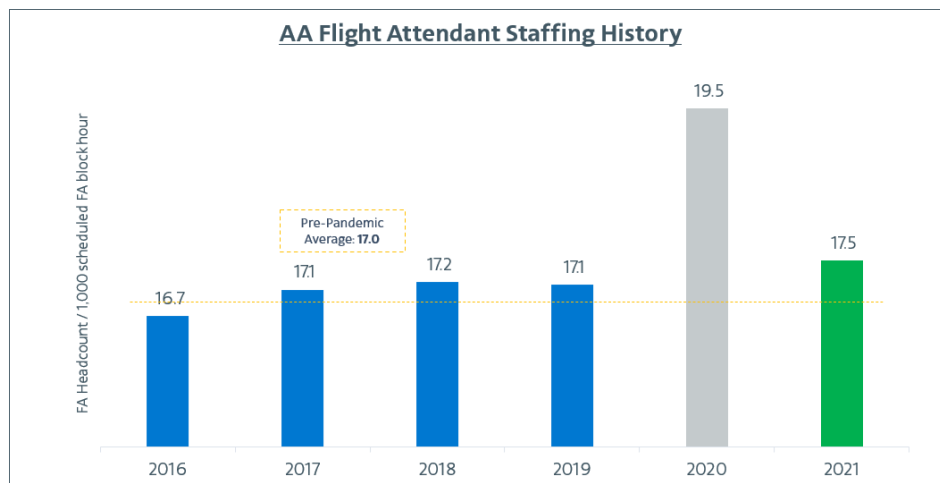
measure of the adequacy of our crew staffing because it reflects the number of active pilots and flight attendants who are eligible to fly, the number of aircraft we have available and scheduled for deployment, and the number of crewmembers we need for each flight based on the equipment and the destination.

American has more pilots per scheduled crew block hour in 2021 than pre-pandemic



Metric: Pilot headcount per 1,000 scheduled pilot block hour
 Full year, AA mainline only
 Headcount includes all active pilots only; does not include long-term inactive pilots or pilots removed from the operation for specific temporary purposes (Special assignments, Instructors, etc.)

American has more flight attendants per scheduled crew block hour in 2021 than pre-pandemic



Metric: Flight Attendant headcount per 1,000 scheduled flight attendant block hour
 Full year, AA mainline only
 Headcount includes all active Flight attendants only; does not include short-term or long-term unpaid or paid leaves, Special Assignment, etc.

As the charts above illustrate, when it comes to having the team we need, we are in as good of a position now as in recent years, if not better. Nonetheless, there are pandemic-related factors at play that have caused our operation to run tight when extraordinary disruptions arise.

For our team members on the frontline, a significant share of their work as customer service professionals is now devoted to enforcing mask mandates and other pandemic-related policies. Not only is this a departure from the job they signed up for, but it's also not as rewarding. Airlines have required masks since early in the pandemic as an additive health and safety measure, and our industry strongly supported the introduction of the federal mask mandate, but there's no denying that it has altered the day-to-day duties of many of our team members.

It's tough work because we're seeing customer emotions run high, and the industry has experienced an unsettling raft of passenger disturbances and assaults onboard aircraft and in airports. These incidents are not all related to masks, and the overwhelming majority of our flights take place without issue, but the general level of disrespect, anger, and impatience our team has had to manage in recent months is simply inexcusable. It should not be part of their jobs.

Our industry has worked closely with the Federal Aviation Administration, the Transportation Security Administration (TSA), and others, to address and deter this type of unacceptable behavior, and we're grateful for the agency's vigorous efforts to ensure that passengers who act out while traveling by air are met with the serious consequences laid out in federal law. We also support the recent announcement by the U.S. Department of Justice on prioritizing the prosecution of those passengers who commit federal crimes on our aircraft.

Our team is resilient, but with that workplace environment as the backdrop, we have found a higher-than-usual reticence among our crewmembers to pick up additional trips or fly above their minimum-required hours during the pandemic. Unfortunately, this severely impairs our ability to recover quickly in instances of extraordinary disruptions to service, because recovery is so dependent on team members choosing to pick up flying above their minimum-required levels. We have adjusted our staffing models accordingly, but it's something we continue to grapple with as a company and an industry, and it contributed to the operational challenges we dealt with at the end of October.

In that case, we experienced an extraordinary disruption when we were hit with two days of unforecasted severe winds at Dallas-Fort Worth International Airport (DFW), our largest hub, leading to the closure of three of the five runways on which our operation typically relies. The resulting cancellations put many of our team members out of their regular flight sequences, a consequence exacerbated by the fact that the end of the month is also the end of the bid period,

limiting the availability of crewmembers who have already reached their maximum flying time. While the cancellations were driven almost entirely by the situation at DFW, they were extended because we had difficulty getting crewmembers to pick up additional flights. It's likely not a coincidence that those difficulties came in the wake of one of our flight attendants being violently attacked by a customer who punched her and broke her nose.

We made the difficult decision that weekend to proactively adjust our schedule. We never want to disappoint those who choose to fly with us, so that decision was not made lightly. Our team got to work rebooking our customers who were impacted by the changes, and we were able to recover and resume normal operations by Tuesday.

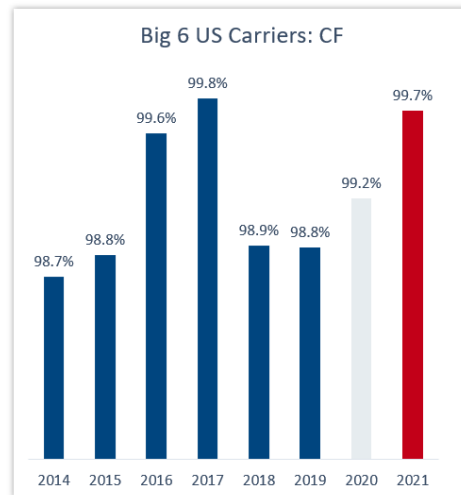
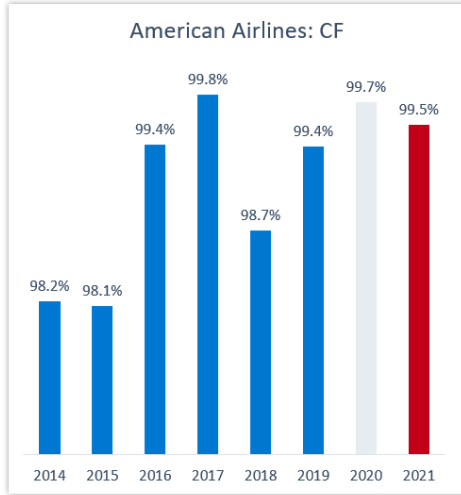
I provide these details to underscore that these events have been the distinct exception, not the rule. In our view, the reduction in desire to pick up trips is largely caused by events related to the pandemic and should gradually dissipate. In the meantime, while recovering from extraordinary disruptions has been more difficult, we've still delivered an overall operational performance this year that has met or exceeded our pre-pandemic norm.

As we began to focus on running an outstanding operation for the holidays, we developed incentive pay programs for peak travel periods to fortify our efforts to operate every flight on our schedule and to encourage flight crews to pick up additional work in the event of another extraordinary disruption. We provided extra pay for the vast majority of our frontline team members to pick up shifts during the Thanksgiving holiday, and we are providing 300% pay to flight attendants with no absences between Nov. 15 and Jan. 2, with similar programs in place for other work groups. The incentive pay contributed to our smooth operation over Thanksgiving, and we're confident that these programs will help us deliver a similarly smooth travel experience over Christmas and the New Year, as well.

Speaking of Thanksgiving, it's worth spending a moment on the details of the industry's excellent performance. On the Sunday after the holiday, 2.5 million passengers passed through TSA checkpoints — a pandemic record. And over the 10-day holiday travel window, 20.9 million total passengers were screened. From the Friday before Thanksgiving to the Sunday afterward, the big six U.S. carriers delivered the best completion factor since the same time period in 2017, with an on-time performance exceeding the Thanksgiving weekends of 2018 and 2019.

Completion Factor

- 2021 Thanksgiving CF for the Big 6 is best since 2017

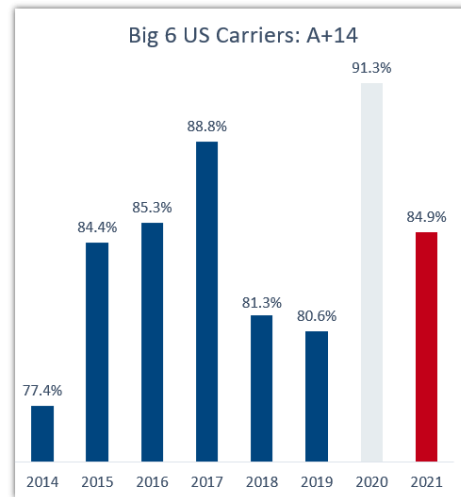
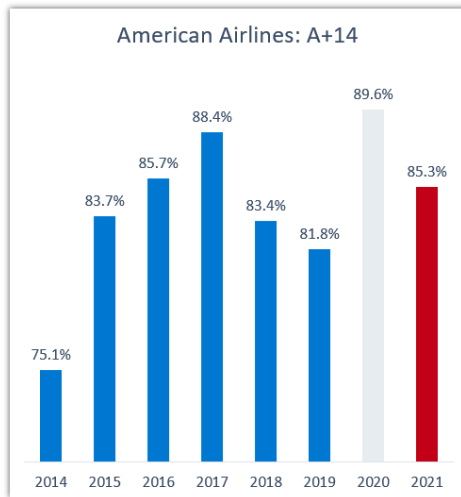


Data includes Friday before Thanksgiving through **Sunday** after Thanksgiving for each respective year
 Combined data including ML+RG, Big 6 US Carriers: AA, DL, UA, WN, AS, B6



Arrival Performance

- 2021 Thanksgiving A+14 was well above 2019 and the second best since 2017 (excluding 2020)



Data includes Friday before Thanksgiving through **Sunday** after Thanksgiving for each respective year
 Combined data including ML+RG, Big 6 US Carriers: AA, DL, UA, WN, AS, B6



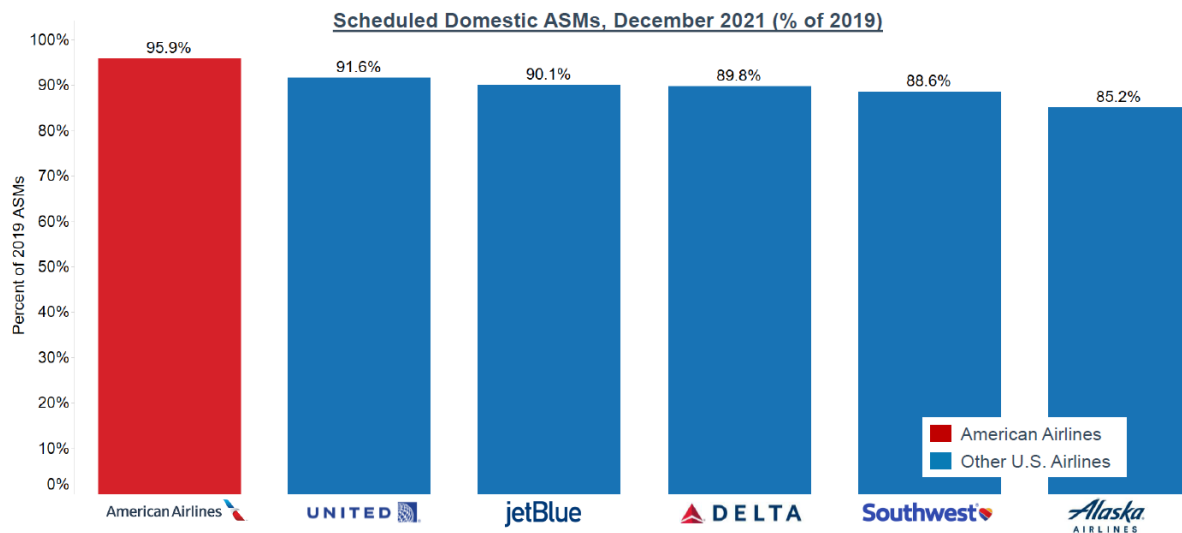
Today, American Airlines is serving an average of more than 500,000 customers on over 5,600 daily flights to more than 300 destinations across the country and around the globe. This is all a testament to the dedication, resilience, and skill of our frontline team, and proof positive of the success of the PSP.

The PSP has enabled the industry's ongoing recovery

By now, we know that the recovery from the pandemic will be prolonged. It's certainly true for our business. But no matter how far removed we are from the depths of the crisis, American will continue to be guided by the obligation to serve that we accepted when we accepted PSP funds.

For one, we're flying close to the same capacity this month as we were in December 2019, not to mention more than our competitors. We are ready and eager to fly our customers where they need and want to go as they celebrate this holiday season.

During the End-of-Year Holiday Season, American Is Operating a Higher Percentage of Its Pre-Pandemic Domestic Capacity Than Any of the Other Large Network Carriers



Source: OAG schedule published December 2, 2021.
Notes: December 2021 ASMs as a percent of December 2019 ASMs.

As for our team, not only have we excitedly welcomed back team members who were furloughed when the PSP lapsed, I am pleased to say that American hired more than 16,000 new team members across all our workgroups this year. This included more than 1,350 pilots, over 1,600 flight attendants, an additional 1,000 tech ops and maintenance professionals, and more than 2,000 reservations agents. We believe this positive momentum will continue into next year, as we've set a target of hiring an additional 18,000 team members in 2022. Each time we add to our ranks, it's like a dividend payment on the investment made in our team through the PSP; instead of building back from collapse, we're growing to provide more promising careers in good-paying jobs to hard-working individuals who are the lifeblood of our nation's economy.

A strong U.S. airline industry has been — and will continue to be — elemental to the overall economic recovery from COVID-19. We've remained strong because of the support we've

received, but also because of robust competition in the marketplace and fares that remain low despite historic inflation.

Even before the pandemic, fares were low. In fact, according to the U.S. Department of Transportation's Bureau of Labor Statistics, the average domestic itinerary fare in 2019 was the lowest inflation-adjusted annual fare since the bureau began collecting such data — and fares declined further still in 2020 and 2021. While prices are rising on all manner of consumer goods, airfares have declined to the lowest level since the late-1990s. Just a few weeks ago, the *New York Times* reported that while fuel oil — one of our main costs — increased 59% from October 2020 to October 2021, airfares went down by 5% during the same period. And November's inflation report showed the same pattern: Overall inflation reached a 39-year high, but airfares fell 3.7%. And to put the value of air travel in perspective, consider this: From 1979 to 2019, the price of a day at Disney's Magic Kingdom rose 10 times as fast as the price of air travel. Traveling by air on a U.S. airline remains a great value, and American consumers are proving as much by taking to the skies in growing numbers.

To those who may wonder whether this story would be the same without the CARES Act and the PSP, let me tell you my view: It most definitely would not. Fortunately, because of the foresight and commitment of our nation's leaders, American is in a position to continue competing vigorously with our peers while we, as an industry, buttress the ongoing pandemic recovery.

Conclusion

I am so proud of how our team has managed through the pandemic. Early on, we agreed that this would one day pass, and what would matter most is how we treated each other, our customers, our partners, and those in our care. As I look back now, I feel confident in the decisions we made during COVID-19 and the values we used to guide us.

Earlier in my testimony, I mentioned that I was appearing before you on behalf of American's more than 100,000 team members. As CEO, that is a responsibility I treasure. My message to you today is actually theirs, so I'd like to take a moment to tell you about a couple of them.

Kimberley Dorman is one of our amazing flight attendants, based at DFW. She had her first child right before COVID-19 took hold. Her husband, a veteran, is a self-employed real estate developer, so Kimberley carries the family on her health insurance plan. When faced with the possibility of furlough, Kimberley began to consider other options for insurance, but all were far more expensive and provided less coverage than her plan with American. It would have tipped her family into financial struggle. But instead, because of the PSP, Kimberley kept her job and her insurance, she was able to continue to provide for her family, and she returned to work from a leave of absence this spring.

I met Brookelle Stockton on one of my flights to D.C. in the fall of 2020. (In fact, it's possible some of you may have met her during your travels, too.) Of the four flight attendants working that particular flight, three had received furlough notices, including Brookelle. While she did end up being furloughed when the PSP lapsed — a period of time she describes as heartbreaking — fortunately, we know that's not the end of the story. She held off on applying for unemployment as she held onto hope for an extension of the PSP, and I actually ran into Brookelle at our training center this spring as she prepared to come back to the line. It was special for both of us to experience that full-circle moment.

These are just a couple of the American Airlines team members who have thanked me for fighting to save their jobs. On their behalf, I have the great honor of thanking you.

So, thank you for your support of our team members and for all you've done to protect the vitality of the U.S. airline industry, especially during the pandemic.

I look forward to taking your questions.