

“Oversight of the U.S. Airline Industry”
Testimony of Gary C. Kelly
Chairman of the Board and Chief Executive Officer, Southwest Airlines Co.
Before the U.S. Senate Committee on Commerce, Science, and Transportation
December 15, 2021

Chair Cantwell, Ranking Member Wicker, and members of the Committee, good afternoon:

My name is Gary Kelly, and I’m privileged to serve as Chairman and CEO at Southwest Airlines. Thank you for inviting me to testify on behalf of the 54,000 active Southwest Employees who directly benefitted from the Payroll Support Program (PSP). I can sum up the PSP in two words: IT WORKED. Our Employees have endured unprecedented challenges over the last two years—from new federal requirements to unruly passengers—and I couldn’t be more proud of them. Their resilience and resolve are nothing short of heroic. PSP secured their jobs, their pay, and their benefits.

Gratitude

Let me begin by expressing my heartfelt appreciation to Congress and the leaders of this Committee. In March 2020, I joined my industry colleagues, as well as the nation’s airline union representatives, in urging Congress to act quickly by providing immediate liquidity to the airline industry. In a bipartisan fashion, Congress recognized the severity of the COVID-19 threat and heeded the call for swift, decisive action, passing the PSP within weeks. Despite this incredible achievement, no one could have predicted what happened in the months that followed: multiple waves of rising cases, new COVID-19 variants, changes in government policies, volatile demand for air travel, and record financial losses for every airline. Even with the turbulence brought on by the global pandemic, your commitment to protecting the livelihoods of hundreds of thousands of airline workers never wavered. You understood the critical importance of our industry to the economy and the nation’s recovery. Most importantly, you saw the PSP as a successful program worthy of not one, but two extensions. For that, I’m eternally grateful.

Being Prepared

At Southwest, we take pride in being a maverick, including being about as well-prepared for this crisis as any company, let alone any airline. Looking back at early 2020, we entered the pandemic in a very strong financial position—with \$5 billion in liquidity, modest debt, low financial leverage, and a low-cost structure. By being financially conservative, we’ve always strived to be well-prepared for the unforeseen. Southwest is the only 1980s major carrier that has never filed for bankruptcy, even after 9/11 and the Great Recession. We responded to the pandemic with aggressive, appropriate self-help measures to keep the Company solvent: eliminating discretionary spending, right-sizing our flight schedule, and

cutting executive compensation—including reducing my base salary. As the only airline with an all-investment-grade credit rating, Southwest could also access capital from the private markets. If the current demand environment holds, we should be able to pay off most of the debt we incurred during the pandemic within the next five years.

At the same time, Southwest has never achieved low costs on the backs of our Employees. We're 83% unionized. We offer industry-leading wages and great retirement and health care benefits. We're consistently ranked on Glassdoor's list of Best Places to Work and FORTUNE's list of the World's Most Admired Companies. And, until 2020, our Employees received profit-sharing contributions each and every year since 1972, an unprecedented profit streak of 47 years.

Putting People First

For Southwest, the source of our strength and success is our People. As CEO, they've always been my top priority, and my number one concern is our Employees' health and job security. Funds received through each round of the PSP were only used for qualifying Employee salaries, wages, and benefits. We did not cut pay rates. We did not cut hours. We did not cut benefits. We did not layoff. We did not furlough. We actually raised our minimum pay to \$15/hour effective August 1, 2021. This represents a wage increase of 7-11% for about 7,000 Employees. In fact, my biggest source of pride is that, as of today, Southwest has never had involuntary layoffs or furloughs in our 50-year history.

Southwest is also the only major airline to maintain service at every domestic airport we served before the pandemic. Our commitment to bringing Customer-friendly policies and low fares to consumers does not end there. In the last 22 months, we launched service to 18 new airports. Consumers in these markets benefited from the "Southwest Effect," a phenomenon observed by the U.S. Department of Transportation (DOT) in which our entry into a market drives competition up and fares down. We continue to provide outstanding hospitality. It's a testament to our People that we have the best year to date DOT Customer Satisfaction Ranking among Marketing Carriers and the highest Net Promoter Score in the industry. By every measure, we lived up to the letter and the spirit of the PSP as Congress intended.

Focus on Reliability & Resiliency

Our operational performance during the week of Thanksgiving underscores our focus on reliability. We knew the challenges a busy holiday travel week might bring and implemented several enhancements to support our Customers and Employees. Southwest Employees executed those planning efforts with coordination and precision. In a week where we served over 2 million Customers, we operated nearly 24,000 flights with a 99.9% completion rate and only 12 cancellations. Our DOT on-time performance for the week was 88.3% and on

November 28—2021's busiest travel day based on TSA throughput—Southwest had the highest on-time performance in the industry.

In closing, our purpose at Southwest is to connect People to what is important in their lives through friendly, reliable, and low-cost air travel. After two difficult years, I'm so proud of our Company's record of taking care of our Employees, Customers, and the communities we serve. As I've said to many in the past year, it was messy going into this pandemic and it'll be messy coming out. And it has been, at times, when flight and passenger activities got ahead of our effective staffing. Yet we've made progress toward stabilizing our operations. Since the pandemic persists, we'll continue to be cautious and focused on reliability. I assure you that, no matter what challenge is presented to us next, taking good care of our Employees and Customers remains Southwest's primary goal.

Thank you again for your tremendous support during our darkest hour as a Company and an industry, especially through the enactment of the Payroll Support Program. I look forward to answering your questions.