



WASHINGTON AVIATION SUMMARY

August 2016 EDITION

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The Kirstein & Young law firm specializes in representing U.S. and foreign airlines, airports, leasing companies, financial institutions and aviation-related companies before U.S. Government agencies, Congress, the courts and in commercial and financing matters.

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I. REGULATORY NEWS

1. IATA: Airlines to Post Record Profit in 2016.

The world's airlines are expected to report a \$39.4 billion net profit in 2016, according to the International Air Transport Association (IATA), generated on revenues of \$709 billion for aggregate net profit margin of 5.6%. On average, airlines will make \$10.42 for each passenger carried. For the second year in a row and the second time in industry history, return on invested capital (9.8%) will exceed cost of capital (est. 6.8%). Results are attributed to lower oil prices, record load factor levels, ancillary revenues, and joint ventures and other forms of cooperation. Net profit of \$22.9 billion is forecast for North American carriers; \$7.5 billion for European airlines, \$7.8 billion for airlines in Asia-Pacific, \$1.6 billion for Middle East carriers, and \$100 million for airlines in Latin America; a \$500 million loss is forecast for African airlines.

2. DOT Proposes Airlines, Cities for New Tokyo Haneda Routes.

The U.S. Department of Transportation (DOT) tentatively selected airlines and cities for daytime scheduled passenger service to Tokyo's downtown Haneda airport, to begin as early as this fall. An amendment to the U.S.-Japan Open Skies agreement provides that, effective October 30, 2016, the four existing U.S. nighttime slot pairs at Haneda will be transferred to daytime hours, and one new daytime and one new nighttime route will become available for U.S. carrier scheduled passenger services. In March, DOT launched a proceeding to award the new opportunities. The tentative selections include American and Delta from Los Angeles, United from San Francisco, Hawaiian from Honolulu, and Delta from Minneapolis (the new route). Hawaiian was the only carrier to apply for the single nighttime opportunity; an award for services from Kona and Honolulu was made in May. Objections to the proposed allocations due by August 1, 2016.

3. DOT Tentatively Awards Havana Routes.

DOT tentatively awarded Havana routes to eight airlines—Alaska, American, Delta, Frontier, JetBlue, Southwest, Spirit and United—for service from “areas of substantial Cuban-American population” and “important aviation hub cities.” The proposed Havana nonstops are: Alaska once daily Los Angeles; American four times daily Miami and once daily Charlotte; Delta once daily New York Kennedy, Atlanta and Miami; Frontier once daily Miami; JetBlue twice daily (once on Saturdays) Fort Lauderdale and once daily New York Kennedy and Orlando; Southwest twice daily Fort Lauderdale and once daily Tampa; Spirit twice daily Fort Lauderdale; and United once daily Newark and

once weekly Houston (Saturdays). Under terms of the U.S.-Cuba arrangement, DOT may allocate up to 20 daily roundtrips for U.S. carrier scheduled passenger or all-cargo services between the United States and Havana. DOT earlier allocated scheduled services to and from each of the other nine international airports in Cuba. There are no frequency restrictions on charter service, which will continue as before. Travel for tourist activities remains prohibited by statute. U.S. citizens are permitted to travel to Cuba if they fall under one of 12 categories authorized by the U.S. Department of the Treasury’s Office of Foreign Assets Control, such as family visits, education, journalism and humanitarian projects. . . . DOT approved FedEx’s uncontested application to become the first all-cargo airline to provide scheduled flights to Cuba. FedEx will begin once-daily Monday through Friday service between Miami and Matanzas on January 15, 2017.

4. DOT Air Travel Consumer Report for May.

Based on data filed by largest reporting carriers; tarmac data filed by all carriers.

	May '16 / '15	April '16	Full Year				
			2015	2014	2013	2012	2011
On-time arrivals %	83.4 / 80.5	84.5	79.9	76.2	78.34	81.85	79.6
Cancellations %	0.5 / 1.1	0.9	1.5	2.2	1.51	1.29	1.91
Mishandled baggage*	2.4 / 2.97	2.31	3.24	3.61	3.22	3.09	3.35
Consumer complaints:							
Airline service	1,134 / 1,492	1,222	20,170	15,539	13,176	15,338	11,546
Disability-related	66 / 73	52	939	784	683	741	628
Discrimination**	7 / 2	4	65	68	79	99	128

Notes: In May, airlines reported nine tarmac delays of more than three hours on domestic flights and four of more than four hours on international flights.

* Reports per 1,000 passengers.

**I.e., race, religion, national origin or sex.

II. AIRPORTS

1. Maine Airport to Provide Cuba Refueling, Other Services.

Bangor International Airport in Maine received a license from the Office of Foreign Assets Control of the U.S. Department of the Treasury to provide services for non-U.S. aircraft seeking to make non-traffic transit stops (refueling, catering, deicing, crew services) on flights to/from Cuba. Under the licensing, passengers may not disembark in Bangor. Until now, carriers from Europe in need of such services had to stop in Canada. In May, U.S. Senators Susan Collins (R-ME) and Angus King (I-ME) introduced legislation that would permit foreign air carriers traveling to or from Cuba to make non-traffic, transit stops in the United States, saying the bill “would provide American airports and workers the opportunity to compete with Canadian airports,” adding, “by not permitting transit stops, the U.S. is out of compliance with several international transportation agreements, including the Chicago Convention and the U.S.-EU Open Skies Agreement.”

2. New Investments Announced for O’Hare.

City of Chicago and airlines including United and American announced a new O’Hare 21 project that expands Terminal 5 by 25% and redevelops Terminal 2 into a new central terminal within the existing terminal complex, which could include a new U.S. Customs and Border Protection facility and departure hall with additional space for passenger screening and concessions. Planning process is expected to be completed next year. “The city and the airlines continue to evaluate the best alternatives for accommodating growth, and the program will evolve through further planning and negotiations,” said Mayor Rahm Emanuel. Earlier announced O’Hare 21 projects include a new runway, deicing pads and other critical airfield projects, construction of five new gates by American Airlines, and three new hotels.

3. Delta, Port Authority to Replace LaGuardia Terminals.

Delta will partner with Port Authority of New York and New Jersey to replace Terminals C and D at LaGuardia (LGA), as part of a new lease agreement to be negotiated through 2050. Port Authority has committed \$600 million to facilitate construction of the terminal and supporting infrastructure. Delta said its new terminal “will consist of 37 gates located on four concourses connected by a centralized check-in lobby, security checkpoint, and baggage claim. Of the 37 gates, 33 will have access to dual taxi lanes, which will greatly improve airfield efficiency, resulting in reduced taxi time to and from the gate before take-off and after landing. The construction will commence as soon as

possible, following regulatory approvals and final lease negotiations.” Delta is New York's largest carrier and handles 275 daily departures at LGA. Vice President Joe Biden and New York Governor Andrew Cuomo last year introduced a plan to redesign and rebuild LGA to include a new \$4 billion central terminal building and a grand central hall unifying the terminals.

4. **Delta to Relocate, Upgrade Operations at LAX.**

Los Angeles World Airports (LAWA) approved a lease and license agreement for Delta to relocate from Terminals 5 and 6 to Terminals 2 and 3 at Los Angeles International (LAX) by December 2018. It requires Delta to invest a minimum of \$350 million, which includes a relocation plan for other airlines, with potential future investment of \$650 million to \$1.51 billion to upgrade Terminal 2 and completely redevelop Terminal 3 while operating in those terminals, subject to environmental clearance and governmental approvals. Since 2009, Delta has grown from 70 daily LAX departures to 175.

5. **Ontario Airport to Transfer from LAWA.**

A provision to enable transfer of Ontario International Airport from Los Angeles to local control was included in legislation that extends Federal Aviation Administration (FAA) authorization. In 2015 Ontario agreed to reimburse LAX \$120 million over 10 years for passenger facility charges (PFCs) collected to pay for a new terminal in the 1990s. Ontario expects to repay much of this through future PFCs. However, such transfers between airport authorities were not permitted. The provision, offered by Senator Dianne Feinstein (D-Calif.), amends the statute so Ontario can transfer the funds after the separation.

6. **New Low-Cost Service Coming to Newark.**

Several airlines announced Newark service made possible by an FAA decision in April to ease slot restrictions, effective October 30, encouraging access for new entrants, including low-cost airlines. Alaska begins daily Boeing 737 service from Portland and San Diego in November and San Jose in March, and adds a third daily Seattle departure in May. Virgin America adds daily nonstops from Los Angeles and San Francisco November 18, with one-way fares from \$149. Spirit will offer daily nonstops to Fort Lauderdale, Orlando and Myrtle Beach. Allegiant will fly to Cincinnati and Asheville four times weekly and to Knoxville and Savannah three times a week, starting in November, with initial one-way fares from \$39. JetBlue is shifting six Florida flights to Newark from LaGuardia, and will add Saturday-only Newark-Barbados for the November 19-January 7 period; JetBlue flies to eight other destinations from Newark. Icelandic discount carrier WOW Air will begin daily Airbus A321 nonstops to Reykjavik on November 25, with one-way fares from

\$99; fares for connecting service to 21 other European destinations start at \$149 each way. WOW founder and CEO Skúli Mogensen told *USA Today* that A330s will be used during periods of peak demand.

7. Guilty Plea by Former Port Authority Chairman; United Fined.

Former Port Authority Chairman David Samson pleaded guilty to a felony count of bribery in U.S. District Court in Newark, admitting he approved construction of a hangar for United at Newark, after the airline agreed to operate flights from Newark to Columbia, South Carolina, where he has a home. The investigation led to the resignation of United CEO Jeff Smisek. In an agreement with U.S. Attorney's Office for the District of New Jersey, United will pay a penalty of \$2.25 million, but will not be prosecuted. United's current CEO Oscar Muñoz said the carrier "will continue to act with the utmost integrity in everything we do, ensuring that we are always conducting business ethically and with the best interests of all of our stakeholders in mind."

8. London City Airport Set for Major Upgrade.

The UK approved a £344 million transformation of London City Airport, to include seven new aircraft stands, parallel taxiway and "world-class terminal facilities," enabling 6.5 million passengers to use the airport in London's Royal Docks by 2025, up from a record 4.3 million in 2015. Officials said the expansion will facilitate greater frequency of flights and more destination choice, with quieter, more fuel efficient next generation aircraft unlocking the opportunity to fly greater distances to destinations in the Gulf and Middle East, Turkey, Russia, and the east coast of the United States.

9. France to Sell 60% Stakes in Nice, Lyon Airports.

The French government agreed to sell 60% stakes in Nice and Lyon airports. A group led by Italy's Atlantia will acquire the Nice stake for €1.2 billion, while a consortium led by French construction company Vinci will pay €535 million for the stake in Lyon.

III. SECURITY AND DATA PRIVACY

1. Screening Ops Move Swiftly over July 4th Holiday.

The Transportation Security Administration (TSA) screened 10.7 million travelers during the July 4th holiday (June 30 through July 4), the highest-volume travel days since 2007, with average wait time nationwide of less than 10 minutes in standard security lines and less than five minutes in Pre-check lines, reports Department of Homeland Security (DHS) Secretary Jeh Johnson. More than 100 Transportation Security Officers (TSOs) and TSA volunteers transferred from around the country to fill in at the seven busiest airports. Reprogrammed funds approved by Congress paid to expedite hiring of 768 new TSOs, add more overtime pay for existing workforce, and convert 2,784 TSOs from part-time to full-time at the busiest airports. Airlines assigned personnel to assist in non-security duties at checkpoints. Jeh added that TSA's new incident command center is monitoring checkpoint trends in real time, to enable quick response to issues as or before they arise. "In the current global threat environment, we are not compromising or short-cutting aviation security, while meeting increased travel volume," said Jeh. "I also salute TSA Administrator Peter Neffenger and his leadership team for ably navigating the agency during these very demanding times." DHS is accelerating the hiring of an additional 600 TSOs before end of fiscal year.

2. Airlines Installing Automated Screening Lanes.

TSA jointly announced plans with United and American Airlines to install automated screening lanes at select hubs this fall, promising to decrease wait times for travelers by about 30%. United will open the first of 17 automated lanes at Newark, followed by Chicago O'Hare and Los Angeles International. American plans installations at Chicago O'Hare, Dallas/Fort Worth, Los Angeles and Miami. Delta installed the automated lanes at Atlanta earlier this year. The equipment features automated belts that draw bags into the X-ray machines and return bins to queue after completion of screening. Bags with a potential threat can be directed to a separate area to allow bins behind it to continue through the system uninterrupted. Bins are 25% larger than bins in regular screening lanes. Unique Radio Frequency Identification (RFID) tags are attached to each bin for additional accountability of items as they transit throughout the system. Cameras capture photos of the bag, linked to X-ray image of bag contents. . . . American will also deploy computed tomography (CT) technology at a Phoenix TSA checkpoint, a pilot program set to begin by yearend. Currently used at U.S. airports to screen checked bags, 3D CT technology could allow passengers to leave liquids, gels and aerosols, as well as laptops, in carry-on bags.

3. Study Shows TSA PreCheck Reduces Risk of Terror Attacks.

TSA measures reduce the risk of a plot to down an airliner with a passenger-borne bomb by over 98%, and TSA's risk-based screening program, PreCheck, enhances risk reduction by another percentage point, according to a study by Australian research organization Centre for Infrastructure Performance and Reliability (CIPAR), done in collaboration with Ohio State University. If 10% of non-PreCheck passengers are randomly sent to the PreCheck line, in TSA's Managed Inclusion program, there is still a benefit in risk reduction and an additional savings for TSA of \$11 million per year by reducing screening costs. Reducing checkpoint queuing times improves the passenger experience, which could lead to higher airline revenues, adds CIPAR. "TSA PreCheck thus seems likely to bring considerable efficiencies to the screening process and great benefits to passengers, airports, and airlines while actually enhancing security a bit."

4. TSA Opens Process for Airport Screening System Reimbursements.

TSA has opened a process for airports to receive reimbursement for previously constructed in-line checked baggage inspection systems, reports American Association of Airport Executives (AAAE). Among criteria for reimbursement: project was to construct an integrated or partially integrated baggage screening system; construction began on or before August 3, 2007; at time of construction, the airport sponsor had reasonable anticipation of being reimbursed; airport sponsor has not received government funding for the construction process. Firm deadline for application is October 20.

IV. E-COMMERCE AND TECHNOLOGY

1. Southwest Outage Causes Thousands of Delays, Cancellations.

Southwest reported a full recovery across its flight network, after a technical outage caused thousands of delays and more than 2,000 cancellations over several days. The airline apologized, extended a fare sale and allowed customers ticketed to fly during the disruption to rebook flights with no additional cost by visiting Southwest.com.

2. JetBlue, EI AI Team to Foster Aviation Technology.

Cockpit, an innovation center established by EI AI, and JetBlue Technology Ventures, the investment arm of JetBlue, have launched Navigator, a program for startups working in the fields of aviation and travel. The program will include exposure to strategic partners, initial funding and ongoing guidance in sales and marketing, technology and legal issues. Companies accepted will work for three months in Israel and an additional month in JetBlue's Silicon Valley location.

3. OAG Analyzes Underserved Routes.

An OAG analysis of underserved routes in 2015 identifies major cities where large numbers of travelers still journey via an intermediate point. One-third of those routes were to and from the United States, amounting to nearly three million passenger trips. India, Thailand and Saudi Arabia are all major international markets where large proportions of travelers continue to fly indirectly to their destination, says the UK-based air travel intelligence company. The report identifies top 50 passenger routings by roundtrip booking volumes that make a single airport connection in each direction.

4. Most Airlines Investing in Cybersecurity.

A study of the world's top 200 airlines found that 91% plan to invest in cybersecurity programs over the next three years, compared to 47% three years ago, according to the SITA Airline IT Trends 2016 Survey. The move to the 'Internet of Things' (IoT), in which a vast number of physical objects are connected to the Internet, necessitates more security; 68% of airlines are investing in IoT programs in the next three years, up from 57% this time last year. By 2019 more than half plan to provide destination services and duty-free shopping apps, 70% plan to provide multi-media file streaming on passenger devices, 61% will offer smart bag tagging to enable continuous tracking, and 47% are planning IT programs for single token travel for passenger identification.

5. Cheapflights.com Releases Airport Affordability Index.

Long Beach maintains its top ranking in the current U.S. Airport Affordability Index published annually by Cheapflights.com. The list is based on user searches on the travel site during the month of June 2016. Airports ranked were 101 of the most-searched-for departure points, and average airfares were calculated using prices users found for the most popular domestic and international destinations. “One of the biggest takeaways from this year's findings is the overall drop in average airfares,” said the company. “We've compared prices to a comparable list of destinations as in 2015, yet 75 airports this year have average airfares of less than \$400 vs. 58 airports last year. And the highest average airfare is \$150 lower than last year.” Several hub airports rose in the rankings because of a strong discount carrier presence, such as Dallas/Fort Worth, Milwaukee General Mitchell and Minneapolis-St Paul.

V. ENERGY AND ENVIRONMENT

1. Fuel Bill for Global Airline Industry.

The average price of aviation jet fuel on July 15 was \$54.9/barrel, down 6.2% on the month and down 17.8% compared to a year ago, reports the International Air Transport Association. Fuel price average for 2016 was \$49.8/barrel. Impact on 2016 fuel bill was -\$26.6 billion.

2. EPA Finds Aircraft Emissions Contribute to Climate Change.

The U.S. Environmental Protection Agency (EPA) finalized its finding that engines used on large commercial jets contribute greenhouse gas emissions to pollution that causes climate change and endangers health and the environment. The agency is not issuing emissions standards for aircraft engines in this action, but anticipates moving forward on standards at least as stringent as those expected to be formally adopted by the International Civil Aviation Organization (ICAO) in March 2017. "The rulemaking process will provide opportunities for industry, NGOs and other interested parties to provide their input through public review and comment," said EPA. Environmental groups urged EPA to adopt standards more rigorous than the ICAO standards, but, cautioned Airlines for America, "We're already at the edge of feasibility. You cannot adopt a standard that you don't know you can meet for an aircraft. Safety is job No. 1 in aviation. And if you say maybe we can push technology to meet this, that's a worry."

3. Fly Quiet Runway Rotation Plan for O'Hare Approved.

FAA approved the Fly Quiet Runway Rotation Test Plan for O'Hare, designed to achieve a more balanced distribution of noise exposure for Chicago and suburban communities surrounding O'Hare during overnight hours. During the six-month test, which began July 6, designated nighttime arrival and departure runways will be rotated each week. Data and community feedback are being collected and reviewed, and the Chicago Department of Aviation is publishing a weekly report on a web page where residents can view the schedule and provide feedback.

4. Africa's First Commercial Flights Made with Sustainable Biofuel.

Africa's first passenger flights with sustainable aviation biofuel occurred when South African Airways (SAA) and its low-cost unit Mango carried 300 passengers from Johannesburg to Cape Town on Boeing 737-800s using a blend of 30% aviation biofuel produced from Sunchem's nicotine-free tobacco plant Solaris, refined by AltAir Fuels and supplied by SkyNRG. The partners

also launched a stakeholder and sustainability plan called the Southern Africa Sustainable Fuel Initiative (SASFI) to ensure long-term domestic fuel supply for SAA and other regional fuel users. In 2013, Boeing and SAA launched their sustainable aviation fuels collaboration and in 2014 Project Solaris became the first focus project that converted oil from the Solaris plant seed into biojet fuel. In 2015, farms in Limpopo Province of South Africa achieved certification from the Roundtable on Sustainable Biomaterials (RSB). RSB certification provides a model for expansion of Project Solaris to larger scale production.

VI. U.S. CONGRESS

1. Congress Passes FAA Extension.

Before adjourning until September, Congress passed a bill that extends FAA authorization through September 30, 2017; previous extension was set to expire on July 15. Among added provisions that address security, the legislation requires assessments for overseas airports serving the United States and considers the level of information sharing and security capabilities of foreign airports; directs the Transportation Security Administration to partner with the private sector to develop enhanced Pre-Check enrollment and vetting methods; tightens access controls and employee vetting standards for aviation workers with access to secure and sterile areas of airports; authorizes “Checkpoint of the Future” innovation efforts underway at TSA; and authorizes additional TSA Visible Intermodal Prevention and Response teams and ensures they are trained to assist in preparing for and responding to active shooter scenarios. The bill requires airlines to refund paid baggage fees when items are lost or unreasonably delayed, and to generally ensure that children 13 years of age or under are seated adjacent to an adult or older child traveling with them. It changes the tarmac delay rule to provide that an aircraft must begin a return to the gate at the three hour mark for domestic flights and at four hours for international flights. Under the current rule the passengers must be let off the aircraft at the three and four hour mark. The measure prohibits unmanned aircraft users from interfering with emergency response activities and raises civil penalties to up to \$20,000 for violators, and creates new processes to detect, identify and mitigate unauthorized operation of unmanned aircraft around airports and critical infrastructure. Other provisions address the air traffic controller hiring process; direct FAA to establish a framework to identify and address cybersecurity risks to the aviation system; strengthen mental health screening for pilots; and require training for flight attendants in recognizing and responding to potential victims of human trafficking.

2. Cuban Airport Security Act Introduced in House.

The Cuban Airport Security Act of 2016, which would prohibit scheduled passenger air transportation between the United States and Cuba until completion of a study of security measures and equipment at Cuba’s airports, was introduced in the House by John Katko (R-NY), who heads the Transportation Security Subcommittee, and House Homeland Security Committee Chairman Michael McCaul (R-TX). Both were among a bipartisan group of Committee members who in June were denied visas by the Cuban government for a visit to examine security measures at Cuban airports.

H.R.5728 was referred to the Committee on Homeland Security and to the Committee on Foreign Affairs. . . . In remarks at the Woodrow Wilson Center in Washington, TSA Administrator Peter Neffenger noted that Cuba's airports will have to meet the same U.S. security standards as any other foreign airport with flights to the U.S. . . . Prohibitions on travel to Cuba for certain educational reasons and on financial transactions with the Cuban military, which handles tourism matters, were included in the House-passed financial services appropriations bill. A Senate-passed version would end the Cuba travel ban.

3. House Approves Airport Perimeter and Access Control Security Act.

The House approved the Airport Perimeter and Access Control Security Act of 2016 (H.R. 5056), which directs TSA to update the Transportation Sector Security Risk Assessment for the aviation sector, the Comprehensive Risk Assessment of Perimeter and Access Control Security for airports (as well as conduct a system-wide assessment of airport access control points and airport perimeter security), and the 2012 National Strategy for Airport Perimeter and Access Control Security. H.R.5056 was approved by the House Homeland Security Committee in April, and is based on recommendations made by the Government Accountability Office.

4. Bill Would Establish Terrorism Office Within DHS.

The Homeland Safety and Security Act was introduced in the House. The bill amends the Homeland Security Act of 2002 to establish within the Department of Homeland Security the Office for Partnerships to Prevent Terrorism (OPPT). Among provisions, H.R. 5611 would prevent the State Department from issuing passports to members of foreign terrorist organizations or people who have aided a terrorist group, and require the department to revoke passports given to such individuals. OPPT would require the FBI to review annually the terrorist screening database.

5. House Moves to Block Aircraft Sales to Iran.

The House moved to block sales of commercial aircraft to Iran in amendments to the Financial Services and General Government Appropriations Act. Iran has announced intent to buy and lease 109 Boeing aircraft, pending U.S. government approval, and has ordered 118 Airbus aircraft.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. Travel Warnings Repeated After Attempted Coup in Turkey.

The U.S. Department of State renewed warnings to U.S. citizens about travel to Turkey, in light of a military attempt to overthrow the Erdogan government, on July 15, and its aftermath. Warnings earlier this year had cited “increased threats from terrorist groups throughout Turkey,” and in June Islamic State terrorists blew themselves up at Istanbul's Ataturk Airport, killing at least 41 people; Tourism Ministry data indicates number of foreign visitors fell 40% in June. . . . During the attempted coup, FAA banned U.S. airlines, commercial operators and pilots from flying to or from Istanbul and Ankara airports, and prohibited all carriers, regardless of country of registry, from flying into the U.S. from Turkey either directly or via a third country. The restrictions were lifted on July 18, when the takeover was thwarted. . . . Turkish Airlines, which is 49% state owned, reportedly has fired more than 200 employees thought to be sympathetic to parties involved in the coup; airline CFO Coskun Kilic was replaced by Murat Seker, an official at a state-owned bank.

2. U.S.-Mexico Air Services Agreement Enters into Force in August.

U.S. and Mexican officials exchanged diplomatic notes, ensuring that an air services agreement signed in December will enter into force on August 21, 2016. The pact enables U.S. and Mexican airlines to operate between any U.S. city and any Mexican city, permits an unlimited number of flights, and expands opportunities for cargo carriers.

3. EU Seeks Arbitration Re U.S. Delay in Granting Norwegian Rights.

The European Commission plans to launch an arbitration procedure regarding the request by Norwegian Air International (NAI), a subsidiary of Norwegian Air Shuttle, for authority to fly to the United States from Ireland. In a letter to DOT Secretary Anthony Foxx, Transport Commissioner Violeta Bulc said the EU considers the delay in granting the foreign air carrier permit to be a violation of the EU-U.S. Open Skies agreement. NAI's application has been pending at DOT more than two years and received provisional approval in April, but unions and some U.S. airlines continue to lob strong opposition. Air Line Pilots Association maintains that NAI is incorporated in Ireland because of the country's favorable tax and regulatory laws, “a business scheme that outright ignores the spirit of healthy competition, breaks the rules of the U.S.-EU Air Transport Agreement, and is ultimately bad for U.S. airlines and their employees.” A Norwegian Air spokesman told Reuters the airline “is an

approved and fully operational EU carrier that meets all requirements under the Open Skies Agreement [and] final approval will lead to more new jobs on both sides of the Atlantic, more new transatlantic routes and more affordable fares.” . . . In her letter to Secretary Foxx, Commissioner Bulc added that the delay in allowing Norwegian's British unit to fly to the United States also breaches the Open Skies agreement. In June, DOT dismissed the application of Norwegian Air UK (NAUK) for an exemption, which was filed December 11, 2015 along with an application for a foreign air carrier permit. In dismissing the application, DOT stated that like the NAI application the NAUK request raises “novel and complex” issues which need to be resolved before the carrier can be authorized to begin service and that these issues should be addressed in the context of the permit application.

4. State Dept. Holds Informal Talks on Gulf Airlines Dispute.

The U.S. State Department held informal discussions with United Arab Emirates (UAE) and Qatari officials to address concerns raised by American, United and Delta (the Big Three) and unions that the Gulf airlines are heavily state-subsidized in violation of Open Skies policy; the Big Three have long wanted the U.S. to renegotiate Open Skies agreements with the UAE and Qatar and to freeze air service from those countries. The talks ended without any formal action, reports *The National*, an Abu Dhabi news service, quoting a State Department statement that while “the U.S. government takes seriously the concerns raised by our airlines, we also remain committed to our Open Skies policy, which has greatly benefited the traveling public, the U.S. aviation industry, American cities and the broader U.S. economy through increased travel and trade and job growth.” U.S. Travel Association in June said the State Department “has rejected calls from the Big Three to tamper with Open Skies aviation agreements [in an] unequivocal victory for the U.S. economy, U.S. workers and travelers all over the world.”

VIII. EUROPE AND AFRICA

1. Airlines Manage Expected Brexit Effects.

Delta will reduce U.S.-UK capacity by 6% in the winter schedule, “with foreign currency under heightened pressure from the steep drop in the British Pound and the economic uncertainty from the United Kingdom’s decision to exit the European Union [Brexit].” . . . United also plans to reduce winter capacity to the UK by using smaller planes on the Washington Dulles to Heathrow route, and cutting frequencies on Dulles to Manchester and Newark to Birmingham. . . . International Consolidated Airlines Group (IAG) reduced planned capacity growth for second half 2016, and 2017 capacity growth is under review. . . . “To enable easyJet to fly across Europe as we do today,” the UK budget carrier has started a formal process to acquire an air operator’s certificate in a European country. easyJet is lobbying the UK and the EU to ensure “continuation of a fully liberal and deregulated aviation market within the UK and Europe.” . . . Ryanair expects full year profits to rise by 12% to about €1.4 million, but cautions that “post Brexit there are significant risks to the downside.” The Irish carrier sees “opportunities if our UK registered competitors are no longer permitted to operate intra EU routes, or must divest their majority ownership of EU registered airlines. In the meantime, we will pivot our growth away from UK airports and focus more on growing at our EU airports over the next two years. This winter we will cut capacity and frequency on many London Stansted routes.”

2. Air France-KLM, Lufthansa Revenues Affected by Terror Attacks.

Air France-KLM said full year revenues will be affected by “a high level of geopolitical and economic uncertainties, increasing pressure on unit revenues and special concern about France as a destination.” In July 15-23 period, after a Bastille Day attack in Nice killed 84 people, international visitor arrivals to the resort area dropped by 9.4%, year-on-year, and were down across France, according to travel data analyst ForwardKeys. . . . Lufthansa said advance bookings, especially on long-haul routes to Europe, have declined significantly, in particular due to repeated terrorist attacks in Europe and greater political and economic uncertainty. The Executive Board regards a complete recovery as “not likely anymore” and has lowered full year forecast from slightly above previous year to below previous year, despite earnings performance above previous year in first six months.

3. Farnborough Airshow News.

Boeing orders and commitments at the 2016 Farnborough International Airshow included 182 commercial airplanes, valued at \$26.8 billion at list prices. Airbus won orders for 197 aircraft worth \$26.3 billion and commitments for 82 aircraft worth \$8.7 billion. . . . Boeing forecasts global demand for 39,620 new airplanes valued at \$5.9 trillion in the next 20 years. India carriers will require 4.6% of the total, or 1,850, valued at \$265 billion. Next-Generation 737 and 737 MAX aircraft will continue to account for the largest share of new deliveries, with airlines in India needing approximately 1,560 airplanes. India's traffic growth remains the highest in the world at 8.6%, domestic passenger traffic increased 21% from 2015, and low-cost airlines account for more than 60% of all flights. . . . Boeing projects that between 2016 and 2035 the world's commercial aviation industry will require 617,000 new pilots, primarily driven by new airplane deliveries and fleet mix, 679,000 new maintenance technicians and 814,000 new cabin crew. Annual need projected is for 31,000 new pilots, 35,000 new technicians and 40,000 cabin crew.

4. EU Seeks Arbitration Re U.S. Delay in Granting Norwegian Rights.

See Section VII, item 3.

5. Air India to Connect Ahmedabad with Newark via London.

See Section IX, item 7.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. MH370 Current Underwater Search to Be Suspended.

Transport officials from Australia, Malaysia and People's Republic of China announced in a joint statement that the underwater effort to find Malaysia Airlines Flight MH370 will be suspended upon completion of the current 120,000 square kilometer search area "in the absence of credible new evidence leading to the identification of a specific location of the aircraft." With less than 10,000 square kilometers of the high priority area remaining to be searched, they added, "likelihood of finding the aircraft is fading." While acknowledging significance of recovered aircraft debris, they said none had provided information that positively identified the precise location of the aircraft. . . . It was widely reported that FBI analysis of the home flight simulator of the MH370 captain found it was used to plan a flight into the southern Indian Ocean less than a month before the plane vanished, which would suggest premeditated pilot suicide as cause of crash. "The simulator information shows only the possibility of planning," said officials. "It does not reveal what happened on the night of the aircraft's disappearance, nor where the aircraft is located." The Boeing 777 carrying 239 people disappeared during a flight from Kuala Lumpur to Beijing in March 2014.

2. United Begins San Francisco-Hangzhou Nonstops.

United began three-times-weekly Boeing 787-9 nonstops from San Francisco to Hangzhou, known as China's Silicon Valley and site for the 2016 G20 Summit in September.

3. Emirates, Etihad to Add A380 Service to U.S.

Emirates flew an Airbus A380 into Chicago O'Hare, in a test of gate, operations and significant infrastructure improvements implemented to accommodate the superjumbo. Emirates currently offers Boeing 777 service to Chicago. . . . Etihad plans to replace its current daily Boeing 777-300ER flight between New York Kennedy and Abu Dhabi to A380 service on June 1, 2017, "in response to heightened demand"; existing daily A380 service to Kennedy, began in November 2015.

4. HNA Acquires Stakes in SR Technics, TAP Air Portugal.

Haikou-based HNA Aviation will acquire an 80% stake in Zurich-based SR Technics, from Abu Dhabi investment and development company Mubadala, which is the sole shareholder of the airline maintenance provider. HNA Aviation holdings include China's fourth largest carrier Hainan and many other

Chinese airlines, and recent acquisitions Swissport and Gategroup. . . . Hainan has acquired a 25% interest in TAP Air Portugal for €30 million from Brazilian low-cost carrier Azul and will have a seat on the board. Azul, owned by JetBlue founder David Neeleman and Atlantic Gateway consortium, acquired a large stake in TAP earlier this year. HNA holds stakes in Azul and Atlantic Gateway. . . . Hainan has filed an application with Civil Aviation Administration of China (CAAC) seeking authority to launch nonstop services from Chengdu and Chongqing to New York Kennedy, in March and June 2017, respectively, reports *China Aviation Daily*; and from Beijing to Mexico City via Tijuana, starting January 2017; all to be operated three times weekly, using Boeing 787 Dreamliners.

5. **Air France-KLM, China Eastern JV Strengthened.**

Under a new agreement that includes KLM as part of the existing joint venture between Air France-KLM and China Eastern, 41 weekly flights to Shanghai are offered from Paris Charles de Gaulle and Amsterdam Schiphol.

6. **Qatar to Acquire Stakes in LATAM, Meridiana.**

Qatar Airways plans to purchase 49% of Meridiana, the second largest carrier in Italy, from parent company Alisarda, and up to 10% of Latin America airline conglomerate LATAM. The airlines are all oneworld members.

7. **Air India to Connect Ahmedabad with Newark via London.**

Air India will launch three weekly B-787 flights between Ahmedabad and New York Newark via London on August 15. The flight will bridge the demand of Indians in Ahmedabad, who have been looking for seamless connections to Newark and London for business and leisure purposes, said the flag carrier.

8. **Travel Warnings Repeated After Attempted Coup in Turkey.**

See Section VII, item 1.

9. **State Dept. Holds Informal Talks on Gulf Airlines Dispute.**

See Section VII, item 4.

X. AMERICAS

1. Alaska-Virgin America Merger Update.

Alaska Air Group Chairman and CEO Brad Tilden said an agreement was reached with the U.S. Department of Justice on timing of the antitrust review of the proposed acquisition of Virgin America and close is expected in the fourth quarter. Peter Hunt, currently Virgin America Senior Vice President and CFO, will serve as President of the Virgin America subsidiary until the airlines obtain a single operating certificate from FAA, expected in early 2018; and Ben Minicucci will serve as CEO of Virgin America, in addition to his role as Alaska Airlines COO and President. Hunt will report to Minicucci. The merger agreement was approved by Virgin America shareholders. The fate of the Virgin America brand is still undecided.

2. Industry Leader Hollis Harris Dies.

Hollis Harris has died at age 84, after a long battle with Alzheimer's disease. His 51-year airline career began in 1954 as a transportation agent at Delta, where he eventually became President and COO. He later served as Chairman, President and CEO of Continental, Air Canada and World Airways, and was inducted into the Georgia Aviation Hall of Fame in 2005.

3. American Airlines Announces First Dreamliner Routes.

American Airlines will begin Boeing 787-9 service from Dallas/Fort Worth to Madrid-Barajas and Sao Paulo Guarulhos on November 4, the first U.S. airline to introduce Premium Economy seating on Dreamliner international flights.

4. JetBlue Announces First Flights to Cuba.

JetBlue said it will launch three weekly Airbus A320 flights from Fort Lauderdale to Santa Clara, Cuba on August 31, with daily ops starting October 1. Fares start at \$99 one-way, including Cuban government-required health insurance. The U.S. requires that travelers to Cuba complete an affidavit affirming they are going for one of 12 reasons approved by the Treasury Department; JetBlue has built the completion of the affidavit into the booking process. Cuba requires an entrance visa and JetBlue will make visas available for purchase upon check-in. JetBlue will add Fort Lauderdale service to Cuban cities of Camaguey and Holguin in November, and is awaiting final approval for Havana service from Fort Lauderdale, New York Kennedy and Orlando.

5. Allegiant Pilots Ratify Contract.

Allegiant pilots voted to ratify their first contract agreement with the company. Allegiant and International Brotherhood of Teamsters (IBT) have been negotiating in sessions with the National Mediation Board since February 2014. The five-year contract goes into effect August 1. The airline announced new nonstops from Trenton, New Jersey and San Juan, Puerto Rico, and fares as low as \$29 one-way on Las Vegas to Oakland. And, an agreement to purchase 12 new, current engine option (ceo) Airbus A320s moves the company forward in a planned transition to an all Airbus fleet by 2019.

6. UPS, Pilots Reach Tentative Agreement on New Contract.

UPS reached tentative agreement on a five-year labor contract with Independent Pilots Association. The vote by the pilots will be completed on August 31. If ratified, the new contract will become effective on September 1.

7. LAN to Pay \$22 Million to Settle Bribery Charges

The Securities and Exchange Commission (SEC) announced that Chile-based LAN, a unit of LATAM Airlines Group, agreed to pay more than \$22 million to settle parallel civil and criminal cases related to improper payments it authorized during a dispute with union employees in Argentina. An SEC investigation found that when LAN encountered problems negotiating labor agreements with the unions, it was contacted by a consultant from Argentina who offered to negotiate on the company's behalf. The consultant made clear that he would expect compensation for such negotiations, and that payments would be made to third parties who had influence over the unions. "LAN's CEO approved \$1.15 million in payments to the consultant through a sham contract for a purported study of existing air routes in Argentina," stated the SEC. "The CEO knew that no actual study would be performed and that it was possible the consultant would pass some portion of the money to union officials in Argentina to settle the wage disputes." To settle SEC charges that it failed to keep accurate books and records and maintain adequate internal accounting controls, LAN agreed to pay \$9.4 million in disgorgement and prejudgment interest. In a deferred prosecution agreement announced by the U.S. Department of Justice, LAN agreed to pay a \$12.75 million penalty. Earlier this year, the SEC charged LAN CEO Ignacio Cueto Plaza with Foreign Corrupt Practices Act (FCPA) violations and he settled the charges.

8. DOT Proposes Airlines, Cities for New Tokyo Haneda Routes.

See Section I, item 2.

9. **DOT Tentatively Awards Havana Routes.**
See Section I, item 3.
10. **Travel Warnings Repeated After Attempted Coup in Turkey.**
See Section VII, item 1.
11. **U.S.-Mexico Air Services Agreement Enters into Force in August.**
See Section VII, item 2.
12. **EU Seeks Arbitration Re U.S. Delay in Granting Norwegian Rights.**
See Section VII, item 3.
13. **State Dept. Holds Informal Talks on Gulf Airlines Dispute.**
See Section VII, item 4.
14. **United Begins San Francisco-Hangzhou Nonstops.**
See Section IX, item 2.
15. **Emirates, Etihad to Add A380 Service to U.S.**
See Section IX, item 3.
16. **Air India to Connect Ahmedabad with Newark via London.**
See Section IX, item 7.