



WASHINGTON AVIATION SUMMARY

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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. MH370 Wreckage Believed Found on Indian Ocean Island.

A wing component believed to be part of missing Malaysia Airlines Flight 370 was found on the French island of La Reunion, located in the Indian Ocean near Madagascar, and sent to Toulouse for analysis. The Boeing 777-200ER disappeared from air traffic control radar on March 8, 2014, after taking off from Kuala Lumpur for Beijing with 227 passengers and 12 crew on board. The Australian Transport Safety Bureau (ATSB), which is leading a multinational underwater search for MH370 in the southern Indian Ocean off Western Australia, said the La Reunion location “would be consistent with other analysis and modeling that the resting place of the aircraft is in the southern Indian Ocean.” Malaysia is responsible for the accident investigation and will manage analysis of the part, a flaperon, in collaboration with Boeing, French BEA, U.S. National Transportation Safety Board and ATSB.

2. ICAO Council Adopts Consumer Protection Principles.

The governing Council of the International Civil Aviation Organization (ICAO) established new global core principles for consumer protection for the Member States to consider. Three phases of customer experience are covered: (1) Prior to travel, passengers should receive sufficient levels of advance information and guidance; product and price transparency is recommended as a basic customer right. (2) During travel, passengers should receive regular updates on special circumstances or disruptions, and rerouting, refund, care and/or compensation; airline plans should be in place for massive disruptions. (3) After travel, efficient complaint handling procedures should be clearly communicated to customers.

3. Justice Dept. Probes Possible Airline Collusion.

The U.S. Department of Justice (DOJ) is investigating possible unlawful coordination among major airlines, including Delta, American, United and Southwest, to limit available seats in order to maintain high fares. Senator Richard Blumenthal (D-CT) had urged the DOJ Antitrust Division to conduct a full investigation of “anticompetitive, anti-consumer conduct and misuse of market power in the airline industry,” citing reports that airline executives announced strategies to maintain discipline on capacity across flight routes after an industry meeting in May. Passengers have filed over a dozen class-action lawsuits charging airlines with engaging in a conspiracy to fix, raise, maintain or stabilize airline ticket prices by limiting routes, information and

available seats. Airlines for America (A4A) expressed confidence that the investigation will clear the airlines of illegal behavior.

4. **DOT Probes Airline Pricing Response to Amtrak Derailment.**

In response to consumer complaints about irregular airfares after the May 12 Amtrak derailment in Philadelphia, the U.S. Department of Transportation (DOT) asked Delta, American, United, Southwest and JetBlue for pricing information on routes most likely affected by the temporary shutdown of trains along Amtrak's northeast corridor. "The idea that any business would seek to take advantage of stranded rail passengers in the wake of such a tragic event is unacceptable," said Transportation Secretary Anthony Foxx. "This Department takes all allegations of airline price-gouging seriously, and we will pursue a thorough investigation of these consumer complaints." Eight people were killed and 200 injured in the train accident. Senator Chris Murphy (D-CT) wrote to the Justice Department and Federal Trade Commission to express concern over "reports of alarming price spikes" and had "sought reassurances that they were not attempts by airlines to make money off of desperate travelers impacted by the tragedy." The airlines are cooperating with DOT. Delta said it had lowered some Shuttle prices by nearly 50% after the train crash and increased capacity in the region, and that a \$2,309 Washington Dulles-New York LaGuardia fare cited in Senator Murphy's letter was a last-minute walk-up fare.

5. **Boeing Warns Carriers Against Lithium Battery Shipments.**

Boeing urged passenger airlines worldwide to stop accepting lithium batteries shipments as ICAO develops packaging standards for them. Many airlines have stopped accepting the shipments already. The Rechargeable Battery Association (PRBA) said ongoing international regulatory initiatives, fire suppression technologies and robust international enforcement efforts reduce risk, advance battery safety and "mitigate the need to prohibit air shipments of lithium ion batteries used daily in thousands of consumer, aerospace, medical, military, transportation and environmental applications." PRBA said it supported ICAO's recent regulatory initiatives on lithium batteries, but "remains concerned that certification of aircraft fail to consider the unique hazards associated with the carriage of any dangerous goods, not just those associated with lithium batteries."

6. **FAA Warns Thai DCA on Safety Compliance.**

The Federal Aviation Administration (FAA) has given the Thai Department of Civil Aviation (DCA) until mid-October to correct gaps in safety standards or face a downgrade to Category 2, meaning service into the U.S. by Thai airlines would be restricted. FAA acted after ICAO red-flagged Thailand for

failing to meet a 90-day deadline to correct problems such as lack of qualified inspection staff. Numerous countries have restricted Thai operations. . . . Meanwhile, Thai Airways announced termination of U.S. service, with four weekly roundtrips to Los Angeles ending in October. Thai also plans 1,400 voluntary job cuts this year as part of a restructuring effort.

7. FAA Proposes Penalties Against SkyWest.

FAA proposed a \$911,000 civil penalty against SkyWest Airlines of St. George, Utah, for allegedly failing to inspect cargo door skins on two Bombardier CL-600s at intervals required by a 2006 Airworthiness Directive; SkyWest operated the aircraft on 15,969 flights when the inspections were overdue. A \$320,000 was proposed against SkyWest for allegedly failing to inspect certain main landing gear components on four CL-600s at required intervals for wear that could lead to an unsafe condition or failure of a component; SkyWest operated the aircraft on 6,700 flights when the inspections were overdue.

8. Numerous Laser Strikes at Aircraft in July.

FAA and the Federal Bureau of Investigation (FBI) are investigating numerous recent reports of laser strikes on commercial aircraft near major airports. In July, pilots at American, Delta United, JetBlue and Republic reported 11 strikes in the New York City-New Jersey area. An individual was arrested for allegedly shining a laser at eight aircraft flown by American, Envoy, Southwest and FedEx near Dallas-Fort Worth International. And, lasers were pointed at Air Canada and JetBlue flights landing at Boston Logan. No injuries were reported, but lasers pointed into the cockpit can disorient and temporarily blind pilots, with potential to burn the cornea. It is a federal crime to aim a laser at a plane. There were 3,900 such strikes reported in 2014, according to FAA, compared to 400 in 2006.

9. NTSB: Pilot Error Caused Southwest Hard Landing at LaGuardia.

A Southwest pilot's failed attempt to recover from an unstabilized approach by transferring airplane control at low altitude instead of performing a go-around caused a nose-first, hard landing at New York LaGuardia, on July 22, 2013, determined the National Transportation Safety Board. Of 144 passengers and five crew on the Boeing 737, eight sustained minor injuries and the plane was substantially damaged. Contributing to the accident was the captain's failure to comply with standard operating procedures; the first officer was conducting the approach, and the captain took control away from the first officer, but not until the plane was 27 feet above the ground, resulting in neither pilot being able to effectively monitor altitude and pitch attitude.

10. May 2015 Passenger Airline Employment.

U.S. scheduled passenger airlines employed 2.6% more workers in May 2015 than in May 2014, reported DOT, the highest monthly total since September 2008. The five network airlines reported a 2.7% rise in employment, with Alaska, American, US Airways and Delta showing increases, and United a reduction. The six low-cost carriers reported a 4.3% rise in employment, with Allegiant, Spirit, JetBlue, Southwest and Virgin America reporting increases while Frontier reported a reduction. The 12 regional carriers reported a 0.3% reduction, with eight reporting increased employment levels.

11. DOT Air Travel Consumer Report for May.

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

	May '15 / '14	April '15	Full Year				
			2014	2013	2012	2011	2010
On-time arrivals %	80.5 / 76.9	81.8	76.9	78.34	81.85	79.6	79.8
Cancellations %	1.1 / 1.9	0.9	2.18	1.51	1.29	1.91	1.76
Mishandled baggage*	3.09 / 3.32	2.93	3.62	3.22	3.09	3.35	3.51
Consumer complaints:							
Airline service	1,492 / 1,282	1,415	15,532	13,176	15,338	11,546	10,988
Disability-related	73 / 65	59	774	683	741	628	572
Discrimination**	2 / 4	8	68	79	99	128	143

Note: Airlines reported 14 tarmac delay of more than three hours on domestic flights in May; 10 involved flights departing Houston in severe weather. Two tarmac delays of more than four hours on international flights were reported.

* Reports per 1,000 passengers.

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

12. ALPA Urges Rules, Safety Technology for UAVs.

The Air Line Pilots Association (ALPA) called for requiring collision-avoidance capability on large unmanned aerial vehicles (UAVs), also known as unmanned aircraft systems (UAS), remotely piloted aircraft systems (RPAS) or drones. ALPA President Tim Canoll told the ALPA Air Safety Forum in Washington that “all rules developed to ensure the safe operation of UAS must be consistent with and compatible with those for other airspace users.” Congressman Peter DeFazio, ranking Democrat on the House Transportation Committee, told the ALPA conference that UASs should be programmed to avoid restricted airspace, registered by their owners and operators, and

subjected to fines and penalties for misuse. . . . Lufthansa became the latest major airline to report a near-miss, when a UAS nearly collided with an Embraer E-195 on approach to Warsaw. . . . At the first Unmanned Aerial Systems Traffic Management Convention, held at NASA Ames Research Center, Amazon proposed a system that would include segregated airspace for small unmanned aircraft below 400 feet, with a high-speed corridor allowed between 400 and 200 feet for package delivery and other services. Airports would remain off limits for small UAS. There would be a no-fly zone for aircraft between 400 and 500 feet, and beyond that larger aircraft would operate. For areas the government certifies to be very low risk, such as remote locations, UAS could fly without altitude restrictions. And Google announced it is bringing affordable Automatic Dependent Surveillance-Broadcast (ADS-B) transceivers to market that would allow operators of small UAS to file flight plans via cellphone and have them approved or altered nearly immediately. . . . A new report by intelligence firm Tractica predicts the market for commercial UAVs will reach 2.6 million units a year by 2025, as hardware sales reach \$4 billion and revenues from services reach \$8.7 billion annually.

II. AIRPORTS

1. \$4 Billion LaGuardia Terminal to Break Ground in 2016.

New York Governor Andrew Cuomo unveiled a plan to redesign LaGuardia into a structurally unified main terminal with expanded surface transportation access and increased taxiway space. He was joined by Vice President Joe Biden who last year compared the airport to one in a third world country. A new public private partnership LaGuardia Gateway Partners (LGP) will manage the \$4 billion project. Construction is expected to begin in first half 2016, upon the Board of Directors of the Port Authority of New York and New Jersey's final approval, with partial opening in 2019, and completion 18 months later. The existing Terminal B, operated by the Port Authority, will be demolished and replaced with new terminal space and a new Central Arrivals and Departures Hall. On a parallel track, Delta will redevelop Terminals C and D and connect them to the new Central Hall. The LGP consortium includes Vantage Airport Group, which manages nine airports and has transitioned 19 from public to private management. LGP would be responsible for designing, building, financing, operating and maintaining the new terminal as part of a 35-year lease. . . . Cuomo also announced that construction of a hotel in the TWA Flight Center at John F. Kennedy airport will move forward under a public-private partnership of MCR Development, JetBlue and the Port Authority. And an "implementable master plan for the development of a 21st century JKF International Airport," is underway, as well as enhanced regional economic activity at Republic and Stewart airports.

2. JetBlue Opens T5 Rooftop at New York Kennedy.

JetBlue opened the T5 Rooftop at New York Kennedy, the only post-security outdoor space accessible to all customers at a New York airport. Designed by Gensler, the area includes a 4,046 square foot park, seating for 50 people, food and beverage carts/kiosks, kid friendly space, a dog walk area and views of the Manhattan skyline.

3. Sea-Tac Managing Director To Retire.

Mark Reis, Managing Director of Port of Seattle's Aviation Division, will retire in early 2016, after 27 years. Reis was Chair of Airports Council International-North America and is on the Board of Airports Council International. The process of filling the position is underway. Seattle-Tacoma International is the 13th busiest U.S. airport, handling 37.5 million passengers and 327,000 metric tons of air cargo in 2014.

4. **Allegiant to Establish Base of Operation at Cincinnati.**

Allegiant will base up to three 156-seat Airbus 319s at Cincinnati/Northern Kentucky International, as of January 6. The low-cost carrier, which offers 35 weekly flights to 11 destinations from the airport, is adding another five to its fall and winter schedule.

5. **UK Airports Commission Opts for Third Runway at Heathrow.**

In its final recommendations to the UK government for expanding aviation capacity, the Airports Commission opted for a third runway at London Heathrow, with environmental measures that include a ban on night flights and a noise tax to fund compensation and mitigation schemes. The runway “will generate up to £147 billion in GDP impacts over 60 years and over 70,000 new jobs by 2050, and will add regular daily services from the airport to around 40 new destinations, including 10-12 new long-haul routes”; and, wrote the Commission, “as there is no environmental or operational case for a fourth runway, the government should take action in Parliament to rule it out firmly and finally.”

6. **France Referred to Court for State Aid in Airports Case.**

The European Commission (EC) referred France to the European Court of Justice for failing to recover incompatible aid received by Ryanair and its subsidiary Airport Marketing Services (AMS) for using Pau, Nîmes and Angoulême airports, and by Transavia for using Pau airport. The EC last July required France to recover close to €10 million of aid for contractual and marketing arrangements with the airports, since the airlines paid less than the additional costs linked to their presence and therefore had “benefitted from an undue economic advantage, which has to be recovered to remedy the resulting distortion of competition.”

7. **Investors Offer €10,000 for Unused Spanish Airport.**

Investment company Tzaneen International bid €10,000 in a bankruptcy auction for Ciudad Real International Airport, which opened in 2009 and closed in 2012. The receiver may still accept other offers before the sale finalizes in September. The €1.1 billion facility can handle the Airbus A380 and 10 million passengers annually. Initially named Don Quixote, the airport is in Spain’s central Castilla-La Mancha region, home to Cervantes’s fictional starry-eyed knight.

8. **Third Runway for Munich Likely.**

The Federal Administrative Court in Leipzig dismissed all outstanding complaints filed to prevent construction of a third runway at Munich, meaning,

said airport officials, “that our construction permit can no longer be contested, which now gives us legal certainty for this vital expansion project. Ten years after the launch of the project, the highest German administrative court has now issued a final ruling, stating that our plans meet all relevant requirements in terms of project planning and under the law.”

9. \$1.2 Billion Madinah Expansion Includes New Terminal, Mosque.

A three-story 156,940 square meter terminal opened at Prince Mohammed Bin Abdul Aziz International Airport (PMIA) in Madinah Al-Munawarah, the first airport privatization project in Saudi Arabia; value of contract was \$1.2 billion. Completed in 30 months, the project includes a widened and extended runway capable of accommodating the Airbus A380. The new terminal initially can handle eight million passengers per year and is designed to allow for modular expansion. PMIA is a gateway for scheduled passengers, as well as Hajj and Umrah pilgrims to Madinah. The project includes a mosque for 1,000 worshippers and dedicated Hajj facilities.

10. Oman Opens New Salalah Airport.

The Public Authority for Civil Aviation of Oman opened Salalah Airport, located 1,000 kilometers south of Muscat. The terminal can handle one million passengers annually, with capability to up to six million. New airports are also under construction in Muscat, Sohar, Ras Al Hadd and Al Duqm.

III. **SECURITY AND DATA PRIVACY**

1. **Neffenger Sworn in as TSA Administrator.**

As retired Coast Guard Vice Admiral Peter Neffenger took the reins as Administrator of the Transportation Security Administration (TSA), Secretary of Homeland Security Jeh Johnson announced that a 10-point plan has been implemented to correct screening issues revealed in an Inspector General report. Measures include “back to basics” training for all TSA officers to be completed by end of September; increased use of manual screening and random explosive trace detectors; and reevaluating screening equipment as well as the practice of managed inclusion, in which travelers are diverted from standard screening lanes to TSA Pre-Check lanes. Johnson urged Neffenger “to think out-of-the box, re-think old assumptions, encourage your people, your subordinates to raise ideas and points of view, and make hard choices if you have to.” . . . “Efficiency and getting people through airport security lines cannot be our sole reason that makes you take your eyes off the reason for the mission,” Neffenger later confirmed TSA plans to retrain screeners to better detect weapons and other illegal items; scale back the managed inclusion program and more aggressively police airport oversight of security badges to the *New York Times*.

2. **CBP Tests Mobile Device to Collect Biometric Exit Data.**

U.S. Customs and Border Protection (CBP) is testing a mobile device to collect biometric data from foreign national air travelers departing the U.S. CBP officers stationed at passenger loading bridges of selected departing flights scan fingerprints and passports with the device. The data is then matched to data collected upon entry to the U.S. and stored in secure systems managed by the Department of Homeland Security. Testing began at Hartsfield-Jackson Atlanta International Airport and will expand this fall to Chicago, Dallas, Houston, Los Angeles, Miami, Newark, New York, San Francisco and Washington Dulles. The project will run through June 2016.

3. **Civil Aviation Cyber Security Conference Held in Singapore.**

As cyber attacks increase, the need for consultation, coordination and cooperation built on trust among governments, between governments and industry and within industry becomes more critical, noted Tony Tyler, Director General of the International Air Transport Association (IATA), at the Civil Aviation Cyber Security Conference held in Singapore. Among his remarks: Airlines are the highest value target for fraudsters and close to 50% of all phishing attempts are made against airlines and airline passengers. In its own

computer systems, in March alone, IATA identified and blocked an average of 80,000 suspicious connections per day, detected and cleared 891 viruses and resisted five “brute forcing” attempts to connect to IATA accounts; some \$388 billion of air travel related revenues flow annually through IATA’s global financial systems.

4. TSA Pays Millions for Baggage Claims.

A *USA Today* investigation determined that TSA paid passengers \$3 million over the last five years for claims that airport security screeners broke, lost or stole their luggage or items inside. TSA approved or settled with passengers in about 15,000 claims and denied half of all claims filed from 2010 to 2014. About 2.5 million pieces of baggage are screened every day. “TSA only has access to fliers’ property for a small share of its journey, and checked bags spend much more time winding through airport conveyor belts, riding carts to airplanes and being handled by airline employees,” notes *USA Today*.

5. EU Parliament Backs PNR Sharing.

The European Parliament Civil Liberties Committee approved an amended version of EU rules on sharing and protecting Passenger Name Record (PNR) data. Data may be used only to prevent, detect, investigate and prosecute terrorism and serious transnational crime. Safeguards ensure lawfulness of storage, analysis, transfer and use. The rules would affect only flights to or from the EU, not flights between EU member states. Officials said the threat posed by ISIS-type fighters has made avoidance of a patchwork system across Europe essential. Privacy advocates continue to oppose random data collection, saying it will not stop terrorists from entering the EU.

IV. E-COMMERCE AND TECHNOLOGY

1. Amadeus to Acquire Navitaire.

Amadeus agreed to acquire Accenture subsidiary Navitaire for \$830 million, with close expected in fourth quarter. Navitaire provides reservations, ancillary sales, loyalty, revenue management, revenue accounting and business intelligence solutions to 50 mostly low-cost and hybrid operators. The Navitaire portfolio and the Amadeus Altéa suite will be marketed separately and Navitaire employees are expected to transfer to Amadeus. Separately, Accenture and Amadeus agreed to jointly focus on digital services for commercial passenger operations. In another agreement, Accenture will provide Amadeus with infrastructure outsourcing, application and research and development services. Accenture will continue to provide hosting services for current Navitaire clients as well as Amadeus's future clients that purchase the Navitaire solution.

2. ARC Mobile App Offers Ancillary Products.

Air Canada will become the first carrier to offer ancillary products to its travel agency-ticketed passengers using the Better My Trip™ mobile app from Airlines Reporting Corporation (ARC). Offered products include preferred and advance seat selection, advance meal purchase, enhanced trip interruption protection service and day passes to Air Canada lounges. The app allows travelers to directly contact agents for before, during and post-trip support and service. Agencies deploying Better My Trip receive commissions for bookings and purchases. Air Canada expects to begin offering ancillaries via Better My Trip with a travel management company in fourth quarter.

3. Airlines Investing in the 'Internet of Things.'

A SITA survey of the world's top 200 airlines shows growing investment in the 'Internet of Things' (IoT)—when physical objects are connected to the internet, enabling tracking, data collection, analysis and control. "More things in the airport are being connected up, including buildings, equipment, bags, trolleys, tugs—basically all the 'things' that could emit a status," says SITA, and "because 83% of passengers carry smartphones, they and staff are connected and can be part of the IoT too."

V. ENERGY AND ENVIRONMENT

1. Fuel Bill for Global Airline Industry.

Average price of aviation jet fuel, as of July 17 was \$66.3/barrel, down -12.1% on the month and down -44.6% compared to a year ago, reports the International Air Transport Association. Fuel price average for 2015 was \$72.8/barrel. Impact on 2015 fuel bill was -\$80.8 billion.

2. Red Rock To Supply FedEx Express, Southwest With Biofuel.

FedEx Express and Southwest are purchasing Red Rock Biofuels' total available volume of low-carbon, renewable jet fuel. Red Rock will produce three million gallons per year for FedEx Express under a new agreement that runs through 2024, with first delivery expected in 2017. The Southwest agreement, signed in September 2014, covers purchase of three million gallons per year. Red Rock's first refinery, funded in part by a \$70 million grant from the Departments of Agriculture, Energy and Navy, is scheduled to break ground this fall in Lakeview, Oregon, and will convert 140,000 dry tons of woody biomass into 15 million gallons per year of renewable jet, diesel and naphtha fuels. In addition to reducing lifecycle carbon emissions, Red Rock's production process will reduce forest fire risk in the western United States by decreasing the amount of waste woody biomass.

3. Airbus E-Fan Crosses English Channel.

Airbus Group's E-Fan technology demonstrator became the world's first all-electric, two engine aircraft to take off on its own power and successfully complete an English Channel crossing. The 46-mile, 36-minute flight was powered by lithium ion batteries, which offer increased battery capacity of 60% compared to the aircraft's original configuration. The E-Fan weighs 1,320 pounds and traveled at maximum altitude of 3,500 feet.

VI. U.S. CONGRESS

1. FAA Reauthorization Bill Delayed.

The House Transportation and Infrastructure Committee delayed release of proposed FAA reauthorization legislation until after the August recess; current FAA authorization expires September 30.

2. Mica Bill Would Cap Airline Bag Fees at \$4.50.

John Mica (R-FL), House Transportation Oversight Subcommittee Chairman, introduced legislation to cap airline baggage handling fees at \$4.50. "This is fair and equitable since airports have been held to that fee level for handling passengers," he said, adding that baggage fees are not included in the ticket price, limiting funds that go into the Airport and Airway Trust Fund which finances airport safety and air traffic control systems and equipment. The cap would apply to U.S. and foreign air carriers. U. S. Travel Association estimates bag fees have expanded airline revenues by \$3.5 billion in the last 12 months.

3. House Passes Airport Security Bills.

The House unanimously passed several airport security bills. The Improved Security Vetting for Aviation Workers Act would intensify screening of security workers. The TSA PreCheck Expansion Act expands enrollment, marketing and identity verification for the expedited screening program. The Keeping Our Travelers Safe and Secure Act ensures that regular preventative maintenance is conducted on screening equipment.

4. Subcommittee Hearing Examining Federal Air Marshal Service

The House Subcommittee on Transportation Security held a hearing on readiness of TSA's Federal Air Marshal Service (FAMS) to meet an evolving threat, questioning, for instance, if an officer is capable of preventing an improvised explosive device from being detonated, or if funds should be reallocated toward better intelligence efforts or security measures for other soft targets, such as unsecure airport areas. In his testimony, FAMS Assistant Administrator Rod Allison said an updated Concept of Operations (CONOPS) for mission deployment addressing risk mitigation and incorporating randomness and unpredictability was recently completed. While the focus remains on highest risk flights, the new CONOPS ensures adversary uncertainty and deterrence through potential deployment on any domestic flight. A "risk by flight" methodology is under development which incorporates mission planning based upon passenger travel patterns, assessed passenger risk, and consideration for locations with known vulnerabilities. ALPA

President Tim Canoll said the several thousand FAMS assigned to international and domestic flights not only are capable of defending the flight deck, they are a strong deterrent to hijacking. He encouraged the Subcommittee to continue its support of appropriate levels of funding for the Federal Flight Deck Officer (FFDO) program, which provides an additional layer of security. FFDO's are pilots who voluntarily undergo a screening and qualification process and TSA training for protecting the flight deck with lethal force. Canoll also reiterated ALPA's strong support for installing secondary barriers on passenger aircraft to help protect the flight deck when the hardened cockpit door must be opened.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. U.S.-Ukraine Open Skies Agreement Signed.

The United States and Ukraine signed an Open Skies Agreement that “will promote increased travel and trade, enhance productivity, and spur high-quality job opportunities and economic growth.” Any Ukrainian carrier can now establish code sharing alliances with any U.S. or third-country carrier to any point in the United States. Ukraine International Airlines, which flies to Washington, Los Angeles, San Diego and San Francisco, called the pact “an overwhelmingly important stage of Ukraine’s integration into the global aviation community.”

2. U.S., Cuba Restore Full Diplomatic Ties.

The United States and Cuba restored full diplomatic ties on July 20, with the reopening of the Cuban Embassy in Washington; Secretary of State John Kerry will formally re-designate the U.S. Interests Section to U.S. Embassy Havana on August 14. Jeffrey DeLaurentis will be senior official at the U.S. Embassy in Havana as Charge d’Affaires ad interim. The U.S. embargo on Cuba remains in place, subject to legislative action. Rules for travel to Cuba by U.S. citizens remain in effect; the U.S. Treasury Department Office of Foreign Assets Control continues to administer regulations that provide general licenses for 12 categories of authorized travel to Cuba.

3. Russia Vetoes UN Security Council Resolution on MH17.

Russia vetoed a United Nations Security Council resolution that would have established an international criminal tribunal to investigate the downing a year ago of Malaysia Airlines Flight MH17 over eastern Ukraine, calling the measure politically motivated by states in collusion with Ukraine. U.S. Ambassador to the UN Samantha Power said the veto will not stand in the way of “this heinous crime” being investigated and prosecuted; “there cannot and will not be impunity for those who downed a civilian airliner with 298 people aboard.” Malaysian Transport Minister Liow Tiong Lai said the vote sends “a message of impunity to the perpetrators and endangers the safety of civilian air travel over conflict zones in the future.” The MH17 investigation, led by the Netherlands in collaboration with Malaysia, Ukraine, Australia and Belgium, has not confirmed a stance of the U.S. and others that Ukrainian separatists shot down the plane with a Russian-supplied surface-to air missile.

4. August 3 Deadline for Comments on Gulf Airline Subsidies.

Comments are due August 3 on assertions by Delta, American and United that Gulf airlines Emirates, Etihad and Qatar have received government subsidies that distort the global aviation market, said the U.S. Departments of Commerce, State and Transportation; additional materials may be submitted by August 24. . . . Qatar Airways submitted a report stating that market changes complained of by the U.S. Big Three “are not the product of unfair competition (or anything remotely related to subsidy), but are instead the byproduct of important advances in aircraft technology and significant demographic changes”; i.e. ultra-long range aircraft allow passengers bound for the Middle East and India to over-fly congested European hubs in one-stop, instead of two-and three stop journeys. Qatar noted it does not compete against U.S. carriers on any nonstop route, serves cities that have never been served by U.S. carriers, and works cooperatively with and feeds traffic to U.S. carriers, including code share and oneworld partner American Airlines. . . . Partnership for Open Fair Skies, a coalition of the U.S. Big Three and others, issued a report that finds “Gulf airlines heavily subsidized by their governments are causing a potentially devastating economic impact to U.S. markets [by] shifting passengers away from U.S. carriers without generating new demand.” The U.S. carriers “are not asking to undo Open Skies policy,” states the report; “they simply insist that competition with Gulf carriers is conducted in a way that meets the Open Skies agreement of ‘fair and equal.’”

VIII. EUROPE AND AFRICA

1. IAG Cleared To Acquire Aer Lingus.

Ryanair agreed to sell its 29.8% shareholding in Aer Lingus to International Consolidated Airlines Group (IAG); and the European Commission cleared the €1.4 billion acquisition of Aer Lingus by IAG. The sale is subject to commitments that include release of five daily slot pairs at London-Gatwick to facilitate entry of competing airlines on routes from London to Dublin and Belfast. IAG, parent of British Airways, Iberia and Vueling, also acquires the 25% stake in Aer Lingus held by the Irish government, minus one share to ensure the commitment to Ireland-UK routes. Ethiad is expected to give up its 4% stake in Aer Lingus. The U.S. Department of Justice satisfactorily concluded its review of the takeover, a condition to the offer.

2. Delta's Boston-Paris Service Moves to Year-Round.

Delta will extend its seasonal daily nonstop between Paris Charles de Gaulle and Boston Logan to year-round, beginning October 25. The service will be operated with joint venture partner Air France.

3. Norwegian To Add London Gatwick to Boston.

Norwegian will introduce a daily connection from London Gatwick to New York Kennedy in October and to Puerto Rico in November, as well as Gatwick's only direct service to Boston next May. The airline earlier announced flights between Boston and the islands of Guadeloupe and Martinique. The carrier says 200,000 passengers have travelled on its low-cost flights from the UK to New York, Los Angeles and Fort Lauderdale, initiated last July, with load factors in excess of 90%.

4. LOT Adds U.S. Service.

LOT Polish Airlines will increase frequencies to New York and Chicago from Warsaw for the winter schedule. The carrier operates the Boeing 787 Dreamliner on all long-haul connections.

5. Air France-KLM Accelerates Cost-Reduction Initiatives.

Air France-KLM implemented immediate additional "adaptation measures," amid continuing losses. Among comments from Chairman and CEO Alexandre de Juniac: first half results were characterized by exceptional volatility in exchange rates and fuel price and ongoing pressure on unit revenues; Transavia is pursuing rapid development and will serve 47 cities on departure from Paris this summer; the maintenance business is posting strong growth;

KLM reached agreements with its unions, but rapid conclusion of negotiations with Air France unions is key to a turnaround.

6. **Aegean Flies as Scheduled Amid Debt Crisis.**

Amid the Greek debt crisis, Aegean announced on its website that all flights were operating as usual, “transactions are performed with all available payment methods from all Aegean and Olympic Air selling points [and] tickets can be changed without rebooking fee (only the fare difference is charged if applicable), or can be cancelled with a full refund.” The carrier offered 30,000 seats for some domestic flights at €19 one way, “allowing more passengers to travel to their favorite destinations in Greece, even more affordably.” The promotion was valid for travel through September 15. “The country needs all of its healthy and productive forces, and we will continue to support this national effort with all of our might,” said the Star Alliance member. “We will continue to follow our natural instinct—which is to give wings to the bright side of Greece.”

7. **EASA Task Force Recommends Pilot Rules.**

A European Aviation Safety Agency task force analyzed preliminary findings of the investigation of the March 24 Germanwings crash to assess adequacy of pilot rules and offered recommendations, including: maintaining principle of two persons in the cockpit at all times; psychological evaluation for pilots before they enter airline service; random drug and alcohol tests; oversight of aeromedical examiners; establishment of a European aeromedical data repository; and pilot support systems at airlines. A suicidal co-pilot crashed Flight 9525 into the Alps; killing all 150 aboard the Airbus A320.

8. **MH370 Wreckage Believed Found on Indian Ocean Island.**

See Section I, item 1.

9. **Russia Vetoes UN Security Council Resolution on MH17.**

See Section VII, item 3.

10. **HNA Group To Acquire Swissport, Bids for Avolon.**

See Section IX, item 1.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. HNA Group To Acquire Swissport, Bids for Avolon.

China-based HNA Group will acquire Swissport, the world's largest ground and cargo handling company, from European private equity firm PAI Partners, for \$2.81 billion, subject to regulatory and antitrust approvals; closing is expected by yearend. . . . HNA leasing and financial services company Bohai offered to acquire Irish aircraft leasing firm Avolon for \$2.5 billion. . . . HNA, which counts Hainan Airlines among its vast global holdings, announced that it "has landed on the Fortune Global 500 for the first time, ranking No. 464 with annual revenue of approximately \$25.6 billion."

2. Qantas-American Alliance To Expand.

The Australian Competition and Consumer Commission granted Qantas and American interim authorization to expand their alliance. Qantas is booking direct Boeing 747-400 flights to San Francisco for travel from December 18, while American begins direct Los Angeles-Sydney Boeing 777-300ER service on December 17.

3. Delta To Acquire Small Stake in China Eastern.

Delta will acquire a 3.55% in China Eastern for \$450 million, subject to a final marketing agreement and board approvals. The investment will give Delta an observer seat on the China Eastern board. Currently, China Eastern and its Shanghai Airlines subsidiary code share with Delta on U.S. and China domestic routes and on routes between China and the U.S. In related news, Delta began daily Boeing 777-200LR nonstops from Los Angeles to Shanghai, with access beyond via China Southern, China Eastern and Shanghai Airlines.

4. Delta May Invest in Bankrupt Skymark.

Delta reportedly has offered to take a stake in Tokyo-based Skymark, which declared bankruptcy in January. The domestic carrier flies 6.73 million passengers per year on 27 aircraft and holds 36 Haneda slots. ANA Holdings and Japanese private equity fund Integral have offered to acquire a stake in Skymark.

5. Emirates Increases Service to Seattle.

Emirates added a second daily service from Dubai to Seattle, operated by a Boeing 777-200LR, that "will effectively move Seattle into the number two position in the U.S. market in terms of seat capacity," behind New York Kennedy. Passengers coming from Dubai and beyond can connect to other

U.S. cities via Emirates' partner agreement with Alaska Airlines; the two carriers have had reciprocal frequent flier benefits since March 2012, when Emirates launched Seattle service.

6. Alaska Airlines Adds Hainan as Mileage Plan Partner.

Alaska Airlines added Hainan as a mileage partner. Hainan flies nonstop from Beijing and Shanghai to Seattle, and from Beijing to San Jose, California.

7. MH370 Wreckage Believed Found on Indian Ocean Island.

See Section I, item 1.

8. Russia Vetoes UN Security Council Resolution on MH17.

See Section VII, item 3.

X. AMERICAS

1. American To Reinstate New York-Caracas Service.

American Airlines plans to reinstate service between New York Kennedy and Caracas on December 17, with five weekly Boeing 757 flights. American and other airlines have reduced service to Venezuela over repatriation of ticket revenue. . . . American is adding eight routes to Mexico, the Caribbean and Latin America later this year, including new flights to Mexico City and Mazatlan, Curacao, Jamaica, Dominican Republic and Quito, pending regulatory approvals. American has served Cuba since 1991 with charter flights from Miami and Tampa to Camagüey, Cienfuegos, Havana, Holguín and Santa Clara.

2. Delta Increases Investment in GOL.

Brazil's antitrust regulator approved with no restrictions an investment of \$446 million by Delta in Gol, in an expansion of their strategic and commercial operating agreements. Delta will increase its share in Gol to about 10% from its current 3%. . . . In other news, Delta cancelled an order for 20 used Embraer E190s and 40 new Boeing 737-900ERs, after pilots rejected a tentative contract proposal, said CEO Richard Anderson. The order required ratification of the contract to proceed. The E190s were planned to enter the mainline fleet in fourth quarter 2016; the 737-900ERs, which were in addition to an existing order, were to be deployed as replacements for other narrowbody aircraft scheduled to retire through 2019. In related news, the Chairman of the Delta branch of Air Line Pilots Association announced that he will resign next month. . . . Delta will reward top-tier travelers and fill seats on its Delta Private Jets subsidiary with a new upgrade program available for a fee in certain east coast markets.

3. Southwest Clashes With Flight Attendants, Mechanics.

Southwest flight attendants rejected a tentative agreement that would have ended two years of negotiations. The current agreement became amendable on May 31, 2013 . . . Southwest maintenance workers requested mediation from the National Mediation Board after nearly three years of bargaining.

4. Frontier Offers \$19 Fares in Leisure Markets.

Frontier will add new nonstops to leisure markets in the United States and Caribbean with fares as low as \$19 one-way. The seasonal services begin October 25.

5. **Volaris Arrives in Guadalajara-New York Service.**

Volaris introduced thrice-weekly service to New York Kennedy from Perla Tapatia (Guadalajara), the only nonstop on the route. This is the Mexican airline's twentieth U.S. destination.

6. **MH370 Wreckage Believed Found on Indian Ocean Island.**

See Section I, item 1.

7. **Russia Vetoes UN Security Council Resolution on MH17.**

See Section VII, item 3.

8. **Delta's Boston-Paris Service Moves to Year-Round.**

See Section VIII, item 2.

9. **Norwegian To Add London Gatwick to Boston.**

See Section VIII, item 3.

10. **LOT Adds U.S. Service.**

See Section VIII, item 4.

11. **Qantas-American Alliance To Expand.**

See Section IX, item 2.

12. **Delta To Acquire Small Stake in China Eastern.**

See Section IX, item 3.

13. **Delta May Invest in Bankrupt Skymark.**

See Section IX, item 4.

14. **Emirates Increases Service to Seattle.**

See Section IX, item 5.

15. **Alaska Airlines Adds Hainan as Mileage Plan Partner.**

See Section IX, item 6.