



## WASHINGTON AVIATION SUMMARY

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For further information, including documents referenced, contact:

Joanne W. Young  
Kirstein & Young PLLC  
1750 K Street NW  
Suite 200  
Washington, D.C. 20006  
Telephone: (202) 331-3348  
Fax: (202) 331-3933  
Email: [jyoung@yklaw.com](mailto:jyoung@yklaw.com)

<http://www.yklaw.com>

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. Air France-KLM CEO to Head IATA.**

International Air Transport Association (IATA) named Alexandre de Juniac to succeed retiring Director General and CEO Tony Tyler. De Juniac has been Chairman and CEO of Air France-KLM since 2013 and earlier held leadership positions in Thales (previously Thomson-CSF) and the French government.

### **2. DOT Tentatively Approves NAI Foreign Carrier Permit.**

The U.S. Department of Transportation (DOT) issued an order proposing to grant a foreign air carrier permit to Norwegian Air International (NAI), the Irish-flag subsidiary of Norwegian Air Shuttle. NAI's application, which has been pending for more than two years, is supported by airport and travel groups, the UK and the European Union (EU), but continues to be opposed by some U.S. airlines, labor and members of Congress, who allege that NAI uses a flag of convenience to base crews where labor laws are weak, countering U.S.-EU Open Sky requirements. Bjørn Kjos, Norwegian Air Group Founder and CEO, maintains that NAI will use only U.S. and EU-based crew on transatlantic services. DOT said the novel and complex nature of the case required careful and comprehensive review, and stated, "based on the record as a whole, as well as consultations with the Departments of Justice and State, the provision in the U.S.-EU Agreement that addresses labor does not afford a basis for rejecting an applicant that is otherwise qualified to receive a permit. In this regard, the order states that NAI appears to meet DOT's normal standards for award of a permit and that there appears to be no legal basis to deny NAI's application." The order is open for public comment, with objections due May 6 and answers to objections by May 13.

### **3. Airlines to Compete for Tokyo Haneda Daytime Slots.**

DOT decided to conduct a competitive bidding process for newly available daytime slots at Tokyo Haneda to determine which proposals best maximize public benefits, despite objections from American, Hawaiian and United. DOT finalized, on a temporary basis during the proceeding and for the 2016/2017 winter traffic season, a tentative decision to allocate daytime Haneda rights to American for service from Los Angeles, Delta from Los Angeles, Hawaiian from Honolulu, and United from San Francisco. Among airlines applying for routes under the new proceeding, American is proposing to operate service from Los Angeles and Dallas; Delta from Los Angeles, Minneapolis and Atlanta; United from San Francisco and Newark; and Hawaiian from Honolulu and Kona.

**4. Airline Coordination on New Fare Policy Alleged.**

Following a move by American, Delta and United to change policy for multi-city itineraries, Senator Bob Menendez urged DOT Secretary Anthony Foxx “to conduct an investigation of this procedure under the Department’s authority to regulate against unfair and deceptive practices.” . . . Business Travel Coalition (BTC) asked the Department of Justice Antitrust Division to “include this potential illegal coordination with your investigation into collusion by these airlines and their major shareholders on limiting seat-capacity growth.” Writing on behalf of organizations that purchase large volumes of commercial airline services, BTC alleged the carriers, “virtually simultaneously, and without disclosure to consumers, implemented a complex policy change that bars customary multi-city ticketing using the lowest available fare on each segment. Instead, the new policy combines the highest fares available on each segment and returns a round-trip single price that is substantially higher than if a consumer purchased separate one-way fares. Perhaps most troubling is how the airlines knew that their competitors had made this change given that there was no public announcement.”

**5. DOT Fines Air France, Lufthansa, British Airways.**

DOT fined Air France, Lufthansa and British Airways for not adequately responding to complaints filed by passengers with disabilities. Air France and Lufthansa were each fined \$200,000 and British Airways was fined \$150,000. A DOT review of disability-related complaint files found that the three carriers often failed to provide a written dispositive response within 30 days of receipt of a written complaint, in violation of the Air Carrier Access Act.

**6. FAA Proposed Fine on Airbus Unit for HazMat Violations.**

The Federal Aviation Administration (FAA) proposed a \$162,500 civil penalty against Madrid-based Airbus Defence and Space for allegedly offering undeclared hazardous material for shipment on a passenger-carrying aircraft, from Seville to Miami, in May 2015; the shipment then was offered undeclared to Federal Express for shipping by air to Kansas. The shipment contained chemical oxygen generators, which can cause or enhance combustion of other materials, and was not accompanied by shipping papers indicating the hazardous nature of the contents and was not properly packaged, marked or labeled. FAA also alleges Airbus failed to provide emergency response information with the shipment.

**7. FAA Grants First Approval for Commercial Drone Night Flights.**

FAA granted the first approval for night flights of small commercial drones to the U.S. unit of Toronto-based Industrial Skyworks, to inspect buildings and roofs using high-definition video and infrared imagery which is most effective

at night, when the sun cannot affect the temperature of the building; traditional infrared scans require technicians to walk rooftops at night, while other inspections dictate working from scaffolding or cranes. Among requirements, the drones must be fitted anti-collision lights and be controlled by an individual with a traditional pilot's license, required medical certificate and training in night flights. . . . Separately, an object thought to be a drone collided with a British Airways Airbus A320 on approach to London Heathrow; the airplane landed safely without injuries or damage to the aircraft. An investigation is underway; the incident is being treated as an endangerment of an aircraft. British Airline Pilots Association (BALPA) is calling for better enforcement of current drone rules, compulsory registration, and technology that makes drones visible to air traffic controllers. BALPA and others are working on empirical testing to identify what would happen if a drone struck an aircraft engine, windscreen or the rotor blades of a helicopter, and the union will offer fully qualified and licensed drone operators Associate Membership, "so together we can drive up standards and bring forward the highest levels of safety across all aviation."

**8. FAA to Order Removal of Certain Seating Systems.**

FAA proposed a new airworthiness directive (AD) that would require removing certain Zodiac seating systems, as they may cause serious injury to the occupant during forward impacts when subjected to certain inertia forces. FAA estimates the AD affects 10,482 seating systems installed on transport category airplanes of U.S. registry. . . . FAA adopted a new AD for Boeing 787-8 and 787-9 airplanes powered by General Electric GEnx-1B engines, to prevent susceptibility to heavy fan blade rubs, which could result in engine damage and possible inflight non-restartable power loss of engines.

**9. DOT: U.S. Airfares Drop to Lowest Level Since 2010.**

The average domestic air fare decreased to \$363 in fourth quarter 2015, down 8.3% from \$396 in same period 2014, the lowest level since 2010, adjusted for inflation, reports DOT. Fares are based on total ticket value, including taxes and fees, and do not include ancillary fees. During third quarter 2015, the most recent available data for ancillary fees, U.S. passenger airlines collected \$1 billion in baggage fees and \$755 million from reservation change fees, as well as fees for seating assignments, food, beverages, pillows, blankets, entertainment, etc.

**10. U.S. Passenger Airlines Increase Employment.**

U.S. scheduled passenger airlines employed 3.8% more workers in February than in February 2015, DOT reported. February was the highest monthly total (403,917) since August 2008 and was the 27th consecutive month that full-

time equivalent (FTE) employment exceeded the same month of the previous year. Month-to-month, the number of FTEs rose 0.4% from January to February. The four network airlines reported 3.2% more FTEs in February 2016 than in February 2015, the six low-cost carriers reported 8.5% more, and the 12 regional carriers reported 0.2% more.

**11. DOT Air Travel Consumer Report for February.**

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

|                      | Feb.<br>'16 / '15 | Jan.<br>'16 | Full Year |        |        |        |        |
|----------------------|-------------------|-------------|-----------|--------|--------|--------|--------|
|                      |                   |             | 2015      | 2014   | 2013   | 2012   | 2011   |
| On-time arrivals %   | 83.6 / 72.8       | 81.3        | 79.9      | 76.2   | 78.34  | 81.85  | 79.6   |
| Cancellations %      | 1.6 / 4.8         | 2.6         | 1.5       | 2.2    | 1.51   | 1.29   | 1.91   |
| Mishandled baggage*  | 2.64 / 3.64       | 3.32        | 3.24      | 3.61   | 3.22   | 3.09   | 3.35   |
| Consumer complaints: |                   |             |           |        |        |        |        |
| Airline service      | 1,504 / 1,369     | 1,697       | 20,170    | 15,539 | 13,176 | 15,338 | 11,546 |
| Disability-related   | 71 / 57           | 79          | 939       | 784    | 683    | 741    | 628    |
| Discrimination**     | 7 / 5             | 7           | 65        | 68     | 79     | 99     | 128    |

Notes: Airlines reported 10 tarmac delays of more than three hours on domestic flights during snow storms in February, and none of more than four hours on international flights.

\* Reports per 1,000 passengers.

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

## II. AIRPORTS

### 1. FAA Announces Newark Slot Changes.

FAA is re-designating Newark Liberty from a Level 3 slot-controlled airport, limited to 81 operations per hour, to a Level 2 schedule-facilitated airport, as of October 30, for the Winter season, and has determined the change “will not cause a significant impact to noise and air emissions.” FAA placed temporary limits on scheduled operations at Newark in 2008 to mitigate congestion and delays, and amid concerns about a spillover effect from limited operations at New York Kennedy during the busy summer season. With timing of major runway reconstruction at JFK during 2017 and 2018 in mind, FAA “continues to analyze scheduled demand, operational performance and potential capacity changes at JFK, including those resulting during and after major airfield enhancements are complete.” FAA Administrator Michael Huerta noted significant improvements in on-time performance and delays at Newark. On-time gate arrivals increased by 11% when comparing May through August 2015 to same period 2014; on-time gate departures improved by 3%; mean arrival and departure delays are down by 33%; and delays greater than 60 minutes are down by 37% for arrivals and 38% for departures. Schedule submissions from carriers for Winter 2016 season began in April. Airlines need to obtain terminal space, gates and other facility access from airport operator Port Authority of New York and New Jersey. . . . In related news, United terminated an agreement to purchase 12 additional Newark slot pairs from Delta, and the Department of Justice (DOJ) dropped its 2015 lawsuit seeking to block the proposed acquisition. United currently holds 902 slots at Newark, said DOJ, and “grounds more slots on any given day than any of its competitors have the option to fly, while keeping them out of the hands of potential competitors . . . FAA’s action opens up Newark to more robust competition and achieves the very outcome we sought in litigation: protecting consumers from United’s plan to enlarge its monopoly at Newark.”

### 2. Delta Signs 20-Year Lease with Atlanta.

Delta CEO Richard Anderson and Atlanta Mayor Kasim Reed signed a 20-year agreement, under which the airline committed to keeping its headquarters in Atlanta and the city agreed not to build a second commercial airport. The contract outlines agreements regarding the airline’s operation at the airport, as well as structures for costs to Delta, revenue sharing between the two entities and rights and responsibilities regarding the \$6 billion Master Plan that includes a new concourse, sixth runway, \$400 million terminal and concourse modernization slated for completion in 2018, south runway end around, and

renovation and expansion of on-airport parking garages. Officials said the new lease would allow the airport to “immediately begin construction of Concourse G and five new domestic gates on concourse T.” Delta operates 1,000 peak-day departures from 117 gates at Hartsfield-Jackson serving 213 destinations. The airline has more than 30,000 employees in Georgia.

**3. New York Seeks to End City Tax Exemption on Jet Fuel.**

New York City Comptroller Scott Stringer is seeking to end the exemption that allows airlines at LaGuardia and Kennedy to avoid paying city sales tax on jet fuel, which he says costs the city between \$100 and \$200 million a year. Stringer proposed improvements that could be funded by such revenues, including connecting LaGuardia to the subway via an Air Train, installing green roofs on terminals, making airports more resilient to storms and climate change, and expanding use of biofuels. A new report released by Stringer, “Green Skies Ahead: A Plan to Modernize and Green New York City’s Airports,” supports his views. Airlines for America (A4A) opposes the Comptroller’s plan. “It is in New York City’s interest to create a business climate that values aviation and encourages travel and tourism to the state—not enacting unnecessary tax hikes that drive up the cost of flying for all New Yorkers,” said A4A.

**4. American O’Hare Gate Expansion Cleared by City Council.**

American Airlines’ plan to add five new gates at O’Hare was approved by the Chicago City Council, the first major gate expansion since 1993. The new gates, to be in Terminal 3, will be built to accommodate 75-seat Embraer 175 regional jets, with completion expected in 2018. Cost to American will be about \$75 million.

**5. Ivar Satero Named Director of San Francisco International.**

Ivar Satero was selected as Director of San Francisco International (SFO), effective July 18, after a national search. He succeeds John Martin who is retiring after 35 years at the airport. Satero has been at SFO for 22 years, currently as COO and earlier as Deputy Director for Design and Construction and Program Manager. SFO handles 50 million passengers per year and is the top concession revenue producer per passenger of any U.S. airport, said the Mayor’s office; \$4.4 billion of new capital projects are underway, including an air traffic control tower (completed), a new Terminal 1, a hotel, and cargo and service-related buildings, as well as major improvements to Terminal 3 and a major renovation of the International Terminal.

6. **Southwest Adds Gates at Lambert-St. Louis.**

Southwest opened two new gates at Lambert-St. Louis, bringing its full time gate use at Lambert to 13. The airport has partnered with Southwest on the expansion, which includes two new jetways and improved facilities. Southwest is Lambert's largest carrier, boarding 3.3 million passengers in 2015, and this summer will offer more than 100 daily flights to 43 destinations.

7. **Flughafen München to Build International Airport for Honduras.**

An agreement was signed between the Honduran government and Flughafen München, operator of Munich Airport, for construction of Palmerola International Airport in the city of Comayagua. The \$163 million project includes a terminal and 8,000 foot runway, with handling capacity of 1.5 million passengers annually. The airport is intended as a safer alternative to Toncontín International in Tegucigalpa, which, said officials, has "one of the most treacherous runway approaches in the world." Construction is scheduled to begin in June.

8. **Munich Opens Midfield Terminal.**

Munich Airport opened Germany's first midfield terminal, part of a joint venture with Lufthansa. The 4,000 square meter facility provides 27 new gate positions and increases capacity of Terminal 2, used by Star Alliance partners, to 36 million passengers per year.

9. **Recovering Brussels Airport Hit by ATC Strike.**

Brussels Airport saw the return of major airlines by mid-April, handling about 800 departing passengers per hour in a temporary check-in structure built after the March terror attack. "Given the average number of passengers per flight, we are talking about 225 departing flights a day compared to nearly 350 on an average day in April," said officials. Flights were further disrupted by an air traffic controller strike, termed "a kick in the teeth" by IATA.

10. **New Runway Planned for Dublin Airport.**

Dublin Airport will build a 3,110 meter runway north of the existing main runway, with completion expected in 2020. The €320 million project will comprise multiple contracts and packages of works, said state-owned DAA, operator of Dublin and Cork airports. Dublin handled a record 25 million passengers in 2015.

### **III. SECURITY AND DATA PRIVACY**

#### **1. IATA, IOM Cooperate on Migration Issues.**

IATA and International Organization for Migration (IOM) signed a memorandum of understanding to develop, promote and strengthen cooperation. Areas of common interest include mobility of migrants, refugees and voluntary returnees; harmonized passenger data exchange programs and data-driven security; integrated border management; travel health assistance, pandemics management and other travel health related emergencies; and aviation facilitation and border security and management programs. Air travel is a preferred choice for the regular, orderly and safe movement of migrants, said IOM, which in the past five years has assisted an average 200,000 migrants annually.

#### **2. E-Passports Required for Travelers from VWP Countries.**

Travelers to the United States from the 38 countries that participate in the U.S. Visa Waiver Program (VWP) are now required to use electronic passports. An e-Passport contains an electronic chip, which holds a passenger's name, date of birth and other biographical information. "This not only protects privacy and prevents identity theft, but also helps to safely identify a passenger, making travel safer and faster," said the U.S. Department of Homeland Security. Travelers who do not have an e-Passport from a visa waiver country must obtain a visa to come the U.S.

#### **3. EU May Suspend Visa Reciprocity with U.S., Canada.**

The European Commission (EC) may suspend visa requirements for U.S. citizens who travel to Europe, in retaliation for the U.S. requirement that citizens of the EU countries of Bulgaria, Croatia, Cyprus, Poland and Romania obtain visas for travel to the United States. The move would extend to Canada, which applies a visa requirement for citizens of Bulgaria and Romania. A suspension of visa waiver reciprocity would "likely entail considerable economic consequences, notably for the aviation industry, as well as have a substantial impact on the EU's external relations with two strategic partners," said the Commission. The EC asked the European Parliament and the Council "to urgently launch discussions and to take a position on the most appropriate way forward," by July 12.

#### **4. Parliament Backs EU Directive on Use of PNR Data.**

A directive regulating use of Passenger Name Record (PNR) data in the EU was approved by Parliament; the proposal needs formal approval by the

Council, and EU member states will have two years to transpose it into their national laws. Member states will have to set up Passenger Information Units (PIUs) to manage PNR data collected by air carriers. This information will be retained for five years, but after six months will be stripped of elements such as name, address and contact details that may lead to the identification of individuals. PIUs will be responsible for collecting, storing and processing PNR data for transfer to authorities and for exchanging them with PIUs of other member states and Europol. Such transfers shall be made on a case-by-case basis for purposes of “preventing, detecting, investigating or prosecuting terrorist offences or serious crime.” The directive will oblige airlines to hand national authorities passengers' data for all flights from third countries to the EU and vice versa. EU countries may also choose to collect and process PNR data from travel agencies and tour operators. Officials said the directive “puts in place data safeguards, as well as proving that the law is proportionate to the risks we face.”

**5. Belgian Transport Minister Resigns.**

Federal Transport Minister Jacqueline Galant resigned after an internal European Commission report critical of security at Belgian airports was leaked; Brussels Airport was the site of terrorist bombings on March 22.

## **IV. E-COMMERCE AND TECHNOLOGY**

### **1. ARC: U.S. Travel Agency First Quarter Ticket Sales.**

Consolidated dollar value of airline tickets sold by U.S.-based travel agencies decreased 3.4% in first quarter 2016, compared to 2015, totaling \$23.3 billion vs. \$24.1 billion, said Airlines Reporting Corp. (ARC). March 2016 sales were down 4.5% to \$8.3 billion against same month last year. Ticket transactions increased 4.5% to 43.2 million in 2016, pointing to the overall effect of lower fares. Ancillary sales comprised \$8.3 million of year-to-date sales vs. \$3.1 million in 2015, and \$2.7 million of March 2016 sales, compared to \$1 million in March 2015. Results based on monthly data from 12,798 U.S. retail and corporate travel agency locations, ticket printing offices and online travel agencies, and do not include sales of tickets purchased directly from airlines; total sales equal to total amount paid for a ticket, including taxes and fees.

### **2. Sabre Acquires Airpas Aviation.**

Sabre has acquired Airpas Aviation. The German company provides real-time route profitability and cost management solutions for the commercial airline industry. "By analyzing the fluctuating operating costs of individual routes such as fuel costs, airport and navigation charges, ground operations, catering and crew expenses," said Texas-based Sabre, "carriers can adjust routes, aircraft and schedules during daily operations to optimize profitability."

### **3. Delta Drops Some Booking Fees.**

Delta dropped the fee for customers who purchase tickets by phone or in person; the waiver does not apply to tickets issued in select European locations. Fees ranged from \$25 to \$35 per ticket.

### **4. Ctrip Takes Stake in China Eastern.**

Under a new agreement, Shanghai-based companies Ctrip.com and China Eastern will collaborate on products and services such as low-cost transportation solutions, international air travel, IT, travel insurance, and e-commerce. Ctrip has agreed to invest \$460 million in China Eastern. Ctrip.com is the largest online consolidator of accommodations and transportation tickets in China, in terms of transaction volume.

## V. **ENERGY AND ENVIRONMENT**

### 1. **Fuel Bill for Global Airline Industry.**

The average price of aviation jet fuel on April 15 was \$49.2/barrel, up 1.8% on the month and down 34.7% compared to a year ago, reports the International Air Transport Association. Fuel price average for 2016 was \$43.9/barrel. Impact on 2016 fuel bill was -\$99.6 billion.

### 2. **EPA Sued for Failure to Issue Aircraft Emission Standards.**

Environmental groups sued the U.S. Environmental Protection Agency (EPA) for failure to issue aircraft emission standards. EPA last year issued a proposed finding that aircraft greenhouse gas emissions contribute to global warming and must be regulated under the Clean Air Act, but recently said 2017 would be the earliest date for publication of a proposed rule, and 2018 for a final rule. The lawsuit, filed by Earthjustice on behalf of the Center for Biological Diversity and Friends of the Earth (FOE), in U.S. District Court for the District of Columbia, seeks to compel EPA to complete the rulemaking process. . . . In other news, FOE International was one of 79 environmental groups demanding adoption of a “serious plan to reduce emissions,” at the Global Aviation Dialogue held by the International Civil Aviation Organization (ICAO) in Utrecht. They said ICAO’s plans to adopt measures to achieve carbon-neutral growth from 2020, through carbon offsetting via a global market based mechanism, distract from needed measures, adding, “While the aviation industry dithers, the pace of climate change quickens.”

### 3. **New Alternative Jet Fuel Approved.**

Standards-development organization ASTM International approved a new fuel derived from renewable isobutanol, referred to as “alcohol to jet synthetic paraffinic kerosene” (ATJ-SPK); isobutanol is derived from renewable feed stocks such as sugar, corn or forest wastes. ATJ-SPK may be blended at up to 30% (by volume) with conventional jet fuel, and could reduce greenhouse gas emissions on a life-cycle basis by up to 85%. Previously approved fuels include: Synthesized Iso-parafins (SIP) which convert sugars into jet fuel; Hydroprocessed Esters and Fatty Acids Synthetic Paraffinic Kerosene (HEFA-SPK), which use fats, oils and greases; and Fischer-Tropsch Synthetic Paraffinic Kerosene (FT-SPK) and Fischer-Tropsch Synthetic Kerosene with Aromatics (FT-SKA), which both use sources of renewable biomass such as municipal solid waste, agricultural wastes and forest wastes, wood and energy crops. Gevo is preparing to produce alternative jet fuel under the new specification and is working with Alaska Airlines on deployment.

**4. Project to Supply Biojet to Shared Fuel System at Canadian Airport.**

Air Canada will participate in Canada's Biojet Supply Chain Initiative (CBSCI), a three-year collaborative project with 14 organizations to introduce 400,000 liters of sustainable aviation biofuel (biojet) into a shared fuel system at a yet to be determined Canadian airport. Previous Air Canada biofuel flights used biojet that was segregated and loaded separately into an aircraft via tanker truck. By contrast, CBSCI's objective is to develop a more efficient operational framework that will introduce biojet into a multi-user, co-mingled airport fuel supply system. The biojet used in this project will be sourced from commercially available, certifiably sustainable Canadian oleochemical feedstocks using the HEFA conversion process.

**5. Biojet Fuels KLM Oslo to Amsterdam Flights.**

KLM launched some 80 sustainable jet fuel flights from Oslo to Amsterdam, operated by KLM Cityhopper with an Embraer 190. The fuel is produced by Neste within the ITAKA project, funded by the European Commission and made available by Air BP and SkyNRG in cooperation with Norwegian airport operator Avinor. The fuel is produced from RSB certified Camelina oil and in full compliance with the EU Renewable Energy Directive

## **VI. U.S. CONGRESS**

### **1. Senate Passes FAA Reauthorization Act of 2016.**

The Senate passed a bipartisan bill that reauthorizes FAA through end of fiscal year 2017. Among new consumer protections, S. 2658 requires airlines to return baggage fees when items are lost or delayed, automatically return fees for services purchased but not received (seat assignments, early boarding, carry-on bags), and provide families with information about availability of seats together at time of booking; creates a standard method for airlines to disclose ancillary fees; and directs DOT to review how airlines provide information on decisions to delay or cancel flights. The bill increases funding for the Airport Improvement Program (AIP) by \$400 million to an annual level of \$3.75 billion, and does not increase passenger facility charges. It reauthorizes the Essential Air Service Program and the Small Community Air Service Development Program. Security provisions improve screening of airport employees with access to secure areas; and increase number of TSA Visible Intermodal Prevention and Response (VIPR) teams, from 30 to 60, and adds them to non-sterile airport areas. Among unmanned aerial vehicle (UAV) safety, privacy, enforcement and innovation requirements, the bill orders DOT to establish an air carrier certificate for drone package delivery services. The bill improves FAA processes for certifying aircraft designs and modifications and includes new requirements for bulk transfer of lithium batteries. It requires mental health screening and records retention for commercial pilots, increasing awareness of human trafficking for airline personnel, and improved communicable disease preparedness. The bill requires FAA to develop policies to reduce cybersecurity risks to the national airspace system, civil aircraft, and agency information systems. It seeks to improve NextGen (Next Generation Air Transportation System) transition management, mitigate risks to NextGen interoperability with foreign countries, and assess NextGen acquisition practices. It requires a study and recommendations on upgrading and restoring U.S. airport infrastructure. It requires that all air traffic controller candidates receive an in-person interview with FAA before being hired and beginning training. . . . Airlines for America applauded the Senate “for holding the line against an unnecessary airport tax hike,” but said the bill “misses a historic opportunity to enact bold legislation that would address critically needed reforms to our nation’s air traffic control (ATC) system”; the stalled House FAA reauthorization bill would privatize ATC.

**2. Committee Reports FY2017 Transportation Appropriations Bill.**

The Senate Appropriations Committee approved FY2017 funding for DOT. The bipartisan bill provides \$16.4 billion in total budgetary resources for FAA, \$131.6 million above FY2016 enacted level and \$512.5 million above request. It rejects the President's request to remove large commercial airports from the Airport Improvement Program and allowing them to raise passenger facility charges. The bill also provides \$1 billion for NextGen and fully funds the Contract Tower program.

**3. House Passes Security Bills.**

The House unanimously passed several security bills. Among them, H.R. 4403, the Enhancing Overseas Traveler Vetting Act, authorizes the Departments of Homeland Security and State to develop open-source watchlisting and screening technology that can be provided to foreign governments to help detect and disrupt terrorist travel. H.R. 4549, the Treating Small Airports with Fairness Act of 2016, requires TSA to conduct screening at certain airports. H.R. 4698, the Securing Aviation from Foreign Entry Points and Guarding Airports Through Enhanced Security Act of 2016, requires enhanced security assessments at Last Points of Departure (LPD) airports, from which passengers can fly directly into the United States. . . . The House Homeland Security Committee approved the Airport Perimeter and Access Control Security Act of 2016. H.R. 5056 aims to modernize and enhance airport perimeter and access control security by requiring updated risk assessments and development of security strategies.

## VII. **BILATERAL AND STATE DEPARTMENT NEWS**

### 1. **U.S., Azerbaijan Sign Open Skies Agreement.**

The United States and Azerbaijan finalized an Open Skies Agreement that promises to liberalize air travel between both nations and bring about expanded opportunities for economic growth. The pact was signed in Baku by Ambassador to Azerbaijan Robert Cekuta and Azerbaijan Airlines (AZAL) President Jahangir Asgarov. AZAL has been operating twice-weekly Boeing-787-8 flights to New York since September 2014.

### 2. **Mexican Senate Ratifies U.S.-Mexico Air Agreement.**

The Mexican Senate ratified the U.S.-Mexico air agreement signed in December, which removes limits on number of carriers that can fly between the two countries and liberalizes air cargo service.

### 3. **Bilateral Progress in Relations with Iran.**

Although most U.S. sanctions on Iran remain in place, Boeing was permitted to begin discussions in Tehran in April about potential sale of aircraft and aftermarket services to Iranian airlines. Airbus reached an agreement with Iran in January for purchase of 118 airplanes, ranging from single-aisle to A380 superjumbos . . . . Air France announced three weekly Airbus A340 and A330 flights to Tehran from Paris Charles de Gaulle, and opened a ticket office in Tehran. . . . EC Transport Minister Violeta Bulc was part of an EU delegation visiting Iran to explore cooperation. The visit followed implementation in January of the Joint Comprehensive Plan of Action for EU-Iran bilateral relations. Regarding air transport, the two sides intend to: perform technical assessments to remove and review restrictions on the Iran Air fleet with regard to the EU Air Safety List, and issue Third Country Operator Authorization to Iranian air carriers that applied, provided necessary safety requirements have been met; embark on technical cooperation in support of safety; and exchange views on the possibility of a horizontal agreement.

## VIII. EUROPE AND AFRICA

### 1. Lufthansa Delays Acquisition of Brussels Airlines.

Lufthansa delayed by three months, to end of August, the deadline to increase its stake in Brussels Airlines parent SN Airholding, from 45% to 100%. “The option has been extended in the wake of the terrorist attacks at Brussels Airport on 22 March and their repercussions,” said Lufthansa Chairman and CEO Carsten Spohr. “Our colleagues at Brussels Airlines are currently devoting all their energies and resources to restoring reliable flight operations for their customers at their home airport.” . . . Lufthansa posted a net profit of €1.7 billion on revenues of €32.1 billion in 2015, achieving its projections, and carried a record 108 million passengers. Spohr said 15 strike days in 2015 cost €230 million.

### 2. A4E Calls on EC to Defend Consumers Against ATC Strikes.

“Air traffic controllers (ATC) in Europe won’t give a breather to European passengers,” said Airlines for Europe (A4E), as French controllers for the third time in a month left their towers, the 44th strike day in France since 2009. The latest ATC strikes in Greece, Italy, Belgium and France in March and April caused over 2,000 cancellations, said A4E; last year, more than 10,000 flights operated by A4E members were affected by 28 days of ATC strikes in Europe. “We call on the European Commission and the governments to act immediately to defend consumers,” said Thomas Reynaert, Managing Director of A4E,” which was launched in January; members are Air France KLM, easyJet, Finnair, IAG, Jet2.com, Lufthansa Group, Norwegian and Ryanair. . . . A4E is calling for abolishment of passenger taxes and urged EU governments to create a supportive regulatory environment. Pointing to economic advantages when the Dutch, Irish and other governments removed taxes, A4E cited a study that shows removing UK Air Passenger Duty would boost British GDP by 1.7% and create 60,000 new jobs by 2020. . . . “The European airline industry faces real challenges,” IATA DG and CEO Tony Tyler told the European Aviation Club in Brussels, and urged the EC to act on its European Aviation Strategy before it “becomes perceived as irrelevant or lacking in ambition.” The strategy seeks to simplify and harmonize regulations, reduce taxes and improve infrastructure. Europe’s airlines will make a 4.3% net profit margin or \$8.80 per passenger in 2016, compared to 9.5%/\$21.44 for airlines in North America. But the Commission is not the only regulator in Europe, Tyler conceded. “Aligning all the needed institutions behind the strategy—including member states—will take significant cat-herding skills.”

**3. Qatar Airways Increases Stake in IAG.**

Qatar Airways raised its stake in oneworld partner International Consolidated Airlines Group (IAG) to nearly 12%, from 9.99%. IAG, which owns British Airways, Aer Lingus, Iberia and Vueling, “is the most successful airline today,” said Qatar CEO Akbar Al Baker, at the Arabian Travel Market in Dubai. “Their performance is absolutely over-the-moon.” Al Baker also told reporters that negotiations to buy a 49% stake in Meridiana have advanced and are contingent on restructuring and job cuts at the Italian airline. Aga Khan Fund for Economic Development (AKFED), through Alisarda, would retain effective ownership and control of Meridiana with at least 51%. Meanwhile, Meridiana CEO Richard Creagh has resigned; Chairman Marco Rigotti will manage the company until a new CEO is appointed.

**4. Commission Proposes Visa-Free Travel for Citizens of Ukraine.**

The European Commission proposed short-stay, visa-free travel to the EU for Ukrainian citizens with biometric passports, and urged adoption by the Council and Parliament. The visa-free travel will apply to all EU member states except Ireland and the UK, as well as the four Schengen associated countries (Iceland, Liechtenstein, Norway and Switzerland). The exemption concerns only short-stay visas valid for up to 90 days of travel in any 180-day period for business, tourist or family purposes. The visa exemption does not provide for the right to work in the EU.

**5. Senegal Seeks Partner for New National Airline.**

Senegal has created Air Senegal to replace defunct Senegal Airlines and is seeking a strategic partner. Turkish Airlines reportedly is interested.

**6. Bilateral Progress in Relations with Iran.**

See Section VII, item 3.

**7. HNA to Acquire gategroup.**

See Section IX, item 5.

## **IX. ASIA/PACIFIC AND MIDDLE EAST**

### **1. Air Canada to Launch Vancouver to Delhi Nonstops.**

Air Canada will offer seasonal Boeing 787 nonstops from Vancouver (YVR) to Delhi, from October 20 to April 8. The three weekly flights complement Toronto-Delhi service launched last fall. In Delhi, Star Alliance partner Air India offers connectivity across the Indian subcontinent. “Our non-stop Dreamliner flights from our Vancouver hub will also offer the shortest elapsed flying time from Calgary, Edmonton, Seattle, Portland and Los Angeles to Delhi,” said the airline. “With our extensive western Canada domestic and western U.S. trans-border network, combined with the seamless connection experience through YVR’s U.S. in-transit pre-clearance facilities, YVR is positioned to be the preferred gateway hub for trans-Pacific travel to and from North America.”

### **2. Delta Suspends Istanbul Service Amid Security Concerns.**

Delta suspended New York Kennedy-Istanbul service, set to begin in May, due to increased security concerns. In a March 29 Travel Warning on Turkey, the U.S. Department of State said, “Foreign and U.S. tourists have been explicitly targeted by international and indigenous terrorist organizations.” . . . Meanwhile, Boeing announced it will deliver six 777-300ERs and 20 Next-Generation 737-800s to Turkish Airlines this year; the flag carrier flew 62 million passengers to 284 destinations in 2015.

### **3. Qatar Adds New York Service.**

Qatar Airways added a second daily nonstop to New York Kennedy from Doha, using an Airbus A350. The airline added daily service to Boston in March, and in June will begin service to Atlanta.

### **4. Mueller to Leave Malaysia; Malaysian Carriers Form AMAC.**

Malaysia Airlines CEO and Managing Director Christoph Mueller will leave the airline in September, “ahead of the end of his three-year contract, due to a change in his personal circumstances.” The former Aer Lingus CEO joined Malaysia last year amid restructuring efforts by state investor Khazanah and the aftermath of the 2014 disappearance of flight MH370 and loss of MH17 over eastern Ukraine. Mueller, a German citizen, has also held executive positions with Lufthansa, Swissair Group, DHL Express and TUI. . . . In other news, the Association of Malaysian Air Carriers (AMAC) has been formed by Malaysia Airlines, MASwings, Firefly, AirAsia, AirAsia X, Malindo Air and Berjaya Air to “ensure one voice” on issues such as air traffic control services and airport safety and security.

**5. HNA to Acquire gategroup.**

HNA Group launched a cash offer for gategroup, global provider of catering, provisioning and logistics, and onboard products and services. gategroup will remain independently managed and headquartered in Switzerland. . . HNA is reviving Xi'an-based Air Changan, with commercial flights to begin in May; and will launch low-cost Ningbo Airlines, in the Yangtze River Delta region. Carriers operated by HNA include Hainan, Tianjin, Deer Jet, Lucky Air, West Air, Fuzhou, Urumqi, Beibu Gulf, Yangtze River, Guilin, Africa World Airlines, Aigle Azur, and Beijing Capital Airlines, which will begin three-times-weekly Airbus A340 service to Mexico City, and twice-weekly A330 service to Zagreb and Helsinki, in first half 2017, subject to government approval.

**6. U.S., Azerbaijan Sign Open Skies Agreement.**

See Section VII, item 1.

**7. Bilateral Progress in Relations with Iran.**

See Section VII, item 3.

## **X. AMERICAS**

### **1. Alaska Air Group to Acquire Virgin America for \$4 Billion.**

An Alaska Air Group plan to acquire Virgin America for \$57 per share in cash, representing a total equity value of \$2.6 billion, was approved by Boards of both airlines; with Virgin America debt and capitalized aircraft operating leases, aggregate transaction value is \$4 billion. The combined organization will be based in Seattle under the leadership of Brad Tilden, currently Alaska Air Group Chairman and CEO, and his senior leadership team. Tilden and David Cush, Virgin America President and CEO, will co-lead a transition team that will develop an integration plan. Combined company expects to achieve \$225 million annually in total net synergies at full integration, with one-time integration costs of \$300-350 million, and annual revenues of \$7 billion; and will have 1,200 daily departures, with hubs in Seattle, San Francisco, Los Angeles, Anchorage and Portland, and 280 aircraft with average age of 8.5 years. Frequent flier programs will be merged. Subject to regulatory clearance and other closing conditions, completion of transaction is expected by January 1, 2017. . . . Virgin Group Founder Sir Richard Branson told *Condé Nast Traveler* he hopes Alaska will treat Virgin as a small independent company within a bigger company. “People love Virgin with a passion that hasn’t existed since the early days of aviation, and I am certainly not going to let it go to waste, even if it means starting all over again” with a new domestic airline.

### **2. United Announces Board Changes After Investor Dispute.**

United Continental Holdings reached a settlement agreement with investors Altimeter Capital Management and PAR Capital Management, under which two of their designees, Edward Shapiro, PAR Managing Partner, and Barney Harford, former CEO of Orbitz Worldwide, join the Board; seven of 14 directors and five of 11 independent directors will be new to the Board. Former Air Canada CEO Robert Milton will succeed Henry Meyer as Non-Executive Chairman. United President and CEO Oscar Munoz will assume the additional position of Chairman in 2018, instead of previously planned 2017. Former Continental CEO Gordon Bethune bowed out of the fracas, saying, “While I won’t be serving on the Board, I look forward to doing whatever I can do to help Oscar, United’s dedicated employees, and the Company succeed.” . . . In other news, United workers signed five-year accords in the Fleet Service, Passenger Service, Storekeeper, Maintenance Instructor, Fleet Technical Instructor and Related and Security Officer classifications. International Association of Machinists and Aerospace Workers said the pacts “provide industry-best wages, work protections and retirement security, among other improvements.”

**3. Delta Pilots File for Mediation.**

Delta pilots filed for mediation with the National Mediation Board, following failure to reach an agreement by March 31. Air Line Pilots Association International (ALPA) said the company has achieved record profits over the last few years, and in February “earned an investment-grade credit rating from Moody's due to the company's strong balance sheet and profitability forecast. Delta's pilot compensation, however, has yet to fully recover from bankruptcy era pay cuts and the loss of retirement benefits.” . . . Delta became U.S. launch customer for the Bombardier C Series with a firm order for 75 CS100s, options for 50 additional C Series aircraft and the ability to substitute the larger CS300s. Delta also reached an agreement with Airbus to acquire 37 additional A321s, to replace older jets, including the MD-88. In a speech to Aero Club of Washington, Delta CEO Richard Anderson said the CS100 opens up a lot of opportunity; with 110 seats, the plane will fly nonstop from Atlanta to Seattle, and seat cost is dramatically lower. Anderson reiterated support for NextGen and advised airlines to equip their planes. He retires as CEO on May 2, and will be Executive Chairman of the Board. President Ed Bastian becomes CEO and Executive Vice President Glen Hauenstein becomes President.

**4. American Dispatchers, Operations Specialists Approve Contract.**

American Airlines dispatchers and operations specialists approved a new five-year contract, which includes “industry-leading pay for dispatchers along with improved longevity pay, higher override premiums and an increase in vacation, sick days and holidays.”

**5. Hawaiian Pilots Vote on Strike Authorization.**

Amid mediated negotiations, Hawaiian Airlines pilot leaders voted unanimously to conduct a strike authorization ballot, citing “foot-dragging” by management on a new contract “while their airline is making record profits.” The group also asked ALPA to authorize a \$2 million grant to help pay for pre-strike preparation and other logistical support. Voting on the strike ballot concludes May 17. If the ballot passes, pilots need permission to declare a strike from the National Mediation Board.

**6. Atlas Air Worldwide Acquires Southern Air.**

Atlas Air Worldwide Holdings completed its acquisition of privately held Southern Air Holdings, parent company of Worldwide Air Logistics Group and its Southern Air and Florida West International Airways subsidiaries. Atlas is a global provider of outsourced aircraft and aviation operating services. Southern Air provides intercontinental and domestic CMI (crew, maintenance and insurance) services.

**7. Microsoft Executive Named CEO of Avianca.**

Hernan Rincon was named CEO of Avianca Holdings and Aerovias del Continente Americano, replacing Alvaro Jaramillo Buitrago, who was appointed interim CEO after Fabio Ramirez Villegas stepped down. Rincon most recently was CEO of Microsoft Latin America and has held executive positions with other major technology companies. Avianca Chairman German Efromovich said the appointment of Rincon “coincides with the beginning of a new phase in which strengthening of the organization is crucial to cope with the changes of the environment. The latter, however, requires a rigorous adjustment of our strategy.” The Star Alliance carrier transported 28.2 million passengers in 2015.

**8. U.S., Azerbaijan Sign Open Skies Agreement.**

See Section VII, item 1.

**9. Mexican Senate Ratifies U.S.-Mexico Air Agreement.**

See Section VII, item 2.

**10. Bilateral Progress in Relations with Iran.**

See Section VII, item 3.

**11. Air Canada to Launch Vancouver to Delhi Nonstops.**

See Section IX, item 1.

**12. Delta Suspends Istanbul Service Amid Security Concerns.**

See Section IX, item 2.

**13. Qatar Adds New York Service.**

See Section IX, item 3.