



## 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. Global Air Freight Demand Increases 13% in May.**

Global air freight demand grew 12.7% in May, compared to year-earlier period, reports the International Air Transport Association (IATA); five-year average growth rate is 3.8%. All regions except Latin America reported year-on-year double-digit increases. . . . Percentage of air cargo items purchased online grew from 16% to 74% from 2010 to 2015, and is projected to grow to 91% by 2025, said Olumuyiwa Benard Aliu, President of the International Civil Aviation Organization (ICAO), in his keynote address to the 6th World Civil Aviation Chief Executives Forum in Singapore. “Expectations being fostered today in modern consumers—whether for access to global products and services or ‘next-day’ delivery—are wholly dependent on international air transport to move their online purchases, rapidly and reliably,” he said, stressing “the critical need for increasing levels of investments earmarked for air transport infrastructure expansion and modernization.” Dr. Aliu said less than 5% of official development assistance globally is earmarked for air transport projects, although aviation generated 67.3 million jobs and contributed 2.7 trillion dollars to global GDP in 2016 alone.

### **2. Norwegian UK Wins Tentative DOT Approval for Transatlantic Ops.**

The U.S. Department of Transportation (DOT) tentatively granted a foreign air carrier permit to Norwegian Air UK (NAUK), the UK-flag subsidiary of Norwegian Air Shuttle. The application, filed in December 2015, is vigorously opposed by U.S. major airlines and unions, but DOT noted that their primary arguments had been considered in its final decision on the Norwegian Air International (NAI) application. DOT found that NAUK “is financially and operationally fit to perform the services authorized [and] is substantially owned and effectively controlled by citizens of member states of the European Union [and] that the authority sought by the applicant is encompassed by the U.S.-EU Agreement.” DOT also cited commitments to hire U.S. and EU crew made in the NAI docket by Norwegian Air CEO Bjorn Kjos. Air Line Pilots Association (ALPA) again called for “legislation that requires the DOT to conduct a close review of foreign airlines that may be using a flag-of-convenience business model to undermine labor standards.”

### **3. Near Midair Collision on Approach to SFO Probed.**

A July 7 near midair collision on approach to San Francisco International is being investigated by the Federal Aviation Administration (FAA), National Transportation Safety Board (NTSB) and National Air Traffic Controllers

Association. The Air Canada Airbus A320-200 was cleared to land on runway 28R, but instead lined up on parallel taxiway C, on which two Boeing 787s, an Airbus A340 and a Boeing 737 awaited takeoff clearance. The flight descended below 100 feet above the ground and initiated a go-around after overflying the first airplane on the taxiway and landed safely. Night visual meteorological conditions prevailed at the time of the incident, said NTSB. Transportation Safety Board of Canada said there were 140 passengers aboard ACA759.

4. **FAA Reorganizes Aircraft Certification Process.**

FAA “is refreshing its certification strategy, investing in management systems to improve performance, and streamlining its regulations and policies to help the aviation industry move products to market faster and retain competitiveness.” A new organizational structure for the Aircraft Certification Service will be implemented along single functional lines for certification, standards, and system oversight. “As the aviation industry becomes increasingly global, industry feedback suggests that the Service is unable to keep pace with the industry demands and cannot maintain consistency and standardization,” said FAA.

5. **Frontier, American, Delta Fined for Consumer Protection Violations.**

DOT fined Frontier, American and Delta for violating consumer protections rules. Frontier was fined \$400,000 for failing to: seek volunteers before bumping passengers involuntarily; provide bumped passengers the required written notice describing their rights; provide proper compensation to passengers in a timely manner; and provide passengers with a disability prompt and adequate wheelchair assistance in enplaning and deplaning aircraft and moving within the terminal, and did not adequately respond to complaints filed by passengers with disabilities. American was fined \$250,000 for failing to make timely refunds to passengers, and Delta \$200,000 for underreporting mishandled baggage reports received from passengers.

6. **FAA Ordered to Investigate “Incredible Shrinking Airline Seat.”**

Referring to “The Case of the Incredible Shrinking Airline Seat,” the U.S. Court of Appeals for the District of Columbia Circuit ordered FAA to review a 2015 petition made by consumer rights group Flyers Rights “to promulgate rules governing size limitations for aircraft seats to ensure, among other things, that passengers can safely and quickly evacuate a plane in an emergency.” FAA denied that request, asserting that seat spacing did not affect safety or speed of passenger evacuations, and citing “off-point studies and undisclosed tests using unknown parameters,” said the Court.

**7. IATA, A4A Launch Baggage Tracking Campaign.**

IATA and Airlines for America (A4A) launched a campaign to help airlines prepare for the June 2018 implementation deadline of Resolution 753, which calls for baggage tracking from when a bag is accepted at the airport, loaded onto the aircraft, and transferred to the arrival system or put into the transfer system for carriage by another airline. Airlines should also be able to share this tracking information with interline carriers as needed. Tracking bags will enable proactive reporting, speed up aircraft readiness for departure, facilitate the automation of baggage processes and reduce fraud,” said IATA.

**8. DOT Air Travel Consumer Report for May.**

Based on data filed by largest reporting carriers.

	May '17 / '16	April '17	Full Year				
			2016	2015	2014	2013	2012
On-time arrivals %	79.1 / 83.4	78.5	81.4	79.9	76.2	78.34	81.85
Cancellations %	0.8 / 0.5	1.6	1.17	1.5	2.2	1.51	1.29
Mishandled baggage*	2.32 / 2.40	2.53	2.70	3.13	3.61	3.22	3.09
Consumer complaints:							
Airline service	1,779 / 1,135	1,909	17,904	20,175	15,539	13,176	15,338
Disability-related	78 / 66	66	862	944	784	683	741
Discrimination**	9 / 7	12	94	65	68	79	99

Note: In May, airlines reported 27 tarmac delays of more than three hours on domestic flights, 24 of which were in Philadelphia on May 25, during heavy thundershowers. There were no tarmac delays 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 Awards AIP Grants.

FAA announced Airport Improvement Program (AIP) grants for infrastructure projects, including runways, taxiways, and airport signage, lighting and markings, to be under construction or completed prior to onset of winter season. Grants include \$230 million to 104 airports, \$185.1 million to 107 airports, \$105.3 million to 133 airports and \$290.6 million to 105 airports. Airports are awarded fixed annual amounts based on passenger volume, with additional discretionary funds for high-priority projects that exceed their capital budget. Among discretionary awards, Ted Stevens Anchorage will receive \$17.1 million to reconstruct a taxiway and lighting system, and \$8.2 million to repair the apron. For runway repairs, Des Moines International will receive \$13.3 million, Tucson International \$17.3 million and San Diego \$16.7 million.

### 2. LAX Terminal Projects Approved by Airport Commissioners.

A project spearheaded by Delta to modernize Terminals 2 and 3 at Los Angeles International (LAX) and connect them to the Tom Bradley International Terminal (TBIT) was approved by the Los Angeles Board of Airport Commissioners (BOAC). Delta will invest up to \$1.9 billion on upgrading the Terminal 2 concourse, demolition and reconstruction of the Terminal 3 concourse building and passenger and baggage processing facilities, and demolition of southern appendages of the Terminal 3 satellite. . . . BOAC also approved a lease agreement with Southwest for a 417,515-square-foot, six level facility (Terminal 1.5) that will include a connector between Terminals 1 and 2, space for additional ticket counters and security screening check point, and baggage carousels. Terminal 1.5, estimated to cost \$490 million and expected to open in 2020, will connect to the future Automated People Mover; a bus gate will allow Southwest to transport passengers to TBIT for international flights.

### 3. Delta's LaGuardia Lease, \$4 Billion Terminal Approved.

Port Authority of New York and New Jersey's Board of Commissioners approved a lease agreement with Delta for its new \$4 billion, 37-gate facility at LaGuardia. Port Authority committed up to \$600 million to the project, with Delta providing \$3.4 billion and assuming responsibility for cost overruns. Over 80% of the Delta project is funded through private investment. Port Authority's commitment covers costs of a new electrical substation, parking expansion, new roadways and additional supporting infrastructure. Work begins this summer, with completion expected by 2026.

4. **Firm Sought to Implement JFK Plan.**

Port Authority of New York and New Jersey launched a request for proposals for preliminary engineering and design for the \$10 billion redevelopment of John F. Kennedy International Airport. “The chosen firm will follow the blueprint laid out in the Governor's Vision Plan to reimagine the airport's terminals, roadways, AirTrain, parking, cargo facilities, airside and aeronautical improvements and support infrastructure,” said Governor Andrew Cuomo. JFK handled a record 59 million passengers in 2016, and 23.1 million through May of this year. . . . In other JFK news, JetBlue holds exclusive rights to the site of razed Terminal 6 and is looking for investors and developers to help build a new facility; request for proposals to be issued this year.

5. **\$1.3 Billion Terminal Makeover for Portland.**

Portland International is planning a five-year, \$1.3 billion terminal overhaul that, if approved by airlines, would be phased in for five years from 2020. “We're simply running out of capacity to manage the passenger flow we're getting today, and that we'll be getting in the days to come,” Port of Portland Executive Director Curtis Robinhold told the *Oregonian*. Last year, the airport handled 18 million travelers; the expansion will increase capacity to 35 million a year; Alaska and Southwest together account for more than two-thirds of passengers. Other major projects in the works include a \$215 million expansion of Concourse E, a \$67 million rental car wash and fuel station, and a \$265 million addition to the garage that will add 2,400 parking spots for rental cars and free up 1,200 stalls for public parking.

6. **IATA Urges Mexico to Embrace Global Standards for Slot Management.**

“The recently-proposed slot system by Mexico's Federal Economic Competition Commission deviates from global standards,” says IATA, urging use of its Worldwide Slot Guidelines, which ensure “that individual airlines can operate their schedules under the same set of rules on all of the routes in their network.” IATA noted that: Mexico's plan to auction slots to the highest bidder could limit competition by preventing less well-established and smaller air carriers from entering or expanding in the marketplace; confiscation of 10% of existing slots from carriers at congested airports will weaken route networks, reducing air traveler options in terms of frequency and destinations, while imposing real financial damage on airlines; and withdrawal of slots based on punctuality criteria undermines the ability of airlines to make long term commitments to serve markets and ignores incentives airlines have to maintain on-time operations. “The imposition of a ‘use-it-or-lose-it’ threshold of 85% is inconsistent with the global standard of 80% utilization to retain a slot,” said IATA.

**7. Lufthansa, Fraport Agree on Savings, Growth at Frankfurt.**

Lufthansa and Fraport signed a first agreement on short-term cost savings, “creating the right conditions for the further growth of Lufthansa at Frankfurt Airport,” and a basis for discussions regarding a medium- and long-term partnership. Fraport said new charges at Frankfurt are not planned for 2018.

**8. HNA to Acquire Stake in Rio's Galeao.**

HNA Infrastructure plans to purchase Odebrecht’s stake in Rio de Janeiro Aeroportos (RJA), the controlling shareholder of Antonio Jobim International (Galeao), subject to government approvals. Odebrecht and Changi Airports International together hold a 51% stake in RJA, and Infraero 49%. The Changi-Odebrecht consortium was awarded rights to the concession through 2039 for expansion, operation and maintenance of Galeao, which handled 16.1 million passengers in 2016, with average annual growth of 11% from 2007 to 2012, according to the Changi website.

**9. Peru, Fraport to Invest \$1.5 Billion in Lima Expansion.**

Fraport unit Lima Airport Partners (LAP) and Peru amended a 2001 concession, outlining when and how the government should hand over land needed for a \$1.5 billion expansion of Lima Jorge Chavez International, scheduled to begin in 2018. Development plans call for a second runway, a new passenger terminal and other infrastructure. The airport handled 18.8 million passengers in 2016, up 10.1% year-on-year, and during first half 2017 served 9.7 million passengers, up 8.4% over first half 2016. Currently, 35 airlines fly to 23 domestic and 46 international destinations. LATAM and Avianca use Lima Airport for hub operations. Shareholders include Fraport (70.01%), IFC International Financial Corporation (19.99%) and AC Capitaes SAFI of Peru (10%). The LAP concession runs until 2041.

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

#### 1. **General Kelly Exits DHS.**

Homeland Security Secretary John Kelly was named White House Chief of Staff, effective immediately. Elaine Duke, Deputy Secretary of the Department of Homeland Security (DHS), will serve as Acting Secretary. Duke has held several positions at DHS, including Deputy Assistant Administrator for Acquisition at the Transportation Security Administration (TSA), and at the Department of Defense.

#### 2. **ICAO: Access to Current Threat Information Needed.**

ICAO Secretary General Fang Liu told the UN Security Council Counter-Terrorism Committee that aviation security authorities must have sufficient access to current information to mitigate terrorist threats. “Foreign terrorist fighter movements, landside attacks, threats posed by insiders and airport staff, and the use of increasingly sophisticated improvised explosive devices are all significant concerns,” she noted, “and our expanding reliance on information technology in all areas of aviation—from navigation to communications to security—exposes us to cyber threats.”

#### 3. **TSA Lifts Limited Laptop Ban, Initiates Domestic Laptop Screening.**

TSA lifted restrictions on large personal electronic devices for 10 airports (nine airlines) in the Middle East and North Africa, which were announced in March, as they “have successfully implemented the first phase of enhanced security measures.” Former DHS Secretary John Kelly said the restrictions followed TSA tests in which explosives hidden in large electronic devices destroyed an airplane. . . . Requirements replacing the laptop ban came into effect on July 19 for 180 airlines and 280 last-point-of-departure airports. Measures include stricter screening for electronic devices larger than cell phones, increased security around aircraft and in passenger areas and expanded canine screening. . . . TSA is implementing the carry-on procedures for domestic travelers in standard lanes; the measures do not apply to passengers enrolled in TSA PreCheck. The protocols were tested at Boise, Colorado Springs, Detroit Metro, Fort Lauderdale, Boston Logan, Los Angeles International, Lubbock, San Juan, Las Vegas and Phoenix Sky Harbor.

#### 4. **CBP Deploys Biometric Exit Technology.**

Facial recognition biometric exit technology was deployed for select flights from Chicago O’Hare, Washington Dulles and Houston Bush, by U.S. Customs and Border Protection (CBP), with more airports to be added this

summer. Delta and JetBlue are collaborating with CBP to integrate facial recognition technology as part of the boarding process. Delta is testing eGates at New York Kennedy and Atlanta Hartsfield-Jackson, and JetBlue is testing technology at Boston Logan that allows passengers to self-board without scanning a boarding pass. Privacy advocates are concerned about biometric identification techniques, such as facial recognition. . . . CBP launched Global Entry Enrollment on Arrival at airports in Houston, Austin, San Francisco and Vancouver. The program allows a conditionally approved traveler to complete the enrollment interview during CBP primary inspection, be cleared for entry into the United States and be a Global Entry member.

**5. Chicago Changes Airport Security Officer Mandate.**

The Chicago Aviation Department issued a report on the April incident in which airport security officers dragged a passenger off a United flight, and clarified future responsibilities for police and airport security officers. The police department will be lead responder on disturbance calls at O'Hare and on planes. The unarmed security officers will respond only when police request them. A city ordinance will prevent them from removing passengers from an aircraft. The word "Police" will be removed from uniforms and vehicles of aviation security officers. The union representing security officers is opposed to the changes.

**6. 'Grandparent' Exemption to Travel Ban Upheld.**

The Supreme Court upheld a lower court's definition of close family members who could be exempt from the Administration's travel ban, including grandparents and cousins of a person in the U.S. Justices will hear oral arguments later this year on the ban, which applies to citizens from six Muslim-majority countries—Iran, Libya, Somalia, Sudan, Syria and Yemen.

**7. A4E: External Border Checks Delay Thousands of Flights.**

Thousands of flights have been delayed because EU border controls are significantly understaffed to comply with tightened immigration checks, says Airlines for Europe (A4E), which called on the European Commission for a swift solution. Airports in Spain, France, Italy, Belgium and Portugal face immigration queues of up to four hours.

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

### **1. United's Flex-Schedule Program to Manage Oversold Flights.**

United Airlines is piloting new technology to manage oversold flights, in partnership with Atlanta-based Volantio. With the Flex-Schedule Program, the airline can offer seat buyouts up to five days in advance via e-mail to those who book on United.com and opt in to receive marketing messages. The pilot program targets certain MileagePlus members. Several other airlines are expected to opt for the technology, said Volantio.

### **2. Half of Global Fleet to Offer Wi-Fi by 2022.**

Commercial aircraft adopting inflight Wi-Fi services will reach 14,419 by 2022, over half the global fleet, according to UK-based Juniper Research, up from an estimated 5,243 this year. The increase will be driven primarily by the BYOD (bring your own device) trend. Juniper predicts that wireless streaming will replace seatback inflight entertainment (IFE) on most short haul flights, and says monthly IFE revenues are forecast to rise by 30% on average per aircraft over the forecast period.

### **3. KLM Smart Care Tag to Assist Travelers.**

KLM will offer passengers who visit Amsterdam in September a smart audio luggage Care Tag, which provides visitors with location-based tips on how to traverse the city. The tag consists of an offline GPS module and speaker and can be attached to luggage or clothes. Initially available in English, tags later will be in Chinese, Portuguese, German and Russian.

### **4. IBM Mainframe Provides Data Protection.**

IBM Z, "capable of running more than 12 billion encrypted transactions per day," was launched by Big Blue, making it possible "to pervasively encrypt data associated with any application, cloud service or database." The technology addresses the global data breach epidemic and helps automate compliance with emerging regulations. An "\$8 trillion cybercrime impact on the global economy by 2022" is predicted. "Of the more than 9 billion data records lost or stolen since 2013, only 4% were encrypted, making the vast majority of such data vulnerable to organized cybercrime rings, state actors and employees misusing access to sensitive information."

## **V. ENERGY AND ENVIRONMENT**

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

The average price of aviation jet fuel on July 14 was \$60.6/barrel, up 7.5% on the month and up 10.3%, compared to a year ago, reports the International Air Transport Association. Jet fuel price average for 2017 was \$62.4/barrel; impact on 2017 fuel bill was \$20.7 billion.

### **2. Boeing, FedEx Collaborate on ecoDemonstrator Testing.**

Boeing and FedEx Express will fly the next ecoDemonstrator in 2018. The program, now in its fifth iteration, serves as a series of flying testbeds designed to improve environmental performance and safety of future airplanes. A new Boeing 777 Freighter made for FedEx Express will test emerging technologies, such as propulsion advancements and flight deck innovations. Testing includes installing a compact thrust reverser developed by Boeing to save fuel, flight deck improvements for operations in and out of busy airports, and flying prototype airplane parts using manufacturing techniques that reduce material waste. Flight testing is scheduled to last approximately three months before the airplane returns to the FedEx fleet.

### **3. ETS Exemption for International Flights Through 2020.**

The European Parliament Environmental Committee agreed to restrict the European Union Emissions Trading Scheme (EU ETS) to intra-EU flights until December 31, 2020, pending ICAO's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). If CORSIA does not yield good results, the EU could propose to amend, delete or extend the exemption. The legislative proposal will be voted on by the full House in September. The EU had included aviation in the EU ETS, with effect from January 1, 2012. Due to opposition by the United States and other nations, the application was suspended until the end of 2016 to allow for development of global emission-reduction measures by ICAO, and to avoid conflicts with international trading partners. Aviation contributes 1.3% of global CO2 emissions.

## VI. U.S. CONGRESS

### 1. FAA Authorization in Limbo.

Current FAA authorization expires September 30, but Congress failed to pass a bill before leaving for the August recess. House Transportation Chairman Bill Shuster (R-Pa.) said a vote on his legislation, which separates air traffic control from FAA, will occur in September. The Senate bill, which keeps ATC intact, contains a controversial provision regarding pilot training requirements. With the need to resolve differences within each chamber and in conference negotiations, another extension is likely.

### 2. Senate Committee Advances DOT Appropriations Bill.

Senate Committee on Appropriations advanced the FY 2018 Transportation, Housing and Urban Development bill, which provides \$19.47 billion in discretionary appropriations for DOT, \$978 million above FY 2017 enacted level, with \$16.97 billion in total budgetary resources for FAA, \$563 million above FY 2017 enacted level. The bill provides \$1.1 billion for NextGen, fully funds the Contract Towers program, rejects privatization of the air traffic control system, and increases Airport Improvement Program funding by \$250 million. The bill proposes to raise the Passenger Facility Charge (PFC) cap to \$8.50 for originating passengers; if enacted, says Airlines for America, raising the PFC from \$4.50 to \$8.50 "would result in a massive \$3.2 billion tax hike on every air traveler." American Association of Airport Executives said the bill "will go a long way toward closing down the infrastructure investment gap that airports have struggled with for well over a decade."

### 3. House Appropriations Approves FY'18 DOT Funding Bill.

Fiscal year 2018 Transportation, Housing and Urban Development funding bill approved by the House Appropriations Committee includes \$17.8 billion in discretionary appropriations for DOT, \$646 million below FY 2017 enacted level and \$1.5 billion above President's request. "In total budgetary resources, including offsetting collections, the bill provides \$76.7 billion to improve and maintain our nation's transportation infrastructure," said the Committee. Funding includes \$16.6 billion in total budgetary resources for FAA, \$153 million above FY 2017 enacted level and \$435 million above the request, with \$1 billion for NextGen, and \$162 million for Contract Towers. The bill does not include new PFCs. It fully maintains the Essential Air Service program.

**4. House Passes First DHS Authorization.**

The House passed the Department of Homeland Security Authorization Act of 2017. If enacted, H.R. 2825 would be the first-ever reauthorization of the Department, which was created following the attacks of September 11, 2001. Among provisions, the bill would reform DHS' acquisition process, streamline offices within headquarters and redefine responsibilities; enhance cybersecurity training and threat defense; and integrate DHS intelligence systems and data sets for enhanced vetting and screening procedures.

**5. House Appropriations Approves DHS Funding.**

The House Appropriations Committee approved \$44.3 billion in fiscal year 2018 discretionary funding for DHS, an increase of \$1.9 billion above FY 2017 enacted level. The bill includes \$7.2 billion for TSA, \$159.8 million below FY 2017 enacted level, with \$3.2 billion for Transportation Security Officers, privatized screening operations, and passenger and baggage screening equipment, and \$151.8 million to hire, train, and deploy 1,047 canine teams. The legislation does not increase passenger security fees, unlike the Administration fiscal 2018 budget request for an increase from \$5.60 to \$6.60 for each connecting flight. The bill contains \$13.8 billion in discretionary appropriations for Customs and Border Protection and \$1.8 billion for the Office of Cybersecurity and Communications. The legislation preserves "Brand USA," a public-private partnership that promotes tourism in the United States.

**6. Cuban Airport Security Act Moves to House.**

The Cuban Airport Security Act of 2017 was passed by the House Homeland Security Committee. H.R. 3328, introduced by Rep. John Katko (R-NY), would require a study of security measures and equipment at Cuba's 10 international airports, addressing such issues as frequency of training and vetting for screening personnel, access controls in sterile areas and perimeter controls. Katko said a provision requiring U.S. airlines to publicly disclose contracts with Cuban agencies that handle ground operations and hire local employees could address a potential threat of insider access. The bill also would require standardization of Federal Air Marshal Service agreements. . . . The Committee also approved H.R. 3359 to authorize a new Cybersecurity and Infrastructure Security Agency within DHS.

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

### **1. American to End Code Sharing with Qatar, Etihad.**

American Airlines announced it would terminate its code share relationships with Etihad and Qatar Airways, effective March 24, 2018, in light of the ongoing dispute over Open Skies agreements, stating the decision “has no material financial impact on American and is an extension of our stance against the illegal subsidies that these carriers receive from their governments.” A “disappointed” Etihad said the relationship “since 2009 has provided passengers flying to and from the United States with more and better flight options to points in the Middle East, Indian Subcontinent and other destinations that historically have not been served by U.S. airlines.” Abu Dhabi-based Etihad said its six daily flights to the United States do not threaten American, which with its regional partner operates 6,700 flights daily to 350 destinations in 50 countries. Qatar Airways CEO Akbar al-Baker said American’s decision was not in the spirit of the oneworld alliance, of which both airlines are members, and noted that other U.S. airlines “want to work with us.” Qatar still plans to acquire up to a 10% stake in American, and already owns a 20% stake in IAG, parent of British Airways and Iberia, and 10% of LATAM, all oneworld members.

### **2. U.S.-Singapore Maintenance Agreement Signed.**

FAA and Civil Aviation Authority of Singapore (CAAS) signed an agreement, which “allows for mutual surveillance conducted on certified repair stations located abroad for each of the agreement partners” and expands a Maintenance Implementation Procedures (MIP) agreement signed by FAA and CAAS in 2016, the first of its kind in Asia There are 58 FAA-approved repair stations in Singapore.

### **3. Brexit Update.**

“Aviation is central to our future prosperity as we leave the European Union,” said UK Transport Secretary Chris Grayling, as plans were launched to develop a strategy “to help shape the future of the aviation industry to 2050 and beyond.” . . . During a hearing on the “Impact of Brexit on Aviation,” held by the European Parliament Transport and Tourism Committee, industry officials said aviation should be a negotiation priority to avoid termination of flights between the UK and EU states after the 2019 exit, and were asked if they are preparing contingency plans. . . . EasyJet plans to create a Vienna-based unit to enable post-Brexit operations in Europe and has filed for an Austrian Air Operator Certificate). EasyJet Europe will be majority-owned by

EU nationals. Investors from the other 27 EU countries own nearly half of EasyJet stock, including the 33% held by founder Stelios Haji-loannou and his family, who are citizens of Cyprus. easyJet has a Swiss AOC and “would become a pan European airline group with three airlines based in Austria, Switzerland and the UK. All of these will be owned by easyJet plc which itself will be EU owned and controlled, listed on the London Stock Exchange and based in the UK.” . . . Ryanair “seeks clarity on this issue before we publish our summer 2019 schedule in the second quarter of 2018. If we do not have certainty about the legal basis for the operation of flights between the UK and the EU by autumn 2018, we may be forced to cancel flights and move some, or all, of our UK based aircraft to Continental Europe from April ’19 onwards. We have contingency plans in place and will, as always, adapt to changed circumstances in the best interests of our customers and shareholders.” . . . Airlines for America CEO Nicholas Calio asked UK officials for separation of aviation from other Brexit issues. “We don’t believe we can afford to be part of one great big pot that needs to be stirred over the next 20 months,” he told Sky News. Almost three million passengers originating in the U.S. every year transit through London Heathrow to other EU states.

## **VIII. EUROPE AND AFRICA**

### **1. Delta, China Eastern to Acquire 10% Stakes in Air France-KLM.**

A Memorandum of Understanding was signed to combine existing joint ventures between Air France-KLM, Delta and Alitalia, and between Delta and Virgin Atlantic. Delta plans to acquire a 10% equity stake in Air France-KLM Group for €375 million and will have a seat on its Board of Directors. Air France-KLM will acquire Virgin Group's 31% stake in Virgin Atlantic for £220 million; Delta already owns 49% of Virgin Atlantic. In parallel, China Eastern will acquire a 10% stake in Air France-KLM; Delta holds a 3.2% stake in China Eastern. Air France-KLM said its joint venture with China Southern is "not called into question." All transactions are subject to execution of definitive agreements and receipt of final shareholder, board and regulatory approvals. Delta is also in joint ventures with Virgin Australia and Korean Air Lines, holds a joint cooperation agreement with and owns a 49% equity stake in Aeromexico, and holds a 9.5% equity interest in Brazil-based GOL.

### **2. Norwegian Adds U.S.-Europe Routes.**

Norwegian launched Orlando to Paris in July and plans, among other routes, Fort Lauderdale to Barcelona in August; Denver and Seattle to London in September; New York Newark and Los Angeles to Rome in November; Oakland to Rome and Newark to Paris in February; Chicago and Austin to London, and Boston to Paris in March; and Oakland and Denver to Paris in April. Los Angeles to Paris will be increased by two weekly flights. Separately, the low-cost carrier announced it will give "its most frequent flying members in 2017 a free return flight or upgrade to its premium cabin on any long-haul route for travel in 2018."

### **3. Air France to Launch Joon This Year.**

A new agreement with unions will enable Air France to launch Joon (formerly called Boost). The pact requires hiring 500 cabin crew on an indefinite-term contract at Air France independently of hiring for the new airline. Joon medium-haul flights begin October 29 from Paris-Charles de Gaulle, followed by long-haul flights next summer. Joon is aimed at millennials (18 to 35), said Air France, and will not be a low-cost airline. CEO is Jean-Michel Mathieu, who has spent most of his career with Air France and Air France-KLM, particularly in the Network, Revenue Management, Digital Services and Customer Relations sectors.

4. **British Airways Battles Cabin Crew Strikes.**

British Airways won UK Civil Aviation Authority approval to wet lease aircraft and cabin crew from oneworld partner Qatar Airways for the duration of a flight attendant strike, which continued through most of July and has been extended to August 15. "Under the arrangement," says a union official, "the Qatar crew will be employed under Qatar law and under Qatar employment contracts. There was no meaningful examination of the effect of the lease of the non-EU aircraft and crew on the ability of BA's flight attendants to exercise their lawful collective rights or on their employment conditions. Qatar receives massive state subsidies from its government."

5. **Ryanair, Etihad Make Non-Binding Offers for Alitalia.**

Ryanair and Etihad reportedly were among 10 airlines that made non-binding offers for bankrupt Alitalia by a July deadline; binding offers are due by October. Alitalia is 49%-owned by Etihad.

6. **easyJet CEO Carolyn McCall to Exit.**

easyJet CEO Carolyn McCall will leave at the end of the year to become CEO of UK broadcasting company ITV. easyJet Chairman John Barton said that during her seven years with the company, McCall "redefined the customer experience not just at easyJet but across short-haul Europe and has seen both the number and loyalty of easyJet's passengers grow as a result. This has led to sustained and continuing financial success which has been shared with shareholders with a more than trebling of easyJet's share price and the payment of £1.2 billion in dividends." . . . Separately, in another black eye for the industry, an easyJet passenger holding a baby was punched in the face by a Nice Airport worker, when inquiring about his flight, which had been delayed for 11 hours. Viral video recorded the incident. easyJet apologized. The contract worker was suspended.

7. **LOT to Fly from Budapest to Chicago, New York.**

LOT Polish Airlines will offer Boeing 787-8 service between Budapest and the U.S. Twice weekly flights to Chicago O'Hare and four weekly to New York Kennedy begin in May 2018, the first nonstop U.S. service from Budapest since 2011.

8. **Adria Airways Acquires Darwin a/k/a Etihad Regional.**

A new Swiss subsidiary of Slovenia's Adria Airways has acquired Darwin, including the 33.33% stake owned by Etihad. Darwin will continue to operate from its bases in Lugano and Geneva; its marketing brand will be changed from Etihad Regional to Adria Airways Switzerland. Adria Chief Financial Officer Heinrich Ollendiek will replace Maurizio Merlo as Darwin CEO. Adria, a

Star Alliance member, is 100% owned by a Luxembourg-based private equity fund, 4K Invest, is headquartered in Ljubljana, and operates Airbus A319 and Bombardier CRJ900 and CRJ700 aircraft to 19 destinations in Western and Southeastern Europe. . . . This is the first Etihad divestment following the July 1 departure of CEO James Hogan. Reporting a net loss of \$1.87 billion for 2016, Etihad said total impairments of \$1.9 billion included “a \$808 million charge on certain assets and financial exposures to equity partners, mainly related to Alitalia and airberlin.”

**9. EU: Cancellation Fees May be Assessed for Unfairness.**

The European Court of Justice ruled that cancellation fees may be assessed for unfairness, in an airberlin case referred by German judges. Regarding price transparency, the Court said carriers must specify separately any taxes, airport and other charges, surcharges or fees, when publishing their air fares, and may not include those items in the fare price.

**10. Norwegian UK Wins Tentative DOT Approval for Transatlantic Ops.**

See Section I, item 2.

**11. Brexit Update.**

See Section VII, item 3.

**12. United to Offer Year-Round Newark-Rome Service.**

See Section X, item 2.

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

### **1. Delta Plans Daily Atlanta-Shanghai Nonstop.**

Delta will add new daily direct Boeing 777-200LR service between Hartsfield-Jackson Atlanta and Shanghai Pudong next July, complementing existing service from Detroit, Seattle and Los Angeles. Access to more than 50 destinations in China will be provided with code share partner China Eastern. Delta also serves Seoul and Tokyo from Atlanta.

### **2. Cathay Pacific to Acquire Full Control of Air Hong Kong.**

Cathay Pacific plans to buy DHL's 40% stake in Air Hong Kong (AHK), to achieve 100% ownership, effective "on and from the expiry on December 31, 2018, of the two sides' current joint venture and block space agreements." DHL will buy eight Airbus A300-600 freighters from AHK and lease them back; AHK will sell space on its freighters to DHL on an agreed network of overnight routes.

### **3. Scoot, Tigerair Merge Under Scoot Brand.**

Scoot and Tigerair have merged and are operating under the Scoot brand. Scoot, the low-cost, medium-to-long haul arm of Singapore Airlines Group, is managed by Budget Aviation Holdings. Five new destinations are planned, including Honolulu, its first U.S. route, by June 2018.

### **4. El Al to Acquire Israil.**

El Al and its Sun d'Or unit entered into an agreement with IDB Development to acquire Israil for \$24 million in cash and a 25% stake in a merged Sun d'Or entity. Closing is planned for December 31, subject to regulatory approvals and the signing of a new collective agreement with Israil flight crews.

### **5. Emirates, flydubai Join Forces.**

Emirates and flydubai announced a partnership that includes code sharing, schedule alignment and network optimization. The Dubai-based airlines "will continue to be managed independently, but will leverage each other's network to scale up their operations and accelerate growth." Emirates' destinations span six continents; flydubai has a "robust regional network." Ahmed bin Saeed Al Maktoum is Chairman and CEO of Emirates Group and Chairman of flydubai, both of which are owned by Investment Corporation of Dubai (ICD). Emirates has a wide-body fleet of 259 aircraft, flying to 157 destinations (including 16 cargo-only points). flydubai operates 58 New-Generation Boeing

737s to 95 destinations. By 2022, the combined network is expected to reach 240 destinations, served by a fleet of 380 aircraft.

6. **Saudia Adds Los Angeles Flights.**

Saudia increased Los Angeles service to five-times-weekly for the summer season. Flights to Geneva, Manchester, Munich and Cairo are also added through mid-September.

7. **New CEO for Iran Air.**

Farzaneh Sharafbani was named CEO of Iran Air. She replaces Farhad Parvaresh, who will represent Iran at ICAO.

8. **Delta, China Eastern to Acquire 10% Stakes in Air France-KLM.**

See Section VIII, item 1.

9. **Ryanair, Etihad Make Non-Binding Offers for Alitalia.**

See Section VIII, item 5.

10. **Adria Airways Acquires Darwin a/k/a Etihad Regional.**

See Section VIII, item 8.

## **X. AMERICAS**

### **1. Delta Begins Los Angeles-Mexico City in December.**

Delta will launch daily Airbus A319 nonstops between Los Angeles and Mexico City on December 1, subject to government approval. Partner Aeromexico offers six daily roundtrips on the route. In May, the airlines said five new non-stop markets will start by end of 2017: Atlanta to Merida and Queretaro, Los Angeles to Leon, and Seattle and Portland to Mexico City, as they implement their Joint Cooperation Agreement. . . . Delta took delivery of the first of five A350-900s to be received this year, and will be the first U.S. airline to operate the aircraft, with use primarily on transpacific routes starting in October. . . . “The June quarter ranks among the best in Delta’s history,” said CEO Ed Bastian, with adjusted pre-tax income at \$1.85 billion, \$172 million over June 2016 quarter, primarily driven by higher revenue.

### **2. United to Offer Year-Round Newark-Rome Service.**

United will expand summer daily New York Newark-Rome service to year-round, operating three times a week to daily from November 2017 to March 2018. . . . United reported second quarter revenue of \$10 billion, up \$604 million or 6.4% year-over-year. In its quarterly report, the company enumerated “customer experience” efforts that followed worldwide outrage over a passenger being dragged off an aircraft, noting year-over-year decreases in involuntary denied boardings in May (79%) and June (88%).

### **3. American, Alaska Alter Partnership.**

American and Alaska are altering frequent flyer benefits offered for travel on Alaska, effective January 1, 2018. Elite benefits, including priority check-in and boarding, preferred seating and baggage fee waivers, will be discontinued, among other changes. AAdvantage members will continue to earn miles when traveling on American marketed flights operated by Alaska or Horizon Air. Mileage redemption is not changing and AAdvantage members can continue to book award travel on the entire Alaska Airlines network. “American Airlines has been and continues to be a valued partner, and many of the benefits guests have come to enjoy will continue to be available,” said Alaska, which, over the past five years “has added 110 new markets, and with the acquisition of Virgin America late last year, has more than 1,200 daily flights to 118 destinations across the United States, Mexico, Canada, Costa Rica and Cuba, plus an extensive portfolio of global partners.”

**4. JetBlue Pilots Request Mediation.**

JetBlue pilots requested mediation from the National Mediation Board (NMB), in negotiations for their first contract since organizing as a union in 2014. Pilots want compensation comparable to pilots who fly similar routes and aircraft; however, said Air Line Pilots Association, the company-proposed pay structure would provide limited increases and keep pilots near the bottom among major carriers. “JetBlue pays market rate for every aspect of their business—from their aircraft to their fuel,” said ALPA. “Yet they seem to turn a blind eye to the reality of professional pilot costs associated with running a major airline in 2017.”

**5. Frontier Expansion Adds 21 New Cities.**

Denver-based Frontier began adding 21 new cities which will increase the number of destinations served by the low-fare carrier by 30%. Nonstop routes will nearly double by next summer to 314, and expansion of winter service will mean significant growth in Tampa, Miami, Orlando, Fort Myers and Cancun. “By next spring, Frontier will offer low fares to 90% of the U.S. population, which is expected to bring more than \$1 billion dollars in savings to consumers,” said President and CEO Barry Biffle. Some introductory fares start at \$39.

**6. Mesa Pilots Ratify New Contract.**

Mesa pilots ratified a four-year agreement that provides pay increases and scheduling improvements, a process to begin negotiations six months before the amendable date, assistance of a private mediator before relying on NMB services, and 1% pay increases during the bargaining process. “Ratification of this agreement represents more than six years of direct contract negotiations with the company,” said ALPA. Mesa operates as American Eagle from hubs in Phoenix and Dallas/Fort Worth and as United Express from Washington Dulles and Houston.

**7. Pilot Shortage Acute Problem for Horizon.**

Alaska Airlines unit Horizon Air continues to reduce its flight schedule due to a shortage of pilots qualified to fly its Bombardier Q400 turboprops. According to press reports, the carrier will fly Alaska’s Boeing 737s and SkyWest Bombardier CRJs in place of the Q400s on some flights. Horizon recently began jet service, after receiving the first six of 33 Embraer 175s scheduled for delivery over the next two years. Under a new agreement with International Brotherhood of Teamsters, Horizon is offering up to \$78,600 total compensation, including \$40,000 wage, new hire bonus and benefits. . . . In its 2017 Pilot and Technician Outlook, Boeing projects demand for 637,000 new

commercial airline pilots over the next 20 years, 648,000 new commercial airline maintenance technicians, and 839,000 new cabin crew members.

**8. John Rodgerson Named CEO of Azul.**

John Rodgerson is the new CEO of Sao Paulo-based Azul, which was founded by Chairman David Neeleman, who also founded JetBlue. Alex Malfitani was appointed Chief Financial Officer, succeeding Rodgerson, and Azul President Antonoaldo Neves is leaving to become a member of the TAP Portugal Board. Azul shareholders include United and HNA unit Hainan Air. Neeleman is a TAP shareholder via the Atlantic Gateway consortium, and CAPA reports he is a principal in a U.S.-based startup, Azura Airways.

**9. Norwegian UK Wins Tentative DOT Approval for Transatlantic Ops.**

See Section I, item 2.

**10. American to End Code Sharing with Qatar, Etihad.**

See Section VII, item 1.

**11. Delta, China Eastern to Acquire 10% Stakes in Air France-KLM.**

See Section VIII, item 1.

**12. Norwegian Adds U.S.-Europe Routes.**

See Section VIII, item 2.

**13. LOT to Fly from Budapest to Chicago, New York.**

See Section VIII, item 7.

**14. Delta Plans Daily Atlanta-Shanghai Nonstop.**

See Section IX, item 1.

**15. Saudia Adds Los Angeles Flights.**

See Section IX, item 6.