



## WASHINGTON AVIATION SUMMARY

### MAY 2020 EDITION

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

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## **I. REGULATORY NEWS**

### **1. U.S. Treasury Disburses \$12.4 Billion to Airlines.**

The U.S. Department of the Treasury made initial Payroll Support Program (PSP) payments of \$12.4 billion to 93 air carriers, as of April 25. Funds provided under PSP, a provision of the Coronavirus Aid, Recovery, and Economic Security (CARES) Act, passed by Congress in March, can be used only for American workers employed by passenger and cargo air carriers and related contractors. The program prohibits involuntary furloughs and reductions in employee pay and benefits through September 30, 2020; prohibits share repurchases and dividends until September 30, 2021; and limits executive compensation until March 24, 2022. Treasury has the right to buy equity in airlines receiving additional loans. Cargo air carriers that receive \$50 million or less of payroll support and contractors that receive \$37.5 million or less will not be required to provide financial instruments as compensation for the financial assistance. (See Section X for airline statements). . . A recent report by economic research firm Compass Lexecon concluded that emergency relief grants for the aviation industry will drive \$18-27 billion of direct economic impact in the next six months, and \$25 billion more over the next two years, said Delta CEO Ed Bastian. . . . A joint statement from labor unions said the government's decision "to transform direct payroll aid into a loan program creates a terrible precedent and endangers workers' careers." They urged Congress "to use its oversight and legislative powers to remedy this distortion of the law and ensure frontline workers are not further harmed by this crisis." . . . Airlines for America (A4A) said U.S. airlines were transporting a record 2.5 million passengers a day before the pandemic. Now, passenger volume is down 97%, airlines have parked 2,400 aircraft, and "they are burning through \$10-12 billion a month as cancellations far outpace new bookings."

### **2. ICAO: Passenger Totals Could Fall By 1.2 Billion By September.**

Global passenger totals could drop by up to 1.2 billion by September due to the COVID-19 crisis, said the International Civil Aviation Organization (ICAO). Airline revenues could fall by as much as \$253 billion for the January to September period. . . . For the year, passenger revenues could drop by \$314 billion, a 55% decline compared to 2019, reports the International Air Transport Association (IATA), and demand (domestic and international) by 48%. "The world is heading for recession," said IATA, and travel restrictions will deepen the impact on demand for travel. As of early April, flights globally were down 80% compared to 2019. Domestic markets could see an upturn in

demand beginning in third quarter in a first stage of lifting travel restrictions, but international markets will be slower to resume. . . . IATA urged governments to consider direct financial support to passenger and cargo carriers to compensate for reduced revenues and liquidity; loans, loan guarantees and support for the corporate bond market by governments or central banks; rebates on payroll taxes paid to date in 2020 and extension of payment terms for the rest of 2020, and a temporary waiver of ticket taxes and other levies. And regulators should work with the industry to ensure that licenses and certificates critical to managing safety are extended to remain valid and recognize measures of other states.

**3. DOT Clarifies Air Carrier Refund Requirements.**

Due to a heavy volume of passenger complaints, the U.S. Department of Transportation issued an Enforcement Notice clarifying, in the context of the COVID-19 public health emergency, that U.S. and foreign airlines remain obligated to provide a prompt refund to passengers for flights to, within, or from the United States when the carrier cancels a scheduled flight or makes a significant schedule change and the passenger chooses not to accept the alternative offered. The obligation of airlines to provide refunds, including the ticket price and any optional fee charged for services a passenger is unable to use, does not cease when flight disruptions are outside its control (e.g., a result of government restrictions). Because the emergency has had an unprecedented impact on air travel, DOT “will exercise its enforcement discretion and provide carriers with an opportunity to become compliant before taking further action.”

**4. Airlines Request Waivers to CARES Service Requirements.**

DOT issued a show cause order proposing that air carriers receiving financial assistance under the CARES Act maintain minimum air services on a nationwide basis, with some exceptions, and maintain a defined schedule of flights to communities they served prior to March 1. DOT is responding to numerous airline requests for waivers on a case-by-case basis.

**5. DOT Grants Puerto Rico Expanded Cargo and Passenger Flexibility.**

DOT issued a Final Order granting flexibility for foreign carriers to use Puerto Rican international airports for cargo and passenger transfers which will permit the exchange of traffic between and among carriers from different countries at these airports. The order additionally permits foreign carriers to apply to serve points in the U.S. not otherwise authorized on an extra-bilateral basis as long as the carrier is from a country with a pro-competitive bilateral air transport agreement with the U.S., and first stops at an airport in Puerto Rico. DOT stated Puerto Rico demonstrated a “strong public interest basis existed” for

this relief, noting air service is vital to helping the commonwealth recover in the aftermath of Hurricane Maria and for other reasons.

**6. Boeing 737 Max Update.**

Boeing reportedly expects the 737 MAX to remain grounded until at least August. A key certification test flight was delayed, as the company handles new software updates and other issues. Southwest, the largest MAX operator, said it removed the airplane from the published flight schedule through October 30, based on Boeing's "recent communication on the MAX return to service date," and is "in the process of revising our aircraft order book with Boeing and will continue partnering with Boeing on a sensible delivery schedule." . . . Boeing President and CEO Dave Calhoun told shareholders it will take years for the aircraft manufacturing sector to stabilize after the pandemic, "but when it does, the commercial market will be smaller and our customers' needs will be different." Shareholders approved 12 company-backed nominees for the Board despite recommendations against several who served during MAX development, and approved a measure calling for an independent chairman. Boeing will name a Chief Compliance Officer, responsible for leading the company's compliance, ethics and trade control activities. . . . Boeing temporarily suspended commercial airplane production at Puget Sound-region facilities to institute procedures to prevent spread of COVID-19, then resumed operations in a phased approach. Boeing's South Carolina and Philadelphia operations also were temporarily suspended. . . . China Development Bank (CDB) Financial Leasing canceled an order for 29 MAX airplanes, worth at least \$2.9 billion based on list prices, and said MAX 10s still on order will be changed to the smaller MAX 8 model; 20 deliveries will be deferred to dates in 2024, 2025 and 2026. GE Capital Aviation Services cut orders for 69 MAX jets; GECAS has another 29 in its fleet and holds firm orders for 82. Singapore-based BOC Aviation, a Bank of China unit, agreed to purchase six Boeing 787-9 and 16 Boeing 737-9 MAX aircraft from United, and will lease them back to the airline. Boeing reported 150 MAX cancellations in March, including 75 from Irish leasing company Avolon. . . . Families and friends of victims of the 2019 Ethiopian Airlines MAX crash petitioned Treasury Secretary Steve Mnuchin to withhold CARES assistance from Boeing unless the money is conditioned upon safety and corporate governance reform.

## **II. AIRPORTS**

### **1. ACI World: Global Airport Revenue to Decline by \$77 Billion in 2020.**

The impact of COVID-19 on the airport sector has been profound, with passenger traffic expected to decline by almost 40% and revenue by \$77 billion in 2020, said Airports Council International (ACI) World, which called for protection of airport charges and revenues; tax relief; waivers of rents and concession fees; temporary suspension of slot usage requirements; continuity of levying charges on cargo operations; and financial relief including wage subsidy schemes, grants and subsidies, secured financing, loans at preferential rates, and bank guarantees. . . . ACI North America projected U.S. airports will lose at least \$13.9 billion this year, with passenger traffic expected to fall by 73% in the March-June period, a 53% decrease in first half and a 37% drop for full year compared to forecasted 2020 levels. Total passenger enplanement is anticipated to fall by 244 million in first half and 349 million for full year. . . . ACI Europe projects a loss of 873 million passengers for Europe's airports in 2020, a decrease of 35% in a year that was predicted to see +2.3% passenger growth. A projected loss of €23 billion in revenues represents a decrease of 41% "compared to the business-as-usual scenario." . . . ACI Asia-Pacific said preliminary traffic data from 18 airports in major aviation markets in Asia-Pacific and the Middle East show year-over-year passenger traffic down 95% by mid-April. Initial recovery signals were reported from China, with gradual resumption of its domestic traffic, and South Korea.

### **2. FAA Distributing \$10 Billion in Relief Aid to U.S. Airports.**

The Federal Aviation Administration (FAA) is distributing \$10 billion in grants to commercial and general aviation airports, as provided in the CARES Act. The funds increase the federal share to 100% for Airport Improvement Program (AIP) and supplemental discretionary grants already planned for fiscal year 2020. AIP grant recipients normally contribute a matching percentage of project costs. This additional funding and eliminating the local share "will allow critical safety and capacity projects to continue as planned regardless of airport sponsors' current financial circumstances," said FAA. The CARES Act also provides new funds. Commercial service airports will receive funds based on number of passengers that board, amount of airport debt, and amount of airport reserves. General aviation airports receive funds based on category—national, regional, local, basic or unclassified.

**3. FAA Extends Waiver of Minimum Slot-Use Requirements.**

FAA extended, through October 24, a limited waiver of the minimum slot usage requirement at New York's LaGuardia and Kennedy, and at Reagan Washington National. Also extended through October 24 is the policy for prioritizing flights canceled or otherwise not operated as originally intended at designated airports, for purposes of establishing a carrier's operational baseline in the next corresponding season; those airports are Chicago O'Hare, Newark, Los Angeles International and San Francisco International. The European Union (EU) and other foreign coordinators are also extending relief from minimum slot usage rules through end of Summer 2020 season.

**4. Schiphol Accelerates Construction Schedule.**

Amsterdam Schiphol accelerated work on construction projects and maintenance amid the current lull. A project to increase security lanes in Departure Hall 4 from five to six and install a new CT scanner in each lane will be completed in mid-May, rather than September, as will scheduled maintenance to the drop-off road. The tendering procedure for the new terminal will be phased; the original June 2020 award date is postponed.

**5. Touchless Health Screenings for Airports.**

A self-service technology that can detect a passenger's temperature and heart rate and ask a series of questions from a distance of 1.5 meters at airport touchpoints, such as kiosks, bag drops, security or immigration, has been developed by Elenium. If someone tests outside of acceptable tolerance, a remote agent or in-person staff can further assess and manage that passenger. In partnership with Amazon Web Services, Elenium has developed hands-free technologies that enable touchless use of self-service devices, thereby further minimizing the potential of any virus transmission. Etihad Airways will trial the technology.

### III. SECURITY AND DATA PRIVACY

#### 1. TSA Confirms COVID-19 Cases.

On April 23, the Transportation Security Administration (TSA) confirmed it had 471 federal employees test positive for COVID-19; 134 had recovered and four had died as a result of the virus. . . . TSA said total traveler throughput on April 22 was 98,968, compared to 2.25 million a year ago on same weekday. . . . In related news, the virus has killed at least 17 airport workers in New York City, where the overall death toll has surpassed 10,000. Port Authority of New York and New Jersey, which operates Kennedy, La Guardia and Newark, told the *New York Times* that it distributed masks to employees and increased the frequency of cleaning terminals.

#### 2. SFO Reports Cyberattack.

San Francisco International said two websites were the targets of a cyberattack in March 2020. Malicious computer code inserted to steal some users' login credentials was removed and the sites were taken offline. The airport also reset related email and network passwords.

#### 3. Audit Finds Security Controls Insufficient for FAA DroneZone System.

The DOT Office of Inspector General (OIG) conducted an audit to determine whether FAA's unmanned aircraft systems (UAS) registration system has proper security controls and recovery procedures in place, and found security gaps in the registration service, known as FAA DroneZone and in the Low Altitude Authorization and Notification Capability (LAANC), which authorizes registered UAS users to fly drones near airports. Both cloud-based systems contain sensitive data provided by the general public, including personally identifiable information (PII). "FAA's inadequate monitoring of security controls and use of unauthorized cloud systems increases the risk of the systems being compromised," said the OIG, and "FAA could not demonstrate that 24 of 26 privacy controls were assessed to protect 1.5 million DroneZone users' PII. We also found that FAA's contingency planning does not adequately limit the effects caused by a potential disruption of services. Finally, FAA does not have sufficient controls for handling backups and off-site storage to ensure continuous operations and maintain data availability." FAA concurred with OIG recommendations to improve security and privacy.

## **IV. TECHNOLOGY AND EQUIPMENT**

### **1. Sabre-Farelogix Merger Cleared in U.S., Blocked in UK.**

The U.S. District Court of Delaware cleared Sabre's proposed takeover of Farelogix, after the U.S. Department of Justice asserted a merger would substantially reduce competition. But the UK Competition and Markets Authority blocked the acquisition, saying it could result in less innovation, leading to fewer new features that may be released more slowly; also, fees for certain products might rise. Sabre agreed to acquire Farelogix for \$360 million in November 2018, saying the Miami-based company's investments in offer management and NDC (New Distribution Capability) order delivery "will help us accelerate our plans to deliver future-ready retailing, distribution and fulfillment solutions."

### **2. Expedia Shuffles Management.**

Peter Kern was named CEO of Expedia Group, where he has been a Board member since 2005 and Vice Chairman since 2018. Since December, he has shared operational supervision with Chairman Barry Diller. Kern formerly was CEO of Tribune Media. Expedia is furloughing workers, reducing work weeks, and raising new capital via an equity investment of \$1.2 billion by Apollo and Silver Lake. For the balance of the year, officers will forgo cash compensation and senior executives will take a 25% reduction in salary. "We had limited online tools to support widespread cancellations and our call volume spiked 500%," said Diller. "Under extraordinary pressure, our tech teams built new tools, and managed to bring our call center capacity to acceptable levels." Expedia brands include Orbitz, Travelocity, and CheapTickets.

### **3. Boeing Terminates Agreement to Establish Joint Ventures with Embraer.**

Boeing terminated an agreement with Embraer to establish one joint venture with Embraer's commercial aviation business and another to develop new markets for the C-390 Millennium military aircraft, saying Embraer did not satisfy necessary conditions. Embraer said Boeing wrongfully terminated the agreement and "has manufactured false claims as a pretext to seek to avoid its commitments to close the transaction and pay Embraer the \$4.2 billion purchase price . . . in light of its own financial condition and 737 MAX and other business and reputational problems." Embraer intends to "pursue all remedies against Boeing for the damages incurred."



**4. Airbus Cuts Production Rates.**

Airbus revised production rates downward to adapt “to the new Coronavirus market environment.” In first quarter, Airbus booked 290 net commercial aircraft orders and delivered 122 aircraft, compared to 21 net orders and 36 deliveries in March only, reflecting customer requests to defer deliveries and other factors related to the pandemic. Average production rates going forward are: A320—40/month; A330—two/month; and A350—six/month. CEO Guillaume Faury alerted employees to impending cuts “to reduce our cash-out, restore our financial balance and, ultimately, to regain control of our destiny,” reported Bloomberg. The company then announced it would furlough approximately 3,200 production and production-support employees at its commercial aircraft site in Broughton, Wales.

## **V. ENERGY AND ENVIRONMENT**

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

The average price of aviation jet fuel on April 24 was \$17.04/barrel, down 45% on the month and down 79.9% compared to a year ago, reports IATA. Jet fuel price average for 2020 was \$52.6/barrel. Impact on 2020 fuel bill was down \$55.9 billion.

### **2. FAA Proposes Noise Standards for Supersonic Aircraft.**

FAA proposed landing and takeoff (LTO) noise standards for a certain class of new supersonic airplanes. “There is renewed interest in the development of supersonic aircraft, and the proposed regulations would facilitate the continued development of airplanes by specifying the noise limits for the designs, providing the means to certify the airplanes for subsonic operation in the United States,” said the agency. Current U.S. regulations prohibit civil aircraft from operating at speeds exceeding Mach 1 over land; FAA does not propose to change that prohibition. “Allowing civil airplane operation at speeds in excess of Mach 1 over land in the U.S. may become possible in the future, but it is not expected before the development of new technologies reducing the impact of sonic boom generation or eliminating sonic boom exposure,” said FAA. . . . Separately, a working paper published by International Council on Clean Transportation in 2019 estimates that commercial supersonic transport aircraft reintroduced into the global aviation fleet potentially could “emit 96 (88-114) million metric tons (MMT) of CO<sub>2</sub> per year, roughly the combined emissions of American, Delta and Southwest in 2017, and an additional 1.6 to 2.4 gigatonnes of CO<sub>2</sub> over their 25-year lifetime. That would consume about one-fifth of the entire carbon budget afforded international aviation under a 1.5°C climate trajectory, assuming that aviation maintains its current share of emissions.”

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

### **1. Democrats Urge Airlines to Issue Cash Refunds for Cancellations.**

Senate Democrats wrote to major U.S. airlines urging them to issue full cash refunds to customers who cancel flights during the COVID-19 crisis and to U.S. citizens who encounter flight cancellations while stranded in countries that implemented travel restrictions. “In light of this pressing need and the unprecedented bailout — to the tune of \$25 billion — that the airline industry just received from Congress, we believe your company has a moral responsibility to provide real refunds, not travel vouchers, to consumers at home.” Travel vouchers do the public little good in this time of emergency, when Americans need money now to pay for basic necessities, wrote Senators Edward J. Markey (D-Mass.), Elizabeth Warren (D-Mass.), Richard Blumenthal (D-Conn.), and Kamala Harris (D-Calif.). The letters were sent to 11 eleven major domestic airlines, which were asked to respond to numerous questions. “Every airline is offering cash refunds when the company itself cancels a flight, as required by DOT, but only two airlines—Allegiant and Spirit—are offering refunds to passengers who voluntarily and proactively cancel their own tickets during the coronavirus crisis,” said the Senators, adding that “airlines are sitting on more than \$10 billion in customer cash, instead of returning this significant sum of money to the American public.”

### **2. Bill Would Compensate Americans for COVID-19 Repatriation Costs.**

Senate Democrats introduced legislation that would compensate Americans who incurred high travel costs when returning home due to the COVID-19 pandemic. The Repatriation Reimbursement Act would require U.S. commercial airlines to provide cash reimbursements to Americans for any international flight to the United States cancelled or delayed more than 24 hours as a result of COVID-19, waive and reimburse change fees for replacing an international flight ticket, and prohibit airlines from charging passengers more for a replacement ticket than paid for the original. The bill would apply to travel beginning on December 31, 2019 and ending on September 30, 2020. To reimburse these fees, the legislation authorizes passenger airlines to use loans and loan guarantees appropriated in the CARES Act, but not the grants to keep workers paid. The legislation would also require the State Department to waive travel expenses it paid for American citizens to return home, nullify travel expense promissory notes, reimburse for costs for travel to a foreign airport or domestic airport home, and require State to create an online claim reimbursement system. The legislation would apply for COVID-19 and future pandemics or international crises. To reimburse or waive these travel costs, the legislation authorizes State to use funding made available in any

appropriations Act enacted after March 1, 2020. . . . Legislation introduced in the House in March would waive fees for travelers who require evacuation assistance from the State Department. The bipartisan bill was co-sponsored by Chris Smith (R-NJ) and Nydia Velázquez (D-NY). “In the middle of this crisis, it is unconscionable that our government would foist enormous travel fees on stranded Americans who are desperate to get home,” Velázquez said. “In some cases, Americans have reportedly been obligated to commit to paying over \$1,400 for a seat on these coordinated flights.”

**3. Bill Aids American Citizens Stranded Overseas.**

New legislation introduced by Senate Democrats would enhance the ability of the State Department to protect U.S. citizens and nationals overseas. The Expanding Vital American Citizen Services Overseas (EVACS) Act expedites and expands American Citizen Services at U.S. embassies, consulates, and missions worldwide. Services include emergency passports, Consular Reports of Birth Abroad, virtual or in-person welfare visits of U.S. citizens who are imprisoned or hospitalized, emergency financial assistance, and repatriation of U.S. citizens. The legislation would ensure systems and procedures adjust to remote workloads and requirements for social distancing, and also calls on the Secretary of State to increase consular staffing to improve service to constituents.

## VII. BILATERAL AND STATE DEPARTMENT NEWS

### 1. U.S., Mexico, Canada Extend Restrictions on Transborder Flights.

The United States, Mexico, and Canada extended restrictions on non-essential travel across their shared borders for 30 additional days, in an effort to slow the spread of COVID-19. Air Canada announced it plans to resume service to the U.S. on May 22, subject to further government restrictions. Since March 16, Air Canada has reduced its schedule by more than 90%, maintaining limited service to 11 U.S. destinations from its three Canadian hubs, primarily to facilitate the repatriation of Canadians.

### 2. State Department Halts Most In-Person Passport Service.

The U.S. State Department has stopped in-person passport service, except for “customers with a qualified life-or-death emergency and who need a passport for immediate international travel within 72 hours,” because of public health measures to prevent the spread of COVID-19.

## VIII. EUROPE AND AFRICA

### 1. EU Entry Ban Extended; ATC Fees Deferred.

The ban on non-essential trips from third countries to EU Member States, members of Schengen and the UK was extended to May 15. Exceptions include EU and Schengen citizens. A health certificate is required for travelers from high-risk areas. . . . Member States agreed to a financial package enabling airlines to defer payment of up to €1.1 billion of air traffic control fees, said Eurocontrol, as the number of flights operating daily in European airspace has declined by 90%.

### 2. Lufthansa Restructures, Terminates Germanwings Ops.

Reporting that Group revenues fell by 47% in March, Lufthansa said it is “in intensive negotiations with the governments of its home countries” to secure solvency and announced measures to reduce flight and administration capacity. Germanwings operations were discontinued. Austrian and Brussels Airlines restructuring continues. SWISS will delay new aircraft deliveries and consider early phase-outs of older aircraft. Group airlines terminated most wet lease agreements. (In related news, German regional LGW filed for bankruptcy after losing its wet-lease contract with Eurowings.). With the resignation of CFO Ulrik Svensson, Chairman Carsten Spohr said responsibility for finance would be distributed within existing departments. Lufthansa extended repatriation flights until May 17. Long-haul connections include three weekly flights from Frankfurt to Newark and Chicago. SWISS offers three weekly long-haul flights to Newark from Zurich and Geneva.

### 3. Air France, KLM Secure Government Assistance.

Air France-KLM was granted financial assistance by the French and Dutch states. The Dutch will provide KLM with €2 to €4 billion and “expects Air France-KLM and subsidiaries KLM and Air France to take measures, to be set out in a restructuring plan, to ensure that they will be able to continue playing a significant role in what is a highly competitive international aviation market.” A French state-backed 12-month loan of €4 billion, granted by a syndicate of six banks, has two consecutive one-year extension options. A direct shareholder’s loan of €3 billion from the French state has a maturity of four years, with two consecutive one-year extension options. The aid is subject to European Commission approval. Air France-KLM Group had warned of a liquidity requirement in third quarter. “We are facing an unprecedented crisis,” said CEO Benjamin Smith; support from our governments “is needed to meet our cash requirements and enable us to continue our operations once the

crisis is over.” The Dutch and French governments each currently own about 14% of Air France-KLM, while Delta and China Eastern each own 8.8%, according to the company website.

**4. IAG Reduces Capacity by 90% Through May.**

International Airlines Group (IAG) reduced capacity by 90% in April and May, compared to same period 2019. British Airways is placing 30,000 cabin crew and ground-based employees on furlough, under the UK COVID-19 Job Retention Scheme, with 80% of base pay; 4,000 pilots are taking four weeks of unpaid leave. IAG’s Iberia and Vueling units received support from similar schemes in Spain and Aer Lingus seeks support in Ireland. IAG reportedly is renegotiating terms for its purchase of Air Europa from Spanish tour operator Globalia.

**5. Branson Offers Private Island as Collateral for Virgin Bailout.**

After the British government refused a Virgin Atlantic request for commercial loans and guarantees worth £500 million, Sir Richard Branson offered Necker Island, his Caribbean private residence, as collateral. “We will do everything we can to keep the airline going, but we will need government support,” tweeted Branson, adding, “the airline would pay it back (as easyJet will do for the £600 million loan the government recently gave them).” Branson reportedly is seeking investors for the airline.

**6. Government to Form New Alitalia.**

The Italian government re-nationalized Alitalia and will create a new company in June with a fleet of more than 90 aircraft. Alitalia has been run by state-appointed administrators since 2017.

**7. Norwegian Severs Crew Agreements.**

“Due to the extraordinary situation (force majeure),” Norwegian cancelled crew provision agreements with its jointly owned OSM Aviation subsidiaries in the U.S., Spain, the UK, Finland and Sweden, said CEO Jacob Schram. It’s Swedish and Danish pilot and cabin crew subsidiaries filed for bankruptcy . . . . The Norwegian government announced a support package for airlines including Norwegian and SAS with debt-to-equity ratio requirements, and Parliament passed temporary rules that could help Norwegian restructure and refinance. . . . Norwegian said it is preparing for a New Norwegian that would follow an almost full grounding. Under a proposal to convert debt to equity, aircraft lessors would become majority owners.

**8. CityJet Seeks Court Protection from Creditors.**

CityJet shut down operations and applied for court protection from creditors. The Dublin-based company provides wet lease services to airlines including Aer Lingus, Air France, Brussels and SAS.

**9. Braathens Files for Protection.**

Swedish carrier BRA filed for protection. “This will give us room to develop a long-term sustainable business plan,” said CEO Geir Stormorken. BRA is the second largest domestic airline in Sweden with 2.2 million passengers annually and a 40% market share. In 2016, Braathens and Malmö merged with Sverigeflyg to become BRA.

**10. South African Grounds All Flights.**

South African Airways grounded all flights and the bankrupt state-owned carrier was denied further funding by the government, which said it “has provided more than R1.2bn in urgent financial support to SA Express for the 2019/20 financial year [and] is not in a position to give further fiscal comfort especially in these difficult economic times and considering the competing priorities.” The Department of Public Enterprises “will determine its course of action after studying the liquidation application.”

**11. Air Mauritius Files for Voluntary Administration.**

Air Mauritius entered voluntary administration, as the current crisis “has led to a complete erosion of the company’s revenue base.” With 13 Airbus aircraft, the African carrier flew 1.7 million passengers a year to 22 destinations on four continents and carried 44,000 tons of cargo annually, according to its website, and was the first to operate both the A330neo and the A350.



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

### **1. China Officially Largest Aviation Market in the World.**

After being devastated by COVID-19, China's aviation market is improving, reports CAPA and OAG, and now is the world's largest by seats, as the U.S. cut almost 30% of its capacity. IATA had predicted the change would occur in 2024. Civil Aviation Administration of China (CAAC) reported a \$5.6 billion first quarter loss, prior to the rapid recovery. In March, passenger numbers were down 71.7%, reports the *South China Morning Post*. As airlines cut flights, demand for freight space shifted to all cargo carriers, which experienced a 28.4% increase to 253,000 tons. . . . HNA Group, which owns stakes in 14 airlines and manages 16 airports, said on social media it had a debt load estimated at \$74 billion; other assets include a 70% stake in Irish aircraft lessor Avolon.

### **2. Cathay Pacific Operates 3% of Normal Capacity.**

Cathay Pacific and Cathay Dragon passenger numbers were down 90% in March, compared to March 2019. Revenue passenger kilometers fell 84.3% and passenger load factor slid by 34.6% to 49.3%, while available seat kilometers decreased by 73.2%. We do not see improvement in advance passenger bookings, said Group Chief Customer and Commercial Officer Ronald Lam. "In April and May, we will be operating a bare skeleton passenger flight schedule comprising 3% of our normal capacity." The company is closing cabin crew bases in New York, San Francisco and Los Angeles and earlier closed its Vancouver cabin crew base.

### **3. China Airlines Name Change Imminent?**

Taiwan said China Airlines should be renamed to reflect its origins. As CAL has carried out multiple COVID-19 missions, repatriating Taiwanese on charter flights, delivering donations of medical supplies, the name of the national carrier is baffling, said Premier Su Tseng-chang.

### **4. Virgin Australia Enters Voluntary Administration.**

Virgin Australia entered voluntary administration and continues to operate scheduled flights which help transport essential workers, maintain freight corridors, and repatriate Australians. This is "about securing the future of the Virgin Australia Group and emerging on the other side of the COVID-19 crisis," said CEO Paul Scurrah. The Australian government appointed Nicholas Moore, former Macquarie Group CEO, to lead engagement with administrator Deloitte and said it is "committed to two commercially viable airlines operating

domestically.” The government earlier committed \$1.2 billion to maintain sector operations, in addition to a \$130 billion “JobKeeper” package that is available to Virgin employees. Deloitte administrators said there have been several expressions of interest in a sale of the airline. The largest shareholders are Singapore Airlines, Etihad, HNA and Nanshan, each with stakes of about 20%; Virgin Group owns about 10%.

**5. JAL Reduces 94% of International Service.**

Japan Airlines plans to reduce about 94% of its international service through May and operate cargo-only flights utilizing passenger aircraft on routes to North America, Europe, Southeast Asia and East Asia. . . . JAL low-cost startup ZIPAIR Tokyo hopes to begin Boeing 787-8 nonstops between Narita and Honolulu this year; services to Bangkok and Seoul have been delayed. President is Shingo Nishida.

**6. Indonesia Bans Domestic Flights Through May.**

The Indonesia government banned domestic flights through certain airports through May, as Muslims observe Ramadan. A University of Indonesia study warned an exodus home could lead to a million COVID-19 infections by July on Java, reports Al Jazeera. Garuda said it will serve routes not directly connected to excluded areas; cargo services continue.

## **X. AMERICAS**

### **1. American Receives \$5.8 Billion From Federal Payroll Support Program.**

American Airlines will receive \$5.8 billion in financial assistance from the federal Payroll Support Program (PSP). The funds include a direct grant of \$4.1 billion, and a low-interest rate loan of \$1.7 billion. American will issue warrants to the Treasury Department worth 13.7 million shares of common stock and seeks another \$4.75 billion of loans and guarantees. *Dallas Morning News* reported that more than 13,000 American pilots and flight attendants agreed to early retirement or voluntary leave.

### **2. Delta Receives \$5.4 Billion in PSP Grant, Loan.**

Delta will receive \$5.4 billion in PSP funds, which includes an unsecured 10-year low-interest loan of \$1.6 billion. Delta will provide the Treasury with warrants to acquire about 1% of Delta stock at \$24.39 per share over five years. The company has seen a 95% drop in passenger traffic; taken down 80% of the schedule; consolidated airport facilities; closed many Sky Clubs; paused non-essential maintenance and capital projects; reduced ground-based merit and hourly schedules by 25%; cut pay for officers and director-level employees; and “gratefully accepted a remarkable 35,000 voluntary leaves of absence by Delta people,” said CEO Ed Bastian, adding that volunteers are still needed for short- and long-term leaves. The company also “raised over \$3 billion in new cash in the March quarter.” Delta launched cargo-only operations using aircraft that would otherwise be parked. Expanded U.S.-Asia service includes four times weekly Detroit-Incheon-Shanghai, and three times weekly Los Angeles-Incheon-Shanghai. Cargo from the Airbus A350-900 flights is transferred to domestic passenger flights in the U.S. Operating regularly scheduled cargo service means suppliers in China can get medical supplies and equipment to hospitals and healthcare facilities across the U.S. within hours, not the days or weeks it would take via cargo ship, said the company. The airline’s last cargo-only flights were operated by Northwest in 2009. New on-demand charter cargo flights have included Dublin-Atlanta and Los Angeles-Sydney. Delta was the first U.S. carrier to receive FAA approval to transport cargo in overhead bins of widebody passenger aircraft utilized for cargo-only charters.

### **3. United Receives \$5 Billion in PSP Grant, Loan.**

United will receive \$5 billion in PSP funds, including \$3.5 billion in grants and a \$1.5 billion loan, and will repay the Treasury with warrants equal to 4.6 million shares of common stock. United further reduced capacity to about 10% of

what had been planned for May, with similar reductions planned for June. “Fewer than 200,000 people flew with us during the first two weeks of April this year, compared to more than 6 million during the same time in 2019, a 97% drop,” said CEO Oscar Munoz and President Scott Kirby, who expect demand “to remain suppressed for the remainder of 2020 and likely into next year.” United reportedly will sell and lease back 22 Boeing MAX aircraft to BOC Aviation, the Singapore-based aircraft leasing unit of Bank of China. United reported a preliminary pre-tax first quarter loss of \$2.1 billion; total revenue declined by 17% year-over-year. United transformed its Bush Intercontinental cargo facility into a food distribution center to aid Houston Food Bank.

**4. Southwest Receives \$3.2 Billion in PSP Grant, Loan.**

Southwest said PSP disbursements will total more than \$3.2 billion, with \$2.3 billion in direct payroll support and a nearly \$1 billion unsecured 10-year term loan with low interest rates, which may be repaid at any time prior to maturity at par. The loan is expected to include 2.6 million warrants issued to the Treasury. Southwest said flight activity in June will drop to about 2,000 flights a day, down from previous 4,000 on weekdays, a baseline already diminished by the MAX grounding, “while maintaining service to all our domestic cities and preserving more than 80% of the itineraries we offered in the prior schedule.” International operations were suspended in March, but nonstops to Cancun, Los Cabos, Bahamas, Jamaica and Havana resume in June. Twice daily flying between Honolulu and Oakland provides crew and aircraft to facilitate essential travel among the Hawaiian Islands; Maui-Oakland begins May 21. On June 7, a daily San Diego-Honolulu service begins and Honolulu from Sacramento and San Jose, Calif. resumes. Southwest is offering on-demand cargo-only charter services for the first time, with only pilots and other necessary personnel onboard. Southwest has approached unions to discuss potential concessions to be adopted in October should the industry not recover, a company official told Reuters; the CARES Act prohibits involuntary furloughs or pay cuts until September 30. In its 49-year history, Southwest has never had pay cuts, layoffs or furloughs, even following the September 11, 2001 attacks and the 2009 financial crisis.

**5. Alaska, Horizon Receive \$992 Million in PSP Grant, Loan.**

Alaska Airlines and Horizon Air will receive \$992 million in PSP funding, with \$267 million in the form of a loan. Additionally, the Treasury will receive the right to buy 847,000 non-voting shares of Alaska Air Group. Alaska and Horizon intend to apply for \$1.128 billion in federal loans through a separate program authorized under the CARES Act, which will support short-term liquidity needs and must be paid back in full. . . . Separately, Alaska is maintaining service to all points served by RavnAir Group, which suspended

operations. Alaska serves 19 communities in the state and is working with partners, regulatory agencies and the seafood and other key sectors of Alaska economy “to ensure critical work force movements.”

**6. JetBlue Receives \$936 Million in PSP Grant, Loan.**

JetBlue will receive a PSP allocation of \$935.8 million, including \$685.1 million in direct support and a \$250.7 million low-interest loan. The government will also receive a limited number of warrants, said CEO Robin Hayes. “We must also continue to provide a minimum level of domestic air service in exchange for the funds,” he added. “With flights below 150 daily and our aircraft now only about 10% full, we will have far less work and fewer hours for every salaried and hourly crewmember. I know this adds financial stress at a time when we are also worried about each other’s health and safety.” JetBlue is consolidating operations in Boston, Los Angeles, New York City, San Francisco and Washington D.C., with flights operating at one or two airports in each metro area until June 10. JetBlue intends to file an exemption request with DOT to temporarily suspend flying at other airports where it typically operates only a handful of daily flights and where current demand does not support JetBlue service.

**7. Hawaiian Receives \$654 Million in PSP Grant, Loan.**

Hawaiian will receive \$290 million in payroll support and a \$364 million low-interest loan. Hawaiian reduced scheduled service systemwide by 95% through April, with similar reductions planned for May, and was granted a waiver to temporarily cease flying to eight mainland markets, in light of the state’s mandatory 14-day quarantine for all arrivals which discourages passenger travel. Under the CARES Act, carriers receiving federal aid must maintain service to all domestic points, unless granted a waiver. Hawaiian continues to fly from Honolulu to Los Angeles and San Francisco, in addition to inter-island flights.

**8. Spirit Receives \$334 Million Under PSP.**

Spirit will receive \$334 million under the PSP. The airline organized flights from Colombia, Panama, Haiti, Aruba, Dominican Republic and Honduras to return U.S. citizens, residents and family members to the United States.

**9. Allegiant Receives \$172 Million in PSP Grant, Loan.**

Allegiant will receive \$171.9 million in PSP funds, \$21.6 million of which will be a loan. New aircraft base openings at Des Moines International in Iowa and Concord-Padgett in North Carolina are delayed, as is start of service from Houston Hobby and Boston Logan. March revenue was 40 to 45% lower than previous year, and capacity is reduced by 80 to 90% in April and May, with

additional schedule reductions to come. Among austerity measures, Chairman and CEO Maurice Gallagher and President John Redmond do not draw salary; other officers have taken a 50% salary reduction; Board members will forego cash compensation for 2020; and 15% of workforce taking voluntary, 60-day leave at half pay with full benefits.

**10. Mesa Receives \$92.5 Million in PSP Assistance.**

Mesa Air Group will receive \$92.5 million in PSP assistance. Because the payroll support is less than \$100 million, the company is not required to enter into a loan or equity agreement with the Treasury Department. Mesa, which operates as American Eagle and United Express, reported that block hours were down 14.8% in March.

**11. Argentina Bans Flights in Americas Until Sept. 1.**

Argentina's National Civil Aviation Administration banned international flights until at least September 1. . . . In other news, LATAM Airlines Group and affiliates will maintain a 95% reduction in passenger operations through May, with minimum domestic connectivity levels in Brazil and Chile, and international services to include six weekly frequencies between Santiago and Miami, and three weekly between São Paulo and Miami. LATAM cargo capacity is up 40% to Europe, and 15% to Miami. New cargo routes include Santiago to Mexico City and Los Angeles. Passenger aircraft are being used to operate cargo flights throughout the Americas, and to China to transport medical supplies to South America.

**12. Boeing Terminates Agreement to Establish Joint Ventures with Embraer.**

See Section IV, item 3.

**13. U.S., Mexico, Canada Extend Restrictions on Transborder Flights.**

See Section VII, item 1.