



## 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. IATA: 42% of International Traffic Touched Asia-Pacific in 2014.

The 59<sup>th</sup> Edition of the World Air Transport Statistics, published by the International Air Transport Association (IATA), reported that in 2014 airlines operated 100,000 flights per day and transported 51.3 million tons of cargo - about 35% of total value of all goods traded internationally. System-wide, airlines carried 3.3 billion passengers on scheduled services, up 5.8% over 2013. International traffic to, from and within the Asia-Pacific region represented 42% of total international revenue passenger kilometers and carriers registered in the Asia-Pacific region carried 33% of total passengers (1.1 billion, up 8% compared to 2013). The top five international/regional passenger airport-pairs were Hong Kong-Taipei (5.1 million, up 4% from 2013) Jakarta-Singapore (3.5 million, up 1.4%) Hong Kong-Singapore (2.8 million, up 7.8%) Hong Kong-Shanghai (2.7 million, up 5.9%) Hong Kong-Seoul (2.5 million, up 25.8% from 2013). Airlines in Europe held a 26.3% market share (873.4 million passengers, up 5.6%); North America, 25.3% (841.8 million, up 2.6%); Latin America and the Caribbean, 7.7% (255.9 million, up 7%); Middle East, 5.2% (173 million, up 10%); and Africa, 2.3% (76.7 million, up 2.4%). The top five airlines ranked by total scheduled domestic and international passengers were Delta (129.4 million), Southwest (129.1 million), China Southern (100.7 million), United (90.4 million), and American (87.8 million; does not include US Airways' 54.4 million). Similarly, the top five airlines ranked by total freight tons carried on scheduled services were: Federal Express (7.1 million), UPS (4.2 million), Emirates (2.3 million), Korean Air (1.5 million), and Cathay Pacific (1.5 million).

### 2. IATA: Blocked Funds in Venezuela Now Stand at \$3.8 Billion.

Passenger traffic in Venezuela fell 8.5% in 2014 compared to a year earlier, reflecting the impact of government policies on airlines, including restrictions on repatriation of currency, reports IATA. Total blocked funds are now \$3.8 billion and foreign carriers are forced to pay for fuel in U.S. dollars instead of Venezuelan bolivars. Tony Tyler, IATA Director General and CEO, noted this practice goes against the non-discriminatory spirit of the Chicago Convention which Venezuela has signed. "A single and fair bolivar exchange rate for the sale of tickets and the payment of airline fees and charges should be established," said Tyler, adding that Venezuela should also commit to: (1) a transparent consultation process with airlines before imposing new taxes or regulations; and (2) a realistic and achievable payment schedule should be

established to ensure that airlines are paid funds currently blocked in the country.

**3. United Replaces Smisek Amid Port Authority Investigation.**

United Continental Holdings announced the departure of Jeff Smisek and two other senior executives, amid a federal investigation into whether the airline sought to influence Port Authority of New York and New Jersey officials. Smisek was Chairman, President and CEO of United and pre-merger CEO of Continental. Oscar Munoz, President and COO of CSX Corporation, was named President and CEO of United and will continue to serve on the Board. Henry Meyer will serve as non-executive Chairman. Smisek also stepped down as Chairman of Airlines for America, and was replaced by American Airlines Chairman and CEO Doug Parker.

**4. United Applies for Authority to Operate San Francisco-Xi'an Service.**

United applied to the U.S. Department of Transportation (DOT) for authority to operate three-times-weekly Boeing 787 nonstops between San Francisco and Xi'an, between May 8 and October 27, 2016. If approved, this will be the first trans-Pacific service to Xi'an operated by any airline, and United will be the first U.S. airline to serve the city. Xi'an is home to the famed Terracotta Warriors, thousands of life-size statues buried with China's first emperor.

**5. DOT Consumer Panel Advises on Seat Size/Pitch.**

Following its ninth meeting, the Advisory Committee for Aviation Consumer Protection made several recommendations to DOT. Among them: Let airlines decide when cell phones can be used in flight; open slots at controlled airports for competition; provide advanced notification of frequent flier program changes; and disclose cancellation and change fees. The panel also recommended that FAA conduct more realistic evacuation tests during the certification process, to ensure that the 90 second evacuation test can be met in a particular aircraft type, given shrinking seat and pitch size. Committee member Charlie Leocha said the panel also recommended that the DOT Secretary send a letter to airlines urging them to disclose seat dimensions on their websites. Leocha is Travelers United Chairman and the Consumer Representative on the Committee, which is chaired by Pennsylvania Attorney General Kathleen Kane, and also includes Deborah Ale-Flint, Los Angeles Airport Director; David Berg, Airlines for America Chief Counsel; and Blane Workie, DOT Assistant General Counsel for Aviation Enforcement and Proceedings. . . . Writing in the *Washington Post*, Travelers United co-founder Christopher Elliott suggested that shrinking passenger seat space could be considered a human rights issue. "The average economy class seat pitch, a rough measure of legroom, has plummeted from 35 inches before airline

deregulation in the 1970s to about 31 inches today. And the average width of a coach class seat has contracted from 18 inches to about 16½ inches,” wrote Elliott. . . . In August, the FlyersRights consumer group petitioned DOT to regulate minimum seat width and pitch for airlines.

**6. NTSB Probes British Airways Engine Fire at Las Vegas McCarran.**

The National Transportation Safety Board (NTSB) is investigating a left engine fire on a British Airways Boeing 777-200ER that occurred on September 8 during takeoff at Las Vegas McCarran International Airport. BA2276 was en route to London Gatwick with 157 passengers, three pilots and 10 cabin crew on board. British Airways said the aircraft experienced a technical issue as it was preparing for take-off. Crew evacuated the aircraft safely and the fire was extinguished by emergency services at the airport. There were several minor injuries as a result of the evacuation on emergency slides. The flight data recorder, cockpit voice recorder and quick access recorder were retrieved.

**7. FAA Proposes Civil Penalties.**

The Federal Aviation Administration (FAA) proposed civil penalties for violations of federal drug and alcohol testing regulations against Mesa Airlines (\$174,600); Servisair (\$173,500); MN Airlines, d/b/a Sun Country Airlines (\$114,975); and Dukes Aerospace (\$211,000). A \$360,000 civil penalty was proposed against Empire Airlines for allegedly operating a Cessna Caravan on 35 revenue flights while not in an airworthy condition.

**8. FAA Names Unmanned Aircraft Executives.**

FAA created two executive-level positions to “guide the agency’s approach to safe, timely and efficient integration of unmanned aircraft systems (UAS) into U.S. airspace.” As Senior Advisor on UAS Integration, Marke “Hoot” Gibson will focus on external outreach and education, inter-agency initiatives and an enterprise-level approach to FAA management of UAS integration efforts. Earl Lawrence, Director of the UAS Integration Office within FAA's Aviation Safety organization, will lead FAA efforts to safely and effectively integrate UAS into the nation’s airspace. . . . Washington, D.C.-based Measure received FAA approval to operate more than 300 different types of drones for commercial applications, the largest commercial drone fleet in the nation. “Our Drone as a Service® model is focused on offering turnkey solutions to customers in agriculture, energy, insurance, and infrastructure,” said CEO Brandon Torres Declet. Association of Unmanned Vehicle Systems International said the commercial exemption granted to Measure is significant because it permits a record number of unmanned aircraft system platforms to fly. . . . FAA is investigating an incident in which an 11-month-old baby was injured by debris falling from a drone operating in California. . . . Among remarks at the Airlines

for America Commercial Aviation Industry Summit in Washington, an FAA official said that as many as one million drones could be sold during the holiday season ahead. The agency plans to advise large retailers on how to inform consumers about safe operation.

**9. ICAO Tracking Standard Update.**

The International Civil Aviation Organization (ICAO) launched a centralized online information area for aircraft tracking developments, including a detailed timeline and supporting reports and documentation relating to the call for and realization of global aircraft tracking requirements. The ICAO tracking standard would require aircraft to provide position information every 15 minutes when over ocean or remote areas. . . . The Normal Aircraft Tracking Implementation Initiative (NATII) Steering Committee recommended that ICAO delay the proposed deadline for airlines to install tracking technology by two years, to 2018, to allow time for all necessary tasks to be completed. . . . The European Commission plans to mandate flight tracking from take-off to landing on new aircraft from 2018.

**10. DOT Air Travel Consumer Report for July.**

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

	July '15 / '14	June '15	Full Year				
			2014	2013	2012	2011	2010
On-time arrivals %	78.1 / 75.6	74.8	76.9	78.34	81.85	79.6	79.8
Cancellations %	0.9 / 1.6	1.8	2.18	1.51	1.29	1.91	1.76
Mishandled baggage*	3.22 / 3.49	3.63	3.62	3.22	3.09	3.35	3.51
Consumer complaints:							
Airline service	2,163 / 1,650	2,052	15,532	13,176	15,338	11,546	10,988
Disability-related	97 / 70	69	774	683	741	628	572
Discrimination**	9 / 7	5	68	79	99	128	143

Notes:

In July, airlines reported no tarmac delays of more than three hours on domestic flights nor more than four hours on international flights.

The cancellation rate in July 2015 was the lowest for any July in 21 years of comparable records.

\* Reports per 1,000 passengers.

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

## II. AIRPORTS

### 1. FAA Proposes \$735,000 in Civil Penalties Against Cleveland.

FAA proposed civil penalties totaling \$735,000 against Cleveland, Ohio, alleging that Hopkins International managers failed to keep the airport's runways and taxiways safe and clear of snow and ice, on numerous occasions over a 15-month period ending in March 2015, creating unsafe conditions.

### 2. JetBlue Wins Bid To Build Hotel at New York Kennedy.

The Port Authority of New York and New Jersey selected JetBlue and MCR Development to build a hotel at John F. Kennedy airport. The former TWA terminal, built in the 1960s by architect Eero Saarinen, will serve as the lobby and a new building will house 505 guest rooms, 40,000 square feet of meeting space, restaurants and observation deck.

### 3. FAA Funds Runway Incursion Mitigation Projects

FAA has provided \$11 million in Airport Improvement Program (AIP) funds to eight airports that have risk factors for runway incursions, such as unclear taxiway markings, lighting, signage, or confusing taxiway layout. Airports to receive funding are Waco Regional (\$6.4 million), Cleveland International (\$2.3 million), Midway International (\$600,000) and Philadelphia International (\$16,000). Several airports will receive funding for Runway Incursion Mitigation studies, including San Jose International (\$1.4 million).

### 4. Miami To Offer Expanded Europe Service.

Miami announced additional offerings from Europe this winter. New service will begin to Vienna and Istanbul, by Austrian and Turkish, while expanded seasonal flights to Munich on Lufthansa, Zurich on Swiss, and Helsinki on Finnair will begin operating. Daily Airbus A380 service will be offered by British Airways from London, and by Air France from Paris. In fall 2016, SAS will offer nonstops from Oslo and Copenhagen.

### 5. Budapest Airport To Spend €15 Million Annually on Development.

More than €15 million will be spent annually on development of Ferenc Liszt International to accommodate an expected 12 million passengers in 2018, reports *Budapest Business Times*. Airport CEO Jost Lammers said passenger traffic reached nine million in 2014, more than any other year, including the Malev era. This year passenger traffic has already increased by 12%. The airport is engaged in a marketing effort to lure new airlines.

**6. Japan Selects Tokyu Group To Operate Sendai.**

Japan selected railway operator Tokyu and a group that includes general contractor Maeda to run Sendai Airport in northern Japan. The transaction is expected to close in December and succession in June 2016. Sendai will be Japan's first state-owned airport to be privatized; a bidding process for Kansai Osaka is underway.

**7. Hong Kong Third Runway Supported by CAAC.**

Jack So Chak-kwong, Chairman of Airport Authority Hong Kong, said plans to construct a third runway at Hong Kong International (HKIA) were supported by Civil Aviation Administration of China (CAAC) Director General Li Jiayang, during talks in Beijing. The CAAC also “will proactively advance various initiatives concerning airspace management in Pearl River Delta region.” The existing two-runway system likely will reach full capacity by 2017; construction of a third runway could take eight years. For first seven months this year, HKIA handled 40 million passengers and 230,000 flight movements, up 8.6% and 4.2% respectively year-on-year, with cargo volume at 2.4 million tons.

**8. Iran Plans \$2.8 Billion Airport Expansion.**

Iran is planning a \$2.8 billion expansion of Imam Khomeini International Airport (IKIA), with French industrial group Bouygues and Aéroports de Paris in talks to carry out the project, according to local press reports. A new terminal would have the capacity to handle 20 million passengers a year; IKIA's current capacity is 6 million. The existing terminal will be used for domestic flights, now operating from Mehrabad International Airport, once the project is complete. France's AccorHotels signed an agreement in Tehran to run two hotels near IKIA, the first venture by a major foreign entity in the country's hospitality market since 1979. Iran also plans a major renewal of its commercial airline fleet.

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

#### **1. TSA Releases Five-Year Strategic Plan.**

The Transportation Security Administration (TSA) released its “Strategic Five-Year Technology Investment Plan,” for fiscal years 2016-2020, meant to “address security technology needs, deploy cutting-edge security capabilities, and increase efficiency and security effectiveness in American aviation security.” The plan includes APEX Screen at Speed, a program formed to help field solutions for TSA’s capability gaps and deploy checkpoint technology that screens 300 passengers and their carry-on belongings per lane, per hour at a high detection level with no divestiture of liquids or electronics. Among other plans, “more robust applications of biometrics” could include “streamlined and expedited access control for crew members, and identity verification at the checkpoint for passenger authentication.”

#### **2. TSA Altering PreCheck Managed Inclusion Policy.**

TSA is altering its Managed Inclusion policy, which allows non-enrolled passengers to pass through TSA PreCheck lanes at airports. Canine pre-screening, used on a random basis, rather than behavior detection officers and explosive trace detection sampling, will determine which passengers are re-directed to the expedited screening lanes.

#### **3. Airport Security Center of Expertise Established in Quebec.**

A center of expertise in airport security will be established at Sherbrooke airport in Quebec. An agreement has been reached with IATA for aviation safety professionals to offer a training program in English and in French. Named Airpole, the center will include three business units: CENFOR for hands-on education and training; TIC, a technology and equipment integration and testing center; and the TS, a technology showcase. The three sites will allow first responders, law enforcement officials, airport personnel and others access to optimal infrastructure for specialized training and research. Bernard Ricard is President of the Airpole Board of Directors.



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

### **1. Justice Will Not Challenge Expedia's Acquisition of Orbitz.**

The U.S. Justice Department's Antitrust Division closed its six-month investigation into Expedia's \$1.3 billion acquisition of Orbitz, concluding it is unlikely to "substantially lessen competition or harm U.S. consumers." American Hotel & Lodging Association disagreed, saying the decision allows two players, Priceline and "the behemoth" Expedia, to control "over 95% of online travel agency bookings in the United States." Expedia holdings include Travelocity, Hotels.com, Hotwire, Cheap Tickets and Trivago. The Justice Department noted that the online travel business is rapidly evolving: "[I]n the past 18 months, for example, the industry has seen the introduction of TripAdvisor's Instant Booking service and Google's Hotel and Flight Finder with related booking functionality." . . . In other news, a renewal of the distribution agreement for American and US Airways flights on Expedia, Travelocity and Hotwire adds provisions for the sites to offer paid seating options beginning in late 2015.

### **2. IATA Polls Corporate Travel Buyers on NDC.**

An IATA-commissioned study found that "while the vast majority [of corporate travel buyers] maintain a neutral opinion concerning the New Distribution Capability (NDC) they recognize the opportunity the standard offers." NDC was launched by IATA for the development and market adoption of a new, XML-based data transmission standard. The study was based on interviews with 17 corporate travel buyers from five continents representing direct responsibility for \$3 billion per annum in business travel expenditure including \$1.9 billion in air travel. Asked for a wish-list of ways in which NDC could improve their efficiency, the travel buyers "cited having access to all content, in a user-friendly format, available via mobile, and compliant with company rules." The most commonly voiced concern was that implementation of NDC "will increase the practice of price and content variance by channel."

### **3. Lufthansa To Offer Broadband on European Flights.**

Deutsche Telekom and Inmarsat announced a strategic partnership to provide inflight high-speed Internet access using combined LTE-based ground and satellite networks. Lufthansa will launch the service on European flights in early summer 2016.

## V. ENERGY AND ENVIRONMENT

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

The average price of aviation jet fuel on September 18 was \$60.1/barrel, down -0.9% on the month and down -46.9% compared to a year ago, reports IATA. Fuel price average for 2015 was \$70.3/barrel. Impact on 2015 fuel bill was - \$85.2 billion.

### 2. FAA Awards \$24.5 Million in Environmental Grants to Airports.

FAA awarded \$24.5 million in grants to 11 airports to reduce emissions and improve air quality through its Voluntary Airport Low Emission and Zero Emissions Airport Vehicle programs. Via these programs, airport sponsors can use Airport Improvement Program funds and Passenger Facility Charges to help acquire refueling and recharging stations, electrified gates, low-emission vehicles, and other airport-related air quality improvements. Among recipients of the grants are Chicago O'Hare (\$2 million), Memphis International (\$1.3 million), Baltimore-Washington (\$2.5 million), Phoenix Sky Harbor (\$1 million), Port Columbus (\$2.7 million), Birmingham (\$2.6 million), Indianapolis (\$3.9 million), Houston Hobby (\$1.6 million), and Cleveland Hopkins (\$1.1 million).

### 3. CANSO, ACI Launch Noise Initiative.

Airports Council International (ACI) and Civil Air Navigation Services Organization (CANSO) have published "Managing the Impacts of Aviation Noise," which examines the challenge of aviation noise and describes methods that airport operators and air navigation service providers can use to manage and reduce its impact. It reviews four current approaches for managing noise: reducing noise at the source; land use planning; noise-reducing operational procedures; and operating restrictions. Operational procedures include techniques such as tailored arrivals, continuous descent operations, arrival or departure path alternation and managing thrust. The guide provides key principles and recommended actions for better community interactions, including effective communication, transparency and education. Eleven case studies highlight actual experience in dealing with airport noise issues along with solutions and examples of stakeholder collaboration.

### 4. A4A Official To Serve on U.N. Sustainable Transport Advisory Group.

Airlines for America (A4A) announced that UN Secretary-General Ban Ki-moon appointed Nancy Young, A4A Vice President of Environmental Affairs, to his High-Level Advisory Group for Sustainable Transport. The Advisory Group is tasked with making actionable policy recommendations, while

promoting further integration of sustainable transport into development strategies and policies, including climate action. Young has served in relevant ICAO working groups, is an active participant in the Air Transport Action Group, serves as environmental co-lead of the Commercial Aviation Alternative Fuels Initiative®, and is a member of the Advisory Board to the Aviation Sustainability Center.

**5. Honeywell Acquires Aviaso.**

Honeywell acquired privately held Aviaso, a software company with products that “gather data on aircraft usage and identify and communicate the ways airline customers can save fuel consumption through a simple, intuitive software interface.” Aviaso also provides software for emissions reporting, as well as consulting and training for fuel efficiency and emissions management. Headquartered in Zurich, Aviaso also operates a software development facility in Sofia, Bulgaria.

## VI. U.S. CONGRESS

### 1. Congress Passes Six-Month FAA Extension Bill.

The Airport and Airway Extension Act passed both the House and Senate, funding FAA for six months to March 31, 2016.

### 2. Gerardo Hernandez Airport Security Act Signed Into Law.

The “Gerardo Hernandez Airport Security Act of 2015” cleared Congress and was signed into law by President Obama. H.R. 720 requires TSA to ensure airports have working plans for responding to security incidents inside the airport perimeter, including active shooters, acts of terrorism, and incidents that target passenger-screening checkpoints. Among other things, the law also requires TSA to certify annually, to specified congressional committees, that all screening personnel have participated in practical training exercises for active shooter scenarios. The legislation is named for a TSA employee who was shot and killed in 2013 at Los Angeles International Airport.

### 3. “Honoring Our Fallen TSA Officers Act” Reintroduced.

The “Honoring Our Fallen TSA Officers Act” was reintroduced by Congresswoman Julia Brownley (D-CA). The legislation would amend federal law to ensure that TSA employees killed in the line of duty receive the same death benefits that other federal law enforcement officers receive. Brownley first introduced the bill in the 113th Congress in response to the shooting death of Gerardo Hernandez at Los Angeles International. In March, Congress passed a stand-alone provision in the FY2015 Homeland Security Appropriations Act to provide Public Safety Officer Benefits (PSOB) to the Hernandez family. Brownley’s bill would ensure that all families of TSA officers receive PSOB benefits going forward.

### 4. Senators Move To Expand Visa Waiver Program.

A measure that would expand the State Department’s Visa Waiver Program (VWP) was introduced in the Senate by Charles Schumer (D-N.Y.), Dean Heller (R-Nev.), Amy Klobuchar (D-Minn.) and Mike Lee (R-Utah). The VWP currently allows tourists from 38 nations to visit the U.S. without obtaining a visa. Many have raised concerns that members of terrorist groups, like the Islamic State in Iraq and Syria (ISIS), could try to exploit the VWP if they have access to travel documents from friendly nations. But sponsors of the measure, known as the “Jobs Originated Through Launching Travel (JOLT) Act,” said “flaws in our visa system are preventing the U.S. from reaping the full benefits of international tourism, and it’s time we fix them . . . This

bipartisan, commonsense bill would provide a jolt to our economy and grow tourism across the United States.”

5. **Hearing on Federal Air Marshal Service Oversight.**

A hearing on Federal Air Marshal Service (FAMS) oversight was held by the House Committee on Oversight and Government Reform, amid allegations of misconduct that included hiring prostitutes and using government-issued phones and other assets to film sexual encounters in Chicago. In their testimony, Department of Homeland Security officials said they have appropriate authority to discipline agents when misconduct occurs, and that more needs to be done to ensure accountability for employees who misbehave. Roderick Allison said he has “implemented several initiatives to promote the highest level of integrity, professionalism, and accountability,” since becoming FAMS Director in June 2014. In addition to deploying marshals onboard aircraft, FAMS assigns Visible Intermodal Prevention and Response teams at a variety of locations to augment the visible presence of law enforcement and security personnel in all modes of transportation.

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

### **1. U.S. Further Eases Rules for Cuba Travel.**

The Obama Administration further eased sanctions on travel to Cuba for authorized purposes. Among the new measures, which became effective September 21, travel has been eased for 12 categories of individuals including e.g. family visits, government travel, educational activities, journalistic activity, professional research, and religious activities, as well as activities related to humanitarian projects and activities of private foundations or certain research or educational institutes. All authorized travelers may open and maintain bank accounts in Cuba in order to access funds for authorized transactions while in Cuba. Cruise ship transportation of authorized travelers— directly between the United States and Cuba —will be authorized by general license, as will related lodging services. A case-by-case review policy will apply to license applications for exports and re-exports to Cuba of items to help ensure safety of civil aviation and commercial passenger aircraft, including: aircraft parts and components; software and technology; air traffic control equipment; airport safety equipment; and security screening devices. The new measures also expand telecommunications and internet-based services general licenses, and authorize individuals and entities to establish subsidiaries or joint ventures. . . . Talks reportedly have begun between U.S. and Cuban officials to reopen regular commercial flights between the two nations. . . . In related news, JetBlue added a weekly charter flight between New York Kennedy and Havana, with authorized provider Cuba Travel Services. JetBlue flies to Havana and Santa Clara from New York, Ft. Lauderdale and Tampa. American Airlines and Sun Country also fly for Cuba Travel Services.

### **2. U.S.-China Agreement To Increase Travel, Tourism Exports.**

During talks in Washington, D.C., Chinese President Xi Jinping and U.S. President Barack Obama agreed to expand cooperation in areas including aviation, energy, environmental protection, science and technology, infrastructure construction, agriculture and health. A new initiative, U.S.-China Tourism Year, was announced. It will build on the recent reciprocal extension of visa validity and supports increased travel and tourism exports. Under the framework of the U.S.-China Joint Commission on Commerce and Trade, the two sides will work together to expand and shape U.S.-China travel and tourism. “Both governments will continue efforts to develop aviation policies, institutions and services to ensure the system adapts to meet the needs for both immediate and long-term growth,” said officials. China accounted for 2.9% of total international arrivals in the United States in 2014, with an

estimated 2.2 million travelers (up 21% over 2013). According to the UN World Tourism Organization, China is the world's largest tourism market, representing more than 100 million outbound travelers in 2014, and global Chinese overseas travel expenditures in 2013 were a record \$129 billion.

**3. U.S. Review of Airline Subsidy Allegations Continues.**

Secretary of State John Kerry met with CEOs of American and Delta, at their request, to discuss their allegations that Emirates, Etihad and Qatar airlines are subsidized by governments of the United Arab Emirates (UAE) and Qatar. American, Delta, United and labor groups have asked the Departments of State, Commerce and Transportation to engage in consultations with Qatar and UAE, as well as freeze new passenger service by the Gulf carriers. Secretary Kerry said senior government officials have met “with a range of stakeholders representing various positions on the issue, including the CEOs of the Gulf airlines and other U.S. carriers.” . . . Partnership for Open Fair Skies in a new release said “subsidized Gulf carrier competition is fundamentally distorting the international air transport market, and the impacts are being felt well beyond the United States . . . state-driven aviation mercantilism is wholly contrary to U.S. Open Skies policy and the agreements themselves and demands a vigorous response from the U.S. government.”

**4. U.S. Signs New Agreements with Canada, EASA.**

FAA signed agreements with the European Aviation Safety Agency (EASA) and Transport Canada that allow reciprocal acceptance of most Technical Standard Order-approved articles, eliminating need for applications, additional validation and administrative review by each party. The new agreement with EASA also facilitates acceptance of the classification for basic Supplemental Type Certificates. An audit process will ensure technical classifications continue to meet established criteria and standards are met.

**5. Russia, Ukraine Impose Mutual Flight Bans.**

Ukraine announced it would ban flights by Russian airlines, as of October 25, then Russia said it would impose similar measures against Ukrainian airlines on that date. Trade sanctions imposed on Russia for its annexation of Crimea and alleged support for the separatist revolt in eastern Ukraine prohibit Russian cargo airlines from flying over Ukrainian territory while carrying military hardware or troops; Ukraine also banned government use of Russian software. . . . In other news, Aeroflot has acquired its chief competitor Transaero.

## **VIII. EUROPE AND AFRICA**

### **1. Silvano Cassano Steps Down as Alitalia CEO.**

Alitalia CEO Silvano Cassano resigned and Chairman Luca Cordero di Montezemolo said the company will “move into the next phase of our business transformation strategy under new leadership.” In the interim, duties will be split between COO Giancarlo Schisano and CFO Duncan Naysmith. Etihad purchased a 49% stake in Alitalia in 2014. . . . Alitalia said its first half financial results were “in line with the business plan forecasts,” despite suspension of the Rome-Caracas route and damages of €80 million due to the May fire at Rome Fiumicino. During its first half, Alitalia carried 10.3 million passengers with 75% load factor; launched Venice-Abu Dhabi, Milan-Abu Dhabi, Milan-Shanghai and Rome-Seoul services; and added two Airbus A330s.

### **2. IAG Acquisition of Aer Lingus Completed.**

The International Consolidated Airlines Group (IAG) acquisition of Aer Lingus has closed and Aer Lingus shares were delisted from the Irish Stock Exchange. Ryanair said it would distribute €398 million earned from the sale of its 30% percent stake in Aer Lingus to shareholders.

### **3. EU Court Rules Airlines Liable For Unforeseen Technical Problems.**

The European Court of Justice ruled that air carriers are required to compensate passengers in the event of a flight cancellation due to unforeseen technical problems. The case involved a KLM flight delayed for 29 hours due to defects in two components that had to be replaced. An “unexpected event is inherent in the normal exercise of an air carrier’s activity,” said the Court. “Prevention of such a breakdown or the repairs occasioned by it, including the replacement of a prematurely defective component, is not beyond the actual control of that carrier, since the latter is required to ensure the maintenance and proper functioning of the aircraft it operates for the purposes of its business.” Carriers may be exempt if technical problems result from hidden manufacturing defects affecting flight safety or are caused by acts of sabotage or terrorism. They are not obliged to pay compensation if they can prove that the cancellation is caused by extraordinary circumstances which could not have been avoided even if all reasonable measures had been taken.

### **4. Lufthansa Begins Frankfurt-Tampa Service; Reorganization Planned.**

Lufthansa launched Airbus A340-300 nonstops from Frankfurt to Tampa. . . . The carrier announced a reorganization, to begin January 1, 2016, that “should add around €500 million to annual earnings once fully implemented.”



Among changes, Harry Hohmeister will step down as CEO of Swiss to head Lufthansa, Swiss and Austrian. Thomas Kluhr will be Swiss CEO. Karl Ulrich Garnadt will head Eurowings Group. Jens Bischof will be responsible for the Frankfurt hub and Steffen Harbarth for Munich. The office of Group Chairman and CEO Carsten Spohr “will be supplemented by Detlef Kayser, currently a partner at management consultants McKinsey, who will serve as Executive Vice President Strategy & Fleet.” Lufthansa Technik and LSG Sky Chefs will continue to be independently managed.

5. **SAS First in Europe To Fly New Airbus A330-300 Enhanced.**

SAS was the first European airline to fly the new long-haul Airbus A330-300 Enhanced. The first commercial flight operated from Copenhagen to Chicago, and then from Stockholm to Hong Kong and Chicago. SAS will launch Stockholm-Los Angeles, Oslo-Miami and Copenhagen-Miami in 2016. . . . SAS will close the Stavanger-Houston route in October due to decreased demand caused by the downturn in the oil industry. Aircraft used on the oil route will be switched to the Copenhagen-New York Newark route. . . . SAS extended its agreement with Apollo for charter flights for the 2016 summer season and will be flying Apollo’s customers from 18 locations in Sweden, Norway and Denmark to 28 destinations across Europe.

6. **Delta Offers Raleigh-Durham to Paris Nonstop Service.**

Delta will begin Boeing 757-200ER flights to Paris de Gaulle from Raleigh-Durham on May 12, with joint venture partners Air France-KLM and Alitalia.

7. **Alaska, Icelandair Announce Code Share.**

Alaska Airlines and Icelandair have entered into a codeshare agreement and frequent flier partnership, to take effect November 1 pending government approval. Icelandair operates flights from 16 cities in North America to Iceland with connections to more than 20 destinations in Europe.

8. **IATA: Blocked Funds in Venezuela Now Stand at \$3.8 Billion.**

See Section I, item 2.

9. **U.S. Signs New Agreements with Canada, EASA.**

See Section VII, item 4.

10. **Russia, Ukraine Impose Mutual Flight Bans.**

See Section VII, item 5.

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

### **1. Air China Launches Beijing-Newark in October.**

Air China will begin four weekly B777-300ER nonstops from Beijing to New York Newark on October 26, complementing double daily service to Kennedy. The flag carrier started Beijing-Montreal flights in September, the first direct connection between Montreal and Asia; in December the service will continue on to Havana.

### **2. MAS Now MAB.**

Malaysian Airline System Berhad (MAS) is now Malaysia Airlines Berhad (MAB). . . . MAB CEO Christoph Mueller and Air Lease Chairman and CEO Steven Udvar-Hazy said long-term lease agreements for four new Airbus A350-900s were signed; the transaction also includes a lease option for two additional A350-900s and two A330-900neos.

### **3. Indian Ocean Airlines Form Vanilla Alliance.**

The Indian Ocean islands of Seychelles, Madagascar, Mauritius, Reunion and the Comoros signed a cooperation agreement establishing the Vanilla Alliance, which includes Air Seychelles, Air Madagascar, Air Mauritius, Air Austral and Air Inter-Islands of Comores. Areas of cooperation will include sales, marketing, training, and efforts to boost tourism and economic development.

### **4. Delta Increases New York-Tel Aviv Service.**

Delta will add four weekly year-round Boeing 777-200ER flights between New York Kennedy and Tel Aviv, beginning May 26, for a total of 11 weekly. American will discontinue daily direct Philadelphia-Tel Aviv service in January.

### **5. Emirates Begins Orlando Service.**

Emirates began daily Boeing 777-200LR nonstops between Dubai and Orlando in September, its 10<sup>th</sup> U.S. destination. The inaugural flight “carried passengers from 29 different countries,” on an Airbus A380, the first superjumbo to land at Orlando; the airport is undergoing a \$145 million expansion to encourage increased international service.

### **6. Etihad Shares Bank Financing of \$700 Million With Partners.**

Etihad President and CEO James Hogan brought together CEOs of partner airlines—Alitalia, Jet Airways, airberlin, NIKI, Air Serbia, Air Seychelles and Etihad Regional (Darwin)—in Rome “to identify and progress collaborative

initiatives designed to cut the carriers' costs, increase their revenues, and expand sustainable choice for their customers." Etihad earlier said \$700 million raised from international financial institutions will be split with equity partners Etihad Airport Services, airberlin, Air Serbia, Air Seychelles, Alitalia and Jet Airways, to be used for capital expenditure, fleet investment in fleet and as-needed refinancing. . . . Etihad is one of nine founding members of the UAE Business Council in India, which opened in New Delhi. Etihad holds a 24% equity stake in Jet Airways and says on its website it hopes to develop Delhi and Mumbai airports as hubs and connect them to Asia, Europe, Africa and other regions.

7. **Air India To Offer Delhi-San Francisco Service.**

Air India will begin three weekly Boeing 777-200LR flights from Delhi to San Francisco in December. Air India also flies to New York Kennedy, Newark and Chicago; this will be its first direct West Coast destination. The announcement was made as Prime Minister Narendra Modi visited Silicon Valley, outside San Francisco.

8. **IATA: Blocked Funds in Venezuela Now Stand at \$3.8 Billion.**

See Section I, item 2.

9. **U.S.-China Agreement To Increase Travel, Tourism Exports.**

See Section VII, item 2.

## **X. AMERICAS**

### **1. Delta To Add Daily Orlando-Sao Paulo Flights.**

Delta filed for regulatory approval to increase new nonstop service between Orlando and Sao Paulo from four times per week to daily. The four weekly Boeing 767-300 flights begin December 19; daily service would begin February 20. An alliance with GOL extends the reach of the Orlando-Sao Paulo service to 32 Brazilian destinations from Guarulhos International Airport.

### **2. Delta-American Interline Agreement Discontinued.**

Delta and American ended their interline ticketing and baggage agreement, which provided, among other things, the ability to rebook customers on each other's airline during irregular operations (IROPs). Delta stated an agreement "that adequately addressed the number of IROPs customers that American transferred to us[,] "could not be reached. An American official told reporters, "With nine hubs and gateways and nearly 7,000 daily flights, we have more ability to re-route our customers during operational disruption than any other airline in the world."

### **3. American Adds New Destination in Mexico.**

American Airlines will offer service from Dallas/Fort Worth to Merida, the capital of the Mexican state of Yucatan. The five weekly flights begin March 3, pending regulatory approval.

### **4. Southwest, Pilots Reach Tentative Agreement**

Southwest announced a new tentative agreement with its pilots that "offers wage increases and work-rule changes that will benefit the pilot group and position Southwest to continue its expansion both domestically and internationally." A ratification vote will close November 4; if approved, the contract becomes amendable in 2019. In other news, Southwest begins service to Belize City on October 15; and, subject to foreign government approval, to Liberia and Costa Rica, in November.

### **5. Republic, Pilots Reach Tentative Agreement.**

Republic Airways and its pilots, represented by International Brotherhood of Teamsters, reached a consensual tentative agreement on terms of a new three-year contract for pilots, which "provides overall industry-leading pay, job protections, and work rules." Ratification voting is scheduled to conclude in late October.

6. **SkyWest Orders 18 More E175s To Fly as United Express.**

SkyWest signed a firm order with Embraer for 18 E175s, to be operated under the United Express brand. Delivery of the 76-seat, three-class jets will begin in 2016. The order has an estimated value of \$800 million, based on current list price.

7. **UPS Pilots Call Strike Vote.**

The leadership of the Independent Pilots Association called on its members to authorize a strike against United Parcel Service after four years of contract talks. If approved, the union would have authority to request a release from federally mediated negotiations with UPS. Results of the UPS strike vote, as well as a FedEx pilot contract ratification vote, are expected in late-October. Both companies are set to hire temporary workers to handle shipping and deliveries over the holiday season; FedEx plans to add more than 55,000, and UPS up to 95,000.

8. **Air Canada Adds Casablanca, European Flights.**

Air Canada route will introduce four weekly Boeing 767-300ER seasonal nonstop flights from Montreal to Casablanca, subject to government approvals. Casablanca will be its first African destination and the only service to North Africa by a North American carrier. From Toronto, Air Canada route will fly seasonal service three times weekly to Prague, Budapest, Warsaw and Glasgow. . . . At an aviation conference, Air Canada President Ben Smith discussed plans to turn Toronto Pearson into a global transit hub like London Heathrow and Amsterdam Schiphol. Vancouver would serve as a transit point for transpacific traffic and Montreal Trudeau would serve France and the French Caribbean. The airline operates a transatlantic joint venture with Star partners Lufthansa and United, and is awaiting regulatory approval for a transpacific venture with Beijing-based Air China. Air Canada wants to increase the number of U.S. travelers flying to international destinations via Toronto, where U.S. Customs operates a pre-clearance center.

9. **IATA: Blocked Funds in Venezuela Now Stand at \$3.8 Billion.**

See Section I, item 2.

10. **U.S.-China Agreement To Increase Travel, Tourism Exports.**

See Section VII, item 2.

11. **U.S. Signs New Agreements with Canada, EASA.**

See Section VII, item 4.

12. **Delta Offers Raleigh-Durham to Paris Nonstop Service.**  
See Section VIII, item 6.
13. **Alaska, Icelandair Announce Code Share.**  
See Section VIII, item 7.
14. **Air China Launches Beijing-Newark in October.**  
See Section IX, item 1.
15. **Delta Increases New York-Tel Aviv Service.**  
See Section IX, item 4.
16. **Emirates Begins Orlando Service.**  
See Section IX, item 5.
17. **Air India To Offer Delhi-San Francisco Service.**  
See Section IX, item 7.