



## 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. **Elaine Chao Nominated to Serve as DOT Secretary.**

President-Elect Donald Trump nominated Elaine Chao to serve as the next Secretary of Transportation. She was Labor Secretary from 2001 to 2009 (the first Asian-American female Cabinet member in U.S. history) and also served as Deputy Secretary of Transportation, Federal Maritime Commission Chairman and Deputy Maritime Administrator. Other positions included CEO of United Way of America, Director of the Peace Corps, and Vice President of Syndications at BankAmerica Capital Markets Group. She is married to Senate Majority Leader Mitch McConnell (R-Ky.). “We look forward to working with her,” said Nicholas Calio, President and CEO of Airlines for America (A4A), “to usher in a new era of innovation, smarter regulation, and transformational reforms to modernize our nation’s antiquated ATC system.”

### 2. **Dr. Aliu Re-Elected as ICAO President.**

Olumuyiwa Benard Aliu was elected for a second three-year term as President of the Council of the International Civil Aviation Organization (ICAO). Dr. Aliu plans to “use his renewed mandate to drive further progress on the regulatory requirements for cybersecurity preparedness, Remotely Piloted Aircraft Systems (RPAS) and commercial space flights,” among other objectives. . . . International Air Transport Association (IATA) named Muhammad Ali Albakri Regional Vice President for Africa and the Middle East, effective January 1; he has been with Saudi Arabian Airlines for 26 years.

### 3. **DOT Tentatively Selects American for Los Angeles-Beijing.**

The U.S. Department of Transportation (DOT) tentatively selected American Airlines to operate new daily scheduled nonstop service between Los Angeles and Beijing, allocating seven weekly frequencies. Delta also applied for authority to operate daily nonstops on the route, but DOT said American would add a third U.S. carrier to the West Coast-Beijing market, in addition to Delta’s service from Seattle and United’s from San Francisco, thereby enhancing competition. American, Delta, Hawaiian and United currently provide U.S.-China passenger services and have been allocated nearly all frequencies available to the United States.

### 4. **DOT Proposes to Grant Antitrust Immunity for Delta-Aeromexico.**

DOT tentatively granted antitrust immunity to agreements proposed by Delta and Aeromexico, including a joint venture for flights between the U.S. and Mexico. As a condition of approval, the carriers would divest takeoff and

landing slots to support 24 new daily services from Mexico City and six from New York Kennedy, “to prevent harm to consumers resulting from the carriers’ dominant positions at MEX and JFK, and the inability of new entrant carriers to access slots at the airports.” At MEX, this would be 16 slot pairs in addition to the 8 slot pairs required by the Mexican antitrust authority. Other conditions include limiting the grant of immunity to five years. Delta, which plans to acquire up to 49% of Aeromexico, called the conditions “unprecedented, arbitrary, and untethered to any potential alleged harms,” and apt to severely diminish economic viability of the venture, and urged DOT to grant unconditional antitrust immunity and relinquish requirements to divest Mexico City and New York Kennedy slot pairs and the five-year time limit on the grant of immunity. The DOT show cause order is supported in filings by JetBlue, Hawaiian, Southwest, Interjet and Volaris.

**5. American, Qantas Withdraw Application for Expanded Alliance.**

DOT issued a show cause order tentatively denying the application of American Airlines and Qantas Airways to expand their existing alliance for services between the United States and Australia/New Zealand, as the joint business “would account for approximately 60% of seats between the U.S. and Australia.” The carriers were given 14 days to contest the tentative decision, but withdrew their application when denied an extension that would allow them ample time to make their case; their existing cooperation will continue. The Australian Competition and Consumer Commission and New Zealand Minister of Transport had approved the expansion.

**6. Qatar Airways Fined for Operating Flights in FAA-Prohibited Airspace.**

DOT fined Qatar Airways \$185,000 for operating American Airlines code shared flights in regions in which a Federal Aviation Administration (FAA) flight prohibition was in effect in late 2014 and early 2015. The flights operated by Qatar went into Yemeni, Iraqi and Ukrainian airspace.

**7. DOT Issues New Enforcement Policy on Extended Tarmac Delays.**

Under new DOT policy, enforcement action will not be taken against U.S. and foreign airlines for lengthy tarmac delays on departing flights so long as airlines begin to return their aircraft to the gate or another suitable disembarkation point no later than three hours for domestic or four hours for international flights after the main aircraft door has closed in preparation for departure. The policy is consistent with amendments to tarmac delay requirements in the FAA Extension, Safety, and Security Act of 2016. It applies to flights operated on or after July 15, 2016, the date President Obama signed the bill, and will remain in effect until a final rule is issued.

**8. NTSB ‘Most Wanted’ List Released.**

The National Transportation Safety Board (NTSB) released its ‘Most Wanted List’ of safety improvements for 2017 and 2018, in a move to a two-year cycle. The new list includes: eliminate distractions; reduce fatigue-related accidents; prevent loss of control in flight in general aviation; improve rail transit safety oversight; end alcohol and other drug impairment in transportation; increase implementation of collision avoidance technologies; expand recorder use to enhance safety; require medical fitness; strengthen occupant protection; ensure the safe shipment of hazardous materials.

**9. DOT Air Travel Consumer Report for September.**

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

	Sept. '16 / '15	Aug. '16	Full Year				
			2015	2014	2013	2012	2011
On-time arrivals %	85.5 / 86.5	77.6	79.9	76.2	78.34	81.85	79.6
Cancellations %	0.3 / 0.4	1.4	1.5	2.2	1.51	1.29	1.91
Mishandled baggage*	2.23 / 2.41	3.15	3.24	3.61	3.22	3.09	3.35
Consumer complaints:							
Airline service	1,303 / 1,858	2,250	20,170	15,539	13,176	15,338	11,546
Disability-related	61 / 116	96	939	784	683	741	628
Discrimination**	6 / 8	15	65	68	79	99	128

Notes: Airlines reported no tarmac delays of more than three hours on domestic flights or more than four hours on international flights in September.

\* Reports per 1,000 passengers.

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

## II. AIRPORTS

### 1. FAA Withdraws Draft PFC Order.

FAA rescinded a draft Passenger Facility Charge (PFC) order issued in August and withdrew its request for public review and comment, in response to claims by Airports Council International-North America and American Association of Airport Executives that the plan would increase the regulatory burden on airports, unnecessarily expand FAA's involvement with an inherently local program, and slow the PFC application and approval process.

### 2. FAA Awards \$90 Million in Infrastructure Grants to Airports.

FAA awarded more than \$90 million in Airport Improvement Program (AIP) grants for runway, taxiway and/or apron projects. Recipients included Huntsville International (\$9.6 million); Kansas City International (\$19 million); Bismarck Municipal (\$13.5 million); Portland International (\$11.6 million); Knoxville McGhee Tyson (\$27.9 million); and Jackson Hole (\$8.6 million).

### 3. Miami Adds International Service.

Miami welcomes new international service next year, bringing total number of carriers to 111, "the most at any U.S. airport"; Miami is also home to seven low-cost carriers. Mexican low-cost carrier Volaris begins four weekly flights to Guadalajara and daily flights to Mexico City on February 1. In April, low-cost transatlantic airline WOW begins three weekly services from Reykjavík, and Meridiana begins two weekly flights from Milan. And on September 1, Aer Lingus begins three weekly flights from Dublin.

### 4. Construction Approved for Orlando South Terminal.

Greater Orlando Aviation Authority Board approved the design for the \$1.8 billion Orlando International Terminal C, Phase 1 project. Construction of the new South Terminal Complex could begin in first quarter 2017, with completion by summer 2020. For 12-month period ending in September, the airport handled 41.5 million passengers. The Phase 1 project will add 16 gates, accommodating narrow body, jumbo and super jumbo aircraft.

### 5. British Airways to Invest \$110 Million in U.S. Airport Facilities.

British Airways will invest \$110 million in its U.S. airport facilities, including over \$65 million in New York Kennedy Terminal 7 to improve check in, security and boarding gates and first and business class lounges. Lounges in Boston, San Francisco, Miami, Chicago, Houston and Seattle will also undergo development.

**6. Ryanair to Fly from Frankfurt.**

Europe's largest low-cost carrier, Ryanair, will launch operations from Frankfurt Airport next year, starting with destinations in Spain and Portugal. Stefan Schulte, Chairman of airport operator Fraport, said special requirements of low-cost airlines will be met via customized processes and operations, which also facilitate short turnaround times. Suggestions that the Irish airline might be receiving special treatment on fees were quickly addressed by Lufthansa Group CEO Carsten Spohr, who told reporters Lufthansa would expect equal conditions. . . . In other news, the European Commission ordered recovery of incompatible aid from Ryanair (€2 million), TUIfly (€1.1 million) and HLX (€9.6 million), that was received from Klagenfurt airport in southern Austria. (HLX is now part of TUIfly.)

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

#### 1. **Foreign Airports Named for Preclearance Expansion.**

The Department of Homeland Security named new foreign airports for possible Preclearance expansion, including Bogota, Buenos Aires, Edinburgh, Keflavik, Mexico City, Milan Malpensa; Kansai Osaka, Rio de Janeiro Galeao, Rome Fiumicino, Sao Paulo Guarulhos and St. Maarten. More than 10 million travelers fly to the United States from these airports each year. . . . The United States and Sweden agreed to implement Preclearance operations at Stockholm Arlanda; operations may begin by 2019 after the governments complete all necessary internal procedures.

#### 2. **Policy Blueprint to Streamline, Modernize TSA.**

A new report from a U.S. Travel Association task force details how to “evolve the Transportation Security Administration (TSA) to meet the demands of a constantly shifting global security landscape and significantly improve the U.S. air travel experience.” Stopping fee diversion is one of the recommendations in “Transforming Security at Airports.” Last year, over \$1.25 billion in TSA fees were diverted away from the agency to unrelated projects. Reducing cost of TSA PreCheck, common-sense staffing and 100% perimeter security checks at commercial airports are other recommendations.

#### 3. **Mandatory Security Training Required for NY Airport Workers.**

Governor Andrew Cuomo and U.S. Secretary of Homeland Security Jeh Johnson accepted recommendations of a joint state and federal multi-agency team charged with reviewing the response to mistaken reports of active shooters in several terminals at New York Kennedy on August 14, 2016, which resulted in panic and the self-evacuation of thousands of travelers and employees. Port Authority of New York & New Jersey was ordered to implement the recommendations, which include security and emergency preparedness training for all airport workers; establishing a standard joint operating protocol for all security forces on the premises; joint training exercises among security agencies, including the Port Authority, TSA, Customs and Border Protection, security contractors, and external federal, state, and local first responders, such as the New York City police and fire departments; and a plan for mass self-evacuation of Kennedy.

#### 4. **Automated Screening Lanes Launched at Chicago, Newark, Los Angeles.**

United and American funded automated security screening lanes at Chicago O’Hare, in cooperation with TSA and the Chicago Department of Aviation,

which “enhance security effectiveness while decreasing the time travelers spend in security screening by approximately 30%.” United and TSA also launched automated screening checkpoint lanes at Newark and Los Angeles International. The lanes have automated belts that draw bags into X-ray machines, returning them to queue after screening completion. Bags with a potential threat can be directed to a separate area to allow bins behind it to continue through the system uninterrupted. The bins are 25% larger than those in regular screening lanes, unique Radio Frequency Identification (RFID) tags are attached to each bin to allow for additional accountability of items as they transit throughout the system, and cameras capture photos of the outside of the bag, which is linked to the X-ray image of the bag’s contents.

**5. New System to Tighten Security at EU Borders.**

Visa-exempt third country nationals entering the European Union (EU) need to obtain prior authorization and pay a €5 fee under the new European Travel Information and Authorization System (ETIAS). Meant to tighten Europe's borders, ETIAS will gather information on travelers to assess risk for irregular migration, security or public health, and will be managed by the European Border and Coast Guard in close cooperation with authorities of Member States and Europol. . . . In other news, EU states agreed on visa-free travel for Ukrainians to the EU; the agreement would allow a stay of 90 days in any 180-day period.

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

### **1. Ctrip to Acquire Skyscanner.**

Ctrip.com International will acquire Skyscanner Holdings for £1.4 billion, subject to customary closing conditions, with expected close by yearend. Both companies are among the world's largest travel search platforms. Ctrip.com is the largest online consolidator of accommodations and transportation tickets in China in terms of transaction volume. Edinburgh-based Skyscanner, which will remain operationally independent, enables 60 million monthly active users to compare prices from travel sites in over 30 languages.

### **2. Gogo Adds North Atlantic Broadband Connectivity.**

Gogo signed on to use services on the first satellite in Intelsat's EpicNG network to deliver immediate inflight Wi-Fi to passenger airplanes operating on the North Atlantic route, and in first quarter 2017 will transition to Intelsat 32e to expand service across Europe, the Middle East and Asia.

### **3. Etihad Challenges UAE Innovators, Entrepreneurs.**

Etihad Aviation Group (EAG) launched a competition to encourage students in the United Arab Emirates (UAE) to devise solutions to challenges facing the aviation industry. Entitled Fikra ('idea' in Arabic), the competition is addressing digital evolution, stopover visits, ancillary sales opportunities, improving loyalty schemes, specialist cargo, social media, youth engagement, airport experience and the environment. An 'Out of the Box' category "allows the next generation to pitch game changing ideas." The UAE Ministry of Education said the initiative "will engage the students in innovation and business development [and] pave the way forward to a sustainable and prosperous future." Fikra is open to all UAE university students regardless of age, gender, ethnicity, topic or year of study, and winners will have the opportunity to take internships with EAG businesses and partners.

### **4. Travel Now, Pay Later.**

A new website, FlightLayAway.com, allows travelers to compare and choose flight options and pay for tickets through installments. The California-based company says its "layaway vacations are easy to purchase and secure."

### **5. U.S. Agency Ticket Transactions Up 3.6% as of October 31.**

Consolidated dollar value of airline tickets sold by U.S.-based travel agencies this year, as of October 31, was \$74 billion, down 4.1% compared to 2015, according to Airlines Reporting Corp. (ARC). October ticket sales were down

5.9% to \$6.9 billion against same month last year, while ticket transactions were up 3.6% at 13.7 million. Results do not include sales of tickets purchased directly from airlines; total sales equal total amount paid for a ticket, including taxes and fees. Total tour bookings for Thanksgiving rose 68% through October compared to 2015.

## **V. ENERGY AND ENVIRONMENT**

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

The average price of aviation jet fuel on November 11 was \$55.3/barrel, down 11.6% on the month and down 5.5% compared to a year ago, reports the International Air Transport Association. Fuel price average for 2016 was \$52.4/barrel. Impact on 2016 fuel bill was -\$21.5 billion.

### **2. FAA Awards \$33.7 Million in Environmental Grants to Airports.**

FAA issued \$33.7 million in grants to nine airports to reduce emissions and improve air quality through the Voluntary Airport Low Emission (VALE) and Zero Emissions Airport Vehicle (ZEV) programs. Recipients of VALE grants are: Chicago O'Hare (\$3.6 million), 124 electrical charging stations that will allow airlines to use electric-powered ground service equipment; Memphis International (\$2.4 million), 11 ground-power units (GPUs) and 11 preconditioned air units (PCAs) for passenger gates; Bush Intercontinental Houston (\$1.5 million), five PCAs for passenger gates and 68 electrical ground support recharging ports; Dallas/Fort Worth (\$3.1 million), 23 GPUs, five PCAs and two air chilling units for passenger gates; Los Angeles International (\$4 million), nine GPUs and associated electrical infrastructure for remote parking sites; Portland International (\$5.7 million), 27 PCAs at passenger gates; San Francisco International (\$10.6 million), five GPUs and five PCAs and associated infrastructure at five remote maintenance stations; and Boise Airport (\$200,000), a solar-powered system to heat water for the terminal. A \$2.6 million ZEV grant to Indianapolis International will purchase six electric shuttle buses for passenger service from terminal to terminal and three charging stations and required infrastructure needed to charge the vehicles.

### **3. Alaska Flight Uses Renewable Biofuel Made from Residual Wood.**

Alaska Airlines flew the first commercial flight using renewable alternative jet fuel made from forest residuals—limbs and branches that remain after harvesting of managed forests. The demonstration flight, from Seattle-Tacoma to Washington Reagan National was fueled with a 20% blend of sustainable aviation biofuel, which is chemically indistinguishable from regular jet A fuel. The alternative jet fuel was produced through efforts of the Washington State University-led Northwest Advanced Renewables Alliance (NARA), a five-year project launched in 2011 and comprised of 32 organizations from industry, academia and government laboratories. Gevo, a NARA partner, successfully adapted its patented technologies to convert cellulosic sugars derived from wood waste into renewable isobutanol, which was then converted into Gevo's

Alcohol-to-Jet fuel. Alaska Airlines flew twice in June using a blend of biofuel produced from non-edible, sustainable corn.

4. **BP Partners With Fulcrum BioEnergy.**

Oil producer BP and Fulcrum BioEnergy signed an agreement that will provide Air BP with 50 million gallons per year of Fulcrum's low carbon, drop-in jet fuel. The partnership accelerates the construction schedule for Fulcrum's next renewable jet fuel plants; the first is under construction. Fulcrum has similar partnerships with United Airlines, Waste Management and Cathay Pacific.

## VI. U.S. CONGRESS

### 1. Mica Loses House Seat.

Congress returned from an election recess and Republican leaders were planning a continuing resolution to fund the government until the new Administration takes office in January; current funding expires December 9. . . . Among election results, transportation veteran John Mica (R-FL) narrowly lost his seat after 24 years in the House. House Transportation Committee Chairman Bill Shuster (R-PA) retained his seat and continues to campaign vigorously for the separation of air traffic control from FAA.

### 2. GAO Study Requested on Effects of Cabin Noise on Crew.

House Transportation Committee Ranking Democrat Peter DeFazio (D-OR) asked the Government Accountability Office to study whether flight attendants experience noise levels that exceed limits established by the Occupational Safety and Health Administration, if FAA is addressing effects of cabin noise on health and safety of airline personnel; and what protective equipment or aircraft design options exist to mitigate cabin noise. DeFazio says cabin crew may sustain permanent hearing loss from continuous exposure to wind and engine and other equipment-generated noise in cabins where they work for up to 14 hours a day. He noted a lack of scientific data on cabin noise levels across different types of aircraft.

### 3. FAA, DOJ Urged to Protect Women from Sexual Assault on Planes.

Democratic Senators wrote to FAA and the Department of Justice regarding sexual assaults on airplanes, urging them “to review, clarify, and develop requirements for airlines to ensure flight attendants, crewmembers, and pilots who may have to respond to an incident while aboard the aircraft are prepared to support the survivor and take the steps necessary to hold the alleged perpetrator accountable.” The Senators requested establishment of a working group comprised of relevant federal agencies; unions; airlines; Office of Victims of Crime; law enforcement; and sexual assault advocacy organizations to discuss and identify issues and gaps, and develop policy solutions to support survivors of sexual assault. They also want data collection “to understand the prevalence of sexual assault aboard commercial aircraft among passengers, flight attendants, crewmembers, and pilots.”

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

### **1. DOT: Havana Scheduled Flights Mark Important Milestone.**

As U.S. carriers began the first scheduled commercial service to Havana in more than 50 years, just days after the death of Fidel Castro, Deputy Secretary of Transportation Victor Mendez said “the one hour journey across the Florida Strait marked another important milestone in our ongoing efforts to reengage with Cuba.” The first scheduled flights to nine Cuban destinations other than Havana resumed August 31, and by end of November U.S. air carriers will have conducted nearly 940 round trip flights on those routes. By yearend, U.S. airlines are planning to conduct over 500 roundtrips between Havana and Atlanta, Charlotte, Fort Lauderdale, Houston, Los Angeles, Miami, Newark, New York City, Orlando and Tampa. The Cuban people must know that they have a friend and partner in the United States, said Mendez. “The steps we have taken over the last two years have brought us closer together and flights like these build on that progress as we look to improve the lives of the Cuban people and advance the interests of the United States.”

### **2. U.S. Licenses Airbus to Sell More Planes to Iran.**

Airbus reportedly was granted a license by the Obama Administration to sell more than 100 airplanes to Iran Air, in addition to 17 previously approved. The European manufacturer requires U.S. permission because 10% or more of parts are made in the United States. Boeing also was licensed to sell more than 100 aircraft to Iran earlier this year. Meanwhile, the U.S. House of Representatives passed legislation (H.R. 5711) prohibiting banks from financing exports of aircraft to Iran; and President-elect Trump said his Administration would withdraw from the 2015 international nuclear pact with Iran, which includes a measure allowing sales of commercial aircraft. House leaders wrote to President Obama urging him to disallow the sale of Airbus planes to Iran, warning, “The President’s executive agreement with Iran is on unstable ground, and actions like this underscore the need for the upcoming Trump Administration to review all options when it comes to this failed deal.” The U.S. State Department said the license to Airbus was not an attempt “to push in any way outside the bounds of our normal commitments and obligations here in the final months of the [Obama] Administration.”

### **3. Willie Walsh on Open Skies, Competition.**

Speaking to the International Aviation Club in Washington, International Airlines Group (IAG) CEO Willie Walsh called for post-Brexit Open Skies agreements between the UK and the U.S. and other nations, modeled on the

U.S.-European Union (EU) pact. These agreements benefit many industries that depend on flying, he said, and we need to ensure that they continue to do so without disruption. In an interview with Skift, Walsh reiterated that he disagrees with those who say Norwegian is “breaking the rules.” They are complying fully with requirements of Open Skies agreements, he said. Regarding both companies’ recent foray into U.S. markets, Walsh said, “I’m not going to try and find some regulatory red tape to try and stop them. We’ll just go head-to-head with them. We’ll beat them in competition and we believe we can.” The same is true of competition from Gulf airlines. “We’ve always had peace with them. . . . They’re perfectly rational and completely commercial. We’ve seen no evidence of anything that would cause us concern.” Asked if American, Delta and United overreacted in wanting to ban them from further U.S. expansion, Walsh said protectionism is “unhealthy for our industry.”

**4. WTO Rules Against State Tax Breaks for Boeing 777X.**

The World Trade Organization (WTO) ruled that Washington state tax incentives for Boeing in 2013 for the 777X are a prohibited subsidy, in a separate case from WTO lawsuits filed by the U.S. over Airbus launch aid and a countersuit filed by Europe. The European Commission claimed victory, saying “massive subsidies of \$5.7 billion provided by Washington State to Boeing are strictly illegal,” adding, “by making these tax breaks depend on the use of domestically produced wings, the U.S. also discriminated against foreign suppliers.” Boeing also saw the decision as a win, saying the WTO rejected the EU claim and “found future incentives totaling no more than \$50 million a year to be impermissible [and] that to date Boeing has received no benefit from the 777X rate incentive, and will not until 2020, because the first airplane will not be delivered until then.” Airbus Group CEO Tom Enders said “the only way out of the ridiculous series of disputes initiated by the U.S. is to agree on a set of globally applicable rules for the support of the civil aircraft industry, which would benefit both sides of the Atlantic.” Noting recent support by the Quebec government for Bombardier, Enders said “the duopoly is no longer the framework of reference in the future.”

## **VIII. EUROPE AND AFRICA**

### **1. British Airways Adds California Service.**

British Airways will be the only European airline to operate from all three Bay Area airports, when it begins four weekly Boeing 777-200ER flights from London Gatwick to Oakland next March. The carrier this year launched the only daily nonstop between San Jose, CA and London Heathrow; it also operates a twice daily service between San Francisco and Heathrow. . . . Under a new agreement, British Airways and Alaska Airlines are code sharing on U.S. West Coast flights; connecting flights initially are available on Alaska Air from San Francisco, San Jose, San Diego and Seattle. The carriers have been frequent flyer program partners for 15 years. (Alaska Airlines intends to acquire Virgin America, which is partially owned by Sir Richard Branson's Virgin Group.)

### **2. Air France Plans New Airline to Compete with Gulf Carriers.**

Air France-KLM announced management changes that separate functions of Chairman and CEO of Air France; Jean-Marc Janailac, Chairman of Air France-KLM is also Chairman of Air France with Franck Turner as CEO. Frederic Gagey is CFO of Air France-KLM group. Turner, who has spent his entire career in the Group, is tasked to "accelerate the transformation and growth of Air France," said Janailac, who also introduced a new strategy, 'Trust Together,' meant to "regain the offensive to return to a leadership position in the global air transport industry." Initiatives include creation of a new company to drive growth for the Paris Charles de Gaulle hub, a "response to the Gulf State airlines" that will focus on ultra-competitive markets and "enable the Group to go on the offensive by opening new routes, re-opening routes closed due to their lack of profitability and maintaining routes under threat." The new company will not be low cost; it will fly 10 long-haul aircraft by 2020 with Air France pilots.

### **3. Lufthansa Makes New Offer to Pilots' Union.**

Amid new work stoppages at end of November, Lufthansa offered the Vereinigung Cockpit pilots' union (VC) "a two-step 4.4% increase in remuneration plus a one-off payment," to be increased by 2.4% for 2016 and another 2.0% for 2017." During six days of strikes, Lufthansa cancelled some 4,450 flights, affecting 525,000 travelers, but expected normal operations to begin on December 1. . . . Lufthansa unit Eurowings will launch twice-weekly Cologne-Orlando and three weekly Cologne-Seattle Airbus A330 services next July; the low-cost carrier already flies to Las Vegas and Miami. "The

expansion of the Eurowings Group is progressing well,” said Lufthansa Chairman and CEO Carsten Spohr, “thanks to the planned wet-lease agreement with airberlin and our planned full acquisition of Brussels Airlines. This would make Eurowings the Number Three in Europe in point-to-point traffic, less than two years since its launch.” Karl Ulrich Garnadt, responsible for the unit, will step down next year due to an age 60 retirement policy.

**4. TUI's Board Approves JV with Etihad.**

The TUI Group Supervisory Board approved a joint venture of German leisure airline TUI fly and Etihad Aviation Group. Etihad is in negotiations to acquire airberlin tourist operations primarily in Southern Europe and North Africa, and airberlin's participation in NIKI. Subject to approval by relevant authorities, TUI will hold 24.8% of the new airline, to be headquartered in Vienna, with Etihad holding 25% and the remaining 50.2% held by private foundation NIKI Privatstiftung. A broad route network will be operated by TUI fly and NIKI with 60 aircraft from Germany, Austria and Switzerland.

**5. Norwegian Begins Weekly Oslo-Las Vegas Service.**

Norwegian became the only airline to operate a direct route between Oslo and Las Vegas. The carrier's seventh North American direct route is a weekly Boeing 787-8 service for the winter season.

**6. LOT to Acquire 49% of Nordica Subsidiary Regional Jet.**

LOT Polish Airlines executed a partnership agreement with Nordica, with intent to acquire 49% of the Estonian national carrier's subsidiary, Regional Jet, which operates Bombardier CRJs. The collaboration “will enable LOT to strengthen its position in Central and Eastern Europe, and allow both carriers to develop further, while preserving their national identities.”

**7. Albrecht Named CEO of Saudia; Bischof Succeeds Him At SunExpress.**

See Section IX, item 3.

**8. Qatar Airways Announces New Destinations.**

See Section IX, item 4.

**9. IATA Highlights Priorities in Middle East, North Africa.**

See Section IX, item 5.

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

### **1. AAPA Confronts Barriers to Industry Growth, Profitability.**

Boeing forecasts demand for 3,860 new airplanes valued at \$565 billion in Southeast Asia over the next 20 years, while an investment of \$160 billion for 1,020 new airplanes is expected in the Oceania region. The company's Current Market Outlook was presented at the Association of Asia Pacific Airlines (AAPA) 60th annual Assembly of Presidents meeting in Manila, where several resolutions were adopted, including urging governments to avoid imposition of unjustified taxes; improved collaboration with the World Health Organization in managing the impact of health pandemics, including Zika; and ineffective national regulatory oversight, leading to carriers being subject to restrictions or banned from operating to other countries. AAPA repeated a call to regional governments "to respect the primacy of ICAO standards and strongly support the 'No Country Left Behind' campaign, which aims to address disparities in the quality of regulatory oversight among states through improved implementation and compliance."

### **2. Malaysia Airlines Reports Improvement.**

Malaysia Airlines CEO Peter Bellew, speaking at the CAPA Asia Aviation Summit, in Singapore, said the carrier saw improved load factor and forward bookings in third quarter and is maintaining business class yield; with a network expansion of 11 new routes, at least 15 million passengers are expected in 2017. Malaysia likely will be profitable in 2018 and an initial public offering is planned for in 2019.

### **3. Albrecht Named CEO of Saudia; Bischof Succeeds Him At SunExpress.**

Jaan Albrecht was named CEO of Saudia, effective January 1, reporting to Director General Saleh Al-Jasser. Albrecht, who holds dual Mexican and German citizenships, was CEO of Star Alliance, Austrian Airlines, and most recently of SunExpress, a joint venture low cost leisure carrier of Turkish Airlines and Lufthansa; he also held leadership positions during 28 years at Mexicana. . . Jens Bischof will succeed Albrecht as Managing Director of SunExpress. Bischof has been with Lufthansa since 1990 and currently is Executive Vice President Sales of Lufthansa Group and Chief Commercial Officer for operations at Lufthansa's Frankfurt hub; he earlier was a member of the Lufthansa German Airlines Board.

**4. Qatar Airways Announces New Destinations.**

Qatar Airways announced 15 new gateways for 2017-18, including Las Vegas, its 11th U.S. destination. Qatar and British Airways expanded their agreement, begun in October, and now code share on all flights within the UK, on nonstops between the UK and Doha, and on certain routes from London Heathrow to European destinations; Qatar holds a 20.01% stake in British Airways parent IAG, which also holds Aer Lingus, Iberia and Vueling. Brazil's competition regulator approved Qatar Airways' purchase of a 10% stake in LATAM Airlines. A 49% stake in Meridiana Fly is expected to close in January, "if the Italian airline meets the conditions of the purchase," said Qatar Group CEO Akbar Al Baker.

**5. IATA Highlights Priorities in Middle East, North Africa.**

Four priorities in the Middle East and North Africa (MENA) must be addressed for aviation to deliver maximum economic and social benefits, said Alexandre de Juniac, IATA Director General and CEO, during opening remarks at the Arab Air Carriers Organization (AACO) 49th Annual General Meeting in Casablanca. These are: sufficient and affordable infrastructure capacity (including air traffic management); curbing unprecedented increases in taxes and charges; aligning consumer protection regulations with global standards; and enhancing security efforts. Passenger demand in MENA is set to expand by 4.8% each year on average over the next 20 years, to become a market of 400 million passengers in 2035.

**6. TUI's Board Approves JV with Etihad.**

See Section VIII, item 4.

## **X. AMERICAS**

### **1. United Introduces Basic Economy Fares.**

United introduced Basic Economy fares, in which customers are assigned seats on day of departure, assigned to boarding group five and permitted only one personal carry-on item that must fit under the seat. Association of Flight Attendants-CWA (AFA) applauded the checked luggage requirement, stating it will “improve safety for crew and passengers . . . Excess bags in the cabin lead to flight attendant injuries, slower boarding times, and passenger altercations. Flight attendants manage these safety and security issues often under the pressure of on-time departures and during a critical period for ensuring the overall security of the flight.” AFA has long urged Congress and FAA to establish standardized carry-on limitations. Among other initiatives meant to generate \$4.8 billion in earnings improvement by 2020, United is improving its revenue management system to more accurately forecast demand. It is converting an order for 65 Boeing 737-700s to 4 B-737-800s to be delivered in 2017, while the remaining 61 will be converted into orders for B-737 MAX aircraft; and will purchase 24 E175s from Embraer and lease them to United Express carriers (Embraer said the order represents a transfer of jets previously placed with Republic and cancelled). United will introduce its “reimagined international premium travel experience, United Polaris, on December 1 [and] is evaluating a new premium economy experience for domestic and international markets.” . . . International Association of Machinists and Aerospace Workers (IAM) said base wage rates increased by an average of 19% for IAM members at United, and by 2021 will rise by an average of 32%. Since 2014, IAM members at United ratified 14 contracts that increased wages for most workers by 40%, and 55% by 2021.

### **2. Court Ends Pilot Strike at Cargo Carrier for DHL, Amazon.**

Striking pilots at ABX, the cargo carrier for DHL and Amazon, returned to work following a ruling by the U.S. District Court for the Southern District of Ohio that they resolve differences through arbitration and other provisions of their labor agreement. About 75 flights were canceled at the start of the holiday shipping season. ABX operates 45 flights a day for DHL and 35 for Amazon, and recently signed a contract to fly 20 Amazon Prime Air planes by 2018. The Airline Professionals Association union said for nearly two years ABX “has been significantly understaffed, resulting in pilots continuously being forced to work ‘emergency’ assignments on their off time,” and “is illegally violating its contract with pilots by not allowing them to take contractually obligated compensatory time for the forced extra work.” ABX is a subsidiary of Air

Transport Services Group (ATSG), provider of aircraft leasing and air cargo transportation and related services to domestic and foreign air carriers and other companies that outsource air cargo lift requirements.

3. **American Airlines Pilot Instructors Approve Five-Year Contract.**

American Airlines Simulator Pilot Instructors approved a new five-year contract that includes “industry-leading pay.” Transport Workers Union led the bargaining on behalf of the instructors, who are stationed at the company's training centers in Dallas/Fort Worth, Charlotte and Phoenix.

4. **Southwest Pilots, Flight Attendants, Technicians Ratify Agreements.**

Southwest pilots ratified a new collective bargaining agreement that includes an immediate 15% pay increase followed by 3% raises in each of the next four years, and replacing a 401(k) with a defined contribution retirement plan. Flight attendants approved a new two-year contract that includes a 12.45% compounded wage increase and 15.9% bonus. And Appearance Technicians ratified a four-year tentative agreement that took effect immediately.

5. **Republic Set to Emerge from Chapter 11.**

Republic Airways filed a reorganization plan with the U.S. Bankruptcy Court for the Southern District of New York and intends to emerge from Chapter 11 during first quarter 2017, “as a single air carrier operating the world’s largest fleet of E170/E175 aircraft.” Republic has renegotiated and extended capacity purchase agreements with American, Delta and United; accelerated removal of out-of-favor aircraft; and restructured debt on over 80 EJETs. CEO Bryan Bedford said the airline “has achieved a 99.7% controllable completion rate in 2016 and is exceeding that level of performance in Q4.”

6. **Canada to Ease Foreign Ownership Rules for Airlines.**

Canada plans to raise the 25% cap on foreign ownership of its airlines to 49% to spur competition and lower fares. Exemptions from the current 25% ceiling already have been granted for Enerjet and Canada Jetlines. Enerjet announced its intention to partner with Phoenix-based Indigo Partners to fast-track development of ultra-low-cost service. Indigo Managing Partner Bill Franke was Chairman of ultra-low-cost Spirit Airlines and now owns Frontier. Former Spirit CEO Ben Baldanza is Chairman of another new Canadian ULCC, Winnipeg-based NewLeaf Travel.

7. **Latin America Passenger Numbers to Double by 2035.**

Passenger demand in Latin America and the Caribbean is expected to more than double to 658 million in 2035, and in a speech at the Latin American and Caribbean Air Transport Association (ALTA) Airline Leadership Forum, in

Mexico City, IATA chief Alexandre de Juniac urged the region to address critical infrastructure issues. “Severe capacity constraints in Bogotá, Lima and Mexico City illustrate the region’s airport capacity crunch,” he said. “And Argentina, which ranks 114 among 141 countries for the quality of its air transport infrastructure, needs an urgent overhaul of its antiquated and costly air navigation system.” Cautiously addressing airport privatization, De Juniac urged governments to find partners “aligned with the long-term national interest of realizing the benefits of growing connectivity—not the short-term gain of those coming with the highest bid.” Citing Chile as an example of what can happen when regulation is not strong enough, he said, “Pre-funding airport expansion plans at Santiago’s airport has seen airport charges skyrocket, putting at risk the country’s air transport competitiveness and the social and economic benefits it generates.” . . . FAA representatives emphasized the importance of international cooperation to keep pace with innovation and growth. FAA Administrator Michael Huerta said more than 17% of international flights departing the United States are headed for the Caribbean. . . . LATAM CEO Enrique Cueto urged regional governments to ease tax burdens, as more than half the price of a ticket in some countries is made up of government charges and makes fare reductions and growth difficult. Cueto announced a new travel model for domestic services in the six countries where LATAM has operations—Brazil, Chile, Peru, Argentina, Colombia and Ecuador; implementation by country begins in first half 2017. Aeromar CEO Andres Fabre said Brazil-based Synergy, which owns a majority stake in Avianca, plans to acquire up to 49% of the Mexican regional, subject to regulatory approval. Synergy Chairman German Efromovich said the \$100 million investment will help Aeromar pay for new ATRs.

8. **British Airways Adds California Service.**

See Section VIII, item 1.

9. **Norwegian Begins Weekly Oslo-Las Vegas Service.**

See Section VIII, item 5.

10. **Qatar Airways Announces New Destinations.**

See Section IX, item 4.