



## 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. Dozens Killed in Ataturk Airport Terrorist Attack.**

A July 28 attack at Istanbul Ataturk Airport killed at least 43 people and injured more than 230. The attackers were identified as Russian, Uzbek and Kyrgyz nationals. U.S. President Barack Obama and other world leaders expressed condolences to and solidarity with Turkish President Recep Tayyip Erdogan, who issued a statement saying, “the bombs that exploded in Istanbul today could have gone off at any airport in any city around the world. Make no mistake: For terrorist organizations, there is no difference between Istanbul and London, Ankara and Berlin, Izmir and Chicago or Antalya and Rome.” The International Air Transport Association (IATA) said the tragedy “was a broad attack on our shared humanity,” and, following the March 22 Brussels Airport incident, another reminder of the “growing challenge for governments to keep people safe in the landside parts of the airport.” The International Civil Aviation Organization (ICAO) noted that security provisions for airside and landside terminal areas are currently undergoing review, and will be subject to final approval and adoption by ICAO’s 36-State Governing Council. The U.S. Federal Aviation Administration (FAA) suspended flights to and from Istanbul, but lifted the ground stop when the airport reopened. Port Authority of New York and New Jersey, which operates Kennedy, LaGuardia and Newark Liberty airports, said it added “high visibility patrols equipped with tactical weapons and equipment” and “is collaborating with federal, state and local law enforcement partners, including the FBI Joint Terrorism Task Force.” A day before the attack, the U.S. Department of State updated a March warning to U.S. citizens of increased threats from terrorist groups throughout Turkey. (See also Section III, item 1.)

### **2. Alexandre de Juniac Confirmed as IATA Director General/CEO.**

Air France-KLM Chairman and CEO Alexandre de Juniac was confirmed to succeed Tony Tyler as IATA Director General and CEO, effective September 1, at the Annual General Meeting (AGM) in Dublin. International Airlines Group CEO Willie Walsh succeeded Aeromexico CEO Andres Conesa as Chairman of the IATA Board of Governors for a one-year term. Singapore Airlines CEO Goh Choon Phong will succeed Walsh in 2017. . . . “This year people will make 3.8 billion journeys by air,” said Tyler, in his report on the industry, and a collective net profit of \$39.4 billion is expected. Among other remarks, total funds blocked by governments now exceed \$5.5 billion—top five countries involved are Venezuela, Nigeria, Sudan, Egypt, and Angola. Some \$3.8 billion is trapped in Venezuela and IATA has petitioned to have airline funds included

by law in the national debt calculation, “which should prioritize payment when funds are available,” and has applied to the U.S. Department of Transportation (DOT) for antitrust immunity “that would allow airlines involved to discuss collective action with a view to finding ways to sustain viable air transportation to this very troubled country.”

**3. DOT Approves Cuban Routes for Six U.S. Airlines.**

DOT authorized six airlines—American, Frontier, JetBlue, Silver, Southwest and Sun Country—to begin scheduled flights from five U.S. cities to nine Cuban cities other than Havana, for which a decision is expected later this summer. The U.S. cities are Minneapolis/St. Paul, Miami, Fort Lauderdale, Chicago and Philadelphia; Cuban cities are Camagüey, Cayo Coco, Cayo Largo, Cienfuegos, Holguín, Manzanillo, Matanzas, Santa Clara and Santiago de Cuba. The flights are still subject to final approval by the Cuban government, and U.S. visitors to Cuba still must qualify under one of 12 categories authorized by the U.S. Department of Treasury’s Office of Foreign Assets Control. . . . After American announced it would begin low-fare scheduled service to Cuba on September 7, a coalition of travel agents and tour operators asked the U.S. Departments of Justice and Transportation to investigate whether the airline’s “practice of advertising and selling flights for which it has not yet received all government approvals, and may not receive such approvals prior to the scheduled start date, is deceptive and harmful to passengers and if ticket prices for the flights, which “appear to be below the airline’s cost of operations,” are “an attempt to drive the U.S.-Cuba air charter industry out of business through predatory pricing.”

**4. U.S. Carriers See Q1 Net Profit of \$3.1 Billion.**

U.S. scheduled passenger airlines reported an after-tax net profit of \$3.1 billion in first quarter 2016. Total operating revenue of \$39 billion included \$28.9 billion from fares (74.2%), \$947 million from baggage fees (2.4%) and \$745 million from reservation change fees (1.9%). Baggage and reservation change fees are the only ancillary fees reported as separate items; other fees are combined in different categories and cannot be identified separately.

**5. DOJ, DOT Urged to Investigate Collusion in Airline Surcharges.**

At a June 2015 IATA conference, Lufthansa Group CEO Carsten Spohr said his company intended to add an \$18 surcharge on airline tickets purchased from a third-party vendor, such as an online travel agency, as of September 1, 2015. Other airline CEOs on the panel indicated their agreement with the strategy, and of 118 airline executives polled later, 96 said they might make a similar move. Now several Senators have written to DOT Secretary Anthony Foxx and Attorney General Loretta Lynch, urging them to investigate potential

anti-competitive implications of Spohr's comments. "Lufthansa's conduct, encouraging competitors collectively representing the vast majority of the market to follow Lufthansa's lead in raising prices, raises the question of whether they have run afoul of the Sherman Act," wrote Mike Lee (R-UT), Amy Klobuchar (D-MN) and Richard Blumenthal (D-CT). Lee and Klobuchar are Chairman and Ranking Member, respectively, of the Senate Judiciary Subcommittee on Antitrust, Competition Policy, and Consumer Rights.

**6. IG Audits DOT Oversight of Frequent Flyer Programs.**

An Inspector General (IG) audit found that DOT reviews of passenger complaints about frequent flyer programs are insufficient to determine whether airlines engage in unfair and deceptive practices. For example, from 2012 to 2014, consumers filed 76 complaints, but none were forwarded to DOT attorneys for review. The IG review of 36 of the complaints showed that four (11%) warranted additional review. In addition, while award seats are available for most flights, it is unclear how many miles are redeemed at different award levels, as airlines do not publicly disclose this information. Finally, airlines do not fully explain their process for determining award-seat availability to the traveling public. More than 300 million members are enrolled in U.S.-based frequent flyer programs. The audit was requested in 2014 by Alan Grayson (D-Fla.), who expressed concerns about practices such as how far in advance members are notified about service changes, devaluation of awards and benefits over time, and availability of award seats.

**7. Rules Finalized for Commercial Use of Small Drones.**

FAA finalized operational rules for routine commercial use of unmanned aircraft systems (UAS or drones) weighing less than 55 pounds. Provisions, to take effect in late August, require pilots to keep a drone within visual line of sight. Operations are allowed during daylight and during twilight if the drone has anti-collision lights. The operator must be at least 16 and have a remote pilot certificate with a small UAS rating, or be directly supervised by someone with such a certificate. The Transportation Security Administration (TSA) will conduct a background check of all remote pilot applications prior to issuance of a certificate. Regulations also address height and speed restrictions and other operational limits, such as prohibiting flights over unprotected people on the ground who aren't directly participating in the UAS operation. An online process to apply for waivers of some restrictions will be available to operators who can prove a proposed flight will be conducted safely. The new rule does not specifically deal with privacy issues. While commending safety provisions, Air Line Pilots Association International (ALPA) wants those who commercially pilot small UAS to hold the same certificate as commercial-rated pilots and urged Congress to ensure that FAA has authority to fully regulate hobbyists

and recreational flyers of UAS. . . . In other news, Nevada Institute for Autonomous Systems is teaming with China's EHang to flight test a passenger-carrying drone at Nevada's FAA UAS Test Site, and anticipates that drone taxis will be part of the transportation system.

**8. FAA Rules Out Routine Psychological Testing for Pilots.**

FAA is working with commercial airlines and pilot unions to improve mental health evaluations and encourage voluntary reporting of pilot mental health issues, and is implementing recommendations by an Aviation Rulemaking Committee (ARC) comprised of aviation and medical experts. Current FAA regulations require airline pilots to undergo a medical exam with an Aviation Medical Examiner (AME) every six or twelve months depending on age. The ARC's experts did not recommend routine psychological testing because there was no convincing evidence that it would improve safety, which the Aerospace Medical Association also concluded in a 2015 letter to FAA Administrator Michael Huerta, stating that in-depth psychological testing as part of routine periodic care is neither productive nor cost effective. Recommendations made by the ARC include enhanced training for AMEs, expanded use of pilot assistance programs, and airline programs "to reduce the stigma around mental health issues by increasing awareness and promoting resources to help resolve mental health problems." FAA will ask the Aerospace Medical Association to consider addressing the issue of professional reporting responsibilities on a national basis and to present a resolution to the American Medical Association. Reporting requirements currently vary by state and by licensing and specialty boards. Certain conditions, such as a psychosis, bipolar disorder and severe personality disorder, automatically disqualify a pilot from obtaining an FAA medical certificate and prohibit them from flying. Several U.S. airlines already have reporting and monitoring programs that provide pilots with a path to report their condition, receive treatment and return to the cockpit once FAA has it is safe to do so. FAA will reconvene the ARC's medical working group this year to determine if specific U.S. psychological research projects should be sponsored to better understand general pilot mental health. The joint FAA and industry group known as the Commercial Aviation Safety Team (CAST) recommended the ARC's study based on the Malaysia Flight 370 and Germanwings Flight 9525 tragedies.

**9. FAA Proposes to Fine Amazon for HazMat Violations.**

FAA proposed several civil penalties against Amazon.com for allegedly violating Hazardous Materials Regulations. These include penalties of \$350,000 and \$52,000 for offering packages containing hazardous materials to United Parcel Service (UPS), and \$78,000 for offering packages containing

hazardous materials to Federal Express (FedEx). Amazon has violated Hazardous Materials Regulations numerous times.

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

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

	April '16 / '15	March '16	Full Year				
			2015	2014	2013	2012	2011
On-time arrivals %	84.5 / 81.8	81.5	79.9	76.2	78.34	81.85	79.6
Cancellations %	0.9 / 0.9	1.0	1.5	2.2	1.51	1.29	1.91
Mishandled baggage*	2.31 / 2.77	2.49	3.24	3.61	3.22	3.09	3.35
Consumer complaints:							
Airline service	1,222 / 1,419	1,429	20,170	15,539	13,176	15,338	11,546
Disability-related	52 / 62	77	939	784	683	741	628
Discrimination**	4 / 7	6	65	68	79	99	128

Notes: In April, airlines reported two tarmac delays of more than three hours on domestic flights and two of more than four hours on international flights.

\* Reports per 1,000 passengers.

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

**11. DOT Dismisses Norwegian Air UK Exemption Application**

See Section X, item 1.

## II. AIRPORTS

### 1. San Francisco Terminal 1 Renovation Breaks Ground.

San Francisco International began renovation of Terminal 1, its oldest passenger facility. The \$2.4 billion project, to be completed in phases from 2016 to 2024, will include an interim Boarding Area B for use while an entirely new structure takes shape, and a new centralized security checkpoint, consolidated baggage handling system, dining and retail concessions, and post-security connecting walkways. Upon completion, Boarding Area B will hold 24 gates, including six that can accommodate international arrivals by providing direct access to the U.S. Customs & Border Protections Federal Inspection Area. Connecting walkways located post-security will provide easy access to International Boarding Area A and Boarding Area C.

### 2. ACI Europe Refutes Airline Claims.

Responding to Airlines for Europe (A4E) claims that charges at the top 21 EU and European Free Trade Association (EFTA) airports increased by 80% since 2005, ACI Europe said the actual increase was 25.4% in real terms, less than €3 per passenger over 10 years. [EFTA is comprised of Iceland, Liechtenstein, Norway and Switzerland.] Further, those 21 airports invested more than €53 billion back into their facilities over the period, delivering additional capacity of 178 million passengers, equivalent to adding an extra London Heathrow, Paris Charles de Gaulle and Paris Orly to the European aviation network. “Airport investment is not about building Taj Mahals,” said Olivier Jankovec, Director General of the airport association. “It is about boosting capacity, quality and ultimately air connectivity for Europe.” Jankovec said “European governments are no longer willing to pay for airport infrastructure and EU rules now forbid State aid to large airports on competition grounds [and] airlines need to come to terms with paying a fair share of the costs involved.” ACI also differed with A4E claims of a 20% decrease in air fares over the past decade, citing Eurostat data showing a 29% increase during the period.

### 3. Shanghai Yiqian Trading Buys Frankfurt Hahn.

China's Shanghai Yiqian Trading Company acquired an 82.5% stake in Frankfurt Hahn from the German federal state of Rhineland-Palatinate, for a reportedly low double-digit million-euro amount. Frankfurt-Hahn is not subject to a nighttime ban, as is nearby Frankfurt airport. In first quarter 2016, passenger traffic increased 12% year-on-year.

4. **Sheremetyevo Development Project Approved.**

A new Northern Terminal Complex at Sheremetyevo was approved by authorities. The project includes Terminal B, multi-level parking and passenger and cargo tunnels connecting to the Southern Terminal Complex. There are also plans for a railway connection. Completion expected in time for 2018 FIFA World Cup tournament in Russia. In 2015 Sheremetyevo served almost 32 million passengers. . . . Moscow's fourth international airport has opened, with flights to Astana, Bishkek, Osh, Chimkent, Aktobe and Aktau planned. Zhukovsky is expected to serve four million passengers annually, with capacity for 12 million by 2020, when construction is complete.

5. **Hong Kong to Levy Runway Construction Fee.**

Hong Kong Airport Authority (HKAA) will add a fee for departing passengers, beginning August 1, with rate to depend on flight distance, ticket class, and whether the flight type is origin-destination or transit/transfer. The airport construction fee (ACF) will fund construction of a third runway at Hong Kong International and remain in effect until debt related to the project is fully repaid; the rate will remain unchanged throughout the collection period.

6. **Airports of Thailand Plans \$5.5 Billion Expansion.**

Airports of Thailand plans to spend \$5.5 billion over the next 15 years to expand its six airports—Suvarnabhumi and Don Muang in Bangkok, Hat Yai, Chiang Mai, Chiang Rai and Phuket—which together handle 90% of traffic in the country. In a Reuters interview, Thai President Nitinai Sirismatthakarn said the budget increased, mainly due to a revision to the expansion at Don Muang following a surge in passenger numbers and budget airline flights; among Don Muang improvements will be a building linked to a new mass transit line. The number of international tourists coming to Thailand rose 15.5% in first quarter 2016, with 32 million arrivals expected this year.

7. **UAE Airports Impose Passenger Taxes.**

Airlines are required to impose an airport tax of \$9.5 on passengers departing or transiting through airports in Abu Dhabi, Dubai and Sharjah, from June 30.



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

#### **1. Additional Funding Approved for TSA.**

A \$28 million reprogramming request for the Transportation Security Administration approved by Congress will convert 2,784 Transportation Security Officers from part-time to full-time, add 53 lanes and accelerate hiring of another 600 TSOs this fiscal year, said the Department of Homeland Security (DHS). A reprogramming of \$34 million in May expedited hiring of 768 new TSOs and overtime pay for the existing workforce, as long security lines at the busiest U.S. airports caused thousands to miss flights. DHS Secretary Jeh Johnson said current average wait time is 30 minutes or less.

#### **2. CBP Tests Facial Comparison Technology at Atlanta.**

U.S. Customs and Border Protection (CBP) is testing the ability of its systems to compare digital images of outbound travelers against previously provided images, “in an automated fashion and without impacting airport operations.” The trial, to run through September, affects travelers on a daily Delta flight from Atlanta to Tokyo. The photo is taken when travelers present a boarding pass before proceeding to the loading bridge. CBP has tested new biometric technologies in multiple environments this year, with a goal of implementing “a biometric exit system that conforms with existing standard operating procedures.” Several Congressional mandates direct DHS to record arrival and departure of non-U.S. citizens by collecting biometrics. A biometric exit system has been a challenge to implement as U.S. international airports do not have similar entry processing infrastructure for exit processing, said CBP. DHS is committed to implementing biometric exit in 2018, starting at the highest volume airports.

#### **3. CBP to Add Social Media to Traveler Data.**

CBP proposed adding a line to forms filled out by visitors to the United States that would ask them to voluntarily disclose their social media identifiers. The data “will enhance the existing investigative process and provide DHS greater clarity and visibility to possible nefarious activity and connections by providing an additional tool set which analysts and investigators may use to better analyze and investigate the case,” said CBP, in a Federal Register notice; comment period ends August 22.

#### **4. GAO Reports on VWP, Airport Security, FAMS.**

A Government Accountability Office (GAO) report concludes that more than a third of the 38 countries participating in the Visa Waiver Program (VWP) have

failed to share terrorism identity information with the United States. GAO recommends that DHS specify time frames for working with VWP countries on requirement to implement information-sharing agreements and improve timeliness in reporting to Congress on whether VWP countries should continue in the program. . . . A GAO report on TSA oversight of airport perimeter and access control security recommends that TSA update its Risk Assessment of Airport Security, develop and implement a method for conducting a system-wide assessment of airport vulnerability, and update its National Strategy for Airport Perimeter and Access Control Security. . . . A GAO report on the U.S. Federal Air Marshal Service (FAMS) recommends that FAMS further incorporate risk into its method for dividing resources between international and domestic flights, conduct a risk assessment to support certain domestic deployment decisions and document the rationale for selection of international deployment destinations.

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

### **1. NDC Certification Registry Launched.**

IATA launched the New Distribution Capability (NDC) Certification Registry, a list of airlines, travel agents and aggregators, such as global distribution systems, that have achieved NDC certification, as well as IT providers that have demonstrated they are capable of delivering NDC-certified products. As of June 1, 18 airlines and 17 technology companies had achieved NDC certification or NDC-capable status, and six had applications in progress. IATA provides the only official industry certification and registration program for NDC, a program for development and market adoption of a new, XML-based (Internet language) data transmission standard for communications between airlines and travel agents.

### **2. Star Alliance IT Hub for Baggage Planned.**

A Star Alliance IT hub for baggage is scheduled to go into operation by yearend; currently information resides in systems at individual airlines and at each airport, making it highly complex to locate bags and take remedial action if they are mishandled. Other Alliance IT hubs have improved exchange of frequent flyer data and through check-in of passengers and baggage, as well as provision of enhanced services to premium customers. . . . In other news, Jeffrey Goh was named CEO of the Alliance, effective January 1, to succeed Mark Schwab who will retire; Air Canada CEO Calin Rovinescu is Chairman.

### **3. Amadeus Powers United's New Fare Search Capability.**

United is using Amadeus technology to “deliver its lowest available fare options to customers earlier in the shopping process,” with minimal search criteria and near-instant response time. Customers on United’s website can see the lowest airfares for their desired city pair by hovering over the return date calendar, comparing departure date options before submitting the full itinerary search. The new front page search feature is available for select U.S. domestic city pairs in Economy class. Future releases will provide instant pricing for additional routes, including international, as well as premium cabin searches. . . . Amadeus’ new data intelligence tool Booking Analytics provides insights into market dynamics, sales channels and passenger volumes, allowing airlines to “benchmark their own performance against the comparable market and get an executive display of market data to make strategic decisions.” The information is displayed on a user-friendly, customizable dashboard via an Amadeus-hosted web portal application. A Booking Reports

Composer module allows analysts to access and add fields from Market Information Data Tapes (MIDT) data from over 600 airlines.

4. **Sabre Doubles Bangalore Operation.**

Sabre expanded its Bangalore development center to hold 1,400 employees, double that of last year. In other news, Etihad is using Sabre's Branded Fares to distribute its branded Fare Choices into the travel agency channel, "enabling passengers to book different classes of travel with a variety of options, such as bags, seats and mileage to meet specific needs."

5. **ARC Offers BI Derived from Ticket Transactions.**

A suite of business intelligence (BI) products to help corporate travel managers and travel agencies better understand their air travel programs and ticket spend, and for airlines to see a clear picture of their sales channels, was introduced by Airlines Reporting Corp. (ARC). Comprised of Corporate BI, Agency BI and Airline BI, the suite utilizes identical data derived from ARC-settled ticket transactions "to deliver one unbiased version of the truth from which all parties can refer." The products are available via annual subscription or as one-time reports; customers can receive a data feed of ARC transactional information for use with their own BI solution.

6. **Gogo Offers Real-Time Turbulence Alerts.**

Gogo is working with IBM unit The Weather Company to deliver real-time turbulence reports and alerts directly to pilots, dispatch and other operations personnel. Weather's Turbulence Auto PIREP System (TAPS) software will reside on Gogo's server, which provides access to data generated by the aircraft to create reports of turbulence intensity. Gogo's U.S.-based air-to-ground and global satellite communication network is used to send reports for immediate action in flight operations and weather forecasting. This is the first time a non-traditional system on the aircraft will be used to help enhance flight safety, said Gogo. Each year, turbulence incidents cost airlines \$100 million due to crew and passenger injuries, unscheduled maintenance, operational inefficiencies, and revenue lost while planes are out of service; aircraft encounters with turbulence are the leading cause of non-fatal injuries in the commercial airline industry.

## V. ENERGY AND ENVIRONMENT

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

The average price of aviation jet fuel on June 24 was \$58/barrel, down 1.2% on the month and down 23.2% compared to a year ago, reports the International Air Transport Association. Fuel price average for 2016 was \$49/barrel. Impact on 2016 fuel bill was -\$28.1 billion.

### 2. North American Partnership Supports ICAO Measure.

Among initiatives of the new North American Climate, Clean Energy, and Environment Partnership: “We support the adoption by all countries in 2016 of the market-based measure proposed through the International Civil Aviation Organization to allow for carbon-neutral growth from international civil aviation from 2020 onwards and will join the first phase of the measure adopted.”

### 3. Alaska Demo Flights Use Fuel Made from Corn.

Alaska Airline jets flew from Seattle to San Francisco and Reagan Washington National with a 20% biofuel blend produced by Gevo from sustainable corn. Gevo's production process converts bio-based isobutanol into an alcohol-to-jet synthetic paraffinic kerosene (ATJ-SPK) fuel. Alaska is teaming with the Washington State University-led Northwest Advanced Renewables Alliance (NARA) to advance production and use of alternative jet fuel made from forest residuals, the tree limbs and branches that remain after a forest harvest, and is collaborating with Boeing and the Port of Seattle on a Biofuel Infrastructure Feasibility Study for Seattle-Tacoma International.

### 4. Six Airlines Lead Aviation Biofuel Scorecard.

Air France-KLM, British Airlines, Cathay Pacific, SAS, South African and United rank as leaders in the National Resources Defense Council 2016 Aviation Biofuel Scorecard, due to “broad involvement in creating sustainable fuel supply chains, as well as solid commitments to use and purchase sustainable fuels and monitor and disclose performance.” Air New Zealand, Alaska, Etihad, GOL JAL, Qantas, Thomson, Virgin Atlantic, Virgin Australia and Basic Airlines are “actively engaged in advancing supply chain development.”

## VI. U.S. CONGRESS

### 1. Short-Term FAA Reauthorization Bill Likely.

Congress failed to reach agreement on an FAA reauthorization bill before adjourning for the July Fourth recess. Current authorization expires July 15 and another short-term extension is expected.

### 2. House Appropriations Committee Approves FY17 DHS Bill.

The House Appropriations Committee approved a fiscal year 2017 Department of Homeland Security Appropriations bill. The legislation includes \$41.1 billion in discretionary funding, \$100 million (25%) above FY16 enacted level and \$432 million above the President's budget request. The bill includes \$7.6 billion for the Transportation Security Administration; an additional \$19.8 million above the request is included to hire, train and deploy 50 more canine teams. The bill denies a proposal to increase TSA passenger fees; withholds 20% of funds from DHS headquarters staffing accounts until budget justification information is provided; conditions funds for screening equipment until a full acquisition plan and justifications are provided; rescinds \$247.2 million in unobligated, unused funds from various accounts; and requires extensive reporting, including spending plans and benchmarks. . . . The House passed the Checkpoint Optimization and Efficiency Act of 2016, which grants TSA flexibility to utilize all personnel present to compensate for long wait lines, including reallocating Behavior Detection Officers to speed passenger screening efforts and granting greater authority to Federal Security Directors at the individual airport to make staffing resource decisions; ensures that private stakeholders, airports and government regulators are coordinating response through a staffing advisory committee; requires TSA to assess its current staffing allocation model and share this model with both air carriers and airports; reallocates canine team assets to high volume airports and checkpoints; and requires TSA to establish a service level agreement and minimum staffing numbers with air carriers and airports. H.R. 5338 proceeds to the Senate. . . . John Katko, Chairman of the House Transportation Security Subcommittee, called on the Senate to unblock the PreCheck Expansion Act, which would make the TSA PreCheck process simpler, for example, by allowing travelers to apply online and by expanding enrollment centers.

### 3. Senate Appropriations Votes to End Ban on U.S. Travel to Cuba.

The Senate Appropriations Committee voted to end the ban on U.S. travel to Cuba; House action was waylaid by a sit-in staged by Democrats over gun control, which led to an early recess. . . . In related news, a second hearing on

security risks of resuming commercial air service to Cuba was postponed; the House Transportation Security Subcommittee intended to follow up on a May hearing after questioning DHS officials. Meanwhile, members of Congress who planned to go to Havana to assess security and passenger screening at airports did not receive visa approvals from the Cuban government.

4. **Bill Would Eliminate PFC Cap.**

Legislation that would allow airports to seek passenger facility charges greater than the current federal cap of \$4.50 per enplanement was introduced in the House. The Restoring Local Control of Airports Act of 2016 would cut Airport Improvement Program funding by \$400 million annually, eliminate entitlements for large hub airports, and reduce the airline ticket tax from 7.5% to 7%, among other provisions.

## VII. BILATERAL AND STATE DEPARTMENT NEWS

### 1. IATA: Impact of 'Brexit' on UK Air Transport.

With the UK vote to leave the European Union (EU), preliminary estimates from IATA suggest that the number of UK air passengers could be 3-5% lower by 2020, driven by the expected downturn in economic activity and the fall in the sterling exchange rate; freight will be affected by lower international trade in the longer term. The EU is the largest destination market from the UK, accounting for 49% of passengers and 54% of scheduled commercial flights. While the weaker pound will serve to discourage outbound travel by UK residents, additional inbound traffic will be encouraged by foreigners' increased purchasing power. There will be little or no immediate change to the regulatory environment. The UK has two years, from time of notification, to negotiate exit terms with the EU, but the process could take up to 10 years, as it will entail new trade negotiations. Depending on exit terms, horizontal agreements with third countries, such as the EU-U.S. open skies agreement, could cease to apply to the UK, requiring the UK to negotiate separate bilateral agreements. "In theory, this could be a positive in some cases, giving the UK greater flexibility to negotiate agreements suited to the best interests of UK consumers," said IATA. "However, as a single country the UK would lack the bargaining power of a 500-million population trading bloc such as the EU."

### 2. European Commission to Negotiate EU-Level Aviation Agreements.

The 28 EU Transport Ministers authorized the European Commission (EC) to begin negotiations for EU-level aviation agreements with the Association of Southeast Asian Nations (ASEAN), Turkey, Qatar and the United Arab Emirates (UAE), a mandate of the Aviation Strategy for Europe initiative which aims "to strengthen the competitiveness and sustainability of the entire EU air transport value network." . . . The airline industry center of gravity has shifted to Asia and the Middle East, the Commission's Director General for Mobility and Transport, Henrik Hololei, told attendees at an FAA-EASA conference in Washington. In remarks to the International Aviation Club in Washington, Hololei called for deepened U.S.-EU cooperation, including a relaxation of ownership rules. He applauded Norwegian Air International's application to begin Ireland-U.S. services, rejecting opponents' concerns.



## **VIII. EUROPE AND AFRICA**

### **1. UK Airline CEOs Muse on 'Brexit.'**

In interviews with UK airline CEOs attending the Airlines for Europe (A4E) "Summit on Air Mobility and Prosperity," in Brussels, Bloomberg found uncertainty in how the UK exit from the EU will affect the industry. Willie Walsh, CEO of International Consolidated Airlines Group (IAG), predicted a surge in inbound tourism spurred by a weakening of the pound; IAG does not plan to reduce jobs or capacity, or move assets away from Britain, but did cut its 2016 earnings outlook. Ryanair CEO Michael O'Leary said the Brexit vote likely will depress demand and force fare cuts, with sterling weak for the next six to 12 months; Ryanair plans for growth in the UK will be put on hold, with 50 new planes due for delivery this year to be deployed in other markets. Carolyn McCall, who heads easyJet, expects some short- or mid-term turbulence, but said demand remains strong. The key issue now is for passengers to continue to receive the benefit of the current liberalized and deregulated aviation market, said McCall.

### **2. A4E Releases Study on Cost to EU of ATC Strikes.**

A new A4E study finds that the economic impact of air traffic control strikes in Europe between 2010-15 reduced EU GDP up to €9.5 billion (at 2015 prices). "Unless the situation is tackled," states A4E, "costs of ATC strikes between 2015-20 will be of similar magnitude to the entire GDP of Malta." There were 167 ATC strike days in the EU in 2010-15 period, and 213 disrupted days "if you take into account the days before and after an ATC strike as flights had to be cancelled proactively in advance and accumulated delays spilt over to the next day. Across the EU, ATC strikes occur the most frequently in France, followed by Greece, Italy and Portugal, and resulted in 30,000 cancellations and more than six million minutes of delay among A4E airlines." The analysis was compiled by PwC. A4E members are Air France KLM, easyJet, Finnair, International Airlines Group, Jet2.com, Lufthansa Group, Norwegian, Ryanair and Volotea. . . Europe's airlines were also hampered by pilot strikes in June, among them SAS, easyJet and Air France.

### **3. EU Air Safety List Updated.**

In an update to the EU Air Safety List, the European Commission cleared all airlines certified in Zambia and Air Madagascar, and three in Indonesia (Citilink, Lion Air, Batik Air). Most aircraft of Iran Air may resume operations to the EU. . . . The Commission adopted new guidelines for air passenger rights, since Court of Justice decisions have affected the legislation since it entered

into force in 2005. Areas of clarification include conditions for compensation for delays at final destination and under which a diverted flight is considered as a cancellation. IATA said proposals to “provide a better balance between passenger rights and airline obligations” remain unresolved, “held in limbo as a result of a deadlocked dispute between Spain and the UK over Gibraltar”; e.g., time limitations on provision of care and assistance in extraordinary circumstances beyond control of the airline, and introduction of “trigger times” for delay compensation that vary by flight length.

4. **EgyptAir 804 Flight Data, Cockpit Voice Recorders Found.**

Wreckage of EgyptAir Flight 804 was found in the Mediterranean. Flight data and cockpit voice recorders were retrieved and BEA, the French aviation accident investigation bureau, is repairing them. The Airbus A320 crashed on May 19 en route from Paris to Cairo, killing all 66 passengers and crew. Cause of crash is still unknown and no group has claimed responsibility. . . . British Airways extended its suspension of flights to Sharm el-Sheikh indefinitely; the flights initially were canceled when the UK banned its airlines from flying to the resort in October 2015, after the bombing of a Russian passenger jet killed all 224 people on board. Russia also has a ban in place.

5. **Air France Now Daily to New York from Orly; French Blue Set to Debut.**

Air France now offers daily Boeing 777-200 flights to New York Kennedy from Paris Orly, allowing customers to “benefit from optimized connections, without having to change airports, to and from 26 French cities.” . . . Orly is the base of startup French Blue, which intends to launch Airbus A330 operations to Punta Cana in September. The first French long-haul, low-cost carrier, French Blue is part of Groupe Dubreuil, which also owns Air Caraibes.

6. **JetBlue, TAP Start Code Share Services.**

JetBlue and TAP Portugal signed an agreement through which TAP can place its code on JetBlue flights departing New York Kennedy and Boston Logan to 34 North American gateways. TAP operates from Lisbon to Newark, Miami and Boston; daily flights to Kennedy start in July.

7. **Etihad Partner Air Serbia Begins New York Service.**

In its first transatlantic route, Etihad Airways partner Air Serbia began five weekly Airbus A330-200 flights from Belgrade to New York Kennedy, a return of direct air links between Serbia and the U.S. after 24 years. Etihad, which holds a 49% stake in Air Serbia, said equity partners Jet Airways, Alitalia and airberlin helped prepare for the launch with engineering, fleet planning and technical support; pilot to cabin crew training; and marketing, legal and guest service backing. The service is scheduled to provide connections from

Belgrade to cities in Europe, working with Etihad Airways Partners, said James Hogan, Etihad Aviation Group President and CEO, who also is Air Serbia Vice Chairman of the Supervisory Board.

**8. Euowings Europe Begins Operations.**

Lufthansa unit Euowings Europe began operations with A320-200 flights from Vienna to several European cities. . . . Lufthansa Cargo plans to eliminate up to 800 jobs world-wide in coming years, due to weak demand and over capacity. . . . Up to 2,400 jobs at Lufthansa's LSG Sky Chefs catering unit may be cut in Europe over next five years. In related news, China's HNA Group is acquiring Zurich-based Gategroup, which includes catering services, and is in talks to buy a 49.99% stake in Air France-KLM catering unit, Servair.

**9. fastjet Appoints Nico Bezuidenhout as CEO.**

Nico Bezuidenhout resigned as CEO of South African Airways (SAA) subsidiary Mango to become CEO of fastjet. . . . easyJet founder and fastjet investor Sir Stelios Haji-Ioannou was unsuccessful in an attempt to oust Colin Child, the Chairman of the London-based African carrier; former fastjet CEO Ed Winter was forced out in March.

**10. DOT Dismisses Norwegian Air UK Exemption Application**

See Section X, item 1.

**11. Air Canada Launches 10 New International Routes.**

See Section X, item 5.

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

### **1. San Francisco-Singapore Nonstops Take Flight.**

Nonstop flights between San Francisco and Singapore are being offered by both United and Singapore Airlines. United's daily Boeing 787 service is the longest scheduled flight operated by any U.S. carrier, at 8,446 miles; flying times are 16 hours, 20 minutes westbound and 15 hours, 30 minutes eastbound. With this launch, United ended flights between Singapore and Tokyo Narita. . . . Singapore Airlines (SIA) will operate direct daily Airbus A350-900 service to San Francisco from October 23. SIA currently serves San Francisco via Hong Kong, and via Seoul Incheon, to become Singapore-Seoul-Los Angeles resulting in a second daily service to Los Angeles.

### **2. American Begins Auckland-Los Angeles Service.**

American Airlines started daily Boeing 787-8 nonstops between Auckland and Los Angeles, in an expanded partnership with Qantas.

### **3. Chengdu-Based Sichuan Plans Los Angeles Service.**

Sichuan Airlines applied to DOT for authority to begin four weekly Chengdu-Hangzhou-Los Angeles and twice-weekly Chengdu-Jinan-Los Angeles Airbus A330 services, from September. Sichuan also operates from Hangzhou, Beijing, Xi'an and Harbin; destinations include Vancouver, Melbourne, Sydney, Kathmandu, Moscow and Dubai.

### **4. Air China Connects Silicon Valley and Shanghai.**

Air China begins three weekly A330-200 nonstops between Mineta San Jose and Shanghai on September 1. The Silicon Valley destination will be Air China's tenth North American gateway. Mineta is also served by Hainan Airlines from Beijing.

### **5. Virgin Australia Stakes Sold to Chinese Companies.**

Air New Zealand will sell its 19.98% stake in Virgin Australia at A\$0.33 per share to privately owned Chinese company Nanshan Group, subject to regulatory approvals. Nanshan's aviation interests include Qingdao Airlines. . . . In May, HNA Aviation agreed to acquire a 13% share of Virgin Australia, with intent to increase shareholding to 19.99%, as part of a strategic alliance that could include code sharing and other cooperation. . . . Virgin Australia announced that Singapore Airlines, HNA Innovation, Virgin Group, Nanshan Group and Air New Zealand made binding commitments to participate in an A\$852 million equity raising, in the form of a one-for-one non-renounceable

pro-rata entitlement offer to shareholders at a price of A\$0.21 per share, and to contribute to the sub-underwriting of entitlements not taken up by other shareholders.

**6. India Approves New Aviation Policy.**

India approved a new aviation policy that, among other things, will liberalize code sharing with foreign carriers, improve regional connectivity with incentives to fly to smaller markets; and tighten airline refund policy. Domestic carriers will no longer have to operate for five years before they can fly abroad, under what is known as the 5/20 rule, although they must still deploy 20 aircraft or 20% of total capacity in India, whichever is higher.

**7. Mueller Exits Malaysia Airlines.**

Malaysia Airlines Group Managing Director and CEO Christoph Mueller is stepping down July 1, rather than previously announced September 9. COO Peter Bellew, an Irish national who formerly was with Ryanair, succeeds him. German national Mueller reportedly has been recruited for a position at Emirates.

**8. Etihad Partner Air Serbia Begins New York Service.**

See Section VIII, item 7.

**9. Air Canada Launches 10 New International Routes.**

See Section X, item 5.

## **X. AMERICAS**

### **1. DOT Dismisses Norwegian Air UK Exemption Application**

DOT has dismissed the application of Norwegian Air UK Limited for an exemption, which was filed December 11, 2015 along with an application for a foreign air carrier permit. Norwegian UK is an affiliate of Norwegian Air Shuttle as is Norwegian Air International Limited (NAI) for which an application has been pending at DOT since 2013. In dismissing the application, DOT stated that like the NAI application the Norwegian UK request raises “novel and complex” issues which need to be resolved before the carrier can be authorized to begin service and that these issues should be addressed in the context of the permit application

### **2. American’s Regionals Offer Pilots \$15,000 Signing Bonus.**

American Airlines Group regionals are offering \$15,000 sign-on bonuses for pilots. Wholly-owned subsidiary Envoy, which offers pilots a guaranteed path to American without having to interview again or compete with other applicants, said “nearly two thirds of American new hires since 2010 started their career at Envoy.” PSA has a seniority-based pilot flow through program to the mainline, and is increasing payout for its employee referral program for pilots from \$1,000 to \$5,000. Wholly-owned subsidiary Piedmont will also pay \$5,000 for every pilot referral, and plans to hire 200 pilots this year.

### **3. United, Flight Attendants Reach Agreement.**

United and Association of Flight Attendants reached agreement on terms of a joint contract, subject to ratification. The company expects a second quarter decline in consolidated passenger unit revenue of 6.5% to 7.5%, compared to Q2 2015.

### **4. Allegiant Offers Ultra Low Fares at Newark.**

Allegiant will begin Newark Liberty service in November with nonstops to Cincinnati, Savannah, Asheville and Knoxville, with one-way fares as low as \$39. The carrier reached a tentative contract with pilots; ratification results expected in late July.

### **5. Spirit CEO Vows to Improve On-Time Performance.**

Spirit reached agreement with International Association of Machinists, covering Fort Lauderdale-based ramp service workers; an interim agreement reached in June 2015 covered wages, job security and benefits. CEO Robert Fornaro vowed to improve on-time performance, in an interview with

Bloomberg, saying he'll get customers to their destinations on schedule about 80% of the time by this fall, near the industry average, compared to 69% last year. "He's also trying to soften the carrier's image for poor service by boosting communications with passengers and providing extra training for employees," reports the news service. . . . Former Spirit CEO Ben Baldanza is now Chairman of NewLeaf Travel, a Winnipeg-based service, with flights operated by Flair Airlines Boeing 737-400s. "I have long felt Canadians are paying too much for their air travel," said Baldanza. "Like citizens in other G7 countries, they deserve a low-cost option. I'm looking forward to helping bring ultra-low fares to north of the border."

**6. Air Canada Launches 10 New International Routes.**

Air Canada began Toronto-Seoul and Montreal-Lyon service, and increased Vancouver-Brisbane to daily. Air Canada Rouge is operating seven new Boeing 767-300ER seasonal flights, including Toronto to London Gatwick, Glasgow, Prague, Budapest and Warsaw; Vancouver to Dublin; and Montreal to Casablanca. Eleven new Air Canada routes to the U.S. include: Toronto to Washington Dulles, Jacksonville, Portland and Salt Lake City; Vancouver to San Jose, San Diego and Chicago; Montreal to Philadelphia, Denver, and Houston; and Calgary to San Francisco. . . . Air Canada reached long-term contracts with its 10 Canadian unions and has new contracts with Teamsters representing its U.S. unionized workforce and UNITE its U.K. unionized workforce. . . . Air Canada Cargo and Cargojet are operating Cargojet B767-300F aircraft to Mexico City, Bogota and Lima, and plan to introduce dedicated freighter service to Europe from Toronto in second half 2016.

**7. Air France Now Daily to New York from Orly; French Blue Set to Debut.**

See Section VIII, item 5.

**8. JetBlue, TAP Start Code Share Services.**

See Section VIII, item 6.

**9. Etihad Partner Air Serbia Begins New York Service.**

See Section VIII, item 7.

**10. San Francisco-Singapore Nonstops Take Flight.**

See Section IX, item 1.

**11. American Begins Auckland-Los Angeles Service.**

See Section IX, item 2.

12. **Chengdu-Based Sichuan Plans Los Angeles Service.**  
See Section IX, item 3.
13. **Air China Connects Silicon Valley and Shanghai.**  
See Section IX, item 4.