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Government & Industry Affairs Update

》》》 June 2012

The following highlights some of the key Government and Industry Affairs issues addressed by IATA during June.

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3. Israel
4. Cargo
5. Slots
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1. USA

EU ETS

The Senate Commerce Committee held a hearing to consider issues related to EU ETS, including the pending Senate Bill prohibiting U.S. carriers from participating in ETS as well as the current thinking of the U.S. Government vis-à-vis the filing of an Article 84 proceeding against the EU in ICAO. Transportation Secretary LaHood testified for the Administration, restating its opposition to the scheme and indicating no decision had been made on Article 84. Members of the Committee unanimously voiced their opposition to the scheme, showing favor for a global approach through ICAO. However, several members raised concerns over inaction at ICAO. At this time, the Committee is still deliberating on when the prohibition Bill could be brought before the Committee for approval. IATA and A4A continue to pursue opportunities to gain Senate passage of the ETS prohibition Bill.

Flight Duty Periods

The FAA has been sued by the Independent Pilots Association (the union of UPS pilots) over the exemption of cargo carriers from the recent flight duty period rulemaking. As required by the lawsuit, the FAA is re-evaluating the cost/benefit analysis, which justified the exemption. It is possible the FAA will announce that the re-evaluation further supports its decision, with costs even higher than projected during the first analysis. There are currently Bills in the House and the Senate that would require the rule to apply to cargo carriers in spite of the FAA decision. IATA is working with the Cargo Airline Association to educate Congress on the reasons for the exemption of cargo carriers and on the impact removing the exemption would have on the industry. While this regulation only applies to domestic operations, we are concerned that other countries could follow suit if it is implemented here on cargo carriers.

Benefits of Aviation Study

In June, IATA rolled out the Oxford Economics study of the Benefits of Aviation to the U.S. economy. A press roundtable generated a number of positive stories. We have provided the study to the senior USG transportation officials. IATA and A4A also presented it to DOT's newly constituted "Advisory Committee for Aviation Consumer Protection" as part of our continuing effort to challenge DOT's aggressive regulatory agenda.

Consumer Rule III

IATA and A4A continue to work together to encourage DOT to abstain from requiring airlines to sell ancillary services via the GDSs. In June, IATA and A4A, along with Take Travel Forward, held a media briefing on the issue. We

also included it in our presentation to the DOT Advisory Committee. We continue to point out that the new distribution model will offer more choice to consumers at a lower cost. As noted previously, DOT has postponed the publication of Consumer Rule III until at least November 2012

Consumer Rule II

IATA has joined A4A and other associations in petitioning DOT for an extension on the passenger baggage rules contained in Consumer Rule II. DOT had previously granted an extension until July 24, 2012 to meet the requirements in the original rule. However, the petitioners are asking for an additional six months (until January 24, 2013) to put the automated baggage systems in place to ensure smooth and efficient customer service. The petition describes in detail the complexity associated with compliance with the original rule. It is uncertain whether DOT will grant this request. As such, carriers need to be ready to comply (to the extent possible) with these new rules by July 24.

Kiosks and Website Access

DOT is behind in its goal of publishing the final rule on accessibility to websites and ticket kiosks for people with disabilities by November 2012. While it has not provided an update on the schedule, it is clear it has missed its own June deadline to get the final regulation to the Office of Management and Budget. IATA and A4A submitted joint comments seeking flexibility in meeting the rule's proposed deadlines because of the lack of available technical solutions.

2. EUROPE

Airport Package

Noise operating restrictions

On 7 June, the Ministers of Transport agreed on a "general approach" on the EC proposal on noise operating restrictions (balanced approach).

 The Council agreed on two main points:

- A new definition of marginally compliant aircraft extending the present margin of - 5 EPNdB (effective perceived noise in decibels) to - 8 EPNdB as a first step, and to less than 10 EPNdB four years later. This step by step approach is a lobbying success for the industry since the European Commission proposed a more ambitious target (10 EPNdB immediately). In addition, the regulation would only come into force

after 2 years (instead of one) after its adoption.

- The right of scrutiny (and of suspension of a restriction) of the European Commission has been watered down to a mere notification to the Member State who would not have respected the balanced approach procedure. This will be a contentious issue in the framework of the EU-US agreement.

Ground handling

IATA and AEA are intensifying the lobbying campaign at Parliament level. Delegations from Germany, Luxembourg and Austria are continuing to put pressure on the other delegations and political groups to withdraw the proposal on groundhandling from the airport package. Politically, a withdrawal would however be difficult because it could jeopardize the other proposals of the airport package.

The latest debates show that the Parliament will minimize the social aspects of the proposal (transfers of staff) but could agree on technical standards. On that specific issue, IATA will continue to lobby for the inclusion of ISAGO in the legislation as a relevant tool for both airlines and groundhandlers.

Slots

IATA met the Cypriot authorities on this issue (Cyprus will take the Presidency of the EU from the 1 July to the end of the year).

Cyprus will propose compromises to the other Member States while negotiating with the European Parliament.

Influential Member States such as France, Germany or the UK already expressed skepticism regarding the proposal of the Commission. Cyprus is waiting for a strong signal from those States before setting its position.

At European Parliament level, key MEPs should support IATA's position on 80/20 and the current definition of series of slots. The report should be presented in the relevant Committee in Parliament in July and adopted in October 2012.

Airlines are invited to lobby their national authorities with IATA key messages. Position paper and suggested amendments can be obtained on request. Non EU countries should also be vocal and oppose the departure of Europe from worldwide agreed standards.

IATA has asked its Country Managers in each EU Member States to forward our position and our suggested amendments to the national authorities.

OTC Derivatives / CRD IV

On 20 July 2011, the European Commission adopted its proposal for a regulation on prudential requirements for credit institutions and investment firms (CRD IV). This proposal could lead to increased costs for non-financial companies using OTC derivatives.

IATA has been extremely active this issue to defend the interest of its members hedging for commercial purposes and has ensured the exemption of the airlines as end users in the recent legislation on OTC derivatives.

The latest developments on CRD IV at Council level are however worrying. We have succeeded in getting a key amendment adopted at Parliament (ensuring the exemption as end user) and we continue to lobby the Council to keep this exemption. But the latest position of key Member States (such as Germany) includes end users in capital requirement and could jeopardize what has been adopted on OTC derivatives.

 The inclusion of end users in CRD IV could increase the cost to non-financial end users - to a punitive or even prohibitive degree. Banks are already required under the existing legislation to maintain capital to support the credit risk resulting from an OTC transaction. This additional capital requirement is in contradiction with the recent legislation on OTC derivatives.

IATA invites its European members to lobby their national authorities (Ministries of economy and finance) to ensure a coherent approach respecting the legislation on OTC derivatives and the exemption of end users like the air carriers. A position paper is available on request.

3. ISRAEL

Israel´s aviation market is set to open up to a much higher level of competition following the signing of an Israel-EU Open Skies agreement which will gradually liberalise over the next five years air links between Israel and the 27 nations currently within the EU. Israel's three main carriers have voiced concerns at the potential effects the new agreement could have, with El AL in particular vulnerable to the prospects of increased competition. A rise in low-cost carrier competition could also follow relaxed aviation regulations, further pressuring the Israeli carriers.

IATA noted that the shortcomings identified by the FAA's IASA audit can only be fixed by the Government of Israel. IATA requires the Israeli government to fix the legislative shortcomings affecting safety oversight. El Al, Arkia, Israir and CAL are IATA members. As such, they meet the highest international standards of safety, including the IATA Operational Safety Audit.

However, it is the Israeli carriers that are unable to compete on a level playing field so long as the Government of Israel fails to rectify the identified shortcomings.

4. CARGO

Cargo Advocacy

The Value of Air Cargo campaign is designed to raise the profile and awareness amongst regulators, consumers, financiers and airline CEOs to the value air cargo brings to national and global economies in addition to society in general with direct consumer benefits. It continues with three new activities:

- A series of postcards depicting the four visual campaign strands was produced and distributed as part of a multi month Cargo display in Zurich airport hosted by Swiss World Cargo, CargoLogic and Swissport
- IATA exhibited a value of air cargo booth during the 68th IATA AGM in BJS, where the industry revenue ring predominantly highlighted cargo as generating an average of 12% of industry revenues vs. 4% for first class.
- Beijing Capital International Airport hosted a value of air cargo display in both the arrival and departure hall of Terminal 3 during the IATA AGM.

Cargo Regulatory

Following the events in Yemen in October 2010, Regulators re-evaluated their cargo security regulations and procedures and identified areas that required further strengthening from a security perspective. In one initiative the European Union (EU) introduced a new regulation (859/2011) that places extra-territorial security requirements on airlines flying cargo into the EU. A limited number of countries were exempted from these additional EU requirements because the EU deemed their security programs to be robust and/or equivalent to those of the EU. All other airlines flying cargo into the EU have been compelled to apply for designation as an "Air Cargo or Mail Carrier operating into the Union from a Third Country Airport" (ACC3). All ACC3's will be required to have their non-EU airport stations independently validated for security purposes by July 2014. Similar requirements will subsequently apply to ACC3s' 'regulated agents' and 'known consignors'. However, IATA has successfully co-negotiated some transittional arrangements allowing a further 2 year extension to the independent validation requirement under certain circumstances and with current security programs to be taken into account by the independent validators. More information will follow soon.

TSA recently announced the implementation of 100% screening of cargo on international US inbound flights from 3 December 2012. Whilst IATA supports initiatives that enhance the security of international supply chains, there is a real risk of significant congestion and additional costs being occurred at Last Points of Departure (LPD's) airports carrying cargo to the US. This is because cargo would need to be re-screened to meet the strict new provision. Whilst we very much welcome recent Mutual Recognition of security programs between to US and EU and US & Canada and the impact these agreements have in offsetting screening requirements from Canada and the EU, fears of transit congestion and additional costs remain.

To address these concerns IATA is working with other Associations including A4A and its GACAG partners (TIACA, FIATA and GSF) on a proposal that will allow for "upstream" screening measures already applied to be taken into account at the LPD's, assuming the cargo has remained strictly secured. It is believed this will diminish the impact at LPD's. This proposal will be presented to TSA in June and IATA remains hopeful a more practical approach that meets the 100% screening objective by December 2012 can be achieved.

5. SLOTS

India

IATA met with the Ministry of Civil Aviation (MOCA) in Delhi to further discuss the proposed slot guidelines and to explain the benefits of applying the globally accepted WSG timeline for slot coordination. During the meeting we had the opportunity to highlight other areas where the MOCA proposal diverged from the WSG. IATA has responded to an MOCA request to propose new wording for their consideration. We now await a final draft of the proposed guidelines prior to the formal consultation with other stakeholders.

Columbia

IATA has engaged with the civil aviation authority because a recent misunderstanding of their ATFM slots resolution resulted in BOG wrongly being declared Slot Coordinated. Although BOG does indeed have some capacity issues, all stakeholders agree it should be Level 2, facilitated; allowing airlines to make voluntary schedule changes to optimize use of airport capacity without the constraints of imposing slots for all operations. We are organizing a meeting with both the government and BOG's airport operator to discuss implementing a system for schedule management and planning of airport capacity which would improve the situation both for the airport and airspace managers as well as the airlines operating to BOG.

Slots Conference 130-Barcelona-June14 to 16

A near record 800 delegates attended SC this year with the total number of participants exceeding 1100. We hosted representatives of the EU Parliament showing them the workings of the SC and the types of transactions that occur between the Airlines and Coordinators. This was an ideal opportunity to reinforce the IATA/AEA/airline position on the EU's proposed revision of the Slot regulation.

6. SECURITY AND FACILITATION

EU-US, US-Canada Mutual Recognition of Cargo Security

The EU and the US agreed to mutually recognize their cargo security regimes on 1 June. This historic agreement will mean that the extra requirements for US-bound flights will no longer apply at EU airports, while requirements on EU-bound cargo will not apply to flights leaving from the US. While guaranteeing security of air cargo this agreement will significantly reduce redundancies and allow a more seamless flow of air cargo across the Atlantic. The US Transportation Security Administration (TSA) also concluded a similar agreement with Canada on 31 May. IATA welcomes the efforts made by like-minded regulators to mutually recognize their aviation security measures, avoiding the need for redundant or extra-territorial requirements.

US Consolidation of Inbound Security requirements

There was also great progress in removing duplications on the US passenger security side. On 31 May, a consolidated "Emergency Amendment" was issued by TSA applying to flights inbound to the US. The consolidation does not change what needs to be done, but it merges 6 complex and sometimes conflicting documents issued since 9/11 into a single 30-page set. The consolidation was proposed by IATA and its members in 2010, and it should make interpretation and implementation of US security rules more straightforward for members.

Central America to start One-Stop Security Pilots

The CAAs of Panama and El Salvador have agreed to pilot the first one-stop security schemes outside of Europe. The pilots will allow connecting passengers and baggage to forego re-screening, provided they have arrived from a secure location with equivalent security standards. Local airlines COPA and TACA worked intensively with IATA to develop a validation process which will rely mostly on collecting existing information about the security of third countries. One-stop security complies with ICAO Annex 17 Standards and will

ensure that Panama City and San Salvador airports remain efficient platforms for connections. IATA is a strong advocate of one-stop security, and intends to showcase the region's pilots during the ICAO High Level Security Conference in September.

7. BENEFITS OF AVIATION

Campaigns have now been launched in 46 countries using the Benefits of Aviation report - see table below. The reports can be found on the Benefits of Aviation website under:
http://www.benefitsofaviation.aero/Pages/download.aspx

Country Campaigns Launched (48)

Africa	Asia Pacific	Europe	LATAM & Caribbean	Middle East & North Africa	North America
Kenya South Africa	Australia China Hong Kong India Japan Malaysia New Zealand Pacific Island Nations Philippines Singapore Taiwan Thailand	Belgium Cyprus Czech Republic Denmark Finland Germany Greece Hungary Iceland Ireland Israel Italy Latvia Luxemburg Malta Netherlands Norway Poland Portugal Romania Spain Sweden Switzerland Turkey UK	Brazil Peru Mexico	Egypt Jordan Lebanon UAE	Canada USA

8. GOVAFs

The following GOVAFs were issued in June:

- GOVAF 1197 (and supplement): US Passenger Rights NPRM – "Free" Fare Advertising

- GOVAF 1198: EU Revision of "Noise Operating Restrictions Directive (Council "General Approach")

- GOVAF 1199: EU Interpretative Guidelines on PRM Regulation

To access above GOVAFs please click:

https://corp-extranet.iata.org/sites/gia/Page/GOVAFs.aspx

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