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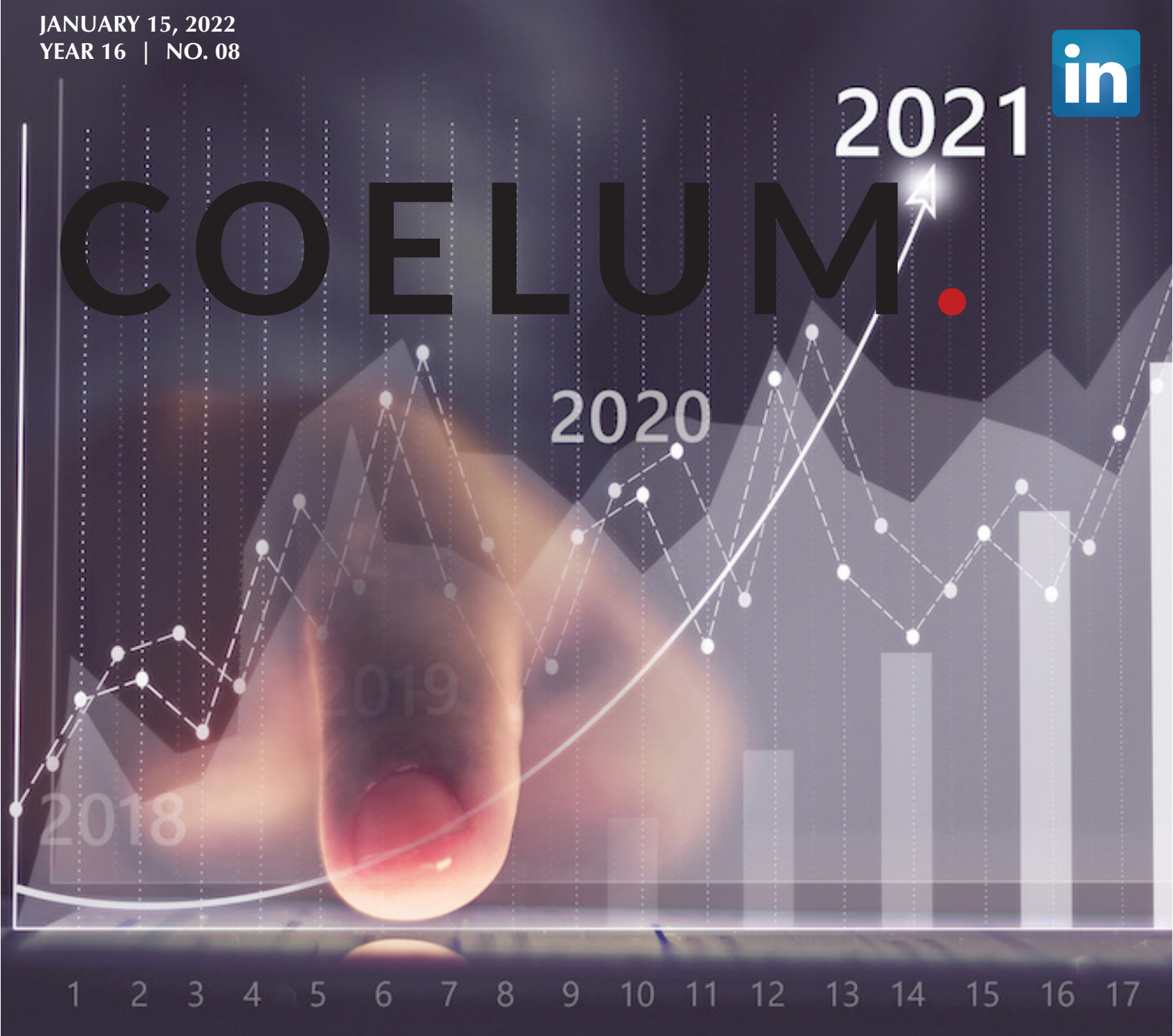

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What's next for the Aviation Industry?
by Astrid de la Fuente.

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Pronunciation: 'che-l&m, is Latin for airspace or sky. The Romans began questioning the rights they had in the space above the land they owned and how high above them those rights would extend. They decided on, Ad coelum et ad inferos, meaning that their property rights would extend as high up as the heavens and all the way down to hell.

What's next for the Aviation Industry?

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Possibly the most widely-used word over the last two years is an accurate description of 2021: unprecedented. The aviation industry has never had to work through a pandemic and find its way back. While 2020 was challenging and devastating, 2021 was not the exception, it was a year with highs and lows. From an intense recovery in various markets and the return of long-haul international travel, to the spread of different variants and uncertainty, carriers and governments had a lot to manage.

In this Coelum edition we will carry out an overview of 2021, analyzing the most relevant events in the aviation field as well as the forecast for 2022.

Firstly, while Mexico has had one of the biggest successes in terms of airline industry recovery, the country still faces several challenges that occurred in 2021; one of them was referred to in this year's June edition: *The resolution from the U.S. Department of Transportation ("DOT") to downgrade Mexico's safety rating from Category 1 to Category 2*, due to an excruciating audit which took place between October 2020 and February 2021, whereby the U.S. Federal Aviation Administration ("FAA") reviewed the compliance of Mexico's safety oversight systems with the minimum international safety standards implemented by the International Civil Aviation Organization ("ICAO").

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This as a result of the multiple infractions and inadequacies identified in the International Aviation Safety Assessment ("IASA") process with regards to the provisions of Annexes 17 and 18 of the Convention on International Civil Aviation ("Chicago Convention"). Concerns over the industry's stakeholders and specially the Airlines were raised, asking the Federal Government to address this situation as a matter of "State Priority". And although, there's decent cooperation between the two countries and a collaboration Agreement that has been implemented[1], there is still no scheduled date for it to regain its previous status. In fact, it was expected that with the renewal of the collaboration Agreement with the FAA, by the end of 2021 Mexico would be back on Category 1, a task that was not fulfilled by the current Administration. Therefore, it is still unclear if there is, in fact, a plan in order to resolve the aforementioned matter, as President Andres Manuel Lopez Obrador stated that finding a solution to the downgrade was not a top priority.

Second, as a key event in 2021 we must address this year's October edition, where the Felipe Angeles International Airport ("AIFA") was discussed. A controversial Airport in plenty of ways, since for some, it is considered to be the supposed solution that our President gave, due to the cancellation of the New Mexico City International Airport ("NAICM"). A decision taken for a variety of reasons, including environmental, social and urban impact, the lack of relevant technical aspects of the project; non-compliance with planning procedures a financing scheme considered inadequate. And because according to our President, it would represent a cost-saving of 230 billion pesos.

1.- One of the most relevant and legislative function performed by the Chicago Convention, is the formulation and adoption of Standards and Recommendation Practices ("SARPs") for the international civil Aviation. Annexes 17 specifically addresses Security, safeguarding International Civil Aviation against acts of Unlawful Interference. Whereas annex 18 deals with the Safe transport of dangerous goods by air (specifications for the labelling, packaging and shipping of dangerous goods).

Nonetheless, the aforementioned cancellation represented a loss of around 163,540 million pesos[2], generating strong national and international concerns from investors. Therefore, it is no surprise, the image of credit security is clearly low.

A new airport that is expected to initiate operations on March 21, 2022, and that has provoked numerous conflicts and uncertainties. Many questions about this project continue to be raised by the main players in the industry worldwide, from its ground connection, routes, operation with Mexico City International Airport (AICM) and Toluca International Airport (AIT) to mention a few. Furthermore, how will the integration of these three Airports be carried out? Will carriers be forced to operate from AIFA? And if so, what will happen to the all the Commercial Agreements the airlines have already agreed to with the AICM? As well as with the Service Agreements they have with the providers and of course, with the Slots that have been assigned to the Airlines? On the other hand, we must state that not all events in the aviation sector in the current year should be considered as negative.

For example, even though President's Andres Manuel Lopez Obrador's strategy of leaving the borders open and unrestricted to international flights during the covid-19 pandemic was strongly criticized, this decision generated a faster recovery for Mexico's aviation industry compared to other countries.

In fact, data from the International Air Transport Association ("IATA"), the Federal Agency of Civil Aviation ("AFAC") and Euro control demonstrates that the level of flight recovery in the country is 75.6% above the world average of 50%[3].

"Definitely, keeping the airspace free of restrictions is a fundamental reason why air traffic in Mexico is recovering at a good pace and it is the same reason why in other countries, where there were border closures, the level is much lower".

Therefore, specialists estimate that on the first half of 2022 the Mexican aviation industry will recover its 2019 levels, prior to the pandemic.

Now, having mentioned some of the significant Aviation events during 2021, what can we expect for the coming year?

First, we have a national aeronautical sector that has lost a lot of legitimacy, support, confidence and certainty, creating a questionable international environment. Therefore, in 2022 it is expected that the Mexican government will regain that confidence.

On the other hand, we are facing a potential relapse of the March-April 2020 crisis: the Omicron variant of COVID-19 is in a position to strike again and affect the entire world and of course, air travel. We do not know exactly how this variant operates however; the epidemiological data indicates that it is much more contagious than the Delta variant. Now, despite the above mentioned, Mexican government has been open about not establishing restrictions or implementing a contingency plan, in fact by the end of this year according to the Secretary of Turism ("Sectur") from January to November 2021, a flow of 31 million 686 thousand passengers on international flights was reflected, an amount 76.5 percent higher than that recorded in the same period of 2020[4]. Therefore, we can see we have reached pre-pandemic levels in number of passengers.

Secondly, with the arrival of 2022, taxes and costs of some products and services will increase. And air travel is not the exception, according to the decree published by the Official Journal of the Federation ("DOF"), Mexico City's International Airport ("AICM") will charge a domestic Airport Use Fee[5] ("TUA") of US$26.02, US$1.52 more than this year, and an international TUA of US$49.41, US$2.89.

Finally, we have an interesting year ahead of us. There will be much to comment on, much to reflect and analyze, and above all, much to clarify in the months to come.

2.- Cancelación del NAICM costó 113,327.7 millones de pesos: ASF | El Economista

3.- R. valdez. (2021). México lidera en repunte aéreo con avance de 75%. 27/12/2021, de Milenio Sitio web: https://www.milenio.com/negocios/mexico-lidera-repunte-aereo-avance-75

4.- Aumentan 76% pasajeros de vuelos internacionales hacia México: Sectur - Grupo Milenio

5.- The Airport Use Fee, is charge made by Mexican airports to all passengers on a mandatory basis for the use of airport facilities. The payment of this fee must guarantee not only your trip, but also a series of services related to the operation of the airline and the air terminal.

EU's Digital COVID-19 Certificate Vital for Latin America.

Vaccination certificates are currently accepted by the "European Digital COVID Certificate" (DCC) with the same restrictions and rights as in the countries where they were issued (those currently using it). According to The Airports Council International Latin America and the Caribbean, Latin American and Caribbean Air Transport Association, Civil Air Navigation Services Organization, and International Air Transport Association, member nations of this network have allowed travel between the EU and their territory, which has facilitated and harmonized travel. Travelers from Mexico could benefit from the DCC by avoiding quarantines and other limitations. *www.mexicobusiness.news/aerospace/news/eus-digital-covid-19-certificate-vital-latin-america?tag=aerospace* December 07, 2021.

Mexico, a success story, but challenges remain, AIFA and Category 2: IATA.

Although Mexico has been the most successful in terms of airline industry recovery, the country still faces two challenges: the Federal Civil Aviation Agency's recovery of Category 1 status, the airline industry's freedom to choose whether to operate at the new Felipe Angeles International Airport, and Seneam's correct implementation of the procedures developed for the new Felipe Angeles International Airport. To begin, it should ensure that airlines have the freedom to choose which of the three airports that make up the Metropolitan Airport System best suits their commercial and operational needs. Similarly, the airline industry has emphasized the importance of Felipe Angeles' access highways. For the new airport to be competitive, it must be connected to Mexico City. *www.a21.com.mx/aerolineas/2021/12/09/mexico-caso-de-exito-pero-permanecen-retos-aifa-y-categoria-2-iata* December 09, 2021.

The presidential Mexican airplane has not been sold.

With the arrival of Lopez Obrador to the presidency he promised to sell the presidential airplane, however, after more than 3 years later there has not been anybody interested in purchasing the Boeing 787-8s, with capacity for 80 people. The airplane has a value of 5,792 million pesos and the United Nations made a bidding process with the objective of finding and recommending possible buyers whether national or international to help the Mexican government on getting rid of the airplane that is costing them a fortune. *www.elfinanciero.com.mx/nacional/2021/10/14/avion-presidencial-realiza-vuelo-misterioso-a-donde-fue/* December 14, 2021.

TUA at AICM to increase by 2022.

The Airport Use Fee (TUA, for its acronym in Spanish) for Mexico City's International Airport (AICM, for its acronym in Spanish) will increase by 6.2% for domestic and international flights starting January 1, 2022, as published in the Official Gazette of the Federation (DOF, for its acronym in Spanish). Domestic TUA will increase US$1.52, while international TUA will increase US$2.89. Each year, the TUA increases in accordance with applicable laws and authorizations from the Ministry of Finance and Public Credit, in accordance with the Consumer Price Index for Total Urban Consumers, published by the Federal Reserve Bank in the United States. *www.a21.com.mx/aeropuertos/2021/12/24/aumentara-tua-en-aicm-para-2022* December 24, 2021.

Long lines return: AICM closes the year with saturation and delays.

During December, the long boarding lines, full lounges and migration modules have been overwhelmed once again, as they were before the pandemic. This, although a symptom of the recovery of the national airlines, is once again becoming a problem in the operation of the companies due to the saturation of the airport. Mexico City's International Airport (AICM, for its acronym in Spanish) is the main in Mexico by volume of passengers handled: before the pandemic, the airport recorded the passage of 50.3 million passengers, a record that put back on the table the need for a new airport to decongest Mexico City's airspace. The new airport at Santa Lucia is expected to be inaugurated in March 2022, which will start with 4 routes, additional operations to those already being carried out and not a redistribution of flights from the Mexico City airport. *www.elfinanciero.com.mx/empresas/2021/12/27/vuelven-las-largas-filas-aicm-cierra-el-ano-con-saturacion-y-demoras/* December 27, 2021.

In this month extract was prepared by A. Fragoso, P. Arandia, R. Nerio, R. Mancilla, J. García, S. Robles, Alexis Pérez.

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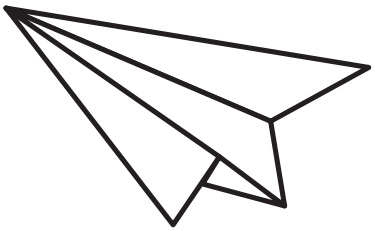

ASTRID DE LA FUENTE

Attorney at Law: Admitted to practice law in 2020. Mrs. Astrid de la Fuente, of Mexican nationality obtained his law degree at Universidad Iberoamericana, México.

LANGUAGES: Spanish and English.
PRACTICE AREAS: Aviation Law, Aircraft Contract Law.

e-mail: adelafuente@asyv.com

sierra
The leading aviation law firm in Mexico.

Prol. Reforma No. 1190 25th Floor,
Santa Fe México D.F. 05349
t. (52.55) 52.92.78.14
f. (52.55) 52.92.78.06
www.asyv.com / www.asyv.aero

www.linkedin.com/company/asyv

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