BEFORE THE DEPARTMENT OF TRANSPORTATION WASHINGTON, D.C.

Joint Complaint of Members of the Air Transport Association Of America, Inc. (d/b/a Airlines for America))))) Docket DOT-OST-2023-0148
under 49 U.S. C. § 41310 of the International Air Transportation Fair Competitive Practices Act, as amended)))))
Complaint of))
JetBlue Airways Corporation))
under 49 U.S. C. § 41310 of the International Air Transportation Fair Competitive Practices Act, as amended	Dockets DOT-OST-2023-0028 DOT-OST-2023-0151)))

ANSWER OF KLM ROYAL DUTCH AIRLINES, N.V.

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DATED: October 13, 2023

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ANSWER OF KLM ROYAL DUTCH AIRLINES, N.V.

Pursuant to Order 2023-9-21, KLM Royal Dutch Airlines, N.V. ("KLM") submits this Answer to the Joint Complaint filed by Airlines for America ("A4A") and the Complaint filed by JetBlue Airways Corporation ("JetBlue") under the International Air Transportation Fair Competitive Practices Act, as amended, 49 U.S.C. § 41310 ("IATFCPA").

The current caretaker Dutch Government has adopted a target to reduce noise at Amsterdam Airport Schiphol (AMS) by 20% during the day and by 15% at night by November 24, 2024. KLM has responded that such environmental actions can only be undertaken in compliance with the Balanced Approach mandated by the European Union

and, in the case of operations to and from the United States, the US-Europe multilateral aviation agreement. That Balanced Approach requires consideration of a number of alternative means of noise reduction with reduction of flights as a last resort. KLM responded with a plan designed to meet its noise targets and the needs of the travelling public by (1) investing up to €7billion (\$7.6 billion) in new aircraft in the coming years, (2) land-use planning and management and (3) smarter flight procedures and schedules.¹ Nevertheless, the Government of the Netherlands announced the initial purportedly "Experimental" Regulation lowering the number of annual permitted movements at AMS from 500,000 to 460,000 beginning in November 2023. After legal challenges in the Dutch courts, the caretaker government issued a new "Experimental" Regulation (the "Experimental" Regulation) on September 1, 2023, adopting the same 460,000 movement cap effective with the Summer 2024 scheduling period and a permanent reduction to 452,500 the following Winter traffic season. While the Dutch Government purported to follow the Balanced Approach and submitted notification to the European Union regarding the permanent (and not the new "Experimental") regulation, KLM has pointed out numerous ways in which the requirements of the Balanced Approach have not been met.

KLM finds itself in the crosshairs of its own government's purported noisereduction measures implemented through mandated capacity reductions at AMS, and facing the possibility that the Netherlands' various open skies partners will also pursue sanctions against it. KLM derives no benefit from the proposed regulations and in fact will be seriously injured if they become effective. KLM also has no control over the

¹ See "KLM Group presents plan ensuring greater reduction in night-time noise," KLM Newsroom (June 15, 2023). <u>KLM Group presents plan ensuring greater reduction in night-time noise</u>

process by which the regulations are proposed or adopted. In fact, KLM has led, and continues to lead, the campaign against the initial proposed capacity reductions as well as the "Experimental" Regulation and the permanent one set to follow it. KLM has pointed out multiple ways in which the Dutch Government has not followed the Balanced Approach—as required by EU Regulation 598/2014, ICAO Annex 16 and international treaties, including the US-EU "Open Skies" Air Transport Agreement (Open Skies Agreement). Indeed, KLM, JetBlue and A4A, among others, are joint parties to a cassation proceeding before the Supreme Court of the Netherlands challenging the ruling of the Amsterdam Court of Appeal, which permitted the promulgation of the "Experimental" Regulation. Simply stated, KLM is aligned with JetBlue and A4A's conclusions that the "Experimental" Regulation is unlawful.

In addition to its litigation efforts, KLM has worked to engage stakeholders at AMS and has led a public relations and lobbying campaign opposing the unilateral actions of the Dutch Government. Moreover, KLM has demonstrated through a three-part plan submitted to the Dutch Ministry of Infrastructure & Water Management ("MIWM") that it is unequivocally prepared to meet the Dutch Government's noise reduction targets--without mandatory flight reductions--through cleaner, quieter and more fuel-efficient operations, including investment of up to €7billion in fleet renewal in the coming years.

Due to the actions of the Dutch Government, KLM will be impacted gravely. KLM will not only have its flights reduced at AMS, but now faces the possibility of US retaliation. Undoubtedly other jurisdictions could follow. Even if the Department were to find that action is warranted under the IATFCPA, now is not the time for the Department to rush to implement retaliatory countermeasures. Instead, KLM, strongly supports the relief sought

in A4A's complaint, urges the Department to engage in expeditious consultations with the Dutch Government and the European Commission, pursuant to Article 15.8 the Open Skies Agreement and to request a special Joint Committee meeting under Article 18.2 of Open Skies Agreement.

1. KLM has taken the lead in the fierce legal and political debate against the AMS capacity reductions.

KLM has been at the forefront of the legal challenge to the actions by the Dutch Government to reduce capacity at AMS. The Dutch Government first announced its capacity reduction plan in June 2022, with the intent to implement an interim cap, from 500,000 to 460,000 movements beginning in November 2023 (Phase 1 of the plan), with the ultimate goal of reducing annual flight movements on a permanent basis to 440,000 by 2024, pending a Balanced Approach procedure (Phase 2 of the plan). On March 3, 2023, describing the Dutch Government's actions as "incomprehensible", the KLM Group² initiated legal action against the Dutch Government. ³ In the lawsuit, the KLM Group joined forces with Delta Air Lines, Corendon Dutch Airlines, easyJet and TUI fly (Netherlands). Simultaneously, IATA initiated litigation, joined by Air Canada, United Airlines, FedEx, JetBlue, British Airways, Vueling, Lufthansa and A4A.

KLM argued the Dutch Government blatantly bypassed the Balanced Approach consultation process with respect to the interim cap, as required by EU Regulation 598/2014, ICAO Annex 16, and international treaties. KLM further asserted the Dutch Government did not follow proper sequencing under the Balanced Approach procedure,

² The KLM Group consists of KLM, KLM Cityhopper, Martinair, and Transavia.

³ "Airlines join forces, urge courts to safeguard the future of Schiphol Airport", KLM Newsroom (Mar. 3, 2023). https://news.klm.com/airlines-join-forces-urge-courts-to-safeguard-the-future-of-schiphol-airport/

with respect to both the interim cap and the proposed permanent cap, as the government pre-determined operating restrictions and airport capacity reductions were needed as a first step, rather than after consideration of all other measures and in the most cost-efficient manner.

Amid litigation, on March 15, 2023, the Dutch Government launched the Balanced Approach consultation for the initial Phase 2 plan to permanently reduce annual movements. The Dutch Government stated its intention to reduce noise by 20% throughout the day and by 15% at night by November 24, 2024, though unabashedly it had already announced its intent to reduce capacity at AMS to 440,000 aircraft movements. Nonetheless, on June 15, 2023, KLM submitted its plan as part of this consultation process, explicitly demonstrating its ability to meet the noise targets through (1) investing up to €7 billion (\$7.6 billion) in new aircraft in coming years, (2) land-use planning and management and (3) adopting smarter flight procedures and schedules. KLM's plan ensures it will achieve a 15% night-time noise reduction target at AMS by 2024, to be followed by a 20% overall noise reduction by 2026.⁴ Notably, KLM's plan explained with great specificity six ways the Dutch Government deviated from the required Balanced Approach procedure.⁵

On April 5, 2023, the District Court of Noord-Holland issued a favorable decision

⁴ KLM explained in its submission that it views the Dutch Government's deadline of November 2024 as disproportionately short; however, KLM would be willing consider additional operational restrictions temporarily and as a last resort. See KLM's Submission to the Balanced Approach Schiphol, Unofficial Translation, at 7 (June 15, 2023).

extension://efaidnbmnnnibpcajpcglclefindmkaj/https://news.klm.com/download/6bee6ab7-2498-41ac-a62a-1e2603fb3b6c/klmenconsultationresponsebalancedapproach.pdf

⁵ See KLM's Submission to the Balanced Approach Schiphol, Unofficial Translation, at 12-15. extension://efaidnbmnnnibpcajpcglclefindmkaj/https://news.klm.com/download/6bee6ab7-2498-41ac-a62a-1e2603fb3b6c/klmenconsultationresponsebalancedapproach.pdf

finding the Dutch Government did not follow the Balanced Approach in introducing the interim cap for the 2023/2024 season—noting, however, that the government had started that procedure for the proposed permanent reduction of the number of aircraft movements to 440,000 per year starting in the 2024/2025 season. The Dutch Government sought an emergency appeal, and over the opposition of KLM, on July 7, 2023, the Amsterdam Court of Appeal ruled in favor of the Dutch Government, overturning the lower court's ruling. In its reversal, the Amsterdam Court of Appeal ruled the Dutch Government need not follow the Balanced Approach for the interim cap, finding the interim cap did not meet the definition of an "operating restriction" under EU Regulation 598/2014.

Thereafter, on Jul 25, 2023, KLM Jet Blue and A4A, along with a consortium of airlines and industry associations jointly filed in the Dutch Supreme Court an appeal in cassation⁶ against the appellate court ruling.⁷ This case is pending before the Dutch Supreme Court.

On September 1, 2023, in reliance on the decision of the Amsterdam Court of Appeal, the Dutch caretaker Government issued a new Air Traffic Decree as it moved forward with its capacity reduction plan. For Phase 1, the Dutch Government announced a temporary reduction to 460,000 movements implemented for the 2024 Summer season. Phase 2 will impose a permanent annual reduction to 452,500 movements, instead of the initially planned reduction to 440,000 movements, pending a review by the European Commission. Phase 2 will be effective for the 2024/2025 Winter season, beginning on

⁶ A cassation proceeding is a review of the contested holdings by a Dutch court of appeal with regards to both the application of law and the legal reasoning behind it. See website of the Supreme Court of the Netherlands, https://www.hogeraad.nl/english/cassation-the-main/.

⁷ See "Aviation sector will institute cassation proceedings," KLM Newsroom (July 25, 2023). https://news.klm.com/aviation-sector-will-institute-cassation-proceedings/

October 27, 2024.

The same day, on September 1, 2023, the Dutch caretaker Government notified the European Commission of its capacity reduction as a result of its purported Balanced Approach procedure. The European Commission has three months to review the decision.8 It is clear that only after approval from the European Commission may the Dutch Government implement a final decision to reduce annual capacity to 452,500 movements. As noted above, KLM believes that the Balanced Approach procedure applies also to the "Experimental" Regulation. Notably, on September 26, 2023, the Dutch Government granted AMS a Nature Permit—granted by the Minister for Nature and Nitrogen Policy—which allows the airport to cap its capacity at 440,000 aircraft movements per year but with a temporary derogation for up to 500,000 aircraft movements (the current number of aircraft movements), until a decision is taken on the final number by the European Commission.⁹ Though the Nature Permit allows for the "temporary derogation" for up to 500,000 annual movements, on September 28, 2023, the Royal Schiphol Group announced its official capacity declaration for Summer season 2024. 10 AMS will accommodate a maximum of 280,645 flights during the 2024 Summer season, which is 12,400 flights less than the 2023 Summer season, and in line with the "Experimental" Regulation capping the maximum annual flight limit at 460,000.

In the words of KLM, "[t]his is the world turned upside down." 11 KLM will continue

⁸ This three-month period may be extended if the European Commission asks the Dutch Government questions about its implementation of the Balanced Approach procedure.

⁹ See "Minister grants Schiphol nature permit", Schiphol Newsroom (Sept. 26, 2023). https://www.schiphol.nl/en/you-and-schiphol/news/minister-grants-schiphol-nature-permit/

¹⁰ See AMS Capacity Declaration Summer 2024, Royal Schiphol Group, https://slotcoordination.nl/wp-content/uploads/2023/09/AMS-Capacity-Declaration-Summer-2024-version-1.0.pdf.

its efforts on all fronts to challenge the actions of the Dutch Government.

2. The US should pursue consultations with the Dutch Government and the European Commission, as advocated by A4A.

KLM strongly believes the relief sought in A4A's complaint is appropriate and urges the Department to engage in consultations with the Dutch Government and the European Commission pursuant to Article 15.8 of the Open Skies Agreement and a through a special Joint Committee meeting under Article 18.2 of the Open Skies Agreement. If that process does not lead to a satisfactory resolution, the dispute resolution provisions of Article 19 of the Open Skies Agreement should be invoked.

It is abundantly clear from IATFCPA's legislative history and the Department's precedents that diplomatic negotiations, rather than retaliation, are the most appropriate and effective way to resolve disputes. In the words of the Senate Report on the legislation that became IATFCPA:

The threat of action of the nature here authorized is primarily useful as a step toward resolution of the dispute by negotiations ... If it is concluded that an unfair practice does exist, preliminary informal communication with foreign governments must be made to determine if the problem can be settled amicably. Only if these measures are unsuccessful should consideration be given to invoking procedures leading toward the countermeasures provided for under the bill... Time should be given for effective negotiations, for only upon failure of such negotiations would the countermeasures b[e] implemented, and then only if it is clear that further negotiations would not represent a constructive approach. ¹² (emphasis added)

IATFCPA is built on the premise that the use of agreed dispute resolution procedures is the first step. That step must be taken before any consideration is given in

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¹¹ See "Schiphol downsizing will cost thousands of jobs at KLM, works warns," NL Times (Sept. 12, 2023) (citing The Telegraaf). Schiphol downsizing will cost thousands of jobs at KLM, works warns | NL Times

¹² S. Rep. No. 92-329, reprinted in 1980 U.S.C.C.A.N., 54, 66.

this proceeding to countermeasures. In this proceeding, there is still time for expeditious discussion and consultations.¹³ As discussed below, there are a number of variables that suggest consultations may still lead to a resolution.

3. The countermeasures proposed by JetBlue are unwarranted and KLM will be doubly punished by any DOT-imposed countermeasures.

Due to the unprecedented actions of the Dutch Government, actions which KLM has strenuously opposed, KLM will suffer greatly and disproportionately to other carriers. KLM will not only have its flights reduced at AMS, its home airport, but could face retaliation from the US and other jurisdictions. It would be grossly unfair to penalize KLM for the actions of the Dutch Government though the draconian countermeasures suggested by JetBlue, including Part 213 schedule filing requirements, a reduction in KLM's service to the US, and the exceedingly drastic proposal to carve out the US-AMS market from the Blue Skies Alliance.

JetBlue requests that DOT impose schedule filing requirements under 14 CFR Part 213 on Netherlands-flag carriers serving the US. JetBlue asserts DOT could then use that schedule information to determine the number of reductions in scheduled service to the US (including slot-controlled JFK) by Dutch carriers commensurate with the forced

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¹³ See e.g., In the matter of The Imposition of Unjust User Charges at Italian Airports, Order 2014-3-19 (Mar. 28, 2014) (Docket DOT-OST-2013-0038) (terminating the IATFCPA proceeding as a result of consultations in an US-EU Joint Committee); Complaint of American Airlines against Avianca, ACES, and the Government of Colombia, Order 96-9-12 (September 16, 1996) (Docket DOT-OST-96-1315) (terminating the IATFCPA proceeding after bilateral negotiations—which were held after the Department issued an order finding relevant bilateral provisions were violated—led to a solution).

¹⁴ See "Schiphol overruled on private jet & overnight flight bans; US warns against slashing flights," NL Times (Sept. 1, 2023) (reporting that The Telegraaf received a copy of the Department's August 18, 2023 letter and showed it to KLM. In reply, KLM CEO Marjan Rintel told the Telegraaf, '[t]his would mean that if the Minister persists, KLM would not only have to scrap a number of flights but also cannot choose which ones because countries like the U.S., Canada, China, and Brazil will restrict KLM's access to their airports"). https://nltimes.nl/2023/09/01/schiphol-overruled-private-jet-overnight-flight-bans-us-warns-slashing-flights

reductions facing US carriers at AMS.¹⁵ Yet, such a reduction would only help the Dutch Government achieve the very result KLM, JetBlue and A4A have been fighting against—a mandatory reduction in flights to and from AMS.

Further, JetBlue's proposal to carve out the US-AMS market from the Blue Skies Alliance is an unduly harsh and disproportionate proposal. Under the proportionality principle that instructs the Department's determination of sanctions in an IATFCPA proceeding, "countermeasures must not be clearly disproportionate to the alleged breach in light of (1) the injuries suffered by the company or companies concerned, and (2) the importance of the guestions of principle arising from the alleged breach." While KLM acknowledges the impact of the "Experimental" Regulation on JetBlue and wishes the projected outcome were different (and is still working to achieve a different outcome), the consequences to KLM of a US-AMS market carve-out would be catastrophic and they are in no way proportional to any harm JetBlue might suffer. The US-AMS markets are among the most important of the Blue Skies alliance among KLM, Air France, Delta, and Virgin Atlantic. As noted above, there is no justification for punishing KLM since it has not instigated and will not benefit from the reductions to be imposed by the Dutch Government (indeed, quite the opposite). There is even less reason to penalize the other Blue Skies carriers thereby raising issues under the Open Skies aviation relationships

¹⁵ JetBlue cites four Part 213 cases in support of its contention for Netherlands-flag carriers to file schedules. *See* JetBlue Compl. at n.45. Setting aside the order imposing scheduling filing requirements on Chinese carriers which is based on clearly distinguishable facts, <u>none</u> of the other Part 213 cases cited by JetBlue resulted in flight reductions. *See* Order 2021-5-10 (May 17, 2021) (Docket DOT-OST-2021-0061) (imposing schedule filing requirements on Aerolineas Argentinas); Order 2021-2-5 (Feb. 19, 2021) (Docket DOT-OST-2021-0021, 2007-0095) (imposing schedule filing requirements on El Al); and Order 2002-3-18 (Mar. 20, 2002) (Docket DOT-OST-2002-11890) (imposing schedule filing requirements on Japanese carriers).

¹⁶ See Northwest v. Australia, Docket 48611, Order 93-5-13, May 7, 1993 (citing US-France Change of Guage arbitration, 54 Int'l. Law Reports 304 at 338 (1978)).

with France and the United Kingdom.

Notably, the Department previously has expressed deep skepticism about the efficacy of carve-outs, stating, "[w]e have consistently found where an integrated 'metal-neutral' joint venture is present, carve outs inhibit the realization of efficiencies and thereby the consumer benefits resulting from those efficiencies." As a general principle, the Department has not required carve-outs when applicants have proposed a Joint Venture with metal-neutral revenue arrangements. A carve-out would be contrary to Department precedent and only cause additional harm to consumers, who already would be negatively impacted by the capacity reduction at AMS.

4. The Department should allow pending proceedings to reach a conclusion before considering countermeasures.

There are still several active and expected proceedings that could affect the legality of the "Experimental" Regulation. First, the cassation proceeding is pending before the Dutch Supreme Court, challenging the Dutch Government's contention that the Balanced Approach does not apply to the "Experimental" Regulation. The case is under expedited review with the briefing schedule to conclude on December 22, 2023. Second, the European Commission may initiate an expedited review of the "Experimental" Regulation under EU law, pursuant to a petition by A4A and IATA. This review is in tandem with the review the European Commission is currently conducting of the Dutch Government's decision under the purported Balanced Approach procedures to

¹⁷ See Order 2009-7-10, at 20 (April 7, 2009) (Docket OST-2008-0234) (Granting Joint Application of Air Canada, Austrian Group, British Midland Airways, Continental, Lufthansa, LOT, SAS, Swiss Air, TAP and United)

¹⁸ See Order 2008-5-32, at 3 (May 22, 2008) (Docket OST-2007-28644) (Granting Joint Application of Alitalia, Czech Airlines, Delta, KLM, Northwest and Air France and stating, "[o]nce the 4-way JV is fully implemented, provided that a joint venture remains in place, the alliance would not be subject to carve outs").

permanently reduce annual capacity to 452,500 movements. Third, the Netherlands will hold early general elections on November 22, 2023, which will undoubtedly bring leadership changes. It is certainly very possible that the newly elected government could view the slot reduction plan, including the "Experimental" Regulation, differently and unwind the actions of the current Dutch caretaker Government. For these reasons, KLM strongly urges the Department to effectively and constructively utilize the breathing room these variables create by pursuing consultations leading to a negotiated resolution.

For the foregoing reasons, KLM respectfully requests that the Department initiate consultations pursuant to Article 15.8 of the Open Skies Agreement and a through a special Joint Committee meeting under Article 18.2 of the Open Skies Agreement in order to seek a resolution of the improperly proposed flight limitations at AMS for the benefit of the travelling public, and deny other remedies requested by JetBlue.

Respectfully submitted.

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DATED: October 13, 2023

¹⁹ See, e.g., Order 2002-5-32 (June 6, 2002) (DOT-OST-99-5011) (DOT Order terminating the IATFCPA proceeding brought by Northwest Airlines against the EU after the European Parliament and the Council of Ministers of the European Union adopted a directive that repealed the provisions that gave rise to the complaint at issue in the proceeding).

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CERTIFICATE OF SERVICE

I hereby certify the foregoing Answer was served this day via email on the persons identified below.

Charles J. Donly I

DATED: October 13, 2023

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