



WASHINGTON AVIATION SUMMARY

April 2011 EDITION

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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. IATA: Effect of Political Unrest on Global Aviation.

Political unrest in the Middle East and North Africa is estimated to have cut international traffic by about 1% in February, reports the International Air Transport Association (IATA). Middle East airlines saw demand growth fall from 12% in January to 8.4%. A capacity increase of 11% resulted in a load factor of 72.2%. Political unrest in Bahrain, Yemen and Syria is expected to have an impact on the region's markets in March; these three countries represent about 6% of Middle Eastern traffic and 0.3% of global capacity. Africa saw traffic fall by 1.3%, from February 2010. Against capacity expansion of 6.9%, load factors fell to 60.4%. Egypt and Tunisia account for 18% of the African market and 0.6% of worldwide capacity. Libya is a further 3% of the African market and 0.1% of global capacity. The impact of political unrest has been severe with traffic falling by 13.1% compared to January levels. The earthquake and its aftermath in Japan will mean a further dampening of demand from March, said Giovanni Bisignani, IATA Director General and CEO. "Industry fundamentals are good. But extraordinary circumstances have made the first quarter of 2011 very difficult."

2. Delta, China Eastern Apply to Code Share.

SkyTeam member Delta and China Eastern made a formal application to the U.S. Department of Transportation (DOT) for a code share partnership on flights to Shanghai Pudong from Los Angeles and New York Kennedy, and connections within the U.S. and China and to Canada. A China Eastern-American Airlines code share arrangement will terminate on May 31. China Eastern is in the process of joining SkyTeam; China Southern is also a member. China's third major airline, Air China, is a member of Star Alliance.

3. Airport Tower Staffing Levels Reviewed.

The National Transportation Safety Board (NTSB) is investigating an incident in which two commercial flights landed without guidance from the air traffic control tower at Washington Reagan National Airport (DCA). After failing to get a response from DCA, the pilots contacted the regional control center and were guided to a safe landing. NTSB said the DCA controller indicated that he had fallen asleep; he was working alone, on his fourth consecutive overnight shift. DOT Secretary Ray LaHood ordered FAA to place two air traffic controllers at DCA on the midnight shift, saying, "It is not acceptable to have just one controller in the tower managing air traffic in this critical air space." He asked FAA Administrator Randy Babbitt to study staffing levels at other U.S. airports. Babbitt ordered new procedures for controllers to prevent planes

landing without assistance and ordered a review to confirm that appropriate backup procedures and equipment are in use. The DCA controller was suspended. "One-person shifts are unsafe," said the National Air Traffic Controllers Association (NATCA). "The most horrifying proof of this came on Aug. 27, 2006, when 49 people lost their lives aboard Comair Flight 191 in Lexington, Ky., when there was only one controller assigned to duty in the tower handling multiple controllers' responsibilities alone," said NATCA. "The administration inherited an unsafe policy of staffing to budget instead of putting safety first. We fully support the administration's aggressive actions to change this policy." . . . In a second incident, a Central Florida air traffic controller was suspended after his instructions to a Southwest crew resulted in a loss of required separation between two aircraft.

4. FAA Proposes \$550,000 Fine for Executive Airlines.

FAA proposed a \$550,000 civil penalty against AMR unit Executive Airlines, of San Juan, Puerto Rico, for operating two ATR-72 twin turboprops when they were not in compliance with federal aviation regulations on at least 35 revenue flights in June 2009; the airline is alleged to have exceeded the mandated number of flight hours for a re-inspection.

5. DOT IG to Review FAA Bird-Strike Measures.

The DOT Office of Inspector General (IG) will conduct an audit of FAA's wildlife mitigation program. Aircraft collisions with wildlife have risen rapidly, said the IG, and public interest has increased since bird strikes caused a US Airways flight to land in the Hudson River and an engine failure on a Continental flight departing Washington National. FAA provides Airport Improvement Program funds to U.S. airports for projects to help assess and mitigate wildlife hazards. The review will assess "the effectiveness of the agency's policies and guidance for monitoring, reporting, and mitigating wildlife hazards; coordination with federal, state, and local government agencies responsible for reducing wildlife hazards; and oversight and enforcement of airports' adherence to wildlife hazard reporting, assessment requirements, and implementation of wildlife hazard management plans."

6. NTSB: Sleep Meds Would Improve Pilot Operational Abilities.

Among its conclusions regarding the 2008 crash of an East Coast Jets Hawker Beechcraft, in which two pilots and six passengers were killed, NTSB said pilot performance likely was impaired by fatigue that resulted from significant acute sleep loss and possible untreated sleep disorders, and fatigue might have degraded performance and decision-making abilities. In its recommendations, NTSB said prescription sleep medications would improve pilots' sleep quality and operational abilities, educating and training pilots on fatigue-related issues could prevent them from operating flights while impaired by fatigue, and formal

guidance on how pilots can be treated for common sleep disorders while retaining medical certification could help mitigate fatigue-related accidents and incidents.

7. **DOT Air Travel Consumer Report for January.**

Based on data filed by the largest U.S. airlines.

| | Jan. '11 / '10 | Dec. '10 | Full Year | | | | |
|-----------------------------|-------------------|-------------|-----------|-------|--------|--------|-------|
| | | | 2010 | 2009 | 2008 | 2007 | 2006 |
| On-time arrivals % | 76.3 / 78.7 | 72 | 79.8 | 79.5 | 76 | 73.4 | 75.4 |
| Cancellations % | 3.9 / 2.5 | 3.7 | 1.76 | 1.39 | 1.96 | 2.16 | 1.71 |
| Mishandled baggage* | 4.2 / 4.56 | 4.8 | 3.99 | 3.91 | 5.26 | 7.05 | 6.73 |
| <i>Consumer complaints:</i> | | | | | | | |
| Airline service | 855 / 928 | 753 | 10,985 | 8,821 | 10,648 | 13,180 | 8,325 |
| Disability-related | 39 / 46 | 38 | 572 | 519 | 477 | 488 | 430 |
| Discrimination** | 11 / 7 | 14 | 143 | 131 | 115 | 99 | 114 |

Note: The largest U.S. airlines reported one flight with a tarmac delay of more than three hours in January, down from 20 in January 2010.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. Beijing Surpasses Heathrow in 2010 Passenger Traffic.

Beijing became the second largest airport in the world in 2010, outranking Chicago O'Hare and London Heathrow, according to preliminary traffic results reported by Airports Council International. Atlanta remained the world's largest airport. Las Vegas and Heathrow were the only airports in the top 30 that did not grow in 2010. Charlotte was the only large airport outside Asia-Pacific and Middle East to grow by more than 10% (+10.4%). Based on reports from over 900 airports, global traffic grew at a rate of 6.3% and cargo by 15.2%, compared to 2009, with over 5 billion annual passengers for the first time ever. "GDP growth projections for this and the coming years are high," said ACI World Director General Angela Gittens. "This underpins the need to continue to expand and modernize airport infrastructure . . . More than ever, airports will be asked to finance these projects autonomously without public funds requiring private and public airports to be empowered to generate necessary returns on their investment."

2. United, American Agree to Revised O'Hare Expansion Plan.

United and American agreed to drop a lawsuit seeking to block O'Hare expansion, after DOT agreed to add \$155 million for the project and the city of Chicago accepted a compromise plan that reduces final phase costs to \$1.17 billion from the original \$3.4 billion; construction will start this spring on an additional south runway and other airfield improvements. In their argument, the airlines said demand did not justify the plan and that Chicago should have received their approval before proceeding; the city denied that airlines had veto power. The parties will return to the table no later than March 1, 2013 to negotiate terms and timing of remaining airfield components of the O'Hare Modernization Program. A delayed \$1 billion municipal bond offering is expected to take place in mid-April.

3. Additional Airports to Handle Flights to Cuba.

Nine airports were granted authority to handle charter flights to Cuba, in addition to current gateways Miami, Los Angeles and New York. The newly named airports—Atlanta, Baltimore-Washington, Chicago O'Hare, Dallas/Fort Worth, Fort Lauderdale, New Orleans, Pittsburgh, Tampa and San Juan—are seeking carriers for the flights. The U.S. permits those on religious, academic, journalistic or cultural missions to travel to Cuba.

4. **BAA Ordered to Sell Two Airports.**

The UK Competition Commission ordered BAA to sell London Stansted and either Glasgow or Edinburgh Airport. The airport operator, a unit of Spain's Ferrovial, had challenged the plan, which was announced in 2009. In other news, a potential bidder in Ferrovial's offering of 10% of BAA reportedly is China's HNA, parent of Hainan Airlines.

5. **BAA Plans £50 Million Heathrow Winter Resilience Plan.**

BAA will propose a £50 million Heathrow Winter Resilience Plan to airlines and the UK Civil Aviation Authority (CAA) in April. The plan implements recommendations from an independent review commissioned by BAA CEO Colin Matthews, after thousands of weather-related cancellations in December. Improvements include new equipment, increased staff and training; crisis management processes; command, control and communication systems between airport community (including airlines) and passengers; and passenger care, in addition to that provided by airlines. Airline executives have expressed concern to the press over who will pay for the plan.

6. **Russia to Merge Two Moscow Airports.**

Russia plans to combine Moscow airports Sheremetyevo, which is 100% state-owned, and Vnukovo, which is 75% state-owned, into a single state-owned entity; the state will pay between \$1.5 billion and \$1.7 billion for the 25% stake in Vnukovo. Prime Minister Vladimir Putin said the government will renovate the combined airport, building a third runway at Sheremetyevo, and eventually sell it to private investors. He said Moscow's airports plan to double capacity to 100 million passengers by 2020.

7. **Pearl River Delta Airports Sign Cooperation Agreement.**

Officials of Guangzhou, Hong Kong, Macau, Shenzhen and Zhuhai airports signed a memorandum of understanding to strengthen cooperation, amid rising demand. They hope to find solutions to ease the problem of congested skies affecting the Pearl River Delta area and reportedly discussed an overhaul of airspace boundaries and integration of air traffic control.

III. SECURITY AND DATA PRIVACY

1. Airlines Remove Oxygen Generators From Lavatories.

U.S. airlines disabled oxygen generators located in aircraft lavatories on 6,000 aircraft, as ordered by FAA to eliminate a potential security vulnerability. FAA said it is working with manufacturers to design, certify, and install a new lavatory oxygen system on all aircraft types and configurations in the U.S. fleet. Aviation regulators in Canada and Brazil adopted the FAA rule, reports the *Wall Street Journal*. The European Aviation Safety Agency did not call for EU carriers to disable the devices, saying the mandate does not fall within its scope of authority; however some airlines voluntarily are complying.

2. “The Airport Checkpoint of Tomorrow.”

“Our overall goal is to have an integrated checkpoint that allows passengers to keep their shoes on, reduces the need for physical searches, and maximizes the likelihood that we will prevent another attack on aviation,” said Janet Napolitano, Secretary of the Department of Homeland Security (DHS). “I think of this as ‘the airport checkpoint of tomorrow.’” Delivering the Compton Lecture at the Massachusetts Institute of Technology, she noted the importance of collaborations, such as one with MIT’s Lincoln Laboratory—the Imaging System for Immersive Surveillance (ISIS)—a prototype camera at Boston Logan Airport, which expands the ability “to spot suspicious objects and quickly analyze any breaches in security.”

3. TSA News.

After maintenance records indicated that some full-body scanners emit radiation levels 10 times higher than expected, manufacturer Rapiscan Systems blamed calculating and procedural errors and the Transportation Security Administration (TSA) ordered maintenance contractors to retrain personnel involved in conducting and overseeing the radiation survey process. TSA Administrator John Pistole said independent third-party testing confirmed that all TSA technology is safe. “We are also taking additional steps to build on existing safety measures [and] commissioning an additional independent entity to evaluate these protocols,” he told *USA Today*. . . . In related news, a study published in the Archives of Internal Medicine says scanners, when used properly, are an extremely low source of radiation exposure and pose virtually no health risk, not even to frequent passengers. It would take more than 50 airport scans to get as much radiation exposure as one gets from a dental X-ray, said the researcher, a radiology professor at the University of California, San Francisco. . . . TSA is seeking comment about a proposed program that would reduce airport pat-downs and full-body scans and rely instead on an

identity-based system. In remarks to the American Bar Association, Pistole said the agency wants to focus resources on higher-risk passengers, rather than making air travel unpleasant for the 628 million people who are screened in the U.S. each year. . . . TSA will seek proposals for tested scanner technology that eliminates the need for passengers to remove shoes at the airport checkpoint. . . . TSA is testing Self Tag at nine American Airlines kiosks at Austin-Bergstrom International. Passengers print their own tags for checked luggage, attach to luggage and take bags to counter, where they are scanned into tracking system and placed on luggage conveyors.

4. **ICAO, WCO Expand Cooperation on Global Air Cargo Security.**

The International Civil Aviation Organization (ICAO) and the World Customs Organization (WCO) agreed to expand cooperation in addressing threats to global air cargo security. Closer collaboration is expected to significantly minimize the operational and financial impact of security measures by reducing or eliminating duplication in systems and processes, while enhancing synergies. Last year, the Council of ICAO approved new and strengthened standards which include a requirement for member states to establish a supply chain security process, applicable in July 2011. A Technical Experts Group on Air Cargo Security will analyze such issues as electronic advance data, sharing of information and risk management.

5. **Air Travel Security Screening System Reform Proposed.**

The U.S. Travel Association (USTA) and a panel of travel and security experts, chaired by former DHS Secretary Tom Ridge, issued a proposal to reform aviation security screening and urged Congress “to own responsibility for improving the current system through effective policy decisions.” Among the recommendations: implement a risk-based trusted traveler program, to include qualified international passengers; encourage fewer carry-on bags by requiring airlines to allow for one checked bag in the price of a ticket; and standardize rules covering quantity and size of items that can be carried onto an airplane. In response, the Air Transport Association said government should not dictate how airlines deliver and price their products and services. USTA said 2010 research shows that travelers are avoiding two to three trips per year due to unnecessary hassles associated with the security screening process, at a cost of \$85 billion and 900,000 jobs to the U.S. economy.

IV. **E-COMMERCE AND TECHNOLOGY**

1. **US Airways Signs Distribution, Ancillaries Pact with Sabre.**

US Airways signed a multi-year, full content distribution and merchandising agreement with Sabre and its Travelocity unit, which makes all fares and schedules available to Sabre Connected travel agents, including Choice Seats, an ancillary product previously unavailable through the global distribution system that allows travelers to purchase premium seats in the coach cabin.

2. **FAA Reviews Wi-Fi Interference With Avionics.**

Administrator Randy Babbitt said FAA is taking a “hard look” at inflight Wi-Fi systems, reports FlightGlobal. In what may be an isolated incident, electromagnetic interference caused some avionics to go blank on a display unit during certification of a high-speed Internet system.

3. **Report: Technologies to Solve Passenger Pain Points.**

Emerging technologies, such as near-field communications (NFC), location-aware baggage systems and indoor location tracking, are set to solve passenger pain points at the airport, according to an Amadeus report, “Navigating the Airport of Tomorrow.” The report uses data from a JD Power survey of 2,978 travelers. At 43%, disruption management ranked as the most important area where travelers would like to see improvement; 34% cited a need for improved baggage handling; 40% wanted real-time information delivered to mobile devices on flight and baggage status, and directions at the airport; one-third wanted greater self-service options, including the ability to purchase additional services at airport kiosks and self-tagging options for luggage. If a wait in line to check in is longer than 30 minutes, perception of the airline swings negatively by 10%.

4. **Program Tracks Travelers Via WiFi Signals.**

Copenhagen International is the first airport to use a program developed by SITA that tracks traveler movements via Wi-Fi devices. The program provides real-time information, reports the *New York Times*, which can be used to improve airport design, direct passenger flow or shift employees to improve security or immigration checkpoint efficiency. Travelers can download a Copenhagen Airport iPhone application to receive such communications as location of shortest security line or concession sales. The program does not present a privacy issue, said SITA, since it tracks only devices and not individuals; “We do not know who is behind an individual dot other than that it is an inbound or an outbound passenger.”

5. **Delta Facebook App Enables Booking, Check-In.**

Delta's Ticket Counter app on Facebook allows passengers to book flights, check in, view itineraries, access mileage accounts and share travel information.

6. **Airport Apps for Travelers.**

Several new airport apps are available to travelers with mobile devices, including Gate Maps, Airport Maps and Airport Terminal Maps, as well as Gateguru, iFly Pro, Flysmart and GoHow Airport, which provide gate location, shops and restaurants, parking information, checkpoint wait-time and reviews by travelers. Some developers have compiled their information by partnering directly with airports, reports *USA Today*, in a review of the pros and cons of the technology.

7. **Pilots Testing Inflight iPad Use.**

Alaska Airlines is testing Apple iPad use by pilots for accessing charts and manuals, reports *USA Today*, and Delta and American will soon begin tests. Although there is a safety concern that tablet computers can distract pilots, airlines believe the devices can save them millions of dollars a year in reduced fuel and paper. FAA has granted approval for two charter companies to use iPads and they are widely used by private pilots; aviation software firms are among top-sellers at Apple's App Store.

8. **Lufthansa System to Launch BoardConnect.**

Lufthansa Systems will launch BoardConnect, its wireless inflight entertainment system, this summer, reports *Air Transport World*. Boeing 767 business class passengers will utilize tablet-type devices provided by the airline to access content, while economy passengers will use their personal Wi-Fi devices.

V. **ENERGY AND ENVIRONMENT**

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

The average price of aviation jet fuel, as of March 18, was \$134.4/barrel, up 12.3% on the month and 49.4% year-on-year, reports the International Air Transport Association (IATA). New fuel price average for 2011 was \$120.8/barrel. Based on an average oil price of \$96 per barrel, IATA is forecasting fuel to account for 29% of average operating costs this year, with a total fuel bill of \$166 billion.

2. **Obama Promotes Biofuels Development.**

President Barack Obama announced a new energy policy that would reduce oil dependence by one-third and accelerate production of commercially viable biofuels. The Blueprint for a Secure Energy Future calls for the Navy and the Departments of Energy and Agriculture to work with the private sector “to create advanced biofuels that can power not just fighter jets, but also trucks and commercial airliners,” said the President. “Over the next two years, we’ll help entrepreneurs break ground for four next-generation biorefineries—each with a capacity of more than 20 million gallons per year.”

3. **F-22 Breaks Sound Barrier in Camelina-Powered Test.**

A 50/50 fuel blend of conventional petroleum-based JP-8 and biofuel derived from camelina powered a successful test flight of a U.S. Air Force F-22 Raptor, which, said the Air Force, performed several maneuvers including a supercruise at 40,000 ft. reaching speeds of 1.5 Mach. Supercruise is supersonic flight without using the engine's afterburner. The contractor for the biofuel, Sustainable Oils, said, “Camelina-based jet fuel is ready for liftoff [and] needs no additional research, development or technology.”

4. **EU Sets ETS Caps for Airlines.**

Aviation will have a carbon dioxide limit of 213 million metric tons, effective January 1, 2012, upon entry into the European Union (EU) emissions trading scheme (ETS). In 2013, the cap will fall to 208.5 million tons. The caps are based on an estimate that carriers emitted 219.5 million tons of CO₂ a year on average in 2004-2006 on flights to and from EU airports. The EC estimated a round trip Brussels-New York ticket would rise by €12. To be determined are amounts of emission allowances to be auctioned, distributed free of charge to aircraft operators and allocated to a special reserve for new entrants. An Air Transport Association legal challenge is pending before the European Court of Justice; ATA contends the plan is a violation of international law. China is protesting inclusion in ETS and some Indian carriers say the new rules could put them at an unfair disadvantage.

5. **UK Proposes Green Aviation Policy.**

The UK published a “scoping document” setting out key principles and challenges of a new greener aviation policy. Comments are invited through September, and a draft framework will be published for consultation in March 2012, with formal adoption by March 2013. The theme of the new framework, which replaces “The Future of Air Transport White Paper,” published in 2003, will be how aviation can support economic growth while addressing environmental impacts such as carbon emissions, noise and air quality issues.

6. **Boeing, EPFL Form Sustainable Biomass Consortium.**

Boeing and Ecole Polytechnique Federale de Lausanne formed the Sustainable Biomass Consortium, a research initiative focused on increasing collaboration between voluntary standards and regulatory requirements for biomass used to create jet fuel and bioenergy for other sectors. The consortium also will seek to lower overall sustainability certification costs. Research projects will begin in April, with scope of work over the next two years to include projects in China, Africa, the EU, Latin America, North America and Australasia. The Consortium will use current aviation biofuel initiatives to launch regional benchmarking efforts.

7. **Airbus Announces Initiatives With Romania, Spain.**

A Romanian-based project to produce biofuel made from camelina has been established by Airbus and TAROM Air, with Honeywell’s UOP and CCE (Camelina Company España). Camelina is indigenous to Romania and can be readily farmed and harvested by family farmers. It has a high quality animal feed by-product, greenhouse gas reduction potential and low water requirement. . . . The Spanish government, Iberia and Airbus agreed to develop a Spanish “value chain” for sustainable and renewable aviation biofuel for commercial use, which brings together farmers, oil-refiners and airlines. Phase one of the project will be a feasibility study, phase two will narrow down promising solutions to a demonstration level, and phase three, from 2014, will look at implementation and the production process.

VI. U.S. CONGRESS

1. House, Senate Approve 60-Day Extension of FAA Funding.

The House and Senate approved a short-term extension of FAA programs at current funding levels through May 31.

2. House Debating FAA Reauthorization Legislation.

The House began debate on its version of FAA reauthorization legislation. The proposed four-year bill would “save \$4 billion by streamlining and consolidating FAA programs and facilities, and increase the use of cost effective programs,” said House Transportation and Infrastructure Chairman John Mica (R-FL); it “reduces spending to fiscal year 2008 levels, and requires FAA to identify savings in a manner that does not negatively impact aviation safety.” Among many contentious points for Democrats and Republicans, the House bill contains a provision that would overturn a rule approved last year by the National Mediation Board, which allows employees to form a union by a simple majority of those voting. Democrats favor the change, as it places airline and railroad elections under the same rules required for other industries; Republicans say the new rule favors labor unions. The White House warned, “If the President is presented with a bill that would not safeguard the ability of railroad and airline workers to decide whether or not they would be represented by a union based upon a majority of the ballots cast in an election or that would degrade safe and efficient air traffic, his senior advisers would recommend that he veto the bill.” The Senate passed its version of the bill in February.

3. Carry-On Bag Screening Costs DHS \$260 Million Annually.

The DHS FY 2012 budget request proposes an Aviation Passenger Security Fee increase of \$1.50 per enplanement beginning in 2012, the first increase since TSA was established, although overall costs of aviation security have grown by more than 400%. In testimony before a Senate appropriations subcommittee, Homeland Security Secretary Janet Napolitano said raising the fees would help offset the \$260 million a year it costs TSA to screen carry-on bags, as passengers seek to avoid checked-bag fees.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. Obama Signs U.S.-Brazil Open Skies Agreement.

U.S. President Barack Obama signed a U.S.-Brazil open skies agreement during his trip to Brazil. The transitional accord provides for new frequency opportunities and removes code sharing limitations. In December, the U.S. and Brazil agreed to enter into a phased-in open skies agreement that will take full effect by 2015.

2. EU-U.S. Conclude Aviation Safety Agreement.

The United States and the European Union concluded an agreement that, effective May 1, reduces redundant certification activities through validation and acceptance of design approvals and repairs between all EU member states and the U.S. The pact ensures regulatory cooperation and harmonization “as regards airworthiness approvals and monitoring of civil aeronautical products, environmental testing and approvals of such products, and approvals and monitoring of maintenance facilities,” said the EU.

3. WTO Confirms Some Subsidies to Boeing.

A World Trade Organization (WTO) panel found in favor of the United States on most claims in a dispute brought by the European Union concerning subsidies to Boeing. The panel agreed with the EU in some areas and asked the U.S. to remove programs worth \$2.7 billion, said U.S. Trade Representative Ron Kirk. Last year, a different panel found that the Europeans gave Airbus launch aid and other subsidies of about \$20 billion. Both sides have the right to appeal the panel’s findings within 30 days.

4. EU-Brazil Initial Aviation Agreement.

An agreement that would remove all restrictions on routes, prices and frequencies between Brazil and the EU was initialed. Both sides agreed to cooperate in areas including safety, security, competition law, air traffic management, environment, consumer protection and social and labor issues.

5. Philippine Aviation Policy to Be Liberalized.

The Philippines Civil Aeronautics Board (CAB) was authorized to liberalize aviation to benefit tourism, trade and investment. The policy will apply to selected secondary airports and not to Ninoy Aquino International.

VIII. EUROPE AND AFRICA

1. EC Adopts Plan to Increase Mobility, Reduce Emissions.

The European Commission (EC) adopted Transport 2050, which, among other things, sets a goal of cutting carbon fuels in aviation to 40% of current levels by 2050. Another key goal is establishing a Single European Transport Area and multimodal system, so that by 2050, 50% of medium-distance passenger and freight traffic will move by rail or watercraft and core airports will connect to the rail network, preferably high-speed. By 2020, the framework for a European multimodal transport information, management and payment system will be established for passengers and freight. The plan calls for “user pays” and “polluter pays” principles and private sector engagement “to eliminate distortions, generate revenues and ensure financing for future transport investments.” Also by 2020, report envisions the Single European Sky and completion of the European Common Aviation Area of 58 countries and 1 billion inhabitants. ACI Europe called for an approach to resolving the airport capacity crunch, saying the announced rail developments will only absorb 0.5% of total demand for air transport in Europe, which is expected to nearly double by 2030.

2. UK Will Not Impose Per-Plane Tax.

The UK will not impose a planned per-plane tax on commercial aircraft operations, nor will it increase Air Passenger Duty (APD) rates for 2011-12. The government cited concerns over legality and feasibility of a per-plane duty and said it will work with international partners to build consensus for a per-plane duty in the future. IATA hailed the “good news for Britain, its businesses, visitors and its holiday-makers,” but noted that Britain’s air passenger taxes “are still the highest in the world.” The APD was extended to include private jet users for the first time.

3. British Airways Cabin Crew Vote to Strike Again.

British Airways cabin crew voted overwhelmingly in favor of new strike action. “The row began about cost-cutting but now centers on travel concessions taken from striking staff and disciplinary action against Unite union members,” reported the BBC. British Airways’ new CEO Keith Williams said he is hopeful about settling the two-year dispute.

4. Ryanair to Introduce EU261 Compensation Levy.

Ryanair will introduce a €2 levy per passenger to fund costs associated with “force majeure” cases under the EU261 passenger compensation regulation. The carrier said it was forced to cancel 15,000 flights affecting 2.4 million

passengers last year for reasons beyond its control, such as volcanic ash airspace closures, air traffic controller strikes and weather-related airport closures. The disruptions resulted in €100 million in EU261-related costs, “which are not recoverable from governments, ATC providers or airports and which therefore fall on the airlines in their entirety.” Ryanair said that if the EU261 rules are reformed, to include a right of recovery clause and non-discriminatory “force majeure” clause, then it will reduce and/or eliminate the €2 levy as its cancellation and delay costs reduce over the coming years.

5. **Matthew Baldwin Succeeds Daniel Calleja.**

Matthew Baldwin was appointed EC Director for Air Transport. The British national has long been involved in trade issues. He succeeds Daniel Calleja, who now is Deputy Director General of EC Enterprise and Industry.

6. **New Infringement Procedures Launched Over Russia Pacts.**

The EC launched infringement procedures against Estonia, Greece, Hungary, Lithuania, Malta and Slovenia over their bilateral air service agreements with Russia. The agreements may hinder equal treatment of EU airlines and competition between European airlines and provide the basis for Siberian overflight charges that may be illegal under EU anti-trust rules. Similar letters of formal notice have been sent to 17 other member states in recent months.

7. **Malev CEO Resigns.**

Malev CEO Martin Gauss resigned, effective May 31, after failing to reach agreement on his compensation. Malev was renationalized in 2010 and the government has introduced a wage cap for public sector employees.

8. **American, British Airways, Iberia Offer Transatlantic Shuttle Service.**

The American/British Airways/Iberia joint business coordinated transatlantic flight schedules and began hourly shuttle service from London Heathrow and New York Kennedy. Service was aligned also on London-Chicago and Miami-Boston flights. Iberia began nonstop Madrid-Los Angeles and Barcelona-Miami services in March. American launches New York-Budapest service in April and Chicago-Helsinki in May. And British Airways will begin London-San Diego service in June.

9. **Delta, Air France, KLM Launch Florida Expansion.**

Delta and Air France-KLM announced 14 new weekly nonstops connecting Florida with London, Amsterdam and Paris. The routes include: Miami-London Heathrow on Delta; Miami-Amsterdam on KLM; Orlando-Paris de Gaulle on Air France. Delta added new nonstops from Tampa, Jacksonville and Orlando to Miami, operated by Delta Connection carrier Comair.

10. JetBlue Teams with Virgin Atlantic, South African.

JetBlue and Virgin Atlantic began an interline partnership which allows passengers to connect from London, Glasgow and Manchester on Virgin Atlantic to JetBlue destinations, including Baltimore, Charlotte, Chicago, San Diego, Tampa and Puerto Rico. The airlines will interline in Virgin Atlantic-operated transatlantic markets that depart from JetBlue's Boston, New York Kennedy, Washington Dulles and Orlando focus cities. . . . JetBlue and South African Airways (SAA) are code sharing on SAA flights between 18 cities served by JetBlue in the U.S. and Johannesburg, via New York Kennedy and Washington Dulles. From SAA's Johannesburg hub, passengers can connect to 45 destinations in Southern Africa, East Africa and Africa's Indian Ocean islands. The carriers began an interline partnership last year. South African Airways also begins nonstop New York-Johannesburg service on May 1.

11. Japan Earthquake News.

See Section IX, item 1.

12. UAE Says European, Canadian Carriers Hinder Competition.

See Section IX, item 5.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. Japan Earthquake News.

The Japan earthquake, tsunami and nuclear reactor disaster will result in a sharp slowdown for airlines in the \$62.5 billion-a-year Japanese aviation market, which, said IATA, accounts for 10% of the global industry's revenues. Japan's domestic market, 83 million passengers per year, represents about \$19 billion in revenue. China's Japanese operations account for 23% of international revenues, Taipei and South Korea 20% each, Thailand 15%, the United States 12%, Hong Kong 11%, Singapore 9%, France 7%, Germany 6% and the UK 3%. . . . ICAO and four other United Nations bodies declared travel to and from Japan to be safe, but advised travelers to avoid areas most severely affected by the tsunami and earthquake because of disruptions to essential services. Screening for radiation of international passengers from Japan is not considered necessary at this time, said the World Health Organization. . . . U.S. Customs and Border Protection (CBP) increased screening of inbound travelers and cargo from Japan, saying it is "assessing the potential for radiological contamination associated with the ongoing impact of the earthquake and tsunami to Japan's nuclear facilities." Personal Radiation Detectors (PRDs) can detect the presence of radiological materials, said CBP, and all airports have more sensitive Radiation Isotope Identification Devices (RIIDs) to determine both the presence and type of radiation encountered. . . . The Japanese civil aviation authority diverted civil aviation flights away from the Fukushima Daiichi nuclear reactors 150 miles northeast of Tokyo, while the UK Volcanic Ash Advisory Center (VAAC) warned flight crews away from the plant and cited affected airspace in Japan and parts of Russia, China, South Korea and Alaska. . . . Most airlines reduced operations to Japan; many rerouted flights to include stopovers to minimize crew downtime in Tokyo amid the risk from radiation and aftershocks.

2. JAL Emerges From Bankruptcy.

Japan Airlines (JAL) emerged from bankruptcy protection following a massive restructuring process. But amid declines of 28% in domestic and 25% in international passengers since the Tohoku Pacific Earthquake and resulting nuclear crisis, there was little cause for optimism, said President Masaru Onishi. The airline will adjust capacity to meet changes in demand, cutting 74 weekly flights on 11 international routes temporarily, and downsizing aircraft used on Tokyo Narita-Guam and -Nagoya Chubu routes in April. JAL procured a total of \$3.13 billion from 11 financial institutions and repaid reorganization claims. A new Board of Directors has been appointed.

3. **American, Qantas Expand Code Share Cooperation.**

Qantas will begin direct flights from Sydney to Dallas/Fort Worth on May 16, and offer code share service on American Airlines flights to 28 new North American destinations from Dallas. American will code share on Qantas services between Sydney and Dallas/Fort Worth and domestic services from Brisbane to Adelaide, Canberra, Cairns, Melbourne and Perth. The oneworld partners will seek approval for closer collaboration from the Australian Competition and Consumer Commission and other authorities.

4. **Hawaiian, Korean Air Expand Partnership.**

Hawaiian Airlines and SkyTeam member Korean Air added a reciprocal frequent flyer program to their marketing partnership. They code share on select Korean Air flights within South Korea and to Bangkok, and on Hawaiian's transpacific and interisland flights, and plan additional destinations.

5. **UAE Says European, Canadian Carriers Hinder Competition.**

The General Civil Aviation Authority (GCAA) of the United Arab Emirates (UAE) says Lufthansa, British Airways and Air France, as well as Canadian airlines, are hindering UAE carriers. They seek through dishonest methods of competition to strike alliances with other global airlines and close airspace to UAE companies, to restrict movement in global air navigation and reduce their competitiveness, said GCAA Director General Saif Mohammed Al Suwaidi, as quoted in UAE newspaper *Emarat Al Youm*. Suwaidi also said GCAA is conducting studies to address the situation, including the option to negotiate; talks with Austrian authorities regarding Emirates flights. GCAA said the UAE plans to conclude 25 agreements this year, focusing on open skies.

6. **Wataniya Airways Ceases Operations.**

Kuwait-based Wataniya Airways ceased operations, citing its financial situation, the difficult political and security situation in the region and "the lack of fair trade requirements in the local market." The two-year-old premium airline announced fleet and route cuts in November.

7. **Delta, China Eastern Apply to Code Share.**

See Section I, item 2.

8. **Philippine Aviation Policy to Be Liberalized.**

See Section VII, item 5.

X. AMERICAS

1. U.S. Airlines Cut Growth Plans.

To offset high fuel prices, airlines announced fare increases, fuel surcharges, capacity cuts and cost-saving measures. United Continental said 2011 consolidated capacity will be flat with 2010, reduced from an earlier forecast 1% to 2% increase; international capacity will grow by 2.5% to 3.5% and domestic capacity will decline 1.5% to 2.5%. . . . Delta said first-quarter revenue will be about \$450 million lower than expected due to severe winter weather, rising fuel prices and events in Japan. Delta revised capacity growth plans from 5% to 7% this quarter to 3% to 5%, compared to 2010 period. Delta plans to cut up to 20% of capacity to Japan and suspend new service to Tokyo Haneda. Memphis will see a 25% cut in service by Delta and its regional affiliates, which together account for 80% of passenger traffic. . . . American slightly revised down its earlier consolidated capacity forecast of 3.6%, and said first quarter revenue will be down \$50 million due to extreme weather conditions. . . . Southwest 2011 capacity plans remain at a 5% to 6% increase, excluding the proposed AirTran acquisition. . . . US Airways cut growth plans for this year to 1.5% from 2%.

2. Business Travel Fares Rose 7% in 2010.

Airfares in 2010 neared the highest levels since the recession, with domestic just 6% off most recent highs in 2008, reports the American Express Business Travel Monitor; systemwide fares rose 7% in 2010 compared to 2009. This year, domestic fares were up 8% in January, over January 2010.

3. AirTran Shareholders Approve Southwest Acquisition.

The proposed acquisition of AirTran by Southwest was approved by AirTran shareholders. The transaction, announced in September, remains under review by the U.S. Department of Justice and is subject to other regulatory clearances. In other news, AirTran's fleet and passenger service/reservation employees voted to join the International Association of Machinists and Aerospace Workers (IAM). Of 2,904 eligible voters, 34% cast in favor of IAM representation, 30% against and 36% did not vote, said the National Mediation Board, which conducted the election. IAM members at Southwest earn \$8.56 more per hour than AirTran passenger service agents, and \$9.66 an hour more than AirTran reservation agents, said IAM. The Teamsters union representing AirTran's material specialists ratified a tentative agreement for a new, five-year contract through August 16, 2013.

4. **Southwest Launches Newark Service.**

Southwest expanded its New York-area service with six daily nonstops to Chicago Midway and two daily nonstops to St. Louis from Newark Liberty and in June will offer services between Newark and Baltimore/Washington, Denver, Houston Hobby and Phoenix with base fares as low as \$69 one way. The carrier already serves New York LaGuardia and Long Island.

5. **Mesa Exits Bankruptcy Protection.**

Mesa Air Group emerged from Chapter 11 protection following a 13-month reorganization that included: elimination of 100 aircraft; restructuring of leases and financings for remaining CRJ 200s and Dash 8s; and extending a code share agreement with US Airways through September 2015. The company will issue four new series of notes, common stock, and warrants to purchase shares to creditors in exchange for claims in the Chapter 11 proceedings. "Mesa is among the first regional airlines to address the risks associated with 50-seat regional jet aircraft which have increasingly fallen out of favor with mainline carriers," said CEO Jonathan Ornstein. "We believe the elimination of exposure related to this fleet provides Mesa with a significant competitive advantage."

6. **Pinnacle CEO Phil Trenary Resigns.**

Philip Trenary resigned as President and CEO of Pinnacle to pursue other interests. Chairman Donald Breeding is serving as Interim CEO. Trenary oversaw the acquisition and integration of Colgan Air in 2007 and Mesaba in 2010. Memphis-based Pinnacle, which flies as Delta Connection, United Express and US Airways Express, has revenues of over \$1 billion.

7. **Vision Adds More Scheduled Flights.**

Vision Airlines added scheduled service to six Florida destinations from 16 southern U.S. cities and Niagara Falls, with base fares as low as \$59. The charter carrier began regularly-scheduled service in January.

8. **American, WestJet Launch Code Share Flights.**

American Airlines and WestJet launched a comprehensive code share agreement, in which American will place its code on WestJet flights to nearly 20 Canadian cities not currently served by American or American Eagle. Initially, American will place its code on flights in the Montreal to Winnipeg and Toronto to Edmonton markets. WestJet will place its code on American Airlines flights to more than 30 new U.S. destinations in phases, starting with Dallas/Fort Worth and Los Angeles via Toronto.

9. **JetBlue, LAN Offer Interline Connections.**
JetBlue and LAN and its affiliates LAN Peru, LAN Argentina and LAN Ecuador launched interline agreements for travel between major destinations throughout the Americas via New York Kennedy.
10. **Brazil's ANAC Approves TAM-LAN Merger.**
Brazil's civil aviation authority approved the planned merger of Brazilian airline TAM and Chilean LAN as presented. However, Chile's antitrust tribunal (TDLC) said it would proceed with its review, announced in January.
11. **Delta, China Eastern Apply to Code Share.**
See Section I, item 2.
12. **American, British Airways, Iberia Offer Transatlantic Shuttle Service.**
See Section VIII, item 8.
13. **Delta, Air France, KLM Launch Florida Expansion.**
See Section VIII, item 9.
14. **JetBlue Teams with Virgin Atlantic, South African.**
See Section VIII, item 10.
15. **Japan Earthquake News.**
See Section IX, item 1.
16. **American, Qantas Expand Code Share Cooperation.**
See Section IX, item 3.
17. **Hawaiian, Korean Air Expand Partnership.**
See Section IX, item 4.
18. **UAE Says European, Canadian Carriers Hinder Competition.**
See Section IX, item 5.