



WASHINGTON AVIATION SUMMARY

April 2014 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. Malaysia Airlines Boeing 777 Lost En Route to Beijing.

A Malaysia Airlines Boeing 777 vanished en route from Kuala Lumpur to Beijing on March 8 and is believed to have crashed in the southern Indian Ocean, west of Perth. There were no transmissions of distress from pilots. Radar indicated the plane turned from its course and flew west toward the Strait of Malacca. Satellite data suggest it then turned south. An international investigation team, including the National Transportation Safety Board (NTSB), and Federal Aviation Administration (FAA) from the U.S., with Boeing, is providing technical assistance to Malaysia. A multinational air and sea search for debris is being led by the Australian Maritime Safety Authority. Flight MH370 was carrying 227 passengers and 12 crew. Relatives of the 154 Chinese passengers accused the carrier and the Malaysian government of actions that “misled and delayed search efforts, wasted manpower and material resources and led to the loss of precious rescue time.” At least one lawsuit has been filed. Germany's Allianz is the lead insurer.

2. ICAO President Emeritus Assad Kotaite Dies.

Assad Kotaite, President Emeritus of the International Civil Aviation Organization, died at the age of 89. His ICAO career, begun in 1953, was the longest among senior executives in the history of the United Nations system. He was appointed Secretary General in 1970, then served as President of the Council from 1976 until his retirement in 2006.

3. IATA: Industry Profits Will Reach \$18.7 Billion This Year.

The world's airlines will see profits of \$18.7 billion this year, reports the International Air Transport Association (IATA), on revenues of \$745 billion. Average fare per departing passenger is expected to be \$181, plus \$14 for ancillary services. Cargo will see 4% growth. Jet fuel prices are expected to be \$124.6/barrel. Overall industry returns remain at “an unsatisfactory level,” with net profit margin of just 2.5%. “The aviation industry retains on average \$5.65/passenger in net profit,” said IATA Director General and CEO Tony Tyler. “This is improved from \$2.05 in 2012 and \$4.13 in 2013. But it is below the \$6.45 achieved in 2010.” North American airlines are expected to post a profit of \$8.6 billion, compared to \$4.2 billion in 2010, the previous peak and third consecutive year of improved profitability. European airlines are expected to post a \$3.1 billion profit, Asia-Pacific \$3.7 billion, Middle Eastern \$2.2 billion, Latin American \$1 billion and African \$100 million.

4. FAA Releases 20-Year Forecast.

FAA's fiscal year 2014 to 2034 forecast projects U.S. carrier revenue passenger miles in 2034 will be 76% higher than in 2013. Total number of passengers on U.S. airlines will increase by 0.8% from 2013 to 745.5 million in 2014 and 1.15 billion in 2034. System capacity in available seat miles is projected to increase by 1.5% this year and grow at an average annual rate of 2.7%. Air cargo traffic will double by 2034 at average 4.1% per year. Landings and take-offs at FAA-operated and contract towers will rise from 49.9 million in 2013 to 61.9 million in 2034

5. Administration FY 2015 Budget Proposals.

The Obama Administration's fiscal year 2015 budget request includes \$15.4 billion for FAA, down \$350 million from FY'14 enacted funding level. The budget requests roughly \$1 billion for the Next Generation Air Transportation System. It proposes a \$2.9 billion obligation limitation for Grants-in-Aid for Airports (AIP), \$450 million below FY'14 enacted level, and would focus federal grants on small commercial and general aviation airports. It increases the Passenger Facility Charge (PFC) limit from \$4.50 to \$8.00 for all commercial service airports. Airlines for America said the increased PFC will cost passengers and airlines an additional \$2.2 billion annually. American Association of Airport Executives called for an even higher PFC, \$8.50, to reflect inflation and meet airport needs, but rejected the AIP reduction. Airports Council International-NA said the AIP proposal pits large hubs against smaller airports. . . . The Department of Homeland Security (DHS) \$38.2 billion budget requests \$3.8 billion for Transportation Security Administration (TSA) screening operations and reinvests some of an anticipated \$100 million in "staffing efficiencies" from TSA's initiatives like Pre-Check. The budget proposes a historic level of 25,775 Customs and Border Protection officers, including 2,000 funded through 2014 appropriations and 2,000 through proposed increases to user fees. . . .The Department of Energy budget requests \$253 million to develop and demonstrate conversion technologies to produce advanced biofuels, such as drop-in replacements for jet fuel.

6. DOT Proposes to Award San Francisco-Haneda Rights to United.

The U.S. Department of Transportation (DOT) tentatively approved United's application to serve Tokyo's downtown Haneda Airport from San Francisco. Hawaiian also proposed service in the proceeding, which followed American's withdrawal from New York-Haneda service in December 2013. Under a U.S.-Japan agreement, U.S. airlines may operate a total of four daily roundtrips per day at Haneda (operated to date by Hawaiian [Honolulu], Delta [Los Angeles and Seattle] and American [New York Kennedy]).

- 7. Review Finds B-787 Design Safe, Calls for Improved Supplier Oversight.**
A review by a team of FAA and Boeing technical experts found that the Boeing 787 was soundly designed and met its intended safety level, and that the manufacturer and FAA had effective processes in place to identify and correct issues that emerged before and after certification. Four recommendations were given to Boeing on manufacturing and supplier issues. Recommendations to FAA call for improved, risk-based oversight for new business models. FAA said it is working on a rule to strengthen reporting for quality issues at all tiers of the supply chain; and manufacturing inspectors will expand their review of production and quality data for critical suppliers, including those located outside the United States. FAA Administrator Michael Huerta asked for the review in January 2013, after the lithium battery fire on a Japan Airlines B-787 in Boston, which is under investigation by NTSB.
- 8. FAA to Amend Rule on Drug, Alcohol Testing of Maintenance Workers.**
FAA is seeking comments on an Advance Notice of Proposed Rulemaking that would require employees of FAA-certified foreign repair stations and other maintenance providers who perform safety-sensitive work on U.S. air carrier aircraft to be subject to a drug and alcohol testing program. Testing would meet FAA standards and be consistent with applicable laws of the country where the repair station is located.
- 9. Azerbaijan Wins Category 1 Safety Rating.**
The Republic of Azerbaijan complies with international safety standards set by ICAO and has been granted an International Aviation Safety Assessment Category 1 rating, announced FAA. Air carriers of Azerbaijan now can fly to the United States and carry the code of U.S. carriers.
- 10. FAA Proposes Civil Penalty Against All American.**
FAA proposed a civil penalty of \$51,651 against All American Aviation Services, of Tomball, Texas, for violating drug and alcohol testing regulations. Eight employees worked in safety sensitive positions for more than 30 days after they were hired, even though All American had not obtained drug and alcohol testing records from previous employers. The company also failed to comply with procedures for follow-up tests on employees who tested positive for marijuana use prior to being hired. All American is a charter and cargo carrier that primarily serves the offshore oil and gas industry.
- 11. FAA Rule Prohibits Personal Use of PEDs on Flight Deck.**
FAA issued a final rule, effective April 14, that prohibits Part 121 pilots from using personal electronic devices (PEDs) while flying. The rule is intended to

ensure that certain non-essential activities do not contribute to the challenge of task management on the flight deck or a loss of situational awareness.

12. Hersman to Leave NTSB; “Wrong Airport Landing” Alert Issued.

Deborah Hersman will leave her position as Chairman of the National Transportation Safety Board on April 25 to become President of the National Safety Council. Vice Chairman Christopher Hart will serve as Acting Chairman upon her departure. . . . In other news, NTSB issued a Safety Alert with measures pilots can take to avoid a wrong airport landing, citing a Southwest 737 landing at the wrong airport in Branson, Missouri, in January 2014, and an Atlas Air Boeing 747 landing on a 6,100-foot runway instead of the 12,000-foot one at its intended airport 12 miles away, in November 2013. An Associated Press review of data shows at least 150 flights made wrong or aborted landings or erroneous approaches during the past 20 years. . . . NTSB is investigating a March 13 aborted takeoff and nose gear collapse at Philadelphia International, when a tire blew out on a US Airways Airbus A320. There were 154 passengers and crew on board Flight 1702, but no reports of serious injuries. . . . And a Delta Boeing 757 lost a wing panel en route from Orlando to Atlanta; Flight 2412 landed safely in Atlanta, was towed to the gate, and none of the 179 passengers or six crew members were injured.

13. Airline Employment Rose in January.

[dot] U.S. scheduled passenger airlines employed 381,819 workers in January 2014, reports DOT, 1,777 more than in January 2013. The five network airlines employed 66.9% of the total, the six low-cost carriers employed 18.3% and the 13 regional carriers employed 13.2%. Among network airlines employment increased at US Airways, Alaska, American and Delta, and decreased at United. Of low-cost carriers, Spirit, Allegiant, Virgin America and JetBlue reported increases, while Frontier and Southwest reported declines. Among regionals, Endeavor (formerly Pinnacle), Chautauqua, Shuttle America, American Eagle and Air Wisconsin reported declines.

14. Severe Winter Weather Takes \$5.8 Billion Toll on Aviation.

The “relentless winter weather” from December 1 through February 28 took a \$5.8 billion toll on passengers, airlines and airports, compared to an average \$3.3 in recent winters, reported masFlight, which estimates that one million flights were cancelled or delayed. Speaking at a J.P. Morgan aviation conference in New York, Delta President Ed Bastian said the airline lost \$90 million in revenue during first two months 2014, when it cancelled 17,000 flights. American cancelled 28,000 and United cancelled 23,000. FAA waived the requirement that airlines fly at least 80% of their schedule at slot-controlled

Washington Reagan National and New York LaGuardia, Kennedy and Newark airports, where storms forced so many cancellations.

15. Record Worldwide Airline Baggage Delivery in 2013.

The worldwide mishandled baggage rate dropped to 6.96 bags per thousand passengers in 2013, and total annual cost to the industry fell 19.9%, according to air transport IT specialist, SITA. This was half the rate reported 10 years ago, despite a 65.6% increase in passenger numbers over the period. More than 81% of 21.8 million mishandled bags in 2013 were delayed bags. Baggage transfers accounted for 45% of delayed bags, 23.2% lower than in 2012. Improvement in transfer performance is helped by greater messaging reliability, which enables bags with short connection times to be identified before they arrive at the airport, said SITA. Better segregation of these “hot bags” in the aircraft and smart mobile devices for staff also are important. A mishandled bag is a delayed, damaged or pilfered bag recorded by an airline or its handling company on behalf of the passenger and handled as a claim.

16. DOT Air Travel Consumer Report for January.

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

	Jan. '14 / '13	Dec. '13	Full Year				
			2013	2012	2011	2010	2009
On-time arrivals %	67.7/ 81	68.9	78.34	81.85	79.6	79.8	79.5
Cancellations %	6.5 / 1.5	2.9	1.51	1.29	1.91	1.76	1.39
Mishandled baggage*	5.54 / 3.41	4.55	3.22	3.09	3.35	3.51	3.91
Consumer complaints:							
Airline service	1,713/1,372	1,114	13,168	15,338	11,546	10,988	8,821
Disability-related	76 / 55	47	679	741	628	572	519
Discrimination**	8/6	9	79	99	128	143	131

Note: Airlines reported 18 tarmac delays of more than three hours on domestic flights (16 involved Southwest arrivals at Chicago Midway during a January 2 snowstorm) and three of more than four hours on international flights.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. FAA Extends Flight Restrictions at New York Area Airports.

FAA has again extended the operating limits at New York Newark, Kennedy and LaGuardia originally established in 2006, to minimize congestion and delays. The order remains effective until a final rule on slot management and transparency for the airports becomes effective, but not later than October 29, 2016.

2. Airlines Vie for Love Field Gates.

The Department of Justice said Delta is not an appropriate candidate for two gates at Dallas Love Field that were divested by American in its merger settlement, since this “would fail to address the harm arising from the merger and would be inconsistent with the goals that the remedy seeks to achieve.” . . . Virgin America hopes to operate new daily Airbus A320 nonstops from Love Field to New York LaGuardia, Reagan Washington National (DCA) and Chicago O'Hare, and will increase its three daily nonstops to San Francisco and Los Angeles to four, and move its Dallas-Fort Worth operations to Love Field in October after expiration of the Wright Amendment. . . . Southwest, which currently controls 16 of 20 Love Field gates, would add 20 nonstops to 12 new destinations.

3. JetBlue, Southwest Add DCA Service.

JetBlue and Southwest are adding new Washington National service, using slots acquired as a result of the American-US Airways divestiture proceedings. JetBlue will operate new service to Charleston, Hartford and Nassau, and add service to Tampa. Southwest is adding new service to Chicago Midway, Nashville, New Orleans, Tampa, Akron-Canton, Dallas Love Field and Indianapolis, and offering additional flights to Houston Hobby and St. Louis. . . . Separately, four airlines asked DOT for a pair of DCA slots formerly used by Frontier. American would offer a daily roundtrip to Islip, Long Island, for 50-seat Bombardier CRJ 200 service (US Airways' twice daily service on the route ends in July). Southwest would continue its temporary daily Boeing 737-700 roundtrip to Kansas City, Mo. JetBlue would offer a daily 100-seat Embraer E190 roundtrip to Jacksonville, Fla. And, startup People Express proposed a daily Boeing 737-400 roundtrip to Myrtle Beach (April-October) and Palm Beach (October-April).

4. Delta to Establish Hub at SeaTac.

Delta, which has long code shared with Alaska, the dominant carrier at Seattle-Tacoma, now plans to establish its own hub there, Delta executive Paul Jacobson told an investors conference. Delta announced new nonstops from Seattle to several domestic destinations, and to Amsterdam, Beijing, Paris, Shanghai, Tokyo and London, with Hong Kong and Seoul to begin in June, pending government approval.

5. Atlanta To Offer Incentives for New International Routes.

Atlanta plans to waive landing fees for one year to airlines that start new international routes at Hartsfield-Jackson, reports the *Journal-Constitution*, with greater incentives for emerging and premium markets. The five-year program hinges on approval by the City Council.

6. \$100 Million in Renovations Slated for Boston.

Boston Logan will undergo \$100 million in renovations for expanded international service, including construction of a post-security connector between Terminals C and E, self-service kiosks for passport processing, and gates to accommodate Airbus A-380s. Logan international traffic grew 20% in the past 10 years, with 5.7 million international travelers in 2013 (one in five). Work will begin in July and is expected to take two years; projects funded through Massachusetts Port Authority's capital plan.

7. \$96.6 Million for Hawaii Airport Improvements.

Hawaii's Airports will receive \$96.6 million for construction projects. Among allotments, Honolulu International in Oahu will receive \$50 million for taxiway structural improvements, \$35.74 million for a new commuter terminal and \$2 million for design to replace or rehabilitate three pedestrian bridges that connect the Overseas Terminal to its parking garage.

8. Pittsburgh Seeks New CEO.

Allegheny County Airport Authority is seeking a new President and CEO for Pittsburgh International, following departure of Bradley Penrod. Authority CFO James Gill is Acting Executive Director. Penrod worked for the Authority for 30 years, became Executive Director in 2007 and President and Chief Strategy Officer in February 2013. The airport has not been able to make up for the loss of US Airways as a hub operator in 2004.

III. SECURITY AND DATA PRIVACY

1. Missing Flight 370 Highlights Security Needs.

Passports recorded in Interpol's Stolen and Lost Travel Documents database were used by passengers on missing Malaysia Airlines Flight 370, bringing attention to deficient cross-checking by border control agents in many countries. Last year, passengers boarded planes more than a billion times without having their passports screened against Interpol's database. Created in 2002, following the September 11, 2001 terrorist attacks, the database has grown to 40 million entries, with 800 million searches per year. In 2013, the U.S. searched the database more than 238 million times, the UK 140 million times and the United Arab Emirates 104 million times. Interpol said Malaysia had not checked the database this year. . . . A call for "immediate implementation of biometric passports and borders, including a biometric exit program in the U.S.," was renewed by the Secure Identity & Biometrics Association (SIBA) and others, following loss of Flight 370. The 9/11 Commission recommended biometric borders, as al Qaeda relied heavily on counterfeit and stolen passports. "Biometric borders are now cost-effective, extremely fast, and are currently enabling countries like New Zealand to incorporate airline check-in with immigration check-out, building seamless convenience for the traveler and safer skies," says SIBA. The U.S. and many other countries currently issue e-passports that meet international security standards requiring inclusion of a biometric.

2. Reports Released on LAX Shooting.

The Transportation Security Administration conducted a review of security procedures at airports nationwide, following the November 1, 2013, shooting at Los Angeles International, in which one TSA Security Officer was killed and a passenger and two other TSA officers were wounded. Among 14 recommendations TSA adopted from the review: airports should post armed law enforcement officers at security checkpoints and ticket counters during peak hours; TSA employees should go through active shooter training and participate in related training exercises; and panic alarms should be acquired for certain areas. . . . An independent review released by Los Angeles World Airports cites lack of coordination between agencies and non-working emergency phones and panic alarms, among major snags. Recommendations cover additional emergency management staff, equipment, training, and mutual-aid agreements with outside organizations such as the American Red Cross, ground-transportation companies, airport-area businesses, and surrounding cities that could provide shelter and evacuation sites. The House

Homeland Security Committee held a hearing at the airport on “Lessons from the LAX Shooting: Preparing for and Responding to Emergencies at Airports.”

3. Atlanta Acquires Automated Passport Control Kiosks.

Hartsfield-Jackson Atlanta International purchased 74 Automated Passport Control BorderXpress kiosks from provider Vancouver Airport Authority. Passport control kiosks currently are in use at airports in Vancouver, Montreal, Chicago, Seattle, Miami, Ft. Lauderdale and New York. Vancouver says they typically reduce the U.S. Customs and Border Protection inspection process by 89%, cutting passenger wait times in half and lowering airport operating costs. Instead of filling out a declaration card and taking travel documents to a CBP officer, eligible passengers proceed directly to a kiosk, scan a U.S. or Canadian passport, answer customs declaration questions using the touch screen, receive a confirmation and proceed to the CBP officer to finalize processing. This service is available without pre-registration or fees.

4. CLEAR Now at Houston.

CLEAR has added Houston Bush to its list of airports where the fast-track security initiative is available. Using biometric technology, CLEAR says its 265,000 members “speed through airport security in under five minutes.” CLEAR is certified by the Department of Homeland Security to operate at international airports of Houston, Dallas-Fort Worth, San Antonio, San Francisco, San Jose, Orlando, Denver and New York’s Westchester County. Chairman and CEO is Caryn Seidman-Becker.

IV. E-COMMERCE AND TECHNOLOGY

1. FCC Extends Comment Period for Inflight Phone Rule.

The Federal Communications Commission (FCC) extended, from March 17 to May 16, the comment period for its Notice of Proposed Rulemaking (NPRM) on expanding access to mobile wireless services onboard aircraft. Stakeholders including AeroMobile, Panasonic and CTIA requested additional time to consult on technical issues; the NPRM seeks comment on technological solutions that may enable interference-free operation of wireless devices inflight. DOT earlier released an ANPRM seeking comment on whether the DOT should ban or restrict inflight voice services. Over 1,750 comments have been filed in the DOT docket, most from individuals who oppose voice communications during flight.

2. JetBlue to Sell LiveTV Subsidiary to Thales Group.

JetBlue agreed to sell its LiveTV subsidiary to Thales Group for \$400 million, subject to regulatory and other approvals expected by mid-year, and will enter into long-term agreements for LiveTV support for its live TV and inflight connectivity product, Fly-Fi. LiveTV provides live inflight entertainment for commercial airlines, and last year introduced Ka-band satellite-driven onboard connectivity with ViaSat.

3. Delta Launches International Wi-Fi Service.

Delta launched international Wi-Fi service on Tokyo-bound Boeing 747-400s equipped with Ku-band satellite connectivity. Inflight communications provider Gogo is scheduled to complete installation of Wi-Fi service on Delta's entire international fleet by the end of 2015. Delta has provided Wi-Fi on domestic flights for five years.

4. EL AL Launch Customer for ViaSat Inflight Internet Service in Europe.

California-based ViaSat reports that EL AL will be its launch customer for inflight Internet service in Europe. ViaSat will provide and manage the service on Boeing 737s flying from Tel Aviv to European cities, including airborne terminals, antennas, radomes and air time from the Eutelsat KA-SAT high-capacity Ka-band satellite. Certification and installation of the Exede® terminals are expected within a year. ViaSat also owns WildBlue, a Ka-band satellite broadband service.

V. **ENERGY AND ENVIRONMENT**

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

Average price of aviation jet fuel, as of March 14, 2014, was \$121.4/barrel, down 3% on the month and down 2.7% year-on-year, reports the International Air Transport Association. Fuel price average for 2014 is \$124.2/barrel.

2. **EU Committee Rejects ETS Foreign Flights Compromise.**

The European Parliament's Environment Committee rejected a compromise that would exempt foreign flights from the European Union (EU) Emissions Trading Scheme (ETS) until the end of 2016, when an ICAO global solution is anticipated. The full Parliament votes on April 3.

3. **Detroit Metro Switches to LED Lights.**

Wayne County Airport Authority is replacing metal halide light fixtures in main parking decks at Detroit Metro with energy efficient LED lighting, and expects a 66% reduction in power consumption, saving about \$1.2 million annually. The energy saved is equivalent to powering 880 U.S. households for one year, reports the *Detroit Free Press*, and reduction of 7,000 metric tons of carbon dioxide per year equals taking 1,350 passenger vehicles off the road. The \$6.2-million project is believed to be the largest single conversion from incandescent lighting to LED in the U.S.

4. **Sea-Tac Charging Stations Save Fuel, Reduce Emissions.**

A new Seattle-Tacoma project will provide 600 electric charging stations for ground support equipment to save \$2.8 million in airline fuel costs and 10,000 tons of greenhouse gas emissions. Port of Seattle is installing the corrals, where vehicles can receive a full charge in less than four hours. The \$31 million project is funded by federal grants that help airlines purchase electric vehicles; Alaska has purchased 204. The Department of Energy provided \$5 million through a grant with the Western Washington Clean Cities Coalition; another \$3.5 million came from FAA.

5. **American Charged With Diverting Fuel Sales Tax Revenue.**

A lawsuit filed by the Regional Transportation Authority (RTA) alleges that American's fuel subsidiary falsely reports the site of bulk jet fuel sales, in order to divert sales tax revenues owed to local governments and transit agencies from the six-county Chicago area. American purchases jet fuel in Sycamore, 50 miles west of O'Hare and five miles from the RTA service region, in an agreement that RTA alleges calls for Sycamore to rebate almost all sales tax it

collects back to the company in the form of incentive payments. The airline said it is in compliance with the law. RTA provides financial oversight, funding and regional planning for the three public transit operations in northeastern Illinois.

6. Farmers in Southern Africa To Grow More Sustainable Biofuel Crops.

Boeing is launching an initiative with South African Airways and the Roundtable on Sustainable Biomaterials to expand opportunities for “smallhold” farmers in southern Africa to grow crops that produce sustainable fuels. When produced sustainably, aviation biofuel emits 50% to 80% lower carbon emissions through its lifecycle (compared to petroleum fuel) because biofuel feedstocks absorb carbon dioxide during their growth cycle. Aviation biofuel refined to required standards has been approved for a blend of up to 50% with traditional jet fuel. Globally, more than 1,500 passenger flights using biofuel have been conducted since the fuel was approved.

VI. U.S. CONGRESS

1. Transparent Airfares Act Introduced in House.

Bipartisan legislation introduced in the House Transportation Committee would relax 2012 DOT rules that require government imposed taxes and fees to be embedded in the advertised price of a ticket. The Transparent Airfares Act of 2014 would allow airlines and travel agencies to state the base airfare and separately disclose government imposed taxes and fees and total cost of travel. This will “ensure that airfare advertisements are not forced to hide the costs of government from consumers,” said Chairman Bill Shuster (R-PA) and other senior Committee members. According to Airlines for America, customers pay \$62 in federal taxes on a \$300 roundtrip domestic ticket, or 21% of the ticket price. That amount will increase in July when the TSA passenger security tax rises from \$2.50 to \$5.60 per one-way trip; also, the proposed FY2015 budget requests additional fees and taxes.

2. Congress Concerned About Norwegian Air U.S. Plans.

Letters signed by 38 U.S. Senators and 60 House members were sent to DOT Secretary Anthony Foxx expressing “serious concerns” about the application by Norwegian Air International (NAI) to DOT for a foreign air carrier permit that would allow it to fly to the United States and compete with U.S. airlines for international passengers’ business. The NAI plan may not comply with labor standards protected by the U.S.-EU open skies agreement and is not in the U.S. public interest, they wrote. “NAI is seeking to operate its long-haul flights as an Irish airline expressly to avoid Norway’s employment laws,” maintains Air Line Pilots Association, Int’l.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. U.S. State Dept. Travel Warnings.

The U.S. Department of State warned U.S. citizens to defer all travel to the Crimean Peninsula and Ukrainian eastern regions of Kharkiv, Donetsk and Lugansk, as Russia moved to annex Crimea. “The United States and Ukraine do not recognize this claimed annexation, and the U.S. Embassy in Kyiv is constrained in its ability to provide assistance to U.S. citizens visiting or residing in the Crimean Peninsula,” said the State Department. U.S. citizens were also warned to defer non-essential travel to Ukraine, which is transitioning to a new government, since “the potential for violence between pro-Ukrainian and pro-Russian groups still exists [and] groups advocating closer ties to Russia have taken on a more strident anti-American tone.” In related news, aerospace and travel companies are among western businesses concerned about potential retaliation by Russia to sanctions imposed by the U.S. and Europe after the Crimea annexation. . . . The State Department updated its alert on travel to Egypt due to continuing political and social unrest and strongly urges U.S. citizens to avoid travel to north Sinai and to avoid all demonstrations; U.S. citizens have been arrested and deported for proximity to demonstrations and for taking pictures of demonstrations, police and military. . . . U.S. citizens were also warned of risks of travel to Mali, “given continuing aspirations of terrorists to conduct attacks.”

VIII. EUROPE AND AFRICA

1. Lufthansa Names New CEO; Pilots Vote To Strike.

Karl Ulrich Garnadt was named CEO of Lufthansa German Airlines, effective May 1, and will assume Board responsibility for Lufthansa Passenger Airlines. He succeeds Carsten Spohr, who will become Chairman of the Executive Board and CEO of Lufthansa Group. Garnadt will be succeeded as CEO and Chairman of Lufthansa Cargo by Peter Gerber. The company will introduce Premium Economy Class on Boeing 747-8s in November, featuring seats with up to 50% more room than Economy, a baggage allowance of two items, use of airport business lounges and onboard amenities. Installation of the new class will be finished in summer 2015. A return flight across the North Atlantic or to Asia will cost an additional €600 on average. In other news, Lufthansa pilots announced a strike, in a dispute over pay and retirement benefits.

2. Air France Increases North America Capacity for Summer.

Air France-KLM will increase capacity to North America this summer with a daily Airbus A380 service to San Francisco, three additional weekly frequencies to Mexico, and introduction of the Boeing 747 on the Atlanta and Toronto routes. The first Boeing 777-200 equipped with new seats in three classes will fly to New York Kennedy in June, followed by the first Boeing 777-300 equipped with new cabins in autumn. Air France is also increasing the number of code shared destinations offered with Gol in Brazil, Delta in the U.S. and WestJet in Canada.

3. British Airways, Finnair, Japan Airlines Begin Joint Business.

Japan Airlines, British Airways and Finnair begin their planned joint business on April 1, sharing revenue and cooperating on scheduling and pricing between Europe and Japan. The oneworld members said that together they “will constitute the single largest player in Europe-Japan traffic.”

4. UK To Reform Air Passenger Duty.

UK Chancellor George Osborne announced plans to reform the air passenger duty (APD) “to end the crazy system where you pay less tax travelling to Hawaii than you do travelling to China or India.” In his 2014 budget, effective April 1, 2015, the number of APD destination bands will be reduced to two—band A covering short-haul (up to 2,000 miles) and band B covering long-haul. Start-up support will be provided for new routes from regional airports. Private jets will see an increased charge.

5. UK Court Upholds Ruling That Ryanair Sell Aer Lingus Stake.

The UK Competition Appeal Tribunal upheld an order that Ryanair reduce its 29% stake in Aer Lingus to 5%, agreeing with Competition Commission findings that Ryanair's holding is anti-competitive. The Irish government owns a 25% share in Aer Lingus; Ethiad's share recently rose to 4.11%.

6. Ukraine-Russia Clash Affects Air Travel.

Ukraine International Airlines decreased weekly scheduled flights from 343 to 305, as demand fell due to political unrest in February and March, but said its "well-developed partner network" is offering alternative flights. Planned new routes include Kiev-New York nonstops to begin April 25. All flights between Kiev and Simferopol were cancelled when Russia annexed Crimea. In related news, Russia accused Ukraine of barring Russian crews from disembarking in Ukrainian airports, in violation of international law and preventing proper rest times; Ukraine denied the allegation. And, Russia diverted its airlines from Ukrainian airspace to routes that bypass the country. . . . In other news from Russia, Aeroflot reported February domestic passenger traffic rose 31.1% year-on-year, due to the Winter Olympic Games in Sochi. For full year 2013, Aeroflot said net profit rose 41.9% to \$203.3 million for the Group, which includes Aeroflot, Donavia, Rossiya, OrenAir, Aurora and SAT; low-cost subsidiary Dobrolet will launch this year. . . . Transaero signed an agreement with Chinese leasing company ICBC for six Airbus A321s, is negotiating with another lessor for a further eight A321s, and plans to take delivery of 30 A321s in the next five years. Transaero is launch customer for the A380 and A320neo in Russia and Eastern Europe. Delivery of Boeing 747-8s begins in 2015. . . . oneworld member S7 Airlines launched a multi-pass program that enables business class passengers to take several flights at "fixed cost-efficient fares." . . . And, the first Sukhoi Superjet 100 was leased to Centre-South Airlines. The 87-seat, two-class SSJ100 will fly to destinations across Russia and Europe for Centre-South, which is based in Belgorod, Russia.

7. Garuda Indonesia Enters SkyTeam.

See Section IX, item 1.

8. US Airways, TAM, SriLankan Join oneworld.

See Section X, item 3.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. Garuda Indonesia Enters SkyTeam.

Garuda Indonesia became the twentieth member of SkyTeam, adding 40 new destinations to the alliance. Garuda has hubs in Jakarta, Denpasar, Makassar, Medan, Surabaya and Balikpapan, said CEO Emirsyah Satar, with 500 daily flights to 64 destinations, including 40 domestic, and will add Jakarta-London Gatwick in May. Garuda has 130 aircraft and 19 million annual passengers.

2. United Expands Trans-Pacific Network.

United began San Francisco-Taiwan service and added a second daily Houston-Tokyo flight, all with the Boeing 777-200. United will introduce three-times-weekly Boeing 787 service June 9 between San Francisco and Chengdu, China, pending government approval, the first nonstop by a U.S. airline from the United States to mainland China, beyond Beijing and Shanghai. The company also plans to offer, subject to government approval, six weekly Boeing 787 nonstops between Los Angeles and Melbourne, Australia, beginning October 26.

3. Air China To Begin Beijing-Washington Nonstops.

Air China will begin four weekly B777-300ER nonstops from Beijing to Washington Dulles on June 10, its seventh North American destination. The carrier increased Beijing-New York service to 11 weekly and Beijing-Los Angeles to twice daily, and introduced Beijing to Houston and Hawaii services.

4. Korean Air Increases Americas Capacity.

Korean Air will increase Airbus A380 service to the Americas to daily from Houston to Seoul and beyond, instead of previously announced four weekly; double daily from New York; and three weekly from five to Sao Paulo. Korean offers double daily flights from Los Angeles and daily from Atlanta.

5. ANA Expands International Service.

All Nippon Airways is introducing flights from Haneda to destinations including Frankfurt, Munich, Vancouver, Singapore and Bangkok, and improving Haneda facilities for its inbound passengers transiting to domestic flights. ANA won coveted Haneda daytime take-off and landing slots last October, receiving 11 to Japan Airlines' five, and has predicted a doubling of profits next fiscal year. ANA ordered 40 Boeing widebodies and 30 Airbus A320/321neos, in transactions valued at \$16.6 billion

6. Saudi Arabian To Add Los Angeles Flights.

Saudi Arabian Airlines won authority to operate three weekly Los Angeles-Jeddah-Riyadh Boeing 777-300ER flights beginning March 31, to accommodate American Muslims and Saudi students flying to Saudi Arabia for religious pilgrimage. The carrier flies to Washington DC and New York.

7. David Maimon New CEO of EL AL.

David Maimon became the new CEO of EL AL, succeeding Elyezer Shkedy. Maimon has served in various executive positions at EL AL for nine years. EL AL announced a 2013 net profit of \$25.4 million, compared to an \$18 million loss in 2012.

8. Etihad Restructures.

Etihad Airways is now part of Etihad Aviation Group, along with a division that will coordinate and manage Etihad's investment in equity airline partners. Etihad CEO James Hogan is Group President and CEO. A newly formed Hala Group, which combines Hala Travel Management, Hala Abu Dhabi, Etihad Holidays and a global loyalty company startup, will be led by Etihad COO Peter Baumgartner. In other news, regulatory approvals were obtained for the Air Serbia partnership and initial loan of \$40 million, part of a promised \$200 million to Air Serbia, was converted to equity. The airBaltic-Etihad code share was expanded to include routes from Amsterdam, Brussels, Frankfurt, Munich and Zurich to Abu Dhabi and Riga, subject to government approvals; Etihad also plans to place its code on airBaltic services beyond Riga to Kiev, Tbilisi, Palanga and Gothenburg. In a briefing to financiers, Hogan said Etihad wants to raise \$2 billion to finance fleet deliveries in 2014, including Airbus A380s and Boeing 787s. Etihad saw record net profit of \$62 million in 2013, up 48%, and revenues of \$6 billion.

9. British Airways, Finnair, Japan Airlines Begin Joint Business.

See Section VIII, item 3.

10. US Airways, TAM, SriLankan Join oneworld.

See Section X, item 3.

X. AMERICAS

1. American-US Airways Merger News.

The Department of Justice (DOJ) asked the U.S. District Court for the District of Columbia to approve the merger settlement it reached with US Airways and American Airlines, following close of the comment period. Fourteen comments were received and DOJ proposed no modifications to its final judgment. “The remedy is a major victory for American consumers,” said DOJ. “It fully addresses harm that would have resulted from New American’s control of nearly 70% of the limited slots at Reagan National. It enables low-cost carriers (LCCs) to acquire otherwise unobtainable slots and gates at Reagan National (Southwest, JetBlue and Virgin America) and LaGuardia (Southwest and Virgin America), and to obtain gates at other busy airports such as Los Angeles International, Chicago O’Hare and Dallas Love Field. And by introducing new low-cost capacity and service on numerous routes around the country, it enhances the ability of LCCs to thwart industry coordination among the legacy carriers.” DOJ said the value being paid for the divested Reagan National and LaGuardia slots is over \$425 million, “which is unprecedented in the airline industry and among the most substantial merger remedies in any industry”; American said the value was \$381 million, compared to an original appraisal of \$225 million. . . . US Airways flight attendants agreed to switch representation from the Association of Flight Attendants-CWA to the Association of Professional Flight Attendants (AFPA), which represents American’s flight attendants. By June 9, the unions will file a single carrier application with the National Mediation Board, the first step to the NMB certifying APFA as the bargaining representative of the 24,000 flight attendants at the new American Airlines.

2. American-JetBlue Partnership Discontinued.

American and JetBlue terminated their interline and reciprocal frequent flyer agreements, on select routes from Boston and New York Kennedy.

3. US Airways, TAM, SriLankan Join oneworld.

US Airways and Brazil’s TAM became members of oneworld. US Airways merger partner American Airlines is a founder of oneworld; TAM is affiliated with oneworld member LAN (LATAM). SriLankan Airlines will become a full member of oneworld on May 1, the first carrier from the Indian subcontinent to become part of a global airline alliance; SriLankan already code shares with oneworld members Malaysia Airlines and S7.

4. American Eagle Pilots Reject Contract Proposed by American.

American Eagle pilots rejected a concessionary contract proposed by American that included “pay freezes, reductions in per diem, and increased health-care costs, in exchange for a promise to re-fleet and enhance the existing agreement to transfer pilots,” said Air Line Pilots Association. “American Eagle pilots have not seen meaningful contractual gains since 2004. New-hire pilot pay begins at less than \$23,000 per year. Had the contract been approved, first officers would have been capped at about \$38,000 per year after four years of service,” said ALPA. “We question whether any regional airline is able to attract and retain pilots by offering poverty-level wages. American Eagle already has a career progression arrangement with American, and yet, due to a lack of pilots, it’s unable to perform the regional flying that American Airlines desires. Other airlines are experiencing the same problem.”

5. United IAM Members Win Pension Increase.

The International Association of Machinists and Aerospace Workers (IAM) National Pension Fund will increase pension benefits by 35% to 45% for IAM members at United, which terminated all employee pensions during its bankruptcy reorganization in 2005. United IAM members have been receiving 85% of the normal benefit and now will receive benefits equal to other fund participants. IAM represents fleet service, passenger service, stockroom, maintenance-training instructor, fleet technical instructor, security officer and food service employees at United. Pre-merger Continental employees are covered by a company sponsored defined-benefit pension plan.

6. Virgin America To End San Jose Service.

Virgin America will end service at Mineta San Jose in May, after one year, as the route to Los Angeles did not meet profit expectations; the airline also flies to Los Angeles from its nearby San Francisco base. . . . In other news, Virgin America CEO David Cush said the carrier could go public by yearend.

7. Mesa’s Go! Ceases, 'Ohana by Hawaiian Begins Operations.

Mesa Air Group will shut down its Hawaii unit on April 1, and redeploy Go! aircraft to expanding mainland regional flying for United and US Airways. Fuel costs, which have more than doubled since Go! began service in June 2006 “caused sustained profitability to be elusive,” said CEO Jonathan Ornstein. Booked passengers will be accommodated by Hawaiian, which has launched its interisland operation 'Ohana by Hawaiian.

8. Venezuela To Make U.S. Dollar Payments to Airlines.

Venezuela has blocked airlines from repatriating some \$3.7 billion, making it very difficult for them to maintain their commitment to that market, said IATA Director General and CEO Tony Tyler. Venezuelan law requires air tickets to be sold in non-convertible bolivars, the national currency, which the government exchanged with airlines for U.S. dollars until October 2013. Tyler wrote to Venezuelan President Nicolas Maduro asking for his urgent attention to the issue. Maduro has said the debts would be paid, but warned that airlines that reduce or suspend flights to Venezuela will be kept out of the market during his tenure. Meanwhile, Air Canada suspended its three weekly flights to Caracas, “due to on-going civil unrest [and] onerous currency restrictions.” And, Colombia's Avianca reduced service to one flight a day from three. The Venezuelan Airlines Association said the government promises to recognize the full amounts of ticket sales revenues using the exchange rate in place at the time the fares were sold.

9. Air France Increases North America Capacity for Summer.

See Section VIII, item 2.

10. Garuda Indonesia Enters SkyTeam.

See Section IX, item 1.

11. United Expands Trans-Pacific Network.

See Section IX, item 2.

12. Air China To Begin Beijing-Washington Nonstops.

See Section IX, item 3.

13. Korean Air Increases Americas Capacity.

See Section IX, item 4.

14. ANA Expands International Service.

See Section IX, item 5.

15. Saudi Arabian To Add Los Angeles Flights.

See Section IX, item 6.