



WASHINGTON AVIATION SUMMARY

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CONTENTS

I.	REGULATORY NEWS.....	1
II.	AIRPORTS.....	5
III.	SECURITY AND DATA PRIVACY	7
IV.	E-COMMERCE AND TECHNOLOGY.....	8
V.	ENERGY AND ENVIRONMENT.....	10
VI.	U.S. CONGRESS.....	11
VII.	BILATERAL AND STATE DEPARTMENT NEWS	13
VIII.	EUROPE/AFRICA.....	15
IX.	ASIA/PACIFIC/MIDDLE EAST	17
X.	AMERICAS	19

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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. Airlines Post Global Net Profit of \$19.9 Billion in 2014.

Airlines are expected to post a collective global net profit in 2014 of \$19.9 billion (\$18 billion projected in June), largely due to lower oil prices and stronger worldwide GDP growth, reports the International Air Transport Association (IATA). Profits could rise to \$25 billion in 2015, when jet fuel prices are expected to average \$99.9/barrel. Passenger traffic is expected to grow by 7% in 2015 compared to 5.5% growth trend of past two decades. Capacity growth at 7.3% will push passenger load factor to 79.6% (79.9% in 2014). Due to lower fuel prices, average return air fares (excluding surcharges and taxes) are expected to fall by 5.1% on 2014 levels, and cargo rates by 5.8%. Total passenger numbers are expected to reach 3.5 billion and passenger revenues \$623 billion. “The industry story is largely positive,” said Tony Tyler, IATA Director General and CEO, but risks include political unrest, conflicts, and some weak regional economies. . . . Airlines in all regions are expected to report improved net profitability in 2015: North America—\$13.2 billion (\$11.9 billion/2014), net profit of \$15.54 per enplaned passenger; Europe—\$4 billion (\$2.7 billion/2014), \$4.27 per passenger, 1.8% net profit margin; Asia-Pacific—\$5 billion (\$3.5 billion/2014), 2.2% net profit margin, \$4.30 per passenger; Middle East—\$1.6 billion (\$1.1 billion/2014), passenger capacity to expand by 15.6% (11.4%/2014), \$7.98 per passenger, 2.5% net profit margin; Latin America—\$1 billion (\$700 million/2014), \$3.53 per passenger, 2.6% net profit margin; Africa—\$200 million, \$2.51 per passenger.

2. Aircraft Tracking Task Force Submits Report to ICAO.

The Aircraft Tracking Task Force (ATTF) submitted a report to the International Civil Aviation Organization (ICAO) for consideration in the development of a Global Aeronautical Distress and Safety System. ATTF is an industry-wide initiative launched by IATA after the March 2014 disappearance of Malaysia Airlines Flight MH370. The Boeing 777-200 left its scheduled flight path en route from Kuala Lumpur to Beijing, with 239 passengers and crew onboard, and is believed to be in the southern Indian Ocean. The ATTF report includes performance criteria for aircraft tracking and recommends that airlines evaluate their current capabilities against those criteria and close gaps within a 12-month time frame. In a phased approach operators should, in the short term, use what is already available in their fleets and areas of operation; in the near term, look at the business case for upgrading equipment to meet the performance criteria; and in the medium term, monitor new technologies as they become available, including space-based systems. In parallel, operators

should work with manufacturers and other industry stakeholders to explore the possibility of making systems tamper proof. “This last point addresses the inescapable truth of MH370 that the transponder stopped working,” said IATA’s Tony Tyler; “redesigning the aircraft’s failsafe systems to make sure that transponders cannot be shut off is well beyond the near-term focus of the task force [and] issues such as tamper proofing will take time to address and implement.” . . . The disappearance of AirAsia Airbus A320 from radar en route from the Indonesian city of Surabaya to Singapore in stormy weather with 162 people on board at month’s end reinforced the need for tracking capability. Flight QZ 8501 was located three days later in the Java Sea. (See Section IX, item 1.)

3. UN Urged To Regulate Weapons With Anti-Aircraft Capability.

IATA is “calling on ICAO to work within the UN framework to implement the responsible design, manufacture and deployment of weapons with anti-aircraft capability into international law.” The shooting down of Malaysia Airlines Flight MH17 over Ukraine in July was “an outrage,” said Tony Tyler. “Civil aircraft should never be military targets. But it highlights a new reality with which we must deal.” Noting that ICAO is leading a task force on how to improve sharing of security information, Tyler said airlines are skilled at making operational risk assessments in overflying conflict zones but “need security information that is clear, timely and unequivocal.” . . . Flight MH17 wreckage is now in the Netherlands, said the Dutch Safety Board which is leading the investigation—most of the 298 people aboard the Boeing 777 were Dutch. Investigators will try to reconstruct part of the aircraft and a final report is expected in summer 2015. The Dutch government rejected charges by families of some victims that the investigation is moving too slowly and should be moved to the United Nations, saying the complex geopolitical situation in a conflict zone has hindered the pace.

4. Relevance of Chicago Convention Confirmed on 70th Anniversary.

A special resolution on the 70th anniversary of its signing commemorated the Chicago Convention’s continued relevance and the role of ICAO. Legal scholars from DePaul University’s International Aviation Law Institute discussed current challenges facing international aviation, including security, political and military conflict, the aftermath of MH370 and MH17, struggles for dominance among carriers and regions, risk management including health crises like the Ebola virus, human capital shortage, interface between military operations and civil aviation, and environment and climate change issues.

5. DOT Considers Reallocation of Delta's Seattle-Tokyo Haneda Slots.

The U.S. Department of Transportation began a proceeding to determine disposition of the U.S.-Tokyo Haneda slot pair allocated to Delta for service from Seattle. American and Hawaiian are vying for the slot pair, since Delta reduced winter season service. Delta claims it is using its slot pair at least every 90 days and plans to resume full service on March 29. "In light of Delta's extensive winter-season Seattle-Haneda service cutbacks, the submissions of American and Hawaiian and the responses thereto, the Department believes that the public interest requires a fresh examination of whether the best use of the Seattle-Haneda opportunity is to allow Delta to retain the slot pair for Seattle-Haneda service [or] would be better served by reallocating the slot pair for service from another U.S. city by another U.S. carrier or by Delta." In a new petition, Delta said DOT's decision to reconsider "is arbitrary and capricious and contrary to law, as would be any final decision by the Department to reallocate the frequencies."

6. DOT Complaint Against Delta for Code Share Disclosure Violations.

DOT's Aviation Enforcement Office filed a formal complaint with the Department's Office of Hearings against Delta, alleging that the carrier's telephone reservation agents failed to disclose required code share information during 2013 and 2014, and that Delta violated a 2010 order directing it to cease and desist from further code share violations. Delta could be fined up to \$660,000 if found responsible for these violations.

7. FAA Fines Airlines.

The Federal Aviation Administration (FAA) proposed a \$100,000 civil penalty against SkyWest for allegedly operating a Bombardier CL-600 on at least 525 flights when an inspection of critical parts was overdue, in violation of federal aviation regulations. . . . A \$97,500 civil penalty against IBC Airways was proposed for allegedly operating as a scheduled air carrier without appropriate FAA certification. The on-demand carrier is authorized to offer and operate up to four weekly scheduled flights using aircraft with a maximum of nine seats; FAA alleges IBC operated three Saab 340Bs which have more than nine seats, on a total of 54 scheduled flights in 2012 between Ft. Lauderdale-Hollywood International and Guantanamo Naval Air Station in Cuba and Norman Manley Airport in Kingston, Jamaica, and between Miami International and Guantanamo Naval Air Station.

8. NTSB Concludes Probe of Boeing 787 Battery Fire in Boston.

Design and certification shortcomings ultimately led to the fire in a lithium-ion battery installed on a Japan Airlines Boeing 787 that had just completed a

Tokyo to Boston flight, according to the National Transportation Safety Board (NTSB) final report. Passengers and crew had deplaned when smoke and flames emanated from an auxiliary power unit lithium-ion battery. NTSB recommends that FAA improve guidance and training provided to industry and FAA certification engineers on safety assessments and methods of compliance for designs involving new technology.

9. IATA Publishes Lithium Battery Risk Mitigation Guidance.

IATA published “Lithium Battery Risk Mitigation Guidance for Operators” online and can be downloaded. . . . ICAO’s ban on the shipment of lithium metal batteries as cargo aboard passenger aircraft takes effect January 1, 2015. The ban only applies to lithium metal batteries when shipped by themselves, and does not apply to batteries packed with equipment or contained in equipment.

10. DOT Air Travel Consumer Report for October.

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

	Oct. '14 / '13	Sept. '14	Full Year				
			2013	2012	2011	2010	2009
On-time arrivals %	80 / 84.1	81.1	78.34	81.85	79.6	79.8	79.5
Cancellations %	1.1 / 0.6	1.4	1.51	1.29	1.91	1.76	1.39
Mishandled baggage*	2.87 / 2.53	2.98	3.22	3.09	3.35	3.51	3.91
Consumer complaints:							
Airline service	1,213 / 857	1,157	13,168	15,338	11,546	10,988	8,821
Disability-related	65 / 49	59	679	741	628	572	519
Discrimination**	9 / 8	6	79	99	128	143	131

Note: Airlines reported no tarmac delays of more than three hours on a domestic flight and one of more than four hours on an international flight in October.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. Contract Awarded To Build LAX Midfield Satellite Concourse.

The Los Angeles Board of Airport Commissioners awarded a \$961,270,169 contract to Turner | PCL, a joint venture in association with Corgan\Gensler, to design-build the Midfield Satellite Concourse North Project, part of the ongoing modernization of Los Angeles International (LAX). Components of the seven-year, two-phase project will include an 800,000 square-foot, five-level concourse with 11 aircraft gates located 1,300 feet west of the New Tom Bradley International Terminal. The gates will accommodate aircraft types up to and including the Airbus A380 and Boeing 747-8i. The contract includes airfield improvements, underground tunnel facilities and demolition of existing facilities. Phase 1 is for design and pre-construction services, scheduled to be completed late 2016. Phase 2 is for actual construction with completion scheduled for 2020. LAX operating revenue, terminal concession revenue, airline fees and airport revenue bond proceeds will fund the project's \$1.25 billion total budget.

2. France Sells Toulouse Airport Stake to Chinese Consortium.

The French government is selling a 49.9% stake in Toulouse Blagnac for €308 million to a Chinese consortium comprised of Shandong Hi-Speed Group and Hong Kong-based Friedmann Pacific Asset Management. Local authorities and the State remain majority holders of the airport.

3. Gatwick Announces New £1 Billion Investment Plan.

Gatwick Airport outlined a £1 billion plan for an enlarged and enhanced North Terminal that includes "the world's largest self-service bag drop zone." The single-runway airport is expected to reach 41 million passengers in the next three years, with the North Terminal accommodating most of that growth. Gatwick, 28 miles south of London, is the UK's second largest airport, serving 200 destinations in 90 countries for 38 million passengers a year, with aircraft including the Airbus A380 and Boeing Dreamliner. "During five years of new ownership," said CEO Stewart Wingate, "Gatwick total passenger numbers have grown by over six million." Global Infrastructure Partners and other international investment funds own Gatwick. The UK Airports Commission in 2013 included Gatwick and Heathrow on its shortlist of potential locations for a new runway.

4. **China Breaks Ground on New Beijing Airport.**

Construction of a new Beijing airport has begun and is expected to be completed in five years. The \$13 billion project is in southern Beijing's Daxing District, which borders Hebei Province, and will be able to handle 72 million passengers by 2025.

5. **Japan Shortlists Bidders for Kansai, Osaka Concessions.**

New Kansai International Airport Company announced screening results for the concession to operate Kansai and Osaka International airports. Among the final 20 bidders are Macquarie, Changi, Ferrovial and Global Infrastructure Management. Final selection is planned for August, with project start in 2016.

6. **Hanoi's \$900 Million Terminal Two Opens.**

Hanoi Noibai International's \$900 million Terminal Two has opened, with capacity to handle 10 million passengers per year. Japan International Cooperation Agency loans partially funded the four-story facility.

III. **SECURITY AND DATA PRIVACY**

1. **Pistole Exits TSA.**

As he prepared to leave the Transportation Security Administration at yearend, Administrator John Pistole warned that “we continue to face a real and persistent threat [from] actors adept in the design, construction and concealment of explosives, including non-metallic improvised explosive devices.” He said risk-based, intelligence-driven security operations initiated in 2011 provide effective security and improve the travel experience for passengers. In 2014, more than 740,000 travelers were enrolled in TSA PreCheck, which began in December 2013 and now is available in 120 airports. Pistole retired from public service, following almost five years at TSA and 26 years at the FBI.

2. **Aviation Unites On Cyber Threat.**

Five major international aviation organizations signed a cybersecurity agreement formalizing their common front against hackers, cyber criminals and terrorists focused on malicious intent ranging from theft of information and general disruption to potential loss of life. ICAO, IATA, Airports Council International, Civil Air Navigation Services Organization, and International Coordinating Council of Aerospace Industry Associations agreed on a common roadmap to align their respective actions on cyber threats, and will be more proactive in sharing critical information such as threat identification, risk assessments and cybersecurity best practices. They will also encourage more substantial coordination among respective government and industry stakeholders on all cybersecurity strategies, policies, and plans. “Our common goal in developing this agreement is to work more effectively together to establish and promote a robust cybersecurity culture and strategy for the benefit of all actors in our industry,” commented ICAO Secretary General Raymond Benjamin.

3. **Passenger Security Tax Cap Restored.**

See Section VI, item 2.

4. **Aviation Security Bills Passed.**

See Section VI, item 3.

IV. E-COMMERCE AND TECHNOLOGY

1. Bravofly Rumbo Group Acquires Sabre's lastminute.com.

Online travel agency Bravofly Rumbo Group (BRG) will acquire Sabre unit lastminute.com, with closing expected in Q1 2015. Value for Sabre is \$120 million, primarily from transfer of commercial liabilities and an expanded long-term commercial agreement, in which BRG brands and lastminute.com would continue to use the Sabre global distribution system. BRG will acquire all of lastminute.com's principal global operations located in the UK, France, Germany, Spain and Italy, reaching an expected combined Gross Travel Value of nearly €2.5 billion and revenues of €260 million.

2. GuestLogix To Acquire OpenJaw Technologies.

GuestLogix agreed to acquire OpenJaw Technologies for \$41.2 million. Toronto-based GuestLogix provides retail and payment technology solutions for travel operators. Dublin-based OpenJaw is a global provider of ancillary-focused merchandising, payment and business intelligence technology to airlines and the passenger travel industry. Ancillary revenue in the airline industry is expected to grow by an additional \$130 billion by the year 2020, said GuestLogix CEO Brett Proud.

3. Virgin America Offers Gogo's ATG-4 WiFi Service Fleetwide.

Virgin America completed the rollout of Gogo's ATG-4 (air-to-ground) WiFi service across its entire fleet of 53 Airbus A320 Family aircraft. ATG-4 offers peak speeds of 9.8 Mbps, compared to 3.1 Mbps with first generation inflight WiFi, said Gogo, which has equipped more than 2,000 commercial and 6,000 business aircraft.

4. American Adds Inflight Internet Access to More Regional Jets.

American Airlines will add Gogo inflight wireless services to all two-class regional jets by 2016. American currently has 850 aircraft with Gogo services and leverages Gogo's ATG service and next generation ATG-4 technology.

5. FAA Grants GEE STC Approval for Boeing 777.

FAA approved the Global Eagle Entertainment (GEE) Supplemental Type Certificate (STC) for equipping Boeing 777 aircraft with Ku-band satellite connectivity. Retrofits can begin in January 2015. . . . Los Angeles-based GEE will provide its Ku-band satellite connectivity solution, inflight wireless portal and inflight entertainment on two Air France Airbus A320 aircraft, on short and medium-haul flights, for a three-month trial, starting mid-2015, in partnership

with global telecom company Orange. . . . And, GEE signed a long-term agreement with Canadian low-cost carrier WestJet to manage inflight content services.

6. Expedia, ARC 2015 Flight Trends.

Travelers can find lowest-priced fares within 50 to 100 days of departure for domestic routes, and between 150 and 225 days for international routes, with lowest price at 171 days prior to departure, according to an Expedia and Airlines Reporting Corporation (ARC) study, “Preparing for Take-Off: Air Travel Trends 2015.” For routes originating and ending in North America, customers booking flights more than three weeks ahead of departure may save \$195 to \$225. . . . For Expedia’s 2014 Airplane Etiquette Study, 1,000 Americans were asked to rank the most annoying on-board behaviors of fellow passengers. The “Rear Seat Kicker” (67% of study respondents) and “Inattentive Parents” (64%) topped the list.

V. ENERGY AND ENVIRONMENT

1. Fuel Bill for Global Airline Industry.

Average price of aviation jet fuel, as of December 26, was \$75/barrel, down 21.9% on the month and down 42% compared to a year ago, reports the International Air Transport Association. Fuel price average for 2014 was \$114.8/barrel. Impact on 2014 bill was -\$20.3 billion.

2. Boeing Conducts World's First Flight with Green Diesel.

Boeing completed the world's first flight using "green diesel," a sustainable biofuel made from vegetable oils, waste cooking oil and waste animal fats. The company powered its flight test plane, ecoDemonstrator 787, with a blend of 15% green diesel and 85% petroleum jet fuel in the left engine. With production capacity of 800 million gallons in the U.S., Europe and Asia, green diesel could rapidly supply as much as 1% of global jet fuel demand. At a wholesale cost of about \$3 per gallon, inclusive of U.S. government incentives, green diesel approaches price parity with petroleum jet fuel.

3. Boeing, South African Airways To Harvest Tobacco for Biofuel.

Boeing, South African Airways (SAA) and partners SkyNRG and Sunchem launched Project Solaris, an effort to develop an aviation biofuel supply chain with a nicotine-free tobacco plant called Solaris. In Limpopo province, 123 acres of Solaris have been planted and oil from the plant's seeds may be converted into biojet fuel as early as next year, with a test flight by SAA as soon as practicable. If test farming in Limpopo is successful, the project will expand to South Africa and potentially to other countries.

4. Project Will Convert Ethanol Into Jet Fuel.

The U.S. Department of Energy awarded a grant of up to \$2 million to Vertimass to aid a mission to commercialize green catalyst technology that converts ethanol into gasoline, diesel and jet fuel blend, while retaining compatibility with the current transportation fuel infrastructure. With Oak Ridge National Laboratory, a developer of patented catalyst technology, Vertimass seeks to expand the ethanol gas market.

VI. U.S. CONGRESS

1. Government Shutdown Avoided With Appropriations Bill.

In its final days, the 113th Congress prevented another government shutdown by passing a \$1 trillion bill that provides discretionary funding for most agencies through fiscal year ending September 30, 2015 (the Department of Homeland Security is funded under a temporary Continuing Resolution mechanism that expires on February 27, 2015). President Barack Obama signed the package, which includes \$12.4 billion for FAA, \$17 million below FY 2014 enacted level, to support full operation of the air traffic control system, including hiring and training of air traffic controllers and safety inspectors. The legislation includes a five-year reauthorization of Brand USA (formerly Travel Promotion, Enhancement, and Revitalization Act), a public-private partnership that promotes tourism to the United States; emergency Overseas Contingency Operations funding to combat the threat brought by the Islamic State of Iraq and the Levant (ISIL); and \$5.4 billion to address the domestic and international Ebola crisis. The bill contains no new funding for high-speed rail.

2. Passenger Security Tax Cap Restored.

A bill that restores the round-trip cap on the passenger security tax passed both chambers of Congress unanimously and was signed into law by President Obama. H.R. 5462 states that fees shall be \$5.60 per one-way trip and the fee imposed per round trip shall not exceed \$11.20. Airlines for America and Travelers United (formerly Consumer Travel Alliance) estimate the new law will save passengers over \$60 million annually.

3. Aviation Security Bills Passed.

Congress passed the Aviation Security Stakeholder Participation Act, which directs TSA to establish an Aviation Security Advisory Committee to develop, upon request, recommendations to improve aviation security. Members will represent industry organizations; subcommittees will include air cargo, general aviation, airport perimeter, exit lane and access control. . . . The Transportation Security Acquisition Reform Act directs TSA to create a five-year technology investment plan, better manage its equipment inventory, report select issues to Congress and more transparently account for spending.

4. Terrorism Risk Insurance Act Expires.

The House voted to extend the Terrorism Risk Insurance Act program, but the Senate failed to pass a reauthorization before adjourning for the year. Analysts

expect a resolution from the new Congress in first quarter 2015, and said insurers may formulate their own contingency plans.

5. **Schumer Asks for Probe of “Sky-High” Fares Amid Lower Fuel Prices.**

Senator Charles Schumer called for the Departments of Justice and Transportation (DOJ, DOT) “to investigate why airfares are extremely high, despite record profits for the airlines and rapidly declining fuel costs.” Schumer also asked DOJ and DOT to consider whether recent mergers and less competition are creating even “stickier” high prices. He noted that “some airlines are still charging fuel surcharges and other add-ons to ticket prices, [which they] always justified by their thin margins and limited profitability.”

6. **Pilots Applaud Bill on IRA Rollovers.**

Congress amended provisions of the FAA Modernization and Reform Act of 2012, with respect to rollovers to a traditional or Roth individual retirement account (IRA) of payments to qualified airline employees in commercial airline carrier bankruptcy cases. The bill extends the period for filing a claim for refund of an overpayment of tax resulting from the receipt of such payments (i.e., by the later of April 15, 2015, or the expiration of the limitation period for filing refund claims); modifies the definition of “airline payment amount” to include payments in an airline carrier bankruptcy case filed after September 11, 2001, and before January 1, 2007, or on November 29, 2011; and modifies the definition of “qualified airline employee” to include an employee who was a participant in a defined benefit plan maintained by an airline carrier that was frozen effective November 1, 2012. “The legislation will enable American Airlines employees to defer taxes on a portion of the equity they received in the restructured airline to help compensate them for losses sustained in Chapter 11 bankruptcy,” said Allied Pilots Association, and “shows what can be accomplished when labor and management work together to address issues of common concern.”

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. EU Calls DOT Delay on NAI Application “Breach of the ATA.”

At a special meeting of the U.S.-EU Joint Committee in late November in Washington, the European delegation said handling of the Norwegian Air International (NAI) application for U.S. operating authority pending before DOT is inconsistent with the “minimum procedural delay requirement” in the U.S.-EU Air Transport Agreement (ATA). The U.S. delegation said the application “presents novel and complex issues, and that a range of different parties have participated in the proceeding raising substantive legal and regulatory points both in favor of and opposed to NAI’s application,” and did not provide a deadline or estimated date for further action. The Europeans said these circumstances represent a breach of the ATA, noted a dispute between the parties and reserved the right “to take all possible measures permissible under the ATA.” . . . Meanwhile, European airlines and unions urged the European Commission to end the NAI plan, citing a threat to European jobs. “They have received an Irish license for this and they intend to employ crewmembers from Thailand that are hired through a Singaporean agency,” said petitioners, which include Air France-KLM, Lufthansa and French unions.

2. Coalition Formed To Promote Open Skies Policies.

Business Travel Coalition (BTC) charged that some airlines seek to “frustrate foreign carrier new entry,” citing as an example the campaign to block the NAI application to serve the U.S. from Ireland. “They want to perversely reinterpret U.S. Open Skies agreements with foreign governments with the clear goal of foreclosing on new foreign competition,” said BTC. “The U.S. marketplace for air services has entered into a new and long-term phase where various carriers will seek to replace competition with protectionism, the antithesis of the free enterprise system.” BTC has formed OpenSkies.Travel, a coalition of global stakeholders, to promote Open Skies policies and robust aviation competition. Among its objectives, the group will “guarantee that the U.S. Department of Transportation has sufficient U.S. and global stakeholder support to encourage timely approval of airline applications for services to the U.S. in accordance with Open Skies agreements.”

3. U.S. Affirms Policy To Pursue Open Skies.

“It remains U.S. policy to pursue an Open Skies agreement with any friendly country that wants one,” said State Department official Thomas Engle, in remarks at the Airports Council International Annual International Aviation Issues Seminar in Washington. For large markets not yet ready to go for full

Open Skies, he added, “we will negotiate bilateral terms as close to that gold standard as our partner is willing to accept. We firmly believe the Open Skies framework continues to serve the interests of a broad range of American stakeholders, including air carriers, organized labor, airports and local communities, the flying public, and the wider travel and tourism industry and its employees and customers.” The U.S. has reached Open Skies agreements with 114 countries.

4. New U.S. Policy Facilitates Expansion of Travel to Cuba.

U.S. President Barack Obama announced an easing of relations with Cuba that will include reestablishing diplomatic relations and facilitating an expansion of travel to Cuba. General licenses will be made available for all authorized travelers in existing categories that include family visits; official government business; journalistic, educational and religious activities; professional research and meetings; public performances, clinics, workshops, athletic and other competitions; and exhibitions. Licensed U.S. travelers to Cuba will be authorized to import \$400 worth of goods from Cuba, of which no more than \$100 can consist of tobacco products and alcohol combined.

5. EU Files New WTO Claim Over Tax Incentives for Boeing.

The European Union filed a complaint at the World Trade Organization (WTO) against the United States regarding the extension through 2040 of subsidies the State of Washington granted to Boeing and other U.S. aerospace firms until 2024, and estimates worth of the extension at \$8.7 billion.

VIII. EUROPE AND AFRICA

1. Libyan Airlines Added to EU Banned Airlines List.

The European Commission banned all airlines from Libya from operating in European airspace in an update to the EU Air Safety List, which includes 310 banned airlines and 10 that are subject to operational restrictions. “Recent events in Libya have led to a situation whereby the Civil Aviation Authority is no longer able to fulfill its international obligations with regard to the safety of the Libyan aviation sector,” said EU Commissioner for Transport Violeta Bulc, who noted progress in several countries whose carriers are on the list, including the Philippines, Sudan, Mozambique and Zambia.

2. Lufthansa Board Approves New Low-Cost Concept.

Lufthansa’s Supervisory Board approved plans for new low-cost short and long-haul products under the Eurowings and Germanwings umbrella, and leasing up to seven Airbus A330-200s. CEO Carsten Spohr said the ‘New Eurowings’ responds to “fierce competition from the rapidly-growing low-cost carriers in the point-to-point travel segment, not only in Germany but throughout Europe [and] we are sure to see this competition extend more and more to the long-haul travel segment.” Lufthansa has transferred its routes not serving Frankfurt and Munich hubs to Germanwings, and Germanwings and Eurowings will continue to operate current networks, under the new concept. Long-haul services will begin end of 2015, in collaboration with SunExpress, a joint-venture of Lufthansa and Turkish Airlines. Intercontinental services under the Eurowings brand will fly under the air operator certificate of SunExpress Deutschland, beginning with destinations in Florida, southern Africa and the Indian Ocean. . . . In other news, Lufthansa estimates costs of 10 pilot strikes during 2014 at €200 million.

3. Aer Lingus Rejects IAG Takeover Bid.

Aer Lingus rejected International Consolidated Airlines Group’s (IAG) takeover offer, saying “it fundamentally undervalues Aer Lingus and its attractive prospects.” IAG owns British Airways, Iberia and Vueling. The Irish government and Ryanair partially own Aer Lingus.

4. Italian Court Rules Emirates Milan-New York Flights May Continue.

Italy’s Council of State rejected Italian carrier association Assaereo and Alitalia’s legal challenge against Emirates regarding direct Milan-New York flights. Plaintiffs claimed the non-European carrier should not be allowed to fly the transatlantic route from Italy. Emirates rival Etihad Airways owns 49% of

Alitalia. Emirates flies three daily nonstops to both Dubai and New York from Milan Malpensa.

5. **SAS, Etihad To Code Share.**

SAS and Etihad agreed to code share, subject to regulatory approval, on Etihad flights from Abu Dhabi to Brussels, Düsseldorf, Frankfurt, Rome, Milan, Zurich, Geneva and London Heathrow; and on SAS-operated flights from those European destinations, excluding Brussels, on to SAS hubs in Copenhagen, Oslo and Stockholm, and beyond. They also plan to develop frequent flyer reciprocity.

6. **Etihad, South African Expand Cooperation.**

Etihad and South African Airways (SAA) expanded their strategic partnership, with SAA to launch daily Johannesburg-Abu Dhabi service in March, to complement Etihad's existing flights on the route. Code sharing will more than double to 49 routes, subject to regulatory approval, to cover SAA services from Johannesburg to destinations across Africa, and 32 Etihad routes beyond Abu Dhabi to destinations worldwide. Etihad said areas for further cooperation could include joint sales and marketing programs and coordination of procurement, facilities and airport operations. . . . In related news, SAA Acting CEO Nico Bezuidenhout announced a 90-day plan meant to return the troubled airline "to commercial sustainability [including] a process of examining the possibility of a strategic equity partner."

7. **Aer Lingus CEO To Head Malaysia Airlines.**

See Section IX, item 4.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. AirAsia Flight QZ 8501 Crashes in Java Sea.

An AirAsia Airbus A320 disappeared from radar en route from the Indonesian city of Surabaya to Singapore in stormy weather and was located three days later in the Java Sea. Flight QZ 8501 carried 162 passengers and crew. State officials and AirAsia management, including Group CEO Tony Fernandes, immediately met with family members of passengers and issued frequent status bulletins. An international search for the missing aircraft was launched quickly. Despite an avalanche of speculation, cause of crash was not known at press time.

2. United Increases Summer Service to China.

United will increase flights from San Francisco to China during the peak summer travel season. Daily service to Shanghai will increase to two flights daily from May 6 to October 24, and three-times-weekly service to Chengdu will increase to daily from June 4 to September 1, both subject to government approval.

3. Virgin America, China Eastern Launch Code Share Flights.

A new code share agreement allows China Eastern to place its code on Virgin America routes from Los Angeles and San Francisco to Boston, Chicago, Dallas Love Field, Fort Lauderdale, Las Vegas, Newark, New York Kennedy, Seattle, San Diego and Washington Dulles. China Eastern offers daily direct flights from Shanghai to San Francisco and Los Angeles. The airlines have an interline agreement.

4. Aer Lingus CEO To Head Malaysia Airlines.

Aer Lingus CEO Christoph Mueller was named CEO of Malaysia Airlines, announced Khazanah, the government investment fund that now runs the airline. Mueller joins the MAS Board on January 1; his Aer Lingus contract ends on May 1. Mueller was tapped because of his strong track record of turning around flag carriers, said Khazanah, adding, "It is imperative that we have the best available talent with the expertise and experience to help drive the progress of the restructuring effort further forward, lead the airline to profitability, and groom a Malaysian successor to assume the leadership of the airline in the future." Mueller is a German citizen.

5. Garuda Appoints New CEO.

Garuda Indonesia appointed Arif Wibowo, the head of its budget unit Citilink, as CEO, replacing Emirsyah Satar who resigned prior to his tenure ending in March 2015. Wibowo is also Chairman of the Indonesia National Air Carriers Association.

6. Etihad Begins Dallas Service.

Etihad began three weekly Abu Dhabi-Dallas/Fort Worth nonstops, its sixth U.S. route. The Boeing 777-200LR service is configured with eight first class suites, 40 business class flatbed seats and 189 economy class seats. Etihad CEO James Hogan told the UAE-U.S. Business Council in San Francisco the airline now flies daily from Abu Dhabi to San Francisco, Los Angeles, Chicago, and Washington, DC, and twice daily to New York; there are plans for the Dallas service to increase to daily. Etihad Cargo offers weekly Boeing 747-8 freighter flights to Miami and Chicago, as part of round-the-world air freight service, operated by U.S.-based Atlas Air.

7. Etihad, Aerolineas Argentinas To Code Share.

Etihad and Aerolineas Argentinas signed a code share agreement, under which, effective February 1, Etihad will place its code on Aerolineas Argentinas-operated domestic flights and to destinations in South America including Uruguay, Chile and Paraguay.

8. Italian Court Rules Emirates Milan-New York Flights May Continue.

See Section VIII, item 4.

9. SAS, Etihad To Code Share.

See Section VIII, item 5..

10. Etihad, South African Expand Cooperation.

See Section VIII, item 6.

X. AMERICAS

1. Delta Redefines Seating Options.

Delta redefined seating options to include, as of March 1, Delta One (formerly BusinessElite), on long-haul international routes and between New York Kennedy and Los Angeles or San Francisco; First Class, short-haul international and domestic routes; Delta Comfort+, all two cabin aircraft around the world; and Main Cabin and Basic Economy. . . Republic Airways Holdings reached an amendment to its Capacity Purchase Agreement with Delta to operate nine additional 69-seat E170s, to be placed into service by second quarter 2016 and to operate for term of six years per aircraft. The agreement for the existing 14 E170s was extended through October 2021, and for the existing 16 E175s through February 2024.

2. American To Spend \$2 Billion on Customer Improvements.

On the one-year anniversary of the close of merger with US Airways, American said progress in combining the airlines includes “full access to the combined network thanks to the world's largest codeshare”; reciprocal miles, club access and upgrades; and combined cargo operations. . . . American will spend \$2 billion on customer improvements that include “new seats from nose to tail” on several aircraft types and fully lie-flat seats on the long-haul, international fleet; satellite-based Internet access on international flights; refurbished VIP lounges; and improved kiosks to expedite airport check-in. . . . On the labor front, Association of Professional Flight Attendants said management agreed to restore \$81 million in annual pay raises that had been rejected in a tentative joint contract. The improved wage table, which takes effect January 1, 2015, includes a top hourly rate increase from \$50.17 to \$53.52. American sent a proffer of arbitration to Allied Pilots Association (APA) following unsuccessful negotiations for a joint collective bargaining agreement. “The last proposal we received from the APA was significantly more expensive than even their previous proposal,” said American, which does not expect the arbitration process to begin until late February 2015. Envoy Air pilots, represented by Air Line Pilots Association, ratified a new ten-year agreement that includes “an up-front cash payment for current Envoy pilots, a commitment for new aircraft, and a flow-through arrangement allowing Envoy pilots to be hired at American.” The regional carrier is a wholly owned subsidiary of American. . . . American announced a systemwide 4% pay raise for union-represented groups who have achieved single agreements and for non-union employees below the director level. Flight attendants will receive the raise in addition to pay rates in the newly ratified contract, “bringing their

hourly rates 7% higher than the flight attendant pay rates at the other large network airlines (Delta or United),” said American.

3. **American, Azul Begin U.S.-Sao Paulo Campinas Service.**

American Airlines launched its first-ever direct daily service to Sao Paulo Campinas; daily flights from Miami are operated using Boeing 767-300s with fully lie-flat seats in Business Class. . . . Azul Brazilian Airlines began international flying with nonstops from Campinas to Fort Lauderdale and Orlando using leased Airbus widebodies. Azul ordered 35 A320neos and agreed to lease 28 neos, and announced plans for an initial public offering in Sao Paulo and New York; an earlier IPO plan was canceled. Azul Founder and CEO is David Neeleman, who founded JetBlue.

4. **United Adds Service to Latin America, Caribbean.**

United began daily Boeing 767-300 nonstops between Houston and Santiago, Chile, and daily Boeing 737-700 flights between Denver and Panama City. Service from Chicago to Belize City and Houston to Punta Cana, Dominican Republic will increase.

5. **Southwest Plans Latin American Destinations From Houston.**

Southwest will offer new daily nonstops from Houston Hobby to Cancun, Mexico City, Puerto Vallarta and San Jose del Cabo, and to San Jose, Costa Rica, and Belize City, subject to U.S. government approval. Southwest is building a \$156 million, five-gate concourse at Hobby that will include U.S. Customs and Border Protection (CBP) screening and baggage processing for arriving international passengers. Also subject to government approvals, Southwest begins service to San Jose, Costa Rica from Baltimore/Washington in March and to Puerto Vallarta, Mexico from Orange County in June. Nonstop Saturday service from Hobby to Aruba begins March 7, made possible by CBP Pre-clearance procedures in Aruba. . . . In other news, the last AirTran revenue flight left Atlanta Hartsfield-Jackson for Tampa; Southwest acquired AirTran in 2011. And, Southwest customer service agents, represented by International Association of Machinists and Aerospace Workers (IAM), voted in favor of a new four-year contract that, said IAM, “preserves the highest base wage rates in the airline industry.”

6. **IATA: Airlines Still Have \$3.6 Billion Trapped in Venezuela.**

IATA said some 24 airlines still have a total of \$3.6 billion trapped in Venezuela and urged the government “to meet its treaty obligations and authorize full and non-discounted repatriation of funds.” Many airlines have had no choice but to cut back services dramatically and some have left the market, said Tony Tyler at IATA's Global Media Day, adding, “The reduced

connectivity, of course, is only adding to Venezuela's very difficult economic situation. And that pressure can only increase as other investors or potential investors recognize the risks of doing business there."

7. **Italian Court Rules Emirates Milan-New York Flights May Continue.**

See Section VIII, item 4.

8. **United Increases Summer Service to China.**

See Section IX, item 2.

9. **Virgin America, China Eastern Launch Code Share Flights.**

See Section IX, item 3.

10. **Etihad Begins Dallas Service.**

See Section IX, item 7.

11. **Etihad, Aerolineas Argentinas To Code Share.**

See Section IX, item 8.