



WASHINGTON AVIATION SUMMARY

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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. Foxx Confirmed as Secretary of Transportation.

The Senate confirmed Anthony Foxx as Secretary of Transportation in a unanimous vote. The Charlotte, N.C. Mayor replaces Ray LaHood, who held the position for four years. The Senate also confirmed Obama nominee Penny Pritzker as Commerce Secretary.

2. Justice, EU Clear Delta's 49% Investment in Virgin Atlantic.

The U.S. Department of Justice Antitrust Division and the European Commission cleared Delta's equity investment in Virgin Atlantic and their joint venture on North America-UK flights. An application with the U.S. Department of Transportation (DOT) seeking antitrust immunity for the joint venture is pending. Delta completed its acquisition of a 49% stake in Virgin Atlantic from Singapore Airlines for \$360 million; Sir Richard Branson's Virgin Group retains the majority 51%. Code sharing will begin July 3, when Virgin Atlantic places its code on 91 Delta transatlantic and domestic U.S. routes, and Delta places its code on 17 Virgin Atlantic routes, including recently launched Little Red domestic UK services connecting London to Manchester, Edinburgh and Aberdeen. Delta gains six daily London-New York frequencies.

3. DOT Proposes Four Cities for U.S.-Brazil Service.

DOT proposed U.S. carrier rights from Los Angeles, Atlanta, Detroit and Charlotte to Sao Paulo, per a 2011 agreement that phases in new U.S.-Brazil service until October 2015, when all restrictions on routes, destinations and fares will be lifted. American would inaugurate the only daily Los Angeles-Sao Paulo nonstop by a U.S. airline. Delta would add a second daily Atlanta flight and continue daily Detroit service. US Airways would continue daily Charlotte service. Delta's currently held rights to operate a daily Detroit-Sao Paulo nonstop will transfer to US Airways in 2015, per a slot transaction that allowed Delta to expand at New York LaGuardia.

4. DOT Fines Delta for Violating Bumping Rules.

DOT fined Delta \$750,000 for violating rules protecting passengers who are denied boarding involuntarily on oversold flights. DOT asserts that in March 2012, Delta failed to seek volunteers before bumping passengers, without describing rights or cash compensation; classified passengers who were bumped involuntarily as having volunteered to give up seats, which violated rights to compensation and resulted in inaccurate bumping reports filed with DOT; and violated its published customer commitment. Delta may use up to

\$425,000 of the penalty to buy electronic tablets to record consumer decisions to leave a flight and accept compensation, and to train personnel to use the tablets. Delta was fined \$375,000 for similar violations in 2009.

5. IATA Endorses Principles for Passenger Rights Regulation.

Addressing uncoordinated passenger rights rules in some 50 countries, the International Air Transport Association (IATA) 69th Annual General Meeting (AGM) endorsed principles for governments to consider, including clear, unambiguous regulations, aligned with international conventions, without extra-territorial implications and comparable with regimes in place for other modes of transport; allowing airlines to differentiate through customer service offerings above a basic common standard; providing passenger access to information concerning rights, fares, actual operator of the flight and regular situational updates in case of service disruptions; providing assistance for those with reduced mobility; and efficient complaint handling procedures.

6. Appeals Court Allows Ex-Im Bank Loan Guarantees for Air India.

The U.S. Court of Appeals for the D.C. Circuit did not block loan guarantees to help Air India purchase Boeing airplanes, but asked the Export-Import Bank to better explain its conclusion that guarantees to help a foreign company do not cause adverse effects to U.S. industries and jobs. A group led by Delta had sought to block the \$3.4 billion in financing, arguing that Ex-Im loans subsidize foreign carriers that compete directly with U.S. airlines on key international routes. Delta also seeks to halt planned Ex-Im loan guarantees to Korean Air, Emirates, Etihad, Latam and LOT.

7. Airlines, Government Partner to Combat Human Trafficking.

Delta, JetBlue, Allegiant and North American are among airlines training employees to identify and recognize indicators of human trafficking both in-flight and on the ground, in a voluntary partnership with the Transportation Department and Customs and Border Protection. In addition to inviting airlines to join the Blue Lightning partnership, DOT has trained its 55,000 employees to identify and report human trafficking, and has partnered with the Department of Homeland Security to help Amtrak develop a system for training its 20,000 employees.

8. April Passenger Airline Employment Down 2.4%.

U.S. scheduled passenger airlines employed 380,748 workers in April 2013, reports DOT, 9,495 or 2.4% fewer than in April 2012, and down 11,356, or 2.9% from the recent April high of 392,104 in 2009. The five network airlines, which collectively employ two-thirds of scheduled passenger airline workers, reported 3% fewer employees in April 2013 than in April 2012. Four of the six

low-cost carriers reported an increase, while two reported declines. Among the 14 regionals, six reported reduced employment levels in April compared to the previous year. United topped employment among network airlines with 82,446 in April, Southwest with 45,590 among low-cost airlines, and American Eagle with 11,164 among regionals.

9. Largest Airlines Report Smaller First Quarter Net Loss.

The 10 largest scheduled passenger airlines reported a net loss of \$433 million in first quarter 2013, compared to loss of \$1.7 billion in Q1 2012, said DOT. Ranked by total number of passengers carried in first quarter, the top 10 airlines reported a 1.3% operating profit margin, up from 0.7% in Q1 2012, and pre-tax profit of \$438 million compared to \$433 million net loss. Total Q1 2013 revenue for all passenger airlines was \$34.1 billion, including \$800 million in baggage fees and \$685 million in reservation change fees. Total Q1 operating expenses were \$33.6 billion, of which \$9.6 billion (28.6%) was for fuel costs.

DOT Air Travel Consumer Report for April.

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

	April '13/'12	March '13	Full Year				
			2012	2011	2010	2009	2008
On-time arrivals %	77.3 / 86.3	79.8	81.85	79.6	79.8	79.5	76
Cancellations %	1.8 / 1.0	1.6	1.29	1.91	1.76	1.39	1.96
Mishandled baggage*	3.08 / 2.63	3.05	3.09	3.35	3.51	3.91	5.26
Consumer complaints:							
Airline service	1,086 / 1,067	943	15,335	11,546	10,988	8,821	10,648
Disability-related	61 / 65	42	743	628	572	519	477
Discrimination**	6 / 14	7	99	128	143	131	115

Note: Airlines reported two tarmac delays of more than three hours on domestic flights and no tarmac delays of more than four hours on an international flight in April.

* Reports per 1,000 passengers.

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

10. Paris Air Show Wrap-Up.

At the 50th Paris Air Show, Boeing launched the 787-10 Dreamliner with 102 orders and commitments, including 20 from United and 30 from Air Lease. Total orders and commitments for 442 Boeing airplanes valued at \$66 billion

included a \$15.6 billion firm order from Ryanair for 175 B-737-800s and a \$6.1 billion TUI commitment for 60 B-737 MAXs. . . . The Airbus A350 XWB flew for the first time at the show and gained 69 more orders and commitments worth \$21.4 billion. In total, Airbus signed commitments for 225 aircraft worth \$29.4 billion and firm orders for 241 worth \$39.3 billion. Among these was a commitment for 20 A380s from lessor Doric worth \$8 billion, and orders from easyJet for 100 A320neos and 35 A320ceos. . . . Sukhoi delivered its first of an order for 20 Superjets to Mexico's Interjet, the first western customer to take delivery of the 100-seat regional jet developed by Sukhoi and Alenia. An order for 20 SSJ100s was signed with Ilyushin Finance, and Bahrain's AeroLease signed a Letter of Intent (LOI) on financing and/or leasing of existing and prospective transactions. The SSJ100 cruises at Maximum Operating Speed of Mach 0.81, and is certified by authorities of Europe, Russia, Mexico, Laos and Indonesia. . . . Embraer signed LOIs with five airlines for 65 E-Jets E2, three new models in the 70-130 seat market; first delivery of the E190-E2 is planned for 2018, followed by the E195-E2 in 2019 and the E175-E2 in 2020. A firm order from Japan Airlines for four 76-seat E170s, to be operated by domestic subsidiary J-AIR, brings total JAL firm orders to 15. Utah-based SkyWest signed a firm order for 100 E175-E2s and another 100 Purchase Rights, valued at \$9.36 billion, bringing potential E-Jets order for the world's largest regional airline to 400. SkyWest unit ExpressJet has the largest ERJ fleet in the world. Embraer signed an LOI with International Lease Finance for 25 E190-E2s and 25 E195-E2s, with options for another 25 of each model. . . . Lagos-based Arik Air signed a firm contract to acquire three Bombardier CRJ1000 NextGens and four Q400 NextGen turboprops, valued at \$297 million.

II. AIRPORTS

1. Los Angeles Previews New International Terminal.

The New Tom Bradley International Terminal (TBIT) at Los Angeles International (LAX) was previewed by city leaders and others. Able to accommodate 4,500 passengers per hour, up from current 2,800, the facility will double the size of the existing terminal and include 18 new boarding gates, of which half can accommodate the Airbus 380 and Boeing 747-8; triple and dual passenger-loading bridges; and a 150,000 sq. ft. Great Hall. The \$1.9 billion project is part of the \$4.1-billion LAX Capital Improvements Program-Phase 1. Construction will be completed later this year; overall New TBIT Project is expected to be completed in 2015.

2. ACI Europe: Airport Capacity Crunch to Worsen.

“Revenue pressures, capital costs, lack of political support, poor planning processes and decreasing confidence are all colluding to constrain airport development throughout Europe,” said ACI Europe President Declan Collier, at the joint ACI Europe ACI World Annual Assemblies, Congress and Exhibition in Istanbul. While airports’ plans in 2008 provided for a 40% increase in capacity by 2030, capacity now is expected to increase by just 17% by 2035. Some 1.9 million flights per year will not be accommodated due to insufficient airport capacity. The crunch will be more acute in Turkey, the UK, the Netherlands, Bulgaria, Hungary, Germany, Poland and Italy, with severe repercussions throughout Europe. . . . ACI reported global passenger traffic at airports increased by 1.8% in April, with the Middle East posting year-over-year gains at 10.2%, while North America and Europe were almost flat at -0.3% and +0.4% respectively. Passenger traffic at Madrid, Paris CDG, Frankfurt and London Heathrow declined in April, while Dubai, Istanbul and Kuala Lumpur continue to experience double digit gains.

3. French Government Reduces ADP Stake.

The French government is reducing its 54.5% in stake in Aeroports de Paris (ADP) by 3.9%; state strategic investment fund FSI will divest its entire 5.6% share. ADP controls Charles de Gaulle and Orly. Bids were due June 28.

III. **SECURITY AND DATA PRIVACY**

1. **Airline Immunity in Reporting Security Threats To Be Reviewed.**

The U.S. Supreme Court agreed to hear a case about whether an airline should be protected from lawsuits after mistakenly reporting a security threat. Air Wisconsin reported concerns about a pilot's mental state before he boarded a plane as a passenger in 2004, then was denied immunity from a defamation lawsuit brought by the pilot, who won \$1.4 million in a jury trial. Air Wisconsin maintains federal law protects airlines from such lawsuits unless statements are made with actual knowledge that the disclosure was false.

2. **TSA to Continue to Enforce Prohibited Items List.**

The Transportation Security Administration (TSA) will continue to enforce the current prohibited items list, which includes knives of any size. A plan to remove some items such as small knives was strongly opposed by flight attendants, pilots, airlines and passenger rights groups, as well as members of Congress who have introduced legislation for a permanent ban on knives in the airline cabin.

3. **TSA PreCheck Expands at Philadelphia International.**

TSA PreCheck operations were expanded at Philadelphia to include eligible passengers traveling on Alaska, United, Delta and Virgin America. The screening program now is available in 40 airports for passengers on Alaska, American, Delta, United, US Airways and Virgin America.

4. **IG: TSA Behavioral Screening Program Falls Short.**

An audit of TSA's Screening of Passengers by Observation Techniques (SPOT) program, conducted by the Inspector General (IG) for the Homeland Security Department, at the request of Congressman Bennie Thompson (D-MS), found that TSA has not implemented a strategic plan to ensure the behavioral screening program's success, and therefore cannot ensure that passengers at U.S. airports are screened objectively, show that the program is cost-effective, or reasonably justify the program's expansion. SPOT has 2,800 full-time positions and, since begun in fiscal year 2007, has spent \$878 million. "This report makes it clear that the SPOT program has not improved aviation security and has wasted taxpayer dollars that could have been spent on proven safety measures," said Thompson, Ranking Member of the House Homeland Security Committee.

IV. E-COMMERCE AND TECHNOLOGY

1. IATA Clarifies NDC Resolution.

The IATA AGM adopted conditions meant to quell concerns about proposed Resolution 787. The application to establish a New Distribution Capability (NDC) was filed in March and, in response to comments filed by third parties, IATA has proposed that DOT clarify “in its approval,” that Resolution 787 does not: require disclosure of personal information by passengers; nor airlines or intermediaries to distribute products and services via the new XML data transmission standard; nor restrict use of other data transmission standards; nor establish a particular business model for marketing or sale of air transportation. IATA says the NDC “would be open to any third party, intermediary, IT provider or non-IATA member,” and would “make it easier for travelers to make an informed decision on price, amenities and services, regardless of where they choose to buy their tickets.” But Open Allies for Airfare Transparency, in its comments to DOT, urged rejection of Resolution 787, saying it would “increase airfares, reduce competition, invade consumer privacy and penalize airline consumers.” Open Allies wants IATA “to withdraw, modify and resubmit” the proposal, “so that it is consistent with promises adopted at the AGM. In its filing, Business Travel Coalition also urged DOT to reject Resolution 787, “as it is an agreement among horizontal airline competitors that raises significant antitrust and privacy law issues [and] contravenes the public interest.”

2. FAA Extends Deadline for Report on Inflight PED Usage.

FAA gave the Aviation Rulemaking Committee studying inflight use of personal electronic devices (PEDs) a two-month extension, to September, to complete its report. The Committee is examining safety issues and feasibility of changing current restrictions. They are not considering use of cell phones for inflight voice communications, which is prohibited by Federal Communications Commission regulations.

3. Etihad, Air France-KLM Roll Out Connectivity on New York Routes.

Mobile phone service is now offered by Etihad on daily Boeing 777-300ER flights between New York Kennedy and Abu Dhabi. Passengers can use their phones to text, browse and call, via Panasonic Avionics’ eXPhone service and mobile phone operator AeroMobile. Passengers on an Air France Paris-New York flight and a KLM Amsterdam-Panama flight can connect to the internet using Wi-Fi enabled smartphones, laptops or tablets at a fixed rate and use mobile phones for text messages or email, in any travel class, during a test on

two Boeing B777-300s. UK-based AeroMobile has roaming agreements with 220 mobile phone operators in 100 countries, including AT&T in the U.S. and T-Mobile USA. Passengers are billed by their mobile phone operator, and prices vary depending on individual contracts. AeroMobile service is available on 10 airlines, including Emirates and Virgin Atlantic, with the number expected to double this year.

4. ARC: Ticket Sales Flat in 2013 vs. 2012.

Consolidated dollar value of airline tickets sold by U.S.-based travel agencies stayed relatively flat at -0.58% in first five months 2013, compared to same period last year, totaling \$39 billion vs. \$39.3 billion in 2012 and \$36.7 billion in 2011, reports Airlines Reporting Corporation (ARC). Sales for May were down 0.27% to 8.1 billion, compared to May 2012 at \$8.2 billion. Ticket transactions also remained flat at -0.67%. Year-to-date passenger segments decreased 2% to 147.3 million, compared to 150.3 million in first five months 2012 and 149.6 million in 2011. Results are based on monthly sales data ending May 31, 2013 from 13,765 U.S. retail and corporate travel agencies, satellite ticket printing offices and online travel agencies; and do not include sales of tickets purchased directly from airlines. Total sales equal total amount paid for ticket, including taxes and fees. In other news, An updated version of the ARC Agent Reporting Agreement (ARA) takes effect on July 1. The collaborative effort involving industry stakeholders simplifies the process for agencies desiring to join ARC; entities covered under the present ARA will be transitioned automatically to the amended agreement.

V. **ENERGY AND ENVIRONMENT**

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

Average price of aviation jet fuel, as of June 14, was \$121.1/barrel, up 5.7% on the month and up 6.5% year-on-year, reports the International Air Transport Association. Fuel price average for 2013 was \$124.6/barrel.

2. **IATA Agreement on Carbon-Neutral Growth.**

A resolution on "Implementation of the Aviation Carbon-Neutral Growth (CNG2020) Strategy" was endorsed at the IATA AGM. The resolution urges governments to adopt a single market-based system (MBM). Principles agreed to apply to emissions growth post-2020; these include setting industry and individual carrier baselines using average annual total emissions over the period 2018–2020. "We need governments to be serious partners," said IATA Director General and CEO Tony Tyler. "Developing an MBM must not become an excuse for revenue generation by cash-strapped governments, or for avoiding incentivizing investments in new technologies and sustainable low-carbon alternative fuels."

3. **United to Purchase 15 Million Gallons of Biofuel.**

United agreed to buy 15 million gallons of lower-carbon, renewable jet fuel over a three-year period from Seattle-based AltAir Fuels. The fuel is expected to achieve at least a 50% reduction in greenhouse gas emissions on a lifecycle basis. AltAir will retrofit part of an existing petroleum refinery near Los Angeles to produce renewable biofuel, and expects to begin delivering five million gallons per year to United in 2014 for flights operating out of Los Angeles International. Utilizing the Honeywell Green Jet process, licensed from UOP, the AltAir refinery will be the first capable of in-line production of both renewable jet and diesel fuels. The facility will convert non-edible natural oils and agricultural wastes into 30 million gallons of low-carbon, advanced biofuels and chemicals per year.

4. **Demonstration Flight Fueled With Converted Plant Sugars.**

Technology that converts plant sugars into renewable jet fuel was used on an Airbus A321 powered by two Snecma CFM56 jet engines, in a demonstration flight from Toulouse to the Paris Air Show. The Amyris-Total renewable fuel was produced using engineered microorganisms that convert plant sugars into Biofene, Amyris' brand of renewable farnesene, a long-chain, branched hydrocarbon. In December, Amyris began commercial production of Biofene at its facility in southeastern Brazil. Amyris uses Brazilian sugarcane due to

availability, competitive cost and local industry's ability to meet international sustainability standards. The Amyris-Total renewable jet fuel, compliant with Jet A/A-1 fuel specifications, is expected to be commercially available as early as 2014, following approval by fuel standard setting body ASTM International. The demonstration flight was in support of the French Initiative for Future Aviation Fuels.

5. Aviation Fuel From Norwegian Forests.

A study of technologies for creating biofuel for Norwegian aircraft finds two methods promising based on Norwegian conditions. In one process, timber is gasified and biofuel is produced using a Fischer-Tropsch plant. In the other, alcohol produced from wood pulp is refined to produce aviation fuel (the alcohol-to-jet-process). "It will be technically and economically feasible to produce aviation fuel from the forests of Norway by 2020-25," says the report.

6. Solar Impulse Lands at Dulles on "Across America" Journey.

The Solar Impulse landed at Washington Dulles on its journey across the United States. This was the last mission flight for Swiss pilot Bertrand Piccard, co-founder of the solar-powered airplane with Andre Borschberg, who will man the cockpit for the final leg of "Across America." The first attempt to fly a solar plane day and night without fuel across the U.S., the mission began in San Francisco and will end in New York City; speeds reached about 40 mph. The Solar Impulse second generation aircraft, HB-SIB, will circumnavigate the globe in 2015.

VI. U.S. CONGRESS

1. Senate Hearing on Airline Industry Consolidation.

The Senate Commerce Aviation Subcommittee held a hearing on “Airline Industry Consolidation” that focused on the proposed US Airways-American merger and its effect on competition and service to smaller airports. Commerce Committee Chairman Jay Rockefeller (D-W.VA) called consolidation “a necessary evil” and “euphemism for bankruptcy proceedings . . . with real costs to society” in lost jobs and benefits for airline employees and route cuts to small and rural communities. “Had the Essential Air Service program not been in place to replace discontinued air service, many communities over the last several years would have lost air service,” said Rockefeller. The Government Accountability Officer (GAO) reported overlaps on 12 nonstop routes, and no other nonstop competitors on seven of those. A GAO analysis of 2011 and 2012 ticket data showed “the merger would result in a loss of one effective competitor in 1,665 airport-pair markets affecting more than 53 million passengers, while creating a new effective competitor in 210 airport-pairs affecting 17.5 million passengers; the great majority of these markets also have other effective competitors.” Stating the merger would result in reduced flight service and job loss, Consumer Travel Alliance Director Charlie Leocha said, “the aviation system will dramatically lose competition and see fares and fees rise.” US Airways CEO Doug Parker said the merged airline would “remain committed to extensive service to small- and medium-sized communities.” Senators were particularly interested in how potential slot divestiture requirements at Washington Reagan National would affect flights from their districts—in May, more than 100 members of Congress asked regulators to allow the merged airline to retain all Reagan National slots.

2. House FY 2014 Transportation Funding Bill Rejects Proposed PFCs.

The fiscal year 2014 Transportation funding bill released by the House Appropriations Committee rejects Administration proposals for new passenger facility fees. The bill includes \$15.3 billion in discretionary appropriations for DOT, \$2.6 billion (-15%) below FY 2013 enacted level and \$7.4 billion below the President’s request. Included in the legislation is \$11.8 billion for FAA, \$756 million below FY 2013 enacted level and \$103.3 million below the level caused by automatic sequestration cuts. The funding will help keep the air traffic control system fully operational and avoid the need for furloughs of essential air-traffic control personnel. The bill preserves funding for the Next Generation Air Transportation Systems (NextGen) under current deployment.

3. House Approves FY 2014 Homeland Security Appropriations Bill.

The House approved the fiscal year 2014 Department of Homeland Security Appropriations bill, which includes \$38.9 billion in discretionary funding. This is \$617.6 million below the FY 2013 enacted level and \$34.9 million below the President's request. This funding level is \$981 million above the current, post-sequestration level for DHS as estimated by the Congressional Budget Office. Amendments prohibit funding to implement changes in TSA rules on prohibited items onboard aircraft; for Customs and Border Protection (CBP) preclearance operations at Abu Dhabi International Airport; and for use by the Office for Secretary and Executive Management for official reception and representation expenses until the Secretary of Homeland Security fully implements the biometric entry and exit data system authorized in the Intelligence Reform and Terrorism Prevention Act of 2004.

4. House Hearing on Boeing 787 Certification, Batteries.

At a House Transportation Aviation Subcommittee hearing on "Lessons Learned from the Boeing 787 Incidents," Peggy Gilligan, FAA Associate Administrator for Aviation Safety, addressed concerns about agency practice of delegating aircraft design certification oversight to Boeing. She said FAA oversees Boeing's performance; and due to the large number of approvals required to certify an airplane and limited FAA staff, the system, in place since the 1930s, is necessary. Boeing's chief engineer disagreed with suggestions that the FAA certification process is deficient; but Gilligan said, "FAA has determined that we need to spend more time overseeing communication and ensuring a clear line of accountability of all required changes down the supplier chain." FAA did not apply recent stringent lithium-ion battery standards, because batteries in the 787 had already been approved, but has adopted new testing standards as one lesson from this experience. The exact cause of the 787 battery problems remains under investigation by the National Transportation Safety Board. Subcommittee Chairman Frank LoBiondo (R-NJ) said Congress will continue to monitor FAA's certification processes and the 787. . . . In other news, recently elected Congressman Mark Sanford (R-SC) was appointed to the House Transportation Committee.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. EU, U.S. Launch Talks on Free Trade Partnership.

The European Union and the United States launched formal negotiations to create a comprehensive transatlantic trade and investment partnership (TTIP). The first round of negotiations will take place in Washington in July. The EU said a free trade agreement would add about €119 billion annually to the EU economy, and €95 billion for the United States. . . . A study published by the Bertelsmann Foundation says a TTIP would boost per capita GDP and employment on both sides but impose losses on much of the rest of the world. The U.S. would achieve the greatest growth, with long-term per capita GDP climbing 13.4%. EU member states would, on average, see 5% growth in long-term per capita GDP. The UK would be Europe's chief beneficiary; its long-term per capita GDP would rise 9.7%. The TTIP generates real gains in public welfare from a reduction in trade costs, from which all countries, in principle, can profit, says the study. Average per-capita income worldwide would rise 3.3% from such an agreement.

VIII. EUROPE AND AFRICA

1. Virgin Atlantic Increases Orlando Seats From Manchester.

To meet high demand, Virgin Atlantic will replace 314-seat Airbus A330s with 455-seat Boeing 747s on flights to Orlando from London Manchester, from summer 2014.

2. EU Probes State Aid for SAS.

The European Commission is investigating whether a public support measure granted in 2012 by Sweden and Denmark to Scandinavian Airlines (SAS) is in line with EU state aid rules. The Commission examined other measures in favor of SAS in 2009, 2010 and 2012 and concluded they were carried out on market terms and do not involve state aid. SAS primary shareholders are Sweden (21.4%), Denmark (14.3%) and Norway (14.3%). Its financial position has been weak for several years and financial performance has deteriorated significantly since 2008. . . . SAS launched its new “service concept” in Europe, in which three seating classes are replaced by SAS Go and SAS Plus.

3. Ryanair’s O’Leary Mulls Transatlantic Service.

Ryanair CEO Michael O’Leary told reporters at the Paris Air Show of plans to increase the fleet by 25% to more than 400 aircraft, and European market share to 20%, up from the current 12%, flying 100 million passengers over the next five years. Ryanair is Europe’s largest airline based on passenger numbers, carrying 80 million travelers/year on 300 Boeing 737s. O’Leary sees an opportunity, with EU-U.S. open skies, to connect 15-20 European cities to 15 large U.S. cities in a separate long-haul business; “transatlantic fares could start at \$10 or 10 euros.” He predicted the long-running dispute with competition regulators over Ryanair’s 30% stake in Aer Lingus will continue beyond the ‘final’ decision, which has been deferred to September 5; “if they rule against us and force us to sell, we’ll appeal,” he said, “and if they don’t, Aer Lingus will appeal.”

4. Iberia Restructuring.

IAG CEO Willie Walsh told shareholders that Iberia must restructure if it is to survive. With operating losses of €351 million in 2012—almost €1 million per day—the Spanish unit “has become unprofitable in all its markets, including longhaul, and its high cost base means it is unable to compete effectively with other airlines, both European and Latin American.” A restructuring plan introduced last year led to a reduction of 3,300 people, 80% of whom will leave

this year, and salary reductions. But this “is only a first step,” said Walsh, “and Iberia needs to do more.” In other news, Bankia sold its 12% stake in IAG, leaving Spain without a seat on the IAG Board.

5. FedEx Acquires Ops in Southern Africa.

FedEx agreed to acquire businesses operated by its current service provider Supaswift in South Africa, Malawi, Mozambique, Swaziland and Zambia. The acquisitions, include 39 facilities and 1,000 employees, will operate under the FedEx Express business unit, subject to regulatory approvals and customary closing conditions.

6. fastjet Wins Rights to Fly to South Africa, Zambia, Rwanda.

Tanzania-based fastjet received bilateral authority to launch flights to South Africa, Zambia and Rwanda, bringing it closer to its goal of “becoming Africa's first pan continental low-cost airline,” said CEO and Chairman Ed Winter. The carrier also signed a Memorandum of Understanding with Red 1 Airways to create a low-cost airline operating in Nigeria and to destinations across Africa.

7. Justice, EU Clear Delta’s 49% Investment in Virgin Atlantic.

See Section I, item 2.

8. EVA Air Joins Star Alliance.

See Section IX, item 5.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. Delta Offers Nonstops From Seattle to Tokyo, Shanghai.

Delta began nonstops from Seattle-Tacoma to Tokyo Haneda and Shanghai Pudong. This summer the airline operates 45 daily flights to 18 destinations worldwide from Seattle. Delta also began nonstop service from New York Newark to Paris.

2. Hawaiian Launches Nonstop Service to Sendai

Hawaiian launched three weekly Boeing 767-300ER nonstops from Honolulu to Sendai, its fifth gateway in Japan. This is the first scheduled service between Sendai and Hawaii since 2004, and among new services to be introduced at Sendai Airport since it was closed in 2011 due to damage caused by the Tohoku earthquake and subsequent tsunami. Hawaiian is set to begin service to Taipei on July 9, and, subject to government approvals, will begin nonstops between Honolulu and Beijing in April 2014.

3. ANA to Increase San Jose Service to Daily.

ANA's five weekly Boeing 787 flights from Tokyo Narita to San Jose will increase to seven on July 10. After resuming Dreamliner flights on June 1, ANA announced routes from Narita to Beijing and Shanghai, and from Haneda to Taipei.

4. AirAsia Japan Joint Venture Terminated.

ANA Holdings and AirAsia terminated low cost joint venture, AirAsia Japan. ANA will acquire AirAsia's holding and operate the carrier as a wholly-owned subsidiary, based at Tokyo Narita. AirAsia said the venture faced many challenges, "from a fundamental difference of opinion between its shareholders on how the business should be managed from cost management to where the domestic business operations should be based." AirAsia Group CEO Tony Fernandes said AirAsia X will continue its operations from Kuala Lumpur to Tokyo Haneda and Osaka Kansai.

5. EVA Air Joins Star Alliance.

Taiwan-based EVA Air became a member of the Star Alliance, bringing Kaohsiung in Taiwan and Surabaya in Indonesia as unique airports to the network, and expanding the alliance's presence on the cross-Straits market, which has grown from annual passenger volume of 3 million in 2009 to 9 million in 2012. Major shareholders in EVA Air are Evergreen Marine and Evergreen International. EVA Air flies to 62 destinations on four continents

with 61 aircraft; number of passengers in 2012 was 7.5 million. Chairman is Chang Kuo-Wei; President is Cheng Chuan-Yi. Marketing partners include All Nippon, Asiana, US Airways, Lufthansa Cargo, Hongkong, Air China Cargo, FedEx Express, United, Air China, Bangkok, Hainan and Shandong.

6. SIA, ANZ Increase Stakes in Virgin Australia.

Australia's Foreign Investment Review Board approved Singapore Airlines' (SIA) proposed increase of its 10% stake in Virgin Australia to 19.9%, acquired from Virgin Group. An SIA-Virgin Australia partnership includes code sharing, reciprocal frequent-flyer and lounge benefits, coordinated schedules and joint sales, marketing and distribution. . . . Air New Zealand (ANZ) will acquire a further 3% of Virgin Australia, taking its interest to 22.99%, and may acquire another 3%, subject to government approvals. ANZ said it "is not seeking a position on the Board of Virgin Australia nor does it have the intention of obtaining control of Virgin Australia." In other news, ANZ and Tourism New Zealand each will invest \$10 million over the next year in cooperative marketing in Australia, China, Hong Kong, Japan, North America, the UK, Europe, India and Indonesia; and the government will add \$158 million to tourism funding over the next four years.

7. India Delays Decision on Etihad Stake in Jet Airways.

The Indian government delayed approval of the sale of a 24% stake in Jet Airways to Etihad Airways, saying more clarity is needed on the extent of control Etihad will exercise. This was the first overseas investment in an existing Indian airline since the government in September allowed foreign firms a 49% stake in domestic airlines. Jet Airways Chairman Naresh Goyal was to have retained a 51% stake in Jet. An India-Abu Dhabi bilateral air service agreement coincided with the Jet-Etihad transaction. Jet named Gary Kenneth Toomey as CEO to succeed Nikos Kardassis; Toomey previously was CEO of Air New Zealand and Airlines of Papua New Guinea and Deputy CEO and CFO at Qantas.

8. Ratan Tata Named Non-Executive Chairman of AirAsia India.

Former Tata Group Chairman Ratan Tata was named Non-Executive Chairman of AirAsia India. AirAsia Group CEO Tony Fernandes recently appointed Mittu Chandilya as CEO of the proposed Indian venture, which is owned by AirAsia (49%), Tata (30%) and Arun Bhatia of Telestra Tradeplace (21%).

9. Air Pacific Now Fiji Airways.

Air Pacific changed its name to Fiji Airways. Aubrey Swift is Acting CEO of the 60-year-old airline.

10. Emirates Airline, Singapore Changi Favored by Travelers.

Emirates was named best airline of the year and Singapore Changi best airport, by travelers responding to a Skytrax survey between July 2012 and May 2013. UK-based Skytrax Research said over 18 million online customer surveys were completed, across a range of options. In airline categories, Qatar Airways dropped from first place to second and Singapore Airlines retained third place from 2012 results. In North America, JetBlue was named best regional airline and Virgin America best low-cost airline and best airline staff service. Seoul Incheon ranked second in the airport category and Amsterdam Schiphol third. Vancouver retained its position as best airport in North America.

X. AMERICAS

1. AMR Bankruptcy, Merger News.

The U.S. Bankruptcy Court for the Southern District of New York approved the disclosure statement filed in connection with American Airlines parent AMR's proposed plan of reorganization, and authorized American to begin soliciting votes on the plan from creditors and stockholders. The voting deadline is July 29 and a hearing before the court to consider confirmation of the plan is scheduled for August 15. The plan is supported by the Official Committee of Unsecured Creditors; holders of \$1.6 billion of prepetition unsecured claims also committed to vote to accept the plan. The plan, which becomes effective concurrently with consummation of a merger with US Airways, provides for recovery of 3.5% of common stock of the combined company for holders of existing AMR equity securities. US Airways stockholders will receive one share of common stock of the combined company for each share of US Airways common stock then held. The remaining 72% will be issued to AMR stakeholders, labor unions and certain employees. . . . A Board of Directors was selected for the post-merger airline, and senior leadership confirmed, including current AMR President and CEO Tom Horton as Chairman; current US Airways CEO Doug Parker as CEO and board member; and current US Airways President Scott Kirby as President. American Eagle President and CEO Dan Garton will step down. . . . American agreed to retain its partnership with Citigroup for its branded credit card and loyalty program, rather than continue the US Airways relationship with Barclays. . . . US Airways shareholders are scheduled to vote on the merger on July 12. . . . Mechanics at US Airways will vote through August 12 on whether to continue to be represented by the International Association of Machinists and Aerospace Workers, or to opt for Teamsters representation. Flight attendants at US Airways Express carrier Piedmont Airlines warned of strikes, saying they "want a contract that enables us to share in the success of our airline." In mediation with management since August 2011, they asked the National Mediation Board for a 30-day cooling-off period, which could be followed by targeted, unannounced strikes.

2. US Airways Begins Charlotte-Sao Paulo Service.

US Airways launched daily Boeing 767-200 nonstops to Sao Paulo from Charlotte. The carrier also flies daily to Rio de Janeiro from Charlotte.

3. Spirit Orders 20 New Airbus A321s.

To support its targeted growth markets in the United States, Caribbean and Latin America, Spirit signed a firm order for 20 Airbus A321s. These are in addition to 96 aircraft scheduled for delivery between 2015 and 2017. Spirit also will convert 10 of its existing A320 orders to A321s, scheduled for delivery in 2017 and 2018. . . . In other news, Spirit Executive Vice President Barry Biffle in August will become CEO of Medellin-based domestic carrier VivaColombia, whose investors include Declan Ryan's Irelandia, which helped launch low cost carriers Allegiant, VivaAerobus in Mexico and Tiger Airways in Singapore.

4. Horizon Flight Attendants Reach Tentative Agreement.

Flight attendants at Horizon Air announced a tentative agreement with management that includes "increased compensation, a new scheduling system and substantial improvements in flexibility and quality of life." The Alaska Air subsidiary offers service to 45 cities in the United States, Canada and Mexico. Voting on the agreement concludes on July 18.

5. American Code Shares With Seaborne in Caribbean.

American Airlines is code sharing with St. Croix-based Seaborne Airlines, placing its code on Seaborne flights from San Juan to the Virgin Islands and surrounding Caribbean destinations.

6. Ellison May Acquire Second Hawaiian Regional.

Oracle founder Larry Ellison acquired Honolulu-based Island Air in February and reportedly is in talks to acquire go!, the inter-island airline owned by Mesa Air Group. Ellison owns most of Lanai, Hawaii's sixth-largest island.

7. Air Canada rouge Set for Takeoff.

Air Canada's leisure carrier rouge is set to begin operations on July 1, flying two 142-seat Airbus A319s from Toronto Mirabel to points in the Caribbean and two 264-seat Boeing 767-300ERs from Toronto to Venice, Athens and Edinburgh and from Montreal to Athens. New destinations in the Caribbean, Mexico, Florida and Las Vegas will be added for the winter season. Air Canada's Leisure Group subsidiary also includes Air Canada Vacations and is headed by Michael Friisdahl, who formerly was CEO of Thomas Cook North America.

8. Gol to Cut More Domestic Flights.

Sao Paulo-based Gol will cut domestic flights this year by as much as 9%, compared to previous estimate of 7%, "reflecting its dynamic approach to adjusting its operations in line with different economic scenarios." The largest

low-cost and low-fare airline in Latin America, Gol currently offers 970 daily flights to 65 destinations in 10 countries, under the Gol and Varig brands.

9. **Justice, EU Clear Delta's 49% Investment in Virgin Atlantic.**
See Section I, item 2.
10. **Virgin Atlantic Increases Orlando Seats From Manchester.**
See Section VIII, item 1.
11. **FedEx Acquires Ops in Southern Africa.**
See Section VIII, item 5.
12. **Delta Offers Nonstops From Seattle to Tokyo, Shanghai.**
See Section IX, item 1.
13. **Hawaiian Launches Nonstop Service to Sendai**
See Section IX, item 2.
14. **ANA to Increase San Jose Service to Daily.**
See Section IX, item 3.
15. **EVA Air Joins Star Alliance.**
See Section IX, item 5.