



WASHINGTON AVIATION SUMMARY

May 2013 EDITION

CONTENTS

| | | |
|-------|---|----|
| I. | REGULATORY NEWS | 1 |
| II. | AIRPORTS | 6 |
| III. | SECURITY AND DATA PRIVACY | 8 |
| IV. | E-COMMERCE AND TECHNOLOGY | 10 |
| V. | ENERGY AND ENVIRONMENT..... | 12 |
| VI. | U.S. CONGRESS..... | 13 |
| VII. | BILATERAL AND STATE DEPARTMENT NEWS | 15 |
| VIII. | EUROPE/AFRICA | 16 |
| IX. | ASIA/PACIFIC/MIDDLE EAST | 18 |
| X. | AMERICAS | 20 |

For further information, including documents referenced, contact:

Joanne W. Young
Kirstein & Young PLLC
1750 K Street NW
Suite 200
Washington, D.C. 20006
Telephone: (202) 331-3348
Fax: (202) 331-3933
Email: jyoung@yklaw.com

<http://www.yklaw.com>

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.

©2013 Kirstein & Young PLLC.

I. REGULATORY NEWS

1. Obama Nominates Charlotte Mayor Foxx to Head Transportation.

President Obama nominated Anthony Foxx to replace Ray LaHood as Secretary of Transportation. LaHood announced his retirement earlier this year. Foxx has been Mayor of Charlotte, North Carolina, since 2009, and earlier chaired the Transportation Committee of that city; he also worked as a trial attorney for the Civil Rights Division of the U.S. Department of Justice and staff counsel to the House Judiciary Committee. The nomination must be confirmed by the Senate.

2. FAA Suspends Furloughs After Congress Passes Bill.

A few days after the Federal Aviation Administration (FAA) began furloughs of air traffic controllers, to help meet sequester demands, Congress passed the “Reducing Flight Delays Act of 2013,” which provides FAA the authority to utilize unspent Airport Improvement Program (AIP) funds and additional flexibility to transfer other funding within the agency, up to \$253 million, to prevent reduced operations and staffing during fiscal year 2013. FAA then suspended furloughs of air traffic controllers. During the furlough period, FAA each day reported delays attributable to staff reductions and to weather and winds at specific airports and air traffic control centers. For instance, on one day, 1,200 delays were attributable to furloughs, and 1,400 to weather and other factors. . . . While the furloughs were in place, Airlines for America (A4A) and Regional Airline Association (RAA) submitted an application to FAA to temporarily suspend the three-hour tarmac delay rule at all U.S. airports. . . . FAA said it still must cut over \$380 million under sequestration and will continue cost reduction efforts such as a hiring freeze and contract reductions. Previously announced closures of all 149 federal contract air traffic control towers were delayed until June 15, to allow time “to attempt to resolve multiple legal challenges to the closure decisions”; Congressional leaders urged FAA to find savings in other areas of its budget.

3. FAA Approves B-787 Battery Design Changes, Lifts Grounding.

FAA approved Boeing's design for 787 lithium-ion battery system modifications and issued instructions to operators for making the changes, which include improved insulation, a stainless steel box to encase batteries and contain any fire, and systems to vent smoke or hazardous gases out of the planes. United currently is the only U.S. operator, but FAA, as the certifying authority, “will continue to support other authorities around the world as they finalize their own acceptance procedures.” Boeing shipped kits for the 50 jets owned by airlines worldwide, and said “airplanes will be modified in

approximately the order they were delivered.” Boeing also began installing the changes on new airplanes and expects to complete all planned 2013 deliveries by yearend despite the disruption, which began in January with a battery fire on a Japan Airlines (JAL) 787 at Boston Logan and a smoking battery on an All Nippon (ANA) 787 in the air. . . . As it lifted the grounding of the Dreamliner fleet, FAA estimated modifications per plane at \$465,000 which likely will be covered under warranty. Boeing said it does not plan cash compensation to airlines for lost revenue while planes were grounded. . . . The European Aviation Safety Agency planned to adopt the same measure as FAA, and the Japanese Ministry of Transport authorized ANA and JAL, which together own about half of delivered Dreamliners, to resume flights with additional safety measures, including installation of a system that allows monitoring of battery voltage on the ground and test flights. Ethiopian Airlines was the first airline to resume commercial 787 service, with a flight from Addis Ababa to Nairobi. . . . The National Transportation Safety Board (NTSB), which is “still in the fact-finding stage” of its investigation of the JAL battery fire, held a two-day hearing with testimony from representatives of FAA, Boeing and suppliers GS-Yuasa and Thales. “We are looking for lessons learned not just for the design and certification of the failed battery, but also for knowledge that can be applied to emerging technologies going forward,” said Chairman Deborah Hersman. The cause of the battery failures is still unknown and may never be known, say experts, because the evidence was destroyed by heat.

4. IATA Presents “Agenda for U.S. Aviation.”

Partisan political struggles and “a basic misunderstanding of the role of government in overseeing a deregulated industry” threaten the benefits of aviation to the U.S. economy, said Tony Tyler, Director General and CEO of the International Air Transport Association (IATA), in a speech to the International Aviation Club in Washington. Tyler called sequestration and Administration budget proposals “short-sighted,” since, respectively, they “burden the economy with flight delays” and “would add around \$5.5 billion in additional fees and charges to the aviation industry.” He encouraged policymakers to focus on infrastructure investment and criticized “overly-intrusive regulations.”

5. FAA Proposes \$4 Million Civil Penalty Against UPS.

FAA proposed a \$4 million civil penalty against United Parcel Service (UPS), for allegedly failing to follow FAA-approved procedures for making structural repairs to two DC-8s and two MD-11s, and operating them on more than 400 flights between October 2008 and June 2009 when they were not in compliance with Federal Aviation Regulations.

6. DOT Fines Caribbean for Tarmac Delay Violations.

The U.S. Department of Transportation (DOT) fined Caribbean Airlines \$100,000 for failing to provide passengers with an opportunity to leave a plane delayed on the tarmac at New York Kennedy for more than four hours, or providing them with food and water until almost four hours after the plane left the gate during the tarmac delay. The violations occurred last August. The carrier is based in Trinidad and Tobago.

7. FAA, DHS 2014 Budget Requests.

FAA's fiscal year 2014 budget request is \$15.6 billion. Funding levels are \$351 million lower than FY 2012, as part of the Administration's overall effort to reduce the deficit. The proposed budget assumes no sequester. The overall reduction is due largely to the proposed change to the Grants-in-Aid for Airports program. This proposal will focus federal grant funding on smaller commercial and general aviation airports that do not have access to additional revenue or other outside sources of capital. Larger airports would have the option of generating funding by increasing Passenger Facility Charges (PFCs). A \$1 billion request for NextGen is an increase of about 7% over 2012. . . . Department of Homeland Security's (DHS) budget request of \$39 billion includes \$5.16 billion for the Transportation Security Administration (TSA), \$359 million below last year's level. . . . Airlines for America (A4A) and Air Line Pilots Association, Int'l (ALPA) were among groups expressing strong opposition. If enacted, the proposed Administration budget "would raise taxes on airlines and their customers by 29% or \$5.5 billion per year, in addition to the \$19 billion they already pay in federal aviation taxes and fees," warned A4A; specifically by tripling the TSA passenger security tax to \$7.50 for each one-way trip by 2019, adding a new \$100 per flight departure tax, raising PFCs from \$4.50 per flight segment to \$8, increasing DHS customs fee from \$5.50 to \$7.50 and hiking the immigration fee from \$7 to \$9. ALPA expressed "adamant opposition" to proposed cuts to the Federal Flight Deck Officer Program. More than 200 members of the House wrote to President Obama to oppose the user fee proposal.

8. Delta, Virgin Atlantic File Antitrust Immunity Application.

Delta and Virgin Atlantic filed an application with DOT seeking antitrust immunity for a proposed joint venture on flights between North America and the UK, under which they would coordinate schedules, network planning, pricing and revenue management functions, sales and other aspects of their services, and implement code sharing and frequent flier and lounge reciprocity. With nearly 60% of London Heathrow slots controlled by the American Airlines/British Airways joint venture, they note in their filing, their proposed joint venture would offer significant competition with 23 of 31 peak-day transatlantic roundtrips at Heathrow. Delta also would begin new nonstop

service to Heathrow from its growing Seattle international gateway. The airlines are also seeking antitrust immunity for five-way coordination on UK-North America traffic flows with Delta's other transatlantic joint venture partners Air France KLM and Alitalia. Last year, Delta and Virgin Atlantic announced an agreement under which Delta will acquire a 49% equity stake in Virgin Atlantic's parent company.

9. DOT Approves Etihad-Aer Lingus Code Share to U.S. Destinations.

DOT approved an Etihad application to code share with Aer Lingus to U.S. destinations via Dublin, including 10 weekly flights to Boston, 12 to New York and eight to Chicago. Passengers can clear U.S. Customs in Dublin. . . . In other news, Etihad launched daily Airbus A340-500 nonstops between Abu Dhabi and Washington, D.C. Speaking before the International Aviation Club in Washington, Etihad CEO James Hogan said legacy alliances have outlived their usefulness, having "evolved into slow-to-respond, bureaucratic organizations which struggle to deliver added value to their member airlines, many of which are no longer compatible"; while Etihad's business model "of organic growth, code shares and minority equity investments," is "very effective in building passenger numbers, revenue and profit for all its partners."

10. Qatar Offers to Serve as ICAO Permanent Seat.

The State of Qatar presented ICAO with an offer to serve as the permanent seat of the organization from 2016, when the Montreal headquarters' lease expires; a new lease arrangement under discussion with Canada would be effective through November 2036. Montreal has been the seat of ICAO since 1946. Under Article 45 of the Chicago Convention, the Qatar offer must be considered by all 191 Member States at the triennial ICAO Assembly, to be held in September this year; a minimum three-fifths (60%) must agree to the Qatar proposal for it to be approved. The Canadian government intends to "do all we can to preserve this jewel in Montreal."

11. February Passenger Airline Employment Down 2.5%.

U.S. scheduled passenger airlines employed 380,159 workers in February, 9,742 fewer (-2.5%) than in February 2012, reports DOT. The five network airlines, which collectively employ two-thirds of the scheduled passenger airline total, reported 3% fewer employees in February. Four of the six low-cost carriers, Allegiant, Virgin America, Spirit and JetBlue, reported an increase. Southwest, following its merger with AirTran, reported a 0.2% drop in employees, compared to the number reported separately by the two airlines in February 2012. Frontier Airlines also reported fewer employees.

12. **DOT Air Travel Consumer Report for February.**

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

| | Feb. '13/'12 | Jan. '12 | Full Year | | | | |
|----------------------|-----------------|-------------|-----------|--------|--------|-------|--------|
| | | | 2012 | 2011 | 2010 | 2009 | 2008 |
| On-time arrivals % | 79.6 / 86.2 | 81 | 81.85 | 79.6 | 79.8 | 79.5 | 76 |
| Cancellations % | 2.4 / 1.0 | 1.5 | 1.29 | 1.91 | 1.76 | 1.39 | 1.96 |
| Mishandled baggage* | 3 / 2.64 | 3.41 | 3.09 | 3.35 | 3.51 | 3.91 | 5.26 |
| Consumer complaints: | | | | | | | |
| Airline service | 899 / 693 | 1,368 | 15,335 | 11,546 | 10,988 | 8,821 | 10,648 |
| Disability-related | 38 / 41 | 56 | 743 | 628 | 572 | 519 | 477 |
| Discrimination** | 5 / 4 | 6 | 99 | 128 | 143 | 131 | 115 |

Note: There were 34 tarmac delays of more than three hours on domestic flights in February, all of which involved US Airways or its code share partners during a snowstorm at Charlotte International Airport in North Carolina. There were no tarmac delays of more than four hours on international flights.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. Barclay Announces Retirement at AAAE.

Charles "Chip" Barclay will retire as CEO of the American Association of Airport Executives (AAAE), as of December 1. He has served in that position since 1983. A replacement search begins in May.

2. PANYNJ to Pay \$3.5 Million Fine for Safety Violations.

Port Authority of New York and New Jersey (PANYNJ) agreed to pay a \$3.5 million fine within 30 days, in a settlement agreement with FAA about aircraft rescue and firefighting (ARFF) violations from December 2010 to June 2012 at Kennedy, Teterboro, LaGuardia, and Newark Liberty. Upon violation of the agreement, FAA would impose an additional fine of \$1.5 million and \$27,500 daily for each violation. PANYNJ agreed to create a dedicated ARFF force to carry out airport-related ARFF functions with no collateral police officer duties, among other actions, said FAA, "to address the underlying problems that led to systemic noncompliance with ARFF requirements."

3. Delta, Los Angeles Invest \$229 Million to Overhaul LAX Terminal 5.

Delta has partnered with City of Los Angeles and Los Angeles World Airports (LAWA) in its \$229 million overhaul of Terminal 5 at Los Angeles International (LAX). Completion of the project, already begun, is expected in 2015. About \$12 million of funding comes from Delta's invested capital for proprietary improvements; \$25 million in reimbursements from the Transportation Security Administration; and the rest in LAWA commercial paper/long-term debt, LAWA cash on hand, and Passenger Facility Charges. LAX handled 63.7 million passengers and 605,480 aircraft operations in 2012 and is undergoing a \$4.1 billion modernization. Delta plans to increase daily year-round and seasonal service to 14 destinations from LAX, and expects to begin code sharing on flights between LAX and London Heathrow with partner Virgin Atlantic later this year.

4. United Commits \$150 Million in Further Investment at Newark.

United announced a \$150 million investment in Terminal C at Newark Liberty and signed a 20-year lease extension with Port Authority of New York & New Jersey. United and United Express carriers will continue their exclusive use of Terminal C and will continue to operate flights at Terminals A and B. The airline broke ground in January on a \$35 million widebody maintenance hangar at Liberty, is working with TSA on a \$100 million in-line baggage-screening system, with expected completion by yearend, and is designing a \$65 million catering facility there.

5. **New Orleans to Replace 50-Year-Old Terminal.**

An \$826 million terminal project has been approved by the New Orleans Aviation Board, to be constructed on the north side of Louis Armstrong New Orleans International. Infrastructure and setup of the current 50-year-old terminal have driven operational costs to high, unsustainable levels, said officials. The project will cost \$650 million with possible additions of a \$72 million power plant, an \$87 million flyover from I-10 to improve access to the airport, and a \$17 million on-site hotel. Pending completion of environmental reviews, construction would begin in 2014, with completion in 2018. Funding will come from airport self-generated funds and federal and state aviation grants. The airport recently unveiled \$300 million in improvements. Southwest is increasing its flights there by 35%.

6. **Dallas Love Field Opens New Terminal.**

The city of Dallas and Southwest opened the first 11 gates of what will be a new 20-gate terminal at Dallas Love Field. The \$520 million Love Field Modernization Program is expected to be completed by October 2014, when Wright amendment limits phase out and airlines can fly nonstop to any U.S. destination.

7. **UK Calls for Lower Fees at Heathrow.**

The UK Civil Aviation Authority published proposals that would reduce Heathrow take off and landing charges by inflation minus 1.3%, for the five years from April 2014. Heathrow passenger traffic rose 1.8% to a first quarter record of 16 million; revenue rose 6.1%.

III. SECURITY AND DATA PRIVACY

1. Flights Restricted Following Boston Marathon Explosions.

Following the Boston Marathon tragedy, in which two explosive devices detonated, killing three and wounding over 150 people, Secretary of Homeland Security Janet Napolitano announced “enhanced security measures at transportation hubs, utilizing measures both seen and unseen.” FAA temporarily restricted flights in airspace over parts of downtown Boston and halted takeoffs and landings at Logan.

2. TSA Delays Changes to Prohibited Items List.

The Transportation Security Administration (TSA) delayed implementation of changes to the Prohibited Items List, originally scheduled to go into effect April 25, in order to accommodate further input from the Aviation Security Advisory Committee, which includes representatives from the aviation community, passenger advocates and law enforcement experts. The decision followed a forceful outcry from airlines, congress, flight attendants and passengers regarding a rule that would allow fliers to carry certain small knives on planes.

3. DHS Urged to Drop Plan for CBP Post in Abu Dhabi.

An agreement between the U.S. and the United Arab Emirates calls for the Department of Homeland Security to establish a Customs and Border Protection (CBP) preclearance post at Abu Dhabi International Airport, the first of its kind in the Middle East. The U.S. has similar arrangements with Canada, Ireland and the Caribbean. State-owned Etihad Airways operates the only non-stop service from Abu Dhabi to the U.S. Airlines for America urged DHS to scrap the plan, calling it a “pay-to-play” scheme. “The U.S. government should not be signing a deal that benefits a foreign emirate and its wholly owned national carrier, particularly since no U.S. carrier serves that emirate,” said A4A. “Middle Eastern carriers and their governments make no secret about their aim to make locations like Abu Dhabi global hubs for commerce and tourism; having the U.S. government support that goal at the expense of U.S. workers, airlines and our economy defies comprehension.” A4A was joined in its campaign by Air Line Pilots Association, Airports Council International–North America, Consumer Travel Alliance, Global Business Travel Association and Regional Airline Association.

4. Inclusion of Saudi Arabia in Global Entry Questioned.

House Homeland Security Chairman Mike McCaul (R-Texas) and Committee members are objecting to a DHS decision to begin discussions about including travelers from Saudi Arabia in Global Entry, a program to expedite foreign

travelers through U.S. Customs. In a letter to DHS Secretary Janet Napolitano they noted that 15 of the 19 individuals who hijacked American planes on 9/11 were from Saudi Arabia. And, following the plot to blow up an international flight over Detroit on Christmas Day 2009, DHS increased scrutiny of passengers from countries like Saudi Arabia.

5. Committee Rejects EU Passenger Name Record Proposal.

The European Parliament's Civil Liberties, Justice and Home Affairs Committee (LIBE) rejected a proposal for a framework that would regulate and harmonize the use of a Passenger Name Record (PNR) system. Association of European Airlines (AEA) expressed disappointment and urged the Parliament to adopt the framework, saying PNR data is frequently requested by Member States to prevent, detect or investigate terrorist offences and serious crimes and there currently is a lack of harmonization at EU level. "Some Member States have already set up procedures, others are in the planning phase. Consequently, there is a risk of diverging systems and different rules in each country, which will lead to complexity, uneven levels of data protection, increased costs and uncertainty for airlines and passengers. . . a comprehensive EU PNR framework would provide clear standards and references for airlines on how to handle requests on passenger data transfer from national authorities and from non-EU countries," said AEA.

6. TSA PreCheck Eligibility Now on Boarding Passes.

Delta, United and US Airways are beginning to pre-notify passengers on boarding passes if they are eligible for TSA PreCheck, so they can better route themselves to the PreCheck lane for expedited screening. TSA PreCheck is currently available at 40 U.S. airports and participating passengers no longer have to remove shoes, belts, light outerwear or laptops from bags.

IV. E-COMMERCE AND TECHNOLOGY

1. American, Orbitz Reach Settlement Agreement.

American Airlines and travel site Orbitz Worldwide agreed to resolve all litigation between them, subject to approval by the court presiding over AMR's restructuring. American earlier settled its antitrust lawsuit with Travelport, which owns a 48% share in Orbitz, and last year reached a settlement with Sabre. The differences stemmed primarily from the carrier's wanting ticket sellers to use its proprietary direct connect reservation system.

2. Quick Response Codes Track Missing Luggage.

Two-dimensional codes added to luggage tags can be scanned with mobile devices, providing contact information of travelers with lost bags. Travelers retrieve the unique Quick Response (QR) barcodes from websites of companies such as GoCodes, then print the codes on a label for each bag. If a bag is found, the traveler is alerted by text message and connects to the GoCode website to retrieve information about bag location.

3. ARC: U.S. Agent Ticket Sales Decline in Q1.

U.S.-based travel agents sold \$22.9 billion worth of airline tickets in first quarter 2013, down 1.37% from same period last year, said Airlines Reporting Corp. (ARC); Q1 sales totaled \$23.3 billion in 2012 and \$21.8 billion in 2011. March 2013 sales fell 4.19%, compared to \$4.2 billion in March 2012. Results do not include tickets purchased directly from airlines. Amounts include taxes and fees.

4. Amadeus: 300 World 'Super Routes' Attract 20% of All Air Travel.

An Amadeus Air Traffic Travel Intelligence study finds that 22% of all global air travel is concentrated on 300 origin and destination 'super routes,' each of which carries over 1 million passengers annually; 69% of all global air travel is made on major routes with 100,000 annual passengers. Worldwide air traffic volume grew 5% between 2011 and 2012. Largest, fastest-growing and most competitive market was Asia, with year over year growth of 9%, followed by Latin America at 6%. Middle East is strong in terms of connecting air traffic, with Doha, Abu Dhabi and Dubai airports serving 15% of all air traffic volume from Asia to Europe and from Europe to the South West Pacific; Europe-Asia traffic routed via the Middle East is growing at 20% per annum. The Asian market has highest airline competition; 75% of the region's air traffic is operated by three or more airlines and 27% by five or more; with other regions such as the Middle East and Europe, half of all air traffic is operated by three or more airlines. Low cost carrier penetration is highest in Europe at 38% and

North America with 30%. The world's busiest air route is Jeju-Seoul in South Korea. Beijing-Shanghai rose from seventh-busiest route in 2011, to fourth-busiest in 2012. Sapporo-Tokyo surpassed Rio de Janeiro-Sao Paulo to second-busiest route ranking, and Okinawa-Tokyo entered top ten, as ninth-busiest route in the world. Globally, percentage of air traffic served by just one or two airlines fell from 39% in 2010 to 35% in 2012; percentage of air traffic with four or more competing airlines rose from 35% in 2010 to 38% in 2012.

5. Pintrips App Simplifies Flight Planning Decisions.

A new online tool allows travelers to “pin” flights they've found across the web in one spot and share them publicly or privately, with automatic real time price and availability updates. “Google research shows that consumers make 12 online searches, visit 22 sites, and take 29 days from initial search to book,” says Pintrips CEO Stephen Gotlieb. Pintrips.com eliminates the need to revisit multiple airline and search sites or re-enter information. Pinning capability is currently available on American, Delta, JetBlue, Southwest, United, US Airways and Virgin America sites, and on Google, Expedia, Kayak and Orbitz.

V. **ENERGY AND ENVIRONMENT**

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

Average price of aviation jet fuel, as of April 19, was \$113.5/barrel, down 7.1% on the month and down 15.6% year-on-year, reports the International Air Transport Association. Fuel price average for 2013 was \$128.7/barrel.

2. **USDA Renews Commitment to Renewable Jet Fuels.**

The U.S. Department of Agriculture (USDA) is extending for five years its agreement to work with FAA and other commercial aviation partners to help develop a viable aviation biofuel. The new agreement, signed by Agriculture Secretary Tom Vilsack and DOT Secretary Ray LaHood, follows initial success of the 2010-2012 Farm to Fly initiative with Airlines for America and Boeing. Farm to Fly builds upon work of USDA's Regional Biomass Research Centers, which produce energy-producing feedstocks within different regions. The renewed agreement focuses on future goals, such as designating personnel, evaluating current and potential feedstock types and systems, developing multiple feedstock supply chains, developing state and local public-private teams, communicating results, and issuing periodic reports. The federal government and its partners hope to support annual production of 1 billion gallons of drop-in aviation biofuel by 2018.

3. **EU Parliament Supports ETS 'Stop The Clock' Proposal.**

The European Parliament voted to support the 'stop the clock' proposal on the EU Emissions Trading Scheme (ETS) for aviation. The moratorium, proposed by the European Commission in November, applies to flights to and from the EU operated in 2012 and allows ICAO time to find a global solution to mitigate emissions. ETS remains in place for intra-EU flights. European carriers called for the moratorium to be extended to all flights departing and arriving at an EU airport, saying the two-tier system discriminates against carriers mainly operating intra-EU flights and penalizes their passengers.

VI. U.S. CONGRESS

1. Senate Appropriations Hearing on FAA 2014 Budget Request.

In testimony before the Senate Appropriations Transportation Subcommittee, Administrator Michael Huerta defended FAA's 2014 \$15.6 billion budget request, which upholds critical safety programs, while deploying key NextGen benefits, at funding levels \$351 million lower than FY 2012. The 2.2% decrease is part of the President's overall effort to reduce the deficit. Huerta said the proposed budget assumes no sequester. . . . In his remarks on key issues facing the agency, DOT Inspector General Calvin Scovel said recent audits found that FAA can increase air traffic controller and safety workforce efficiency by strengthening controller training, revising controller staffing and scheduling practices, and developing an effective method for determining how many safety inspectors are needed. Regarding NextGen efforts and infrastructure improvements, FAA should set priorities and establish sound management strategies to achieve near- and long-term benefits, enhance contract oversight, and prevent misuse of airport revenue and federal grant funds. On safety issues, FAA still needs to improve efforts to effectively collect and analyze data on air traffic controller errors that create air and ground collision risks. FAA also faces new challenges with safely integrating unmanned aircraft systems into U.S. airspace, implementing a safety data sharing system to proactively assess risks, and ensuring effective oversight of voluntary safety disclosure program for air carriers.

2. Senate Hearing on FAA Progress on Key Safety Initiatives

A hearing to examine consequences of sequestration on FAA, the agency's efforts to implement safety provisions in recent reauthorizations, and the status of the Boeing 787 investigations was held by the Senate on Commerce Committee. Chairman Jay Rockefeller (D-WV) noted frustration with the lack of transparency on how FAA made decisions on tower closures and how it intends to implement the budget cuts. Ranking Member John Thune (R-SD) said mandates from the Airline Safety and FAA Extension Act of 2010 and the FAA Modernization and Reform Act of 2012 are behind schedule or incomplete. He asked FAA Administrator Michael Huerta to provide an update on the Pilot Qualifications rulemaking, a progress report on the effort to develop the pilot records database and a strategic plan to address runway safety, as the rate of runway incursions has trended steadily upwards in recent years, and NTSB has again placed improving safety of airport surface operations on its "Most Wanted List." Thune maintained that FAA failed to provide requested information to Congress and the American public about plans to carry out sequestration, even after the Sequestration Transparency Act was signed into law. Claire McCaskill (D- Mo.) urged Huerta to end the

FAA's prohibition on use of personal electronic devices during takeoff and landing, calling the rule "arbitrary."

3. House Passes Cybersecurity Amendments.

The House passed the Federal Information Security Amendments Act of 2013, which updates the Federal Information Security Management Act of 2002 (FISMA) and extends security requirements of federal agencies. H.R. 1163 establishes a mechanism for stronger oversight through a focus on automated and continuous monitoring of cybersecurity threats and implementation of regular threat assessments. . . . The Cyber Intelligence Sharing and Protection Act (CISPA) amends the National Security Act of 1947 to add provisions concerning cyber threat intelligence and information sharing. H.R.624 requires the Director of National Intelligence to establish procedures to allow intelligence community elements to share cyber threat intelligence with private-sector entities and utilities, and encourage sharing of such intelligence. Senator Jay Rockefeller (D-WV) said CISPA "is important [but its] privacy protections are insufficient," and urged bipartisan agreement on cybersecurity legislation in the Senate, which "will include information sharing, improving the security of our nation's most critical systems, increasing research and development for new cyber technologies, educating and training a workforce for 21st century challenges, and improving public awareness of cyber threats . . . There is too much at stake—our economic and national security—for Congress to fail to act."

4. House Hearing on TSA Spending, Sequestration.

A hearing to address TSA spending and sequestration plans was held by the House Oversight and Government Reform Subcommittee on National Security. "There has been a pattern of acquisitions of products that don't work, warehouses filled with equipment that was bought and not used, contracts that promised to do one thing and a billion dollars later they don't do what they claim to do," said full Committee Chairman Darrell Issa (R-Calif.), in his opening remarks, setting the tone for confrontational questioning of Deputy Administrator John Halinski, who said sequestration effects would be mitigated by Fiscal Year 2013 funding, which will allow TSA "to maintain its screening workforce through prudent management of hiring and controlled overtime."

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. Siim Kallas Discusses EU-U.S. Partnership.

In Washington to discuss aviation relations, European Commission Transport Vice President Siim Kallas addressed the International Aviation Club regarding the future of transatlantic aviation and the EU-U.S. partnership. “Our ambition must be nothing less than to create a genuine transatlantic open aviation area,” he said, “more regulatory convergence, free flows of investment, and no restrictions on air services, with access to the domestic markets of both sides . . . The main issue remains ownership and control. EU carriers are not subject to restrictions and can be owned by any EU interest, [while] in the United States, foreign ownership of airlines is restricted to 25%. These barriers slow down the development of a vital global industry and also deny our carriers important new sources of capital . . . If truly transatlantic airlines are to be created, which is in both our interests, U.S. investment laws need to be reformed.”

2. EU-Israel Open Skies Agreement Signed, Causing Labor Strife.

Israel approved an open skies agreement with the European Union, after three years of negotiations. The signing generated strikes at El Al, Arkia and Israir amid fears that greater competition with foreign airlines could cost jobs, and that airline costs for stringent Israeli security measures would preclude competitive fares with European airlines. The strikes ended when the government agreed to cover airline security costs. The open skies agreement will be phased in over five years from next April. In other news, First Israel Mezzanine Investors Fund (FIMI) and El Al signed an agreement, under which FIMI will invest up to \$75 million for a 47% stake in the airline, subject to shareholder and regulatory approvals and El Al signing a new collective agreement with employees on terms FIMI deems satisfactory. FIMI will form a control group with El Al's largest shareholder Knafaim Holdings.

VIII. EUROPE AND AFRICA

1. United Begins San Francisco-Paris Nonstop.

United launched daily Boeing 767-300 nonstops from San Francisco to Paris. United also began weekly Boeing 737-800 nonstops from Washington-Dulles to Costa Rica and Guatemala, and from Chicago to Costa Rica.

2. US Airways Launches Charlotte-London Heathrow Service.

US Airways began daily Airbus A330 nonstops to London Heathrow from Charlotte, replacing Charlotte to Gatwick flights. The flight originates in Miami.

3. Alitalia CEO Named.

Gabriele Del Torchio was named CEO of Alitalia. He will replace Andrea Ragnetti, who resigned in February. Del Torchio was the CEO of Ducati.

4. UPS Appeals EU Rejection of TNT Express Bid.

United Parcel Services (UPS) appealed a January decision by the European Commission (EC) to prohibit its proposed acquisition of TNT Express. U.S.-based UPS abandoned its bid to buy the Dutch company in anticipation of the veto. "The appeal is intended to clarify the EC's legal assessment of the dynamics of the European express market," stated TNT Express. "It does not imply a renewal or reconsideration of the previously proposed UPS offer. The merger agreement between TNT Express and UPS was terminated and the UPS offer was withdrawn following the EC decision in January 2013. TNT Express continues to focus on the execution of its updated strategy and profit improvement plan as announced on 25 March 2013."

5. Commission Probes Proposed Aegean Acquisition of Olympic.

The European Commission opened an in-depth investigation of the proposed acquisition of Olympic Air by Aegean, after an initial investigation indicated the proposed transaction raises serious competition concerns on Greek domestic routes where they currently compete or are well placed to compete. Both companies operate international and domestic passenger service from Athens. On some domestic routes the transaction would remove Cyprus Airways, an important competitor. A decision is expected by September 3. The EU in 2011 blocked an attempted merger of the two carriers.

6. FastJet to Add South Africa Unit.

FastJet will begin to reach its goal of becoming the first pan-African discount airline when it expands beyond Tanzania to offer twice daily service between Cape Town and Johannesburg on May 31. The new venture, Blockbuster, will

be 75% owned by South Africans including Edward Zuma, son of the nation's President. The carrier abandoned plans to acquire South African operating rights from bankrupt local carrier 1time, and instead will use a license held by Federal Airlines. FastJet also announced an agreement with Nairobi-based Five Forty Aviation to resolve a legal dispute over payment and licensing agreements. London-based FastJet is backed by EasyJet founder Stelios Haji-Ioannou; Chairman is David Lenigas, CEO is Ed Winter.

7. **Delta, Virgin Atlantic File Antitrust Immunity Application.**
See Section I, item 8.
8. **DOT Approves Etihad-Aer Lingus Code Share to U.S. Destinations.**
See Section I, item 9.
9. **Korean Air to Acquire 44% of Czech Airlines.**
See Section IX, item 2.
10. **Emirates to Launch Milan-New York Flight.**
See Section IX, item 4.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. Hawaiian to Begin Service to China in 2014.

Hawaiian Airlines plans to launch Honolulu-Beijing nonstops in April 2014, pending approvals by U.S. and Chinese regulatory agencies. The Airbus A330 service will operate three times weekly. . . In other news, Hawaiian will discontinue underperforming nonstop Manila service on July 31; the four times per week service began in 2008. “High fuel prices and low fares have plagued this particular route and while we have made several efforts to improve the economic performance of our Manila service . . . we've concluded that the route will not be a commercial success,” said the carrier.

2. Korean Air to Acquire 44% of Czech Airlines.

Korean Air will take a 44% share of SkyTeam partner Czech Airlines (CSA), the first acquisition of a foreign airline by a Korean airline. Czech Aeroholding retains its majority stake in CSA. Synergies in purchasing services, technology and other items will have a positive impact on CSA's cost structure, said officials, and prospects of Vaclav Havel Airport Prague will grow. The move will strengthen economic ties with the Korean Republic and other Asian countries, said Czech Prime Minister Petr Necas, increase Korean and Asian investment and commercial collaboration and reinforce tourism between the Czech Republic and Asian countries. The transaction should close in Q2; “entry of the strategic investor will be accompanied by notification to the European Commission.”

3. Singapore Air Raises Stake In Virgin Australia.

Singapore Airlines increased its 9.9 % stake in Virgin Australia to 19.9% for a total consideration of A\$122.6 million; a 20% share would generate a mandatory offer for the entire company under Australian rules. The purchase reduces Virgin Group's holdings to 12.5% from 22.4%. Air New Zealand and Etihad also hold shares. The sale is subject to approval from Australia's Foreign Investment Review Board (FIRB). . . . Virgin received competition regulator approval to buy a controlling stake in Tiger Australia from Singapore's budget associate, Tiger Airways, also subject to FIRB approval, and completed its acquisition of 100% of Skywest.

4. Emirates to Launch Milan-New York Flight.

Emirates will launch direct Boeing 777-300ER service between Milan and New York, from October 1; the Italian Civil Aviation Authority authorized the daily flight on an extra-bilateral basis. “Operating a transatlantic route has been on

our agenda for some time,” said President Tim Clark. Emirates recently introduced a double daily Dubai-New York A380 service.

5. **Qatar Begins Chicago Passenger Service.**

Qatar Airways launched Boeing 777-300ER passenger flights from Doha to Chicago, its fifth North American destination. Initially three-times-weekly, the nonstop service will increase to daily on June 15. The carrier has offered dedicated freighter service to Chicago for more than two years.

6. **Etihad to Acquire 24% Stake in Jet Airways.**

Etihad is purchasing a 24% stake in Indian airline Jet Airways for \$379 million. A strategic alliance, subject to regulatory and shareholder approval, will include expanded code sharing, creating a combined network of 140 destinations, with Jet establishing a Gulf gateway in Abu Dhabi. Etihad made a \$220 million injection to strengthen Jet’s financial position, of which \$70 million was used to purchase Jet’s three Heathrow slot pairs in February; \$150 million will be invested in Jet’s frequent flyer program. The Indian market is expected to reach 42 million travelers over the next five years at a rate of 10% per year. Etihad owns 29% of airberlin, 40% of Air Seychelles, 9% of Virgin Australia and nearly 3% of Aer Lingus, and has 42 code share relationships. In 2012 Eihad posted a profit of \$42 million and saw airberlin and Air Seychelles returned to profitability.

7. **DOT Approves Etihad-Aer Lingus Code Share to U.S. Destinations.**

See Section I, item 9.

8. **Etihad and Air Canada to Code Share.**

See Section X, item 6.

X. AMERICAS

1. AMR Files Bankruptcy Reorganization Plan.

American Airlines parent AMR filed a plan of reorganization in U.S. Bankruptcy Court and requested that a court hearing be scheduled for May 30. AMR also filed a prospectus with the Securities and Exchange Commission, detailing the proposed merger with US Airways, which is subject to clearance by the U.S. Department of Justice. The plan includes a \$20 million severance payment for American CEO Tom Horton, which earlier was blocked by Bankruptcy Judge Sean Lane following objections by the Justice Department Trustee. The merger will create the world's largest airline. US Airways CEO Doug Parker will lead the combined carrier, which will retain the American name and Fort Worth headquarters. . . . In other news, American launched daily nonstops to Dusseldorf from Chicago O'Hare and to Lima from Dallas/Fort Worth; and will start Dallas -Seoul in May and New York Kennedy-Dublin in June.

2. Pinnacle Bankruptcy Exit Approved; Now a Delta Unit.

Pinnacle received approval to exit bankruptcy as a subsidiary of its primary creditor Delta. Delta will deposit \$2.25 million into a trust to be divided by other unsecured creditors and unions. Pinnacle will increase the number of large planes and cut the number of routes it flies for Delta, phase out its fleet of smaller planes, and move its headquarters from Memphis to Minneapolis. The regional filed for Chapter 11 in April 2012.

3. Virgin America Offers Low-Fare Newark Service.

Virgin America launched service to Newark Liberty, with three daily nonstops from Los Angeles International and San Francisco. "These routes previously had some of the highest fares in the nation," said CEO David Cush"; fares now have "dropped by nearly 40% and last-minute walk-up fares by about 30%." Launch fares started at \$99, including taxes and fees.

4. FedEx Signs \$10.5 Billion Agreement With U.S. Postal Service.

Under a new seven-year contract with the U.S. Postal Service, valued at \$10.5 billion, FedEx Express will provide airport-to-airport transport of express and priority mail within the United States. The current contract ends in September and the new contract will begin in October 2013. In other news, FedEx has expanded Brazil and Mexico capabilities, opening new offices, establishing alliances with regional service providers and launching new freight forwarding service options, through its freight forwarding arm FedEx Trade Networks.

5. **Former Hawaiian CEO Heads Island Air.**

Former Hawaiian Airlines CEO Paul Casey was named CEO of Island Air; Les Murashige will continue as President. Casey also served as CEO of Continental Air Micronesia. Oracle CEO Larry Ellison purchased the interisland carrier in February.

6. **Etihad and Air Canada to Code Share.**

Etihad and Air Canada tentatively plan to offer reciprocal code share services. Subject to regulatory approval, Etihad will place its code on Air Canada flights between Toronto and select North American points. Air Canada will place its code on Etihad nonstops between Toronto and Abu Dhabi, and Etihad flights between London Heathrow and Abu Dhabi. The carriers currently have passenger and cargo interline agreements. Canada and United Arab Emirates recently restored a visa regime, so Canadian nationals can obtain a free visa on arrival in the UAE.

7. **JetBlue to Fly to Lima, Peru.**

JetBlue announced new daily Airbus A320 nonstops between Fort Lauderdale and Jorge Chavez in Lima, subject to receipt of government operating authority. Lima will be JetBlue's fourth destination in South America.

8. **Spirit Adds Nonstop Service on Nine New Routes.**

Spirit started service on nine new nonstops, including Dallas/Fort Worth to Cancun, Los Angeles and Oakland; Philadelphia to Las Vegas and Myrtle Beach; Baltimore/Washington to Myrtle Beach and Las Vegas; Houston to Los Angeles; and Denver to Minneapolis/St. Paul. Summer seasonal service was resumed on numerous routes.

9. **Airlines, ALPA File Joint Lawsuit Against Ex-Im Bank.**

Delta, Hawaiian and Air Line Pilots Association sued the U.S. Export-Import Bank for approving loan guarantees to several foreign airlines, while disregarding the adverse economic impact the financing has on U.S. airlines and their employees. Filed in federal court in Washington, the suit challenges the Ex-Im Bank's approval of loan guarantees to Etihad, Korean, LATAM and Lot Polish to purchase Boeing widebody aircraft "that would allow them to increase their fleets and gain access to key international routes. The guarantees would put U.S. airlines at a competitive disadvantage, possibly forcing them to cut market share, reduce flights, and trim American jobs." The bank is legally required "to perform an economic analysis to assess the effect of bank financing decisions on U.S. airlines and its workers," said ALPA. "In this suit, we are challenging their failure to perform that analysis. Financing these airlines with U.S. taxpayer dollars at rates substantially less than what U.S. airlines have to pay in the open market is a direct assault on the U.S.

airline industry.” In FY 2012, the bank allocated 46% of total financial commitments for air transportation loans and loan guarantees, more than the three next-largest industrial sectors combined. The bank provided foreign airlines with \$34.5 billion from 2005 to 2010, \$11.4 billion in 2011 and \$11.6 billion in 2012. The plaintiffs filed a suit against the Ex-Im Bank in February, challenging new guidelines and procedures for assessing economic effects of financing practices on U.S. airlines and their employees. In 2011, ALPA and Airlines for America sued the bank to block it from guaranteeing financing for Air India to purchase aircraft. Both suits are ongoing.

10. **Delta, Virgin Atlantic File Antitrust Immunity Application.**
See Section I, item 8.
11. **DOT Approves Etihad-Aer Lingus Code Share to U.S. Destinations.**
See Section I, item 9.
12. **United Begins San Francisco-Paris Nonstop.**
See Section VIII, item 1.
13. **US Airways Launches Charlotte-London Heathrow Service.**
See Section VIII, item 2.
14. **UPS Appeals EU Rejection of TNT Express Bid.**
See Section VIII, item 4.
15. **Hawaiian to Begin Service to China in 2014.**
See Section IX, item 1.
16. **Emirates to Launch Milan-New York Flight.**
See Section IX, item 4.
17. **Qatar Begins Chicago Passenger Service.**
See Section IX, item 5.