



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. **DOT, EU Grant Antitrust Immunity to oneworld Alliance.**

The U.S. Department of Transportation granted antitrust immunity to American Airlines and its oneworld partners—British Airways, Iberia, Finnair and Royal Jordanian—for an integrated global alliance, finalizing a February 13 tentative decision. The venture, which also won European Union (EU) clearance, “will be able to compete more vigorously with similar immunized alliances Star and SkyTeam,” said DOT. The applicants were required to make four Heathrow slot-pairs available to competitors for new U.S.-London service—two pairs for Boston-London service and two for service from any other U.S. cities. DOT required changes to the alliance to ensure capacity growth. The carriers also must submit traffic data, implement the alliance within 18 months and resubmit the alliance agreements for review within five years. Under the joint business agreement, the carriers will cooperate commercially on flights between the United States, Mexico and Canada, and the EU, Switzerland and Norway while continuing to operate as separate legal entities. They will expand their code share arrangements on flights within and beyond the U.S. and EU.

In its decision, “made in close cooperation with U.S. authorities, in particular DOT,” the European Commission (EC) made commitments by the carrier legally binding for 10 years; a trustee will be appointed to monitor implementation. The carriers will make slots available at London Heathrow or Gatwick for flights to Boston, New York, Dallas and Miami. For London-New York, slots will be freed at New York Kennedy, if necessary. Competitors may conclude fare-combinability agreements with alliance partners, and offer tickets on alliance airlines’ flights. Slots that become available will allow competitors to operate up to seven new roundtrip flights a day or 49 a week between London and the four U.S. destinations. The EC also approved the merger of British Airways and Iberia, concluding it “would not significantly impede effective competition in the European Economic Area or any substantial part of it.”

2. **EU Clears United-Continental Merger.**

The EC cleared the proposed merger of United and Continental, concluding the transaction “would not significantly impede effective competition in the European Economic Area (EEA) or any substantial part of it [nor] provision of scheduled air passenger and cargo transport between the EEA and the U.S.” The “all-stock merger of equals” was announced in May; the carriers said they “continue to work cooperatively with the U.S. Department of Justice toward an expeditious completion of our merger.” (See also Section X.)

3. **FAA Proposes \$230,000 Civil Penalty Against Continental.**

The Federal Aviation Administration (FAA) proposed a \$230,000 civil penalty against Continental for allegedly operating a Boeing 767 on 22 revenue flights when it was not in compliance with federal aviation regulations.

4. **Report: FAA Lax in Northwest Noncompliance Cases.**

In the latest charge of collusion with airlines, FAA was found to have lax policies with Northwest. According to a DOT Inspector General (IG) report, the airline had a systemic failure to comply with FAA directives and regulators failed to hold the airline accountable. The investigation was triggered by a whistleblower complaint charging that FAA safety inspectors had allowed Northwest to avoid civil penalties or legal action by accepting voluntary disclosures of non-compliance, flouting FAA policy. The report, dated December 7, 2009, was made public in July by the U.S. Office of Special Counsel (OSC), which handles whistleblower complaints. FAA said it is working to implement IG recommendations for further inspections at Northwest operations; Northwest parent Delta said the report is under review.

5. **DOT Assessments.**

DOT fined Comair \$275,000 for violating federal rules regarding passengers denied boarding (“bumped”) on oversold flights, and ordered Comair and affiliated carriers including Delta to cease and desist from further violations. . . . DOT assessed Delta, individually and as successor to Northwest, a compromise civil penalty of \$80,000 for failing to disclose code share arrangements; half of the penalty will be payable if Delta violates the order’s cease and desist provision within the next year. . . . Delta agreed to pay penalties of \$40,000 for failing to prominently disclose taxes and fees not included in base fares on its website. . . . DOT fined AirTran \$20,000 for advertising a lower sale price than was actually available.

6. **FAA Orders.**

FAA is requiring re-registration of all civil aircraft over the next three years and renewal every three years after that, in an effort to create a more accurate aircraft registration database; current regulations require owners to report the sale or scrapping or destruction of an aircraft, or a change in mailing address, but many owners have not complied with those requirements. . . . FAA directed operators of Boeing 757, 767, and 777 airplanes to either inspect or replace certain forward viewing flight deck windows; over the past two decades, there have been 11 reports of fire or flames on 757 (five events), 767 (three events), and 777 (three events) airplanes. . . . FAA ordered U.S. operators of 138 Boeing 767 airplanes to reduce initial pylon inspection time from 10,000 to 8,000 total flights, and the interval for repetitive inspections for

cracking of the pylon midspar structural fittings and an adjacent structure from 1,500 to every 400 flights thereafter.

7. DOT Site Allows Passengers to Comment on Proposed Rules.

DOT has partnered with the Cornell eRulemaking Initiative in a pilot project designed to improve the public's ability to understand and participate in rulemaking through a web-based discussion format. Funded by the National Science Foundation and Google, Regulation Room supports President Obama's open government initiative. Users currently are commenting on DOT's proposed new passenger rights rules.

8. Increased Reports of Infectious Passengers.

More than 3,000 cases of potentially infectious diseases were logged by federal health officers among airline and other travelers in the past year, including tuberculosis, whooping cough, measles, mumps and typhoid fever, according to Centers for Disease Control and Prevention data obtained by *USA Today*. Reports to the CDC were up significantly, largely because of increased reporting of flulike symptoms due to the H1N1 pandemic. Since 2007, CDC regional quarantine stations at 20 airports and other ports of entry have received about 7,000 reports of potentially infectious diseases.

9. Duane Woerth Named as ICAO Representative.

President Obama nominated Duane Woerth to serve as U.S. Representative on the Council of the International Civil Aviation Organization (ICAO). Woerth served as President of the Air Line Pilots Association and on numerous aviation panels and boards, including DOT's post-9/11 Rapid Response Team for Aircraft Security.

10. May Passenger Airline Employment Data.

U.S. scheduled passenger airlines employed 377,000 workers in May 2010, reported DOT, 2.7% fewer than in May 2009. The six network airlines employed 255,500 in May, 67.8% of the passenger airline total, while low-cost carriers employed 17% and regionals employed 13.8%.

11. Equipment News.

Boeing announced 103 new firm orders worth \$10 billion and \$4 billion in provisional orders at the semi-annual Farnborough Air Show, in preliminary reports, while Airbus won 255 commitments, valued at \$28 billion. Orders were dominated by leasing companies, with Steven Udvar-Hazy's new Air Lease Corporation (ALC) acquiring 105 units. Among chief surprises, Virgin America signed a nonbinding MoU for 40 Airbus A320s, worth \$3.3 billion, plus 20 options. Farnborough organizers claimed 1,450 exhibitors (1,393 in 2009) and announced a preliminary figure of \$47 billion in orders, compared to \$88.7

billion in peak year 2008 and \$46 billion in 2006. ALC Chairman and CEO Udvar-Hazy, who co-founded and led International Lease Finance Corporation (ILFC) for 37 years, secured initial financing of \$3.3 billion for his new company; John Plueger, who briefly was acting CEO of ILFC after Udvar-Hazy retired, now is ALC President.

12. DOT Air Travel Consumer Report for May.

Based on data filed by 18 of the largest U.S. airlines.

	May '10 / '09	April '10	Full Year				
			2009	2008	2007	2006	2005
On-time arrivals %	79.9 / 80.5	85.3	79.5	76	73.4	75.4	77.4
Cancellations %	1.2 / 0.9	0.7	--	--	--	--	--
Mishandled baggage*	3.29 / 3.65	2.89	3.91	5.26	7.05	6.73	6.64
<i>Consumer complaints:</i>							
Airline service	801 / 655	878	8,819	10,648	13,180	8,325	8,741
Disability-related	41 / 38	41	517	477	488	430	511
Discrimination**	10 / 13	13	132	115	99	114	129

Note: There were five flights with tarmac delays of over three hours in May.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. Court Upholds Peak Pricing.

The U.S. Court of Appeals for the District of Columbia upheld DOT regulations issued in 2008 that allow airports to initiate peak-pricing, rejecting Air Transport Association (ATA) claims that the rules are discriminatory and unreasonable. The decision permits airports to impose a two-part landing fee structure and vary landing fees throughout the day at congested airports, said Airports Council International-North America; faced with higher fees, the airlines can shift flights to less traveled hours, change the size of the aircraft flown during peak periods or pay higher fees to fly at the busiest hours. “As the airspace is used ever more intensively, it is unsurprising that the department would update its approach to landing fees in an effort to relieve airport congestion. So long as it complies with the applicable statutes, its creativity should be welcomed on its merits, not spurned for its novelty,” the court concluded.

2. DOT Awards Four Routes at Tokyo Haneda.

DOT awarded four routes to Tokyo’s downtown Haneda Airport, finalizing a tentative decision of May 7. Airlines selected are American (New York), Delta (Los Angeles and Detroit) and Hawaiian (Honolulu), with service to begin by January 29, 2011. Haneda’s fourth runway becomes operational later this year. Continental and United also applied for the Haneda slots.

3. Delta, US Airways Drop Plan to Swap Slots.

Delta and US Airways said in a regulatory filing they would not proceed with plans to swap landing rights at New York LaGuardia and Washington National under the terms required by the FAA, and are seeking judicial review of the FAA decision that they cede some slots through a blind auction.

4. MWAA Opposes Long-Range Flights From Washington National.

The Metropolitan Washington Airports Authority (MWAA) urged Congress to maintain the current limits on long-range flights from Washington National. Additional beyond perimeter service included in the FAA Reauthorization legislation could strain security screening and worsen delays and congestion, said MWAA. Separately, FAA is reviewing procedures at the Washington region air traffic control center, which recently recorded more than 20 “close calls.” But FAA Administrator Randy Babbitt said a *Washington Post* front-page story on the subject made “an unsubstantiated correlation between air traffic controller experience levels and safety. The overwhelming majority of

controllers at the Potomac Terminal Radar Approach Control (TRACON) facility have at least 10 years of experience.”

5. 2010 Military Airport Program Selections

FAA selected commercial service airports Stewart International in Newburg, NY and Sacramento Mather Field in Sacramento, CA, to participate in the 2010 Military Airport Program (MAP), a set aside of the Airport Improvement Program (AIP) which uses federal funds to convert former military airports to civilian or joint-use airports as a means to increase civilian aviation capacity. Both airports have participated in the program before. Stewart will participate in the program for one year to complete replacement of the airfield power circuit and bring the aging former Air Force airport to current civil design standards. Mather Field will receive funds for an additional three years to complete several projects. MAP funding set aside for fiscal year 2010 is \$27 million. Projects that compete for MAP funding include rehabilitating parking lots, fuel farms, hangars, utility systems and cargo buildings.

6. UK Proposes Airport Reforms.

The UK Department for Transport said it will not change the basis on which current price caps at Heathrow and Stansted are set, as it announced proposals to reform airport regulation. Under the plans, the Civil Aviation Authority (CAA) will be charged with promoting passenger interests and driving passenger-focused investment. CAA will have more effective powers to take action against airports that underperform and new powers to investigate and take action against anti-competitive behavior. Regulation will be tailored to meet requirements of individual airports to protect consumer interests. Airport operator BAA said the approach provides reassurance for pension funds and other institutions supporting its Heathrow modernization program.

7. \$2.7 Billion Delhi Terminal 3 Opens.

Delhi's \$2.7 billion Terminal 3 opened, with 78 gates, 97 automated walkways, 95 immigration counters and parking for 4,300 cars. Terminal 3 and a new Mumbai terminal in, due in 2012, are part of a government effort to attract overseas investment and support increasing travel demand; construction of seven new airports also has been approved.

III. SECURITY AND DATA PRIVACY

1. DHS Announces Full-Body Scanner Deployments.

The Department of Homeland Security (DHS) announced deployment of advanced imaging technology (AIT) to 28 U.S. airports. More than 142 body scanners were deployed earlier, with a goal of 450 this year. In other news, DHS awarded \$56 million for airport security projects to Charlotte Douglas, \$3.1 million to St. Louis International and \$7.5 million to Orlando International. Among highlights of a 2010 Progress Report, released on the sixth anniversary of the 9/11 Commission Report, DHS named: implementation of Secure Flight for all passengers on domestic and international flights on U.S. airlines; more than 1.5 million shippers in the Known Shipper Management System certified as meeting specific security standards; enhanced security measures for all air carriers with international flights to the U.S., utilizing real-time, threat-based intelligence and a layered security strategy; and unprecedented investments in passenger screening technology.

2. New TSA Administrator Announces Top Goals.

John Pistole was sworn in as Administrator of the Transportation Security Administration (TSA). Among his top goals and priorities: improving TSA's counterterrorism focus through intelligence and technology, supporting TSA workers, and strengthening relationships with stakeholders and travelers. The former FBI Deputy Director is visiting airports and other facilities "to gain feedback from the transportation security community and to hear from TSA staff," and participating in online forum "Talk to TSA."

3. Portable-Missile Defense Could Cost \$43 Billion.

DHS estimates the cost for arming U.S. passenger aircraft to deter shoulder-fired missiles at \$43.3 billion over 20 years, according to an unpublished report obtained by the Federation of American Scientists. In interviews with Bloomberg, the Federation said portable weapons are an imminent and acute threat. Airlines have said the expense of installing the systems exceeds the risk. Legislation introduced in the Senate in 2003 would have required the systems on U.S. passenger planes, but stalled in disputes over cost and reliability. Since then, systems have been tested for live fire and multiple attacks on some 16,000 flight hours on American Airlines and FedEx jets.

IV. E-COMMERCE AND TECHNOLOGY

1. Open AXIS Formed to Promote Connectivity Standards.

Airlines have formed Open AXIS Group, a non-profit whose primary goal is advocacy and promotion of eXtensible Markup Language (XML) for airline system connectivity in content distribution. Comprised of American, Delta, Continental, United, US Airways and Air Canada, as well as Airline Tariff Publishing Company (ATPCO) and other allied members, the group “was formed out of the industry’s requirement for more standard connectivity between airlines and third party distributors in support of merchandised content.” Jim Young is Executive Director.

2. Google and ITA Software Sign Acquisition Agreement.

Google agreed to acquire flight information software company ITA for \$700 million, saying it will “pursue the creation of new flight search tools that will enable users to find better flight information more easily on the Internet.” ITA was founded in 1996 by MIT computer scientists who devised solutions for organizing flight information used by airlines and online travel agencies.

3. Sabre Acquires Flightline Data Services

Flightline Data Services, provider of crew products and services, was acquired by Sabre Holdings and will become part of Sabre Airline Solutions, adding real-time trip trading; mobile applications; and preferential, vacation, and system and training bidding capabilities. Georgia-based Flightline serves over 20 airlines in North America.

4. OAG Offers Traveler Planning Tools.

A new OAG website alerts travelers to options when service interruptions occur and provides flight status, airline route finder, terminal finder and schedules for more than 1,000 airlines via mobile, online or print. OAG Travel also includes country data and guidance on lost bags, cancelled flights, passports and visas.

V. ENERGY AND ENVIRONMENT

1. Fuel Bill for Global Airline Industry.

The price of aviation jet fuel, as of July 9, was \$84.5/barrel, down 1.9% on the month and up 24.1% year-on-year, reports the International Air Transport Association. Fuel price average year-to-date was \$88.2/barrel.

2. EU Governments Agree On CO2 Auction Rules.

EU governments agreed on new rules to auction allowances for emitting carbon dioxide. The Emission Trading System (EU ETS) would take effect for airlines in 2012 and for all other industries in 2013. At least half the total volume of allowances is expected to be auctioned in 2013; for aviation, 15% of allowances will be auctioned in 2012 and this proportion will stay the same in subsequent years. The draft regulation, which affects all aircraft operators flying into and out of EU airports, now goes to the European Parliament for a three-month scrutiny period. The EC also approved a tool developed by Eurocontrol that enables aircraft operators with few flights or emissions to use simplified monitoring procedures.

3. Alaska Airlines Test Flight Lowers Emissions By 35%.

An Alaska Airlines demonstration flight using satellite-based guidance technology (Required Navigation Performance) reduced emissions by 35%, compared to a conventional landing. Using a Boeing 737-700, with landing weight similar to a typical passenger flight, the shorter, more efficient approaches saved 400 pounds of fuel per approach. The new procedures are expected to reduce overflight noise, cut fuel consumption by 2.1 million gallons annually and reduce carbon emissions by 22,000 metric tons. The airline, in cooperation with Port of Seattle, Boeing and other airlines serving Seattle-Tacoma International Airport, is seeking FAA approval for the procedures.

4. Biofuel Activity.

Among recently announced biofuel initiatives, the U.S. Department of Agriculture, Air Transport Association of America and Boeing formed "Farm to Fly," to accelerate availability of sustainable aviation biofuels in the United States, increase domestic energy security, establish regional supply chains and support rural development. . . . In a six-month project, Boeing, Alaska Airlines, Washington State University and Portland, Seattle-Tacoma and Spokane airports will examine development of a sustainable biofuel industry, including biomass production and harvest, refining, transport infrastructure and use by airlines; it will include an analysis of potential biomass sources indigenous to the Pacific Northwest, including algae, agriculturally based

oilseeds such as camelina and wood byproducts. . . . A consortium comprised of Bombardier, Pratt & Whitney Canada, UOP, Sustainable Oils and Porter Airlines, led by Targeted Growth Canada, aims to conduct a demonstration flight using camelina-derived biofuel by 2012 on a Porter Q400. . . . Airbus parent EADS displayed an experimental four-seat, propeller-driven aircraft at Farnborough that completed its first algae-powered test flight in June. Naming advantages over other types of biofuels, EADS said algae do not compete with other crops for agricultural land and can be grown in polluted water; production consumes large quantities of carbon dioxide; and algae can be blended with traditional kerosene without significant equipment modifications. EADS would like 10% of the global fleet to run on pure biofuels, or a blend, by 2030. . . . British Airways reiterated plans to team with U.S. renewable energy company, Solena Group, to build the first biomass jet-fuel plant in Europe and plans to use the low-carbon fuel to power part of its fleet from 2014.

5. First Night Flight by Manned Solar Plane.

A manned solar powered plane flew for more than 30 hours, using stored solar energy for the night portion. Swiss-managed Solar Impulse had a maximum speed of 125.9 km/H; average speed 38.2 km/H; and maximum altitude 8720 meters (above sea-level). In related news, UK-based QinetiQ's solar powered, high-altitude, long-endurance (HALE) Unmanned Air System (UAS) set new world records, remaining airborne continuously for more than two weeks. Powered at night by lightweight batteries re-charged each day, Zephyr's progress was monitored at the U.S. Army's Yuma Proving Ground in Arizona by Federation Aeronautique Internationale .

VI. U.S. CONGRESS

1. FAA Reauthorization Remains Stalled.

House-Senate negotiators failed to pass a long-term FAA reauthorization bill, before adjourning for a summer recess. Another short-term funding extension was passed.

2. House Hearing on Airline Fees.

A House Aviation Subcommittee hearing on the trend of unbundling airfares explored requirements for disclosure of fares, taxes and fees; options for passengers to recover costs of some fees; and revenue potentially available to the Airport and Airway Trust Fund if certain ancillary fees were subject to the federal tax on airline tickets. A Government Accountability Office (GAO) report on the issue found that applying the federal ticket tax to baggage fees would have generated more than \$180 million in 2009 revenue for the trust fund. GAO recommends that DOT mandate that U.S. and foreign airlines disclose carrier-imposed optional fees across all distribution channels. "We need to ensure that, at the very least, if ancillary fees continue to be charged, the consumer is made fully aware prior to their travel of what to expect," said Jim Oberstar (D-Minn.), Chairman of the Transportation Committee. He and Subcommittee Chairman Jerry Costello (D-Ill.) ordered the GAO investigation, due to concerns that fees "were becoming excessive and were diverting revenue from the Airport and Airway Trust Fund, the balance of which is nearing zero." Airlines argued that increased costs of taxation would lower ticket demand and thus trust fund revenue, and that fees are not for services that increase air traffic control or airport infrastructure costs, which are paid for by the trust fund. Kate Hanni, founder of FlyersRights.org, called on Congress to "act promptly to set statutory limits on what kinds of fees and charges can be imposed by airlines and under what conditions. U.S. airlines collected \$7.8 billion in ancillary fees in 2009, and \$1.3 billion in first quarter 2010.

3. TSA Cargo Screening Mandate Faces Challenges.

An oversight hearing on TSA progress in meeting the August deadline for screening all cargo on domestic and inbound flights of foreign and U.S. passenger operations was held by the House Homeland Security Transportation Subcommittee. A Government Accountability Office (GAO) report commissioned by the committee says "it is questionable" that TSA can meet the deadline "without impeding the flow of commerce" and raises concerns about TSA's lack of a contingency plan. TSA currently inspects about 75% of cargo, but inbound shipments are usually shrink-wrapped and

exempt from screening, says the report; other challenges relate “to TSA's limited ability to regulate foreign entities.”

4. Airlines Applaud Financial Reform Bill.

President Obama signed into law the Restoring American Financial Stability Act of 2010, which, said the Air Transport Association (ATA), “will close the door on Wall Street’s high-risk gambling and unchecked commodities speculation that led to sky-high fuel prices.” Through the Stop Oil Speculation Now coalition, ATA lobbied for more stringent rules after jet fuel prices climbed to \$147 per barrel in 2008. “Energy prices should be determined by supply and demand, not manipulation and secretive trading by investment banks,” said ATA President and CEO James May.

5. FAA Testifies on Expanded Use of Unmanned Aircraft.

In a hearing on the role of unmanned aerial systems (UAS) in border security, FAA officials told a House Homeland Security panel the agency must make conservative decisions regarding integration of UAS technology into “the most complex airspace in the world.” According to Customs and Border Patrol, planes patrolling U.S. borders have an accident rate more than seven times the general aviation accident rate and 353 times the commercial aviation accident rate. FAA expects small UASs to experience the greatest near-term growth in civil and commercial operations because of their versatility and relatively low initial cost and operating expense, and is improving processes for integrating them into the airspace system.

6. House Panel Votes to Reverse Ban on Cuba Travel.

The House Agriculture Committee voted to reverse the ban on U.S. citizens traveling to Cuba and to ease restrictions on the sale of American commodities there. The Travel Restriction Reform and Export Enhancement Act must still go through the Foreign Affairs and Financial Services Committees before it can be considered by the full House, then the Senate. Earlier Congressional efforts to ease the travel ban failed, but in 2009, President Obama allowed Cuban-Americans with family members in Cuba to travel to the country without time restrictions.

VII. **BILATERAL AND STATE DEPARTMENT NEWS**

1. **United States, Barbados Reach Open Skies Agreement.**

The United States and Barbados reached an open skies agreement that will, upon signature, allow airlines from both countries to select routes, destinations and prices for both passenger and cargo service based on consumer demand and market conditions. It provides airlines, for the first time, with code sharing and intermodal rights. A 1982 pact contained restrictions on cities that carriers could serve and on charter operations.

2. **U.S. Signs Open Skies Accord with Laos.**

The United States and Laos signed a comprehensive open skies agreement to expand and liberalize their bilateral civil aviation relationship. The agreement will facilitate trade and tourism links with Laos and provide new commercial opportunities to airlines of the United States and Laos and the traveling public, while preserving our commitments to aviation safety and security, said the U.S. State Department.

3. **EU Appeals WTO Report on Airbus A380 Subsidies.**

The EU lodged an appeal with the World Trade Organization (WTO) on a report concerning Airbus state aid. The appeal covers several findings in the report, including: instances of repayable launch investment for the A380 are export subsidies; causal link between Airbus support and adverse effects to Boeing; and infrastructure measures taken by EU member states, for which Airbus pays market-based rent, constitute subsidies. "This dispute is too important to allow the legal misinterpretations of the panel to go unchallenged," said the EU; and "a damaging precedent could arise if certain of the panel's legal interpretations are allowed to stand."

VIII. EUROPE AND AFRICA

1. Alitalia Joins Air France-KLM/Delta Joint Venture.

Alitalia joined the Air France-KLM/Delta transatlantic joint venture, launched last year, bringing total transatlantic capacity to 26% and estimated annual revenues to \$10 billion. Governance will be equally shared and Alitalia representatives joined the 11 working groups managing the agreement. Alitalia's addition to the joint venture is effective April 1, 2010, as part of a long-term agreement effective until at least March 31, 2022. The alliance of the four airlines is enabled by transatlantic antitrust immunity granted by U.S. and European governments. Air France-KLM holds a 25% stake in Alitalia.

2. Air Berlin to Join oneworld.

Air Berlin, Germany's second largest airline, will become an affiliate member of the oneworld alliance and is expected to become a full member before the June 2012 opening of the new Berlin Brandenburg International Airport. Air Berlin entered into code share agreements with oneworld members American and Finnair, with British Airways and Iberia to follow. As of November 11, Air Berlin will code share on American-operated flights to 15 U.S. destinations and two in the Bahamas; and on Finnair-operated flights to Helsinki, within Europe and to Asia, subject to regulatory approvals.

3. Commission Updates Banned Airlines List.

The European Commission added Blue Wing from Surinam to its list of airlines banned in the EU, due to "a series of accidents suffered by this airline and serious deficiencies revealed during ramp inspections of its aircraft." The EC expanded operating restrictions on Iran Air to exclude from operations into the EU its fleet of Airbus A320s and Boeing B-727s and B-747s. Noting oversight improvements by Indonesia authorities, the EC removed Metro Batavia and Indonesia Air Asia from the list. Albania's civil aviation authority was "urged to intensify its oversight" on all carriers and continue to implement an action plan.

4. Germany Plans Three-Tier Airline Ticket Tax.

Germany reportedly will institute a three-tier passenger ticket tax to encourage travelers to choose more environmental friendly methods of transportation. The International Air Transport Association has called the move, which could bring in an annual €1 billion, a shortsighted cash grab. German airlines say the tax puts them at a competitive disadvantage and, said Lufthansa, passengers leaving on long-distance flights could easily book through other European airports. In other news, Transport Minister Peter Ramsauer said the World Trade Organization should be tasked with ensuring fair competition within the

airline industry, in remarks to Handelsblatt regarding Dubai-based Emirates' efforts to acquire additional landing rights in Germany.

5. British Airways Flight Attendants Reject Contract Proposal.

British Airways cabin crew union Unite rejected a pay offer, following 22 strike days this year. June traffic fell by 11.1%, as the first nine days of the month were affected by the strikes, said the airline, which plans to recruit new cabin crew for "a separate fleet combining longhaul and shorthaul flying with cabin crew on new terms and conditions. It will operate in addition to existing cabin crew fleets." Unite is challenging British Airways' decision to deny travel perks to cabin crew who have engaged in strike action this year, saying the move breaches EU rules, and is supporting members "financially and legally."

6. British Airways Sues 32 Airlines in Cargo Cartel Case.

British Airways issued legal proceedings in High Court in London against 32 airlines, in an attempt to have them share damages in a lawsuit stemming from cargo price fixing charges. Attorneys for two flower importers who sued British Airways are seeking class-action status, in a move to "encourage airlines to recognize their liability to shippers and start the process of making sensible commercial settlements." A global cartel is believed to have occurred between January 2000 and late 2006. British Airways and other airlines have pleaded guilty to price fixing to regulatory authorities in the U.S., Australia and Canada and were recently fined by the authority in South Korea. In related news, Air France-KLM announced an \$87 million settlement of its U.S. liabilities arising from the cartel; this settlement followed an earlier \$85 million settlement reached by Lufthansa. And, American Airlines agreed to give evidence against other carriers and pay \$5 million to a group of shippers to settle a New York class-action lawsuit, but did not admit fault or liability.

7. US Airways, Turkish Airlines to Code Share.

Star partners US Airways and Turkish Airlines agreed to code share, subject to government approvals. US Airways initially will offer access to Istanbul via Turkish service from Frankfurt, Munich and Zurich, followed by four new destinations in Turkey via Istanbul, then nonstops to Istanbul via Turkish from New York Kennedy and Chicago O'Hare. Turkish Airlines will offer service to Charlotte, Philadelphia and Phoenix via US Airways, from Frankfurt, Munich, Zurich, Chicago and New York. Separately, Turkish Airlines announced new Boeing 777-300ER nonstops to Los Angeles International from Istanbul, beginning March 3, 2011.

8. Continental to Offer Newark to Cairo Service.

Continental plans to launch Boeing 777-200ER nonstops between Newark Liberty and Cairo, beginning May 18, 2011, subject to government approval.

The route will be operated daily during peak summer travel season, with five- and four-times-weekly service during certain periods in the first year of operation. Other recently announced new international destinations are Lagos, Nigeria and Auckland, New Zealand.

9. Icelandair, Alaska Announce Code Share.

A new code share agreement allows Icelandair to place its code on select Alaska and Horizon Air flights. A frequent flier partnership, to begin this fall, will allow Alaska Airlines members to earn and redeem miles on Icelandair flights between Seattle and Iceland and throughout Europe; Icelandair offers connections from Reykjavik to more than 20 European destinations.

10. Carolyn McCall Takes Over Helm of easyJet.

Carolyn McCall became CEO of easyJet on July 1. She previously was CEO of Guardian Media Group. Separately, Ryanair CEO Michael O'Leary publicly apologized to easyJet founder Stelios-Haji-Ioannou for including his photograph and referring to him as Pinocchio in advertisements that ran in London newspapers in January and February. The ads were critical of easyJet on-time performance statistics. Stelios issued High Court proceedings against Ryanair and O'Leary, claiming the statements made about him were libelous. Ryanair also agreed to pay damages and legal costs. Stelios is a major shareholder in easyJet, but no longer involved in its management.

11. DOT, EU Grant Antitrust Immunity to oneworld Alliance.

See Section I, item 1.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. Asia Pacific Airlines June Traffic Results.

Asia Pacific-based airlines carried 15.1 million international passengers in June, a 25.2% gain over same month last year, reports Association of Asia Pacific Airlines (AAPA). International passenger traffic grew by 19%, with strong growth on short-haul routes. Available seat capacity grew by 6.4%, resulting in an 8.5% increase in average international passenger load factor to 79.5%. Asian carriers reported 30.4% growth in freight tonne kilometres. Even with a 22.1% expansion in freight capacity, the average international cargo load factor grew by 4.5% to reach 70.8%. During the first half, Asia Pacific airlines carried 89 million international passengers, 14.9% up on same period last year, with strong regional traffic, and international air cargo demand climbed by 34.8%. The International Monetary Fund projects a global economic growth rate of 4.6% for the year, led by 9.2% growth in Asia's more dynamic economies, said Andrew Herdman, AAPA Director General. "Airlines are well positioned to meet the expected growth in demand, through a combination of new aircraft deliveries and further improvements in fleet utilization. However, even with an improving revenue environment, strict cost disciplines are still the key to success in this business."

2. Delta Expanding Pacific Service from Japan.

Delta will begin new daily Boeing 767-300ER service between Nagoya and Honolulu on December 22, subject to government approval. Delta also filed an application with U.S. DOT to start new nonstop service between its Tokyo Narita hub and the Pacific island of Palau; the proposed flights would operate four-times weekly beginning in December and would be the only scheduled nonstop service between Japan and Palau.

3. Hawaiian Launching New Service to Seoul Incheon.

Hawaiian Airlines will introduce four weekly Boeing 767-300ER nonstops between Honolulu and Seoul Incheon in January, pending approval from South Korean government, and plans to increase the service in 2011. A code sharing agreement with Korean Air will be expanded to include Hawaiian's new flights to Incheon; that pact currently covers flights operated by Korean Air between Honolulu and Incheon and Bangkok, and within South Korea between Incheon and Busan.

4. JetBlue, EL AL Interline Agreement.

JetBlue and EL AL announced an interline agreement for seamless connecting service to Tel Aviv from most JetBlue cities via New York Kennedy.

Customers receive boarding cards for both carriers' flights upon check-in with JetBlue or EL AL and baggage is checked to final destination.

5. **Continental to Offer Daily New York Newark-Cairo Service.**

Continental plans to launch nonstops between Newark Liberty and Cairo, beginning May 18, 2011, subject to government approval. The Boeing 777-200ER service will be daily during peak summer travel season, with five- and four-times-weekly service during certain periods in the first year of operation. Star partner Egyptair and its regional airline partners offer service to 41 destinations in Egypt, Africa and the Middle East.

6. **DOT, EU Grant Antitrust Immunity to oneworld Alliance.**

See Section I, item 1.

7. **Air Berlin to Join oneworld.**

See Section VIII, item 2.

8. **Commission Updates Banned Airlines List.**

See Section VIII, item 3.

9. **British Airways Sues 32 Airlines in Cargo Cartel Case.**

See Section VIII, item 6.

X. AMERICAS

1. June Revenue Growth Tops 2000 Levels.

U.S. airline passenger revenue for 12 months ending June 2010 topped calendar year 2000 levels, reported the Air Transport Association of America, by about 0.5%. Passenger revenue rose 25% in June, compared to same month 2009; 1.4% more passengers traveled on U.S. airlines in June while the average price to fly one mile rose 20%. International passenger revenue rose 38%, led by a 58% gain in trans-Pacific markets. Cargo traffic (cargo revenue ton miles) rose 22% year over year (7% domestically, 35% internationally) in May 2010; June 2010 cargo data was not yet available.

2. United-Continental Merger News.

United and Continental announced senior executive positions for their proposed merger. United Chairman and CEO Glenn Tilton will be non-executive Chairman and Continental CEO Jeff Smisek will serve as President and CEO. John Tague, current President of United, will leave the company. Pilots at both airlines, represented separately by Air Line Pilots Association, agreed on a framework for how they will operate until the carriers' operating certificates are combined.

3. Tom Horton Promoted to President of AMR, American.

Tom Horton was promoted to President of AMR and American Airlines, as the company reorganized its senior management team "to capitalize on opportunities generated by the granting of antitrust immunity across the Atlantic, and anticipating similar immunity across the Pacific." Previously Executive Vice President of Finance and Planning, Horton will oversee the finance, planning, sales and marketing, customer service and information technology organizations, said AMR Chairman and CEO Gerard Arpey.

4. American, JetBlue Partner on New York, Boston Routes.

American and JetBlue launched their partnership, announced in March, in which customers can connect between 14 of American's international destinations departing from New York Kennedy and Boston, and 18 JetBlue domestic markets; none of the routes overlap. They will begin a frequent flyer relationship later this year. On November 1, American will transfer eight slot pairs at Washington National and one slot pair at White Plains, N.Y., to JetBlue, while JetBlue will transfer 12 slot pairs at Kennedy to American.

5. **Delta Sells Mesaba, Compass Subsidiaries.**

Delta sold its Mesaba and Compass subsidiaries. Memphis-based Pinnacle purchased Mesaba for \$62 million, and St. Louis-based Trans States Holdings acquired Compass for \$20.5 million. The regionals will continue to serve as Delta Connection carriers, and will continue to be headquartered in Minneapolis-St. Paul, with current presidents John Spanjers and Tim Campbell, respectively, leading them.

6. **U.S. Airlines Hike Brazil Service.**

American filed with DOT for the right to use three weekly regional Brazil frequencies that Delta is relinquishing in September, to begin nonstops between Miami and Brasilia on November 18, as scheduled, and between Dallas/Fort Worth and Rio de Janeiro. American also will begin daily New York Kennedy-Rio service. Through its code share alliance with GOL, American will offer service beyond both Rio and Brasilia to other cities in Brazil. . . . Delta filed to expand already approved twice-weekly service between Detroit and Sao Paulo, effective October 21, to five weekly; and requested three additional U.S.-Brazil flight authorities for service between Atlanta and Rio. Delta would shift three existing Rio authorities from Atlanta to Detroit for the expanded Sao Paulo service. Delta and GOL have filed requests with U.S. and Brazil authorities to implement a code share agreement on flights to GOL markets departing Brasilia, Rio and Sao Paulo, and on GOL flights between Brazil and Paraguay and Uruguay. . . . Continental and TAM agreed in June to code share on routes within Brazil and between Brazil and the U.S. beginning July 1; they announced a frequent-flyer partnership in April.

7. **DOT, EU Grant Antitrust Immunity to oneworld Alliance.**

See Section I, item 1.

8. **Alitalia Joins Air France-KLM/Delta Joint Venture.**

See Section VIII, item 1.

9. **Air Berlin to Join oneworld.**

See Section VIII, item 2.

10. **British Airways Sues 32 Airlines in Cargo Cartel Case.**

See Section VIII, item 6.

11. **US Airways, Turkish Airlines to Code Share.**

See Section VIII, item 7.

12. **Continental to Offer Newark to Cairo Service.**
See Section VIII, item 8.
13. **Icelandair, Alaska Announce Code Share.**
See Section VIII, item 9.
14. **Delta Expanding Pacific Service from Japan.**
See Section IX, item 2.
15. **Hawaiian Launching New Service to Seoul Incheon.**
See Section IX, item 3.
16. **JetBlue, EL AL Interline Agreement.**
See Section IX, item 4.
17. **Continental to Offer Daily New York Newark-Cairo Service.**
See Section IX, item 5.