



WASHINGTON AVIATION SUMMARY

February 2011 EDITION

CONTENTS

I.	REGULATORY NEWS.....	1
II.	AIRPORTS.....	4
III.	SECURITY AND DATA PRIVACY	6
IV.	E-COMMERCE AND TECHNOLOGY.....	8
V.	ENERGY AND ENVIRONMENT	10
VI.	U.S. CONGRESS.....	11
VII.	BILATERAL AND STATE DEPARTMENT NEWS	12
VIII.	EUROPE/AFRICA.....	13
IX.	ASIA/PACIFIC/MIDDLE EAST	16
X.	AMERICAS	18

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.

©2011 Kirstein & Young PLLC.

I. REGULATORY NEWS

1. International Tourism Rose 7% in 2010.

International tourist arrivals were up by almost 7% last year, following a 4% decline in 2009, reports the World Tourism Organization, an agency of the United Nations. Worldwide, the number reached 935 million, up 58 million from 2009 and 22 million more than pre-crisis peak levels of 2008 (913 million). International tourist arrivals into Asia reached a new record at 204 million last year, up from 181 million in 2009. Africa (+6% to 49 million), the only region to show positive figures in 2009, maintained growth during 2010. In the Middle East (+14% to 60 million) almost all destinations grew by 10% or more. In Europe (+3% to 471 million) recovery was slower due to air traffic disruption caused by the volcanic eruption in Iceland and economic uncertainty. The Americas (+8% to 151 million) rebounded from the decline in 2009, with strongest growth in South America (+10%). In terms of expenditure abroad, emerging economies continued to drive growth: China (+17%), the Russian Federation (+26%), Saudi Arabia (+28%) and Brazil (+52%). Of traditional source markets, Australia (+9%), Canada (+8%), Japan (+7%) and France (+4%) rebounded, while more modest growth at 2% came from the U.S., Germany and Italy; expenditure abroad from the UK was down by 4%. UNWTO forecasts global tourism to grow 4% to 5% in 2011.

2. Mesaba Fined for Violating Passenger Disability Rules.

The U.S. Department of Transportation (DOT) assessed a civil penalty of \$125,000 against Mesaba Aviation for violating rules protecting air travelers with disabilities. Complaints filed with the carrier and DOT in 2007 and 2008 revealed that Mesaba failed to provide adequate enplaning and deplaning assistance, written responses to complaints or notification that customers could refer their complaints to DOT.

3. FAA Seeks \$1.025 Million Civil Penalty Against San Antonio Aerospace.

The Federal Aviation Administration (FAA) proposed a civil penalty of \$1,025,000 against San Antonio Aerospace for violating federal safety regulations related to pre-employment drug testing between March 24, 2007 and May 8, 2008. The company was renamed ST Aerospace San Antonio in November 2009 and is a subsidiary of Singapore Technologies (ST) Aerospace. In related news, a continuing investigation on airline practices by the PBS program "Frontline," raised questions about workforce quality and experience and alleged use of unauthorized parts at ST Aerospace Mobile in Alabama. ST Aerospace officials said the drug testing issues have long been fixed and that the Frontline report was "shallow and biased." ... FAA proposed

a \$170,000 civil penalty against Pemco World Air Services of Dothan, Ala., for allegedly failing to administer pre-employment drug tests for two individuals the company hired for safety-sensitive positions and cited the company for failing to carry out 24 required follow-up tests. . . . FAA proposed \$359,000 in civil penalties against SkyWest, for failure to document heavy checked bags, motorized mobility aids and a heavy shipment carried in the cargo compartment of passenger aircraft, resulting in five flight operations with incorrect weight and balance data; and for operating two Bombardier regional jets aircraft when they were not in compliance with federal aviation regulations (FARs). . . . A \$330,000 civil penalty was proposed against American Eagle for operating an Embraer 135 on 12 revenue passenger flights when it was not in compliance with FARs related to broken passenger seats and armrests. . . . A \$275,000 civil penalty against Continental was proposed for operation of two Boeing 737-900ERs on 73 flights when they were not in compliance with FARs related to main landing gear wheel-tire assembly maintenance.

4. FAA Finalizes Enhanced Structural Checks of Boeing 737s and 757s.

FAA is ordering enhanced structural inspections of more than 1,300 older Boeing 757 and 737 models, reported the *Wall Street Journal*, in order to prevent fuselage cracks that could result in rapid aircraft decompression. An American Airlines B-757 suffered a sudden rupture and rapid decompression in October, en route from Miami to Boston.

5. FAA Announces Record Number of Laser Events in 2010.

Reports of lasers pointed at airplanes almost doubled nationwide in 2010 to more than 2,800. Los Angeles International, with 102 reports, recorded the highest number, Chicago O'Hare had 98, and Phoenix Sky Harbor and Mineta San Jose logged 80 each. Reports rose from nearly 300 in 2005, when FAA created a system to collect information from pilots, to 1,527 in 2009 and 2,836 in 2010. In addition to pilot reporting, likely causes of the increase include Internet sales of inexpensive laser devices; power levels that enable lasers to hit aircraft at higher altitudes; and introduction of green lasers, which are more easily seen than red lasers.

6. Croatia Safety Rating Upgraded to Category 1.

FAA upgraded Croatia from the Category 2 safety rating received in September 2008 to Category 1, meaning Croatia's civil aviation authority now complies with safety standards set by the International Civil Aviation Organization (ICAO). With the International Aviation Safety Assessment (IASA) Category 2 rating, Croatian air carriers could not establish new service to the United States.

7. DOT Provides Guidance on Code Share Disclosure Requirements.

DOT provided guidance to airlines and ticket agents about the requirement to notify passengers if a flight being sold is operated under a code sharing arrangement. DOT rules require airlines and other ticketing sources to disclose code sharing to consumers before they book a flight. On websites, any code sharing arrangement must be included on the same screen and next to the itinerary. Code share disclosure must include the corporate name of the transporting carrier and any other name under which the flight is offered to the public. Airlines are responsible for the compliance of their ticket agents, and ticket agents that provide Internet ticket sales software to travel agents must ensure that the software is in compliance with DOT rules or risk enforcement action.

8. DOT Air Travel Consumer Report for November.

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

	Nov. '10 / '09	Oct. '10	Full Year				
			2009	2008	2007	2006	2005
On-time arrivals %	83.2 / 88.6	83.8	79.5	76	73.4	75.4	77.4
Cancellations %	0.7 / 0.5	0.97	--	--	--	--	--
Mishandled baggage*	2.93 / 2.83	2.91	3.91	5.26	7.05	6.73	6.64
<i>Consumer complaints:</i>							
Airline service	667 / 555	749	8,819	10,648	13,180	8,325	8,741
Disability-related	43 / 39	49	517	477	488	430	511
Discrimination**	11 / 11	6	132	115	99	114	129

Note: The largest U.S. airlines reported no flights with tarmac delays of more than three hours in November.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. United, American Sue to Stop O'Hare Bond Issue.

Chicago officials were forced to delay a \$1 billion bond issue for O'Hare expansion, after United and American argued in a lawsuit that such capital projects require airline approval. The carriers want the project halted until passenger demand increases. Illinois Senators Dick Durbin and Mark Kirk met briefly in Washington with United CEO Jeffery Smisek and American CEO Gerard Arpey, hoping to move city officials and the airlines toward agreement before Mayor Richard Daley leaves office in May, reports the *Chicago Tribune*.

2. Philadelphia International \$5.2 Billion Expansion Approved.

FAA approved a \$5.2 billion expansion for Philadelphia International, to be completed in 2025, which includes lengthening two existing runways and building a fifth runway, and constructing new terminals and reconstructing and expanding others. Primary tenants US Airways and Southwest have expressed concern about costs and nearby Delaware County neighbors and environmental groups are opposed to the plan. Enlarging the airport footprint will cause loss of 81.7 acres of wetlands, reports the *Philadelphia Inquirer*, and require 24.5 acres of fill in the Delaware River. Eighty businesses, about 3,300 jobs, would be uprooted and a local school district would lose \$1.8 million in real estate taxes annually. A plan to relocate United Parcel Service to the airport's west side is being considered; 72 homes would be acquired by the city and demolished. Philadelphia is one of the nation's most congested airports. Flight delays averaged 10 minutes per takeoff and landing in 2003, and are projected to increase to 19.3 minutes per flight by 2025, said FAA.

3. Agreement Close in New York-Washington Slot Swap.

Delta/US Airways and the FAA jointly sought to delay further proceedings on their dispute over the carriers' proposed slot exchange involving New York LaGuardia and Washington Reagan National Airport. According to a filing with the U.S. Court of Appeals in Washington, the parties believe that discussions may lead to a mutually agreeable resolution. In exchange for approval of a Delta/US Airways proposal to swap slots at the two airports, FAA ordered surrender of a combined 34 slots. FAA then refused the airlines' counter offer to give up about 20 slots. According to Bloomberg, US Airways and Delta have asked regulators to re-evaluate the order to divest slots, because Southwest will gain both access to National for the first time and additional slots at LaGuardia when it acquires AirTran.

4. **Plans for New Beijing Airport Approved.**

The city of Beijing approved plans for a new airport in the southern Daxing district with initial capacity for 40 million passengers a year. Construction will begin this year.

5. **GLP Acquires Majority Stake in Beijing Airport City Development.**

Global Logistic Properties (GLP) acquired a 53% stake in China's Airport City Development, developer of Beijing Capital International Airports airside cargo handling and logistics. The Government of Singapore Investment Corporation is the largest single shareholder of GLP.

6. **Hong Kong Unveils HK\$7 Billion Midfield Expansion.**

Airport Authority Hong Kong completed a HK\$4.5 billion facility enhancement for Hong Kong International Airport and unveiled the \$7 billion phase 1 of its midfield development project, to include a new concourse with 20 aircraft parking stands, a new cross-field taxiway and the extension of the existing automated people mover to the midfield concourse. Construction will start in third quarter this year and is expected to be completed by the end of 2015. The midfield area is the last piece of land on the airport island available for large-scale development.

III. **SECURITY AND DATA PRIVACY**

1. **Moscow Domodedovo Bomb Kills 35.**

A bomb detonated at Moscow Domodedovo killed 35 people and injured scores. Russian President Dmitry Medvedev said security checks at the airport had slipped into a state of anarchy, then fired transport security and police officials. The bomb, packed with nuts, bolts and ball bearings, was equal to seven kg of TNT, reports state news agency RIA Novosti, which also noted that victims of the blast, including foreigners, will receive federal compensation and cash payments from the city of Moscow. No claim of responsibility was made, but officials said it was the work of Islamist insurgents from the Caucasus region.

2. **DHS International Initiatives.**

Department of Homeland Security (DHS) Secretary Janet Napolitano travelled to London, Belgium, Ireland, Afghanistan, Qatar and Israel in January. In meetings with Israeli Prime Minister Benjamin Netanyahu, EC Transport Vice President Siim Kallas and others, she discussed international air cargo security and how to better secure the global supply chain. She signed off on a partnership with the World Customs Organization to enlist international public/private support to strengthen cargo screening standards and deploy new technologies to track and detect precursor chemicals used to produce improvised explosive devices (IEDs). In Qatar, the Secretary signed a letter of intent to expand collaboration on initiatives including: strengthened information sharing; enhanced passenger screening; and new partnerships to enhance international aviation security, cybersecurity, disaster response and emergency preparedness, and the protection of critical infrastructure and key resources. In Afghanistan, Napolitano met with President Karzai and other officials to discuss the U.S. commitment to help disrupt, dismantle and defeat al Qaeda in the region.

3. **DHS Discontinues Color-Coded Alert System.**

DHS will discontinue color-coded alerts over the next 90 days in favor of the new National Terrorism Advisory System, under which DHS will coordinate with other federal entities to issue detailed alerts about a specific or credible terrorist threat. The alerts will state that there is an “imminent threat” or “elevated threat” and provide a summary of the potential threat, information about actions being taken and recommendations.

4. **TSA Proposes 100% Screening of Air Cargo by Yearend.**

The Transportation Security Administration has proposed moving its goal of screening 100% of cargo carried on inbound passenger aircraft to December 31, 2011. The previous target date was in 2013.

5. **Judge Rejects EPIC Request to Disclose Scanner Images.**

The Electronic Privacy Information Center (EPIC) in November urged the District of Columbia Court of Appeals to suspend TSA's full body scanner program, which it says is "unlawful, invasive and ineffective." DHS has filed its answer brief and oral argument is scheduled for March 10. In a related case, a federal judge granted a DHS motion to conclude one of EPIC's Freedom of Information Act (FOIA) lawsuits, saying current law allowed the agency to "exempt" the information. EPIC said it has obtained documents that show that body scanners "can store, record, and transmit images," and is seeking 2,000 images held by TSA.

IV. E-COMMERCE AND TECHNOLOGY

1. Open Allies for Airfare Transparency Launched.

Open Allies for Airfare Transparency has been launched, with a mission to urge major airlines “to share fare and ancillary fee information through the distribution systems they currently use representing the travel booking industry, and not to circumvent those systems through new, untested, and potentially costly ‘direct connect’ approaches.” Director Andrew Weinstein said, “Some airlines want to turn back the clock to the days of proprietary reservation systems, silos of closed data, and one-off displays without price comparisons. Consumers deserve the ability to compare prices across airlines, and Open Allies will work to ensure they continue to have it.” The coalition’s 115 members include global distribution system (GDS) operators Amadeus and Sabre and online travel companies Expedia and Orbitz.

2. Sabre, American Freeze Litigation.

American Airlines and Sabre agreed to freeze litigation until June 1, as they seek to reach a new agreement on the carrier’s fare and flight data distribution. Sabre limited access to American’s fares and raised American’s booking fees, claiming the airline wasn’t offering access to its full content. In related news, Expedia, the largest online travel agency, stopped selling American tickets on January 1; Orbitz did the same in December.

3. American Signs Distribution Agreements.

American Airlines entered into agreements with priceline.com and vegas.com and its technology division, Cyllenius, to utilize American’s direct connect technology to access fares as well as customized travel products and services. Cyllenius provides a full range of products integrated into a proprietary, private-labeled travel shopping cart including hotel rooms, air-hotel packages and tours.

4. US Airways, Expedia Sign New Multi-Year Agreement.

US Airways signed a multi-year agreement with Expedia to continue offering its full range of products and services, including all fares and inventory, through Expedia, Hotwire and Egencia sites around the world. US Airways will offer all of its content to Expedia through the GDS model, and Expedia will enable distribution of US Airways’ Choice Seats product through new channels, including its online travel marketplace.

5. **Virgin America Joins ARC.**

Virgin America will join ARC to transition to industry-standard electronic ticketing. The transition will roll-out sequentially with each GDS, beginning with Worldspan in February and full participation with Apollo/Galileo, Sabre and Amadeus by spring of 2011. As an ARC participating carrier, Virgin America will extend its reach into travel agent channels. Airlines, travel agencies and other travel suppliers processed \$77.4 billion in 2010 through ARC's settlement system.

6. **Court Dismisses Sabre Claims on IATA PaxIS Products.**

The Ontario Superior Court of Justice dismissed Sabre's claims that IATA PaxIS products violated confidentiality obligations and determined that Sabre could not claim confidential rights to the airline ticketing data. PaxIS is based in part on ticketing data that IATA collects and processes through its billing and settlement plans (BSP). This data is transmitted to IATA by GDS providers, such as Sabre, which filed the lawsuit in 2006.

7. **FCC Approves Row 44 Inflight Broadband Over North Atlantic.**

Row 44 received Federal Communications Commission (FCC) approval to operate its inflight broadband connectivity service aboard commercial aircraft over the Atlantic Ocean, making it the only provider allowed to operate and charge for inflight broadband connectivity on transatlantic flights. Row 44 is authorized for operation in over 100 countries; current network coverage includes service over the U.S., Mexico and Canada, with transatlantic coverage expected in 2011.

V. ENERGY AND ENVIRONMENT

1. Fuel Bill for Global Airline Industry.

The average price of aviation jet fuel, as of January 14, was \$111.7/barrel, up 7.1% on the month and 27.2% year-on-year, reports the International Air Transport Association (IATA). New fuel price average for 2011 was \$109.3/barrel.

2. ATA Asks FERC to Reconsider Decision to Raise Five-Year Index.

The Air Transport Association (ATA) asked the Federal Energy Regulatory Commission (FERC) to reconsider a decision to raise the index, or automatic rate of adjustment, that pipeline operators can charge jet fuel shippers annually without going through a formal rate-setting process. In December, FERC established a new price index to calculate annual changes to ceiling levels for oil pipeline rates. FERC set the new index level at Producer Price Index for Finished Goods (PPI-FG) plus 2.65% for the five-year period beginning July 1, which constitutes an increase from the current price index level of PPI-FG plus 1.3%. The 2010 Index Order perpetuates a lack of balance and transparency in the Commission's approach to pipeline regulation, said ATA; "Airlines are overwhelmingly dependent on pipelines to transport jet fuel to U.S. airports; any increase in the cost of shipping by pipeline exacerbates the rising costs associated with fueling aircraft."

3. Southwest Begins RNP Procedures at 11 Airports.

Southwest initiated Required Navigation Performance (RNP) flight procedures at 11 U.S. airports, a "major milestone to reduce environmental impact with a more efficient operation." Southwest modified 345 Boeing 737-700s with new flight display software for the satellite-based project, which "brings together the accuracy of GPS (global positioning system), the capabilities of advanced aircraft avionics and new flight procedures." The company projected savings at \$16 million a year, with anticipated savings of more than \$60 million per year once all Southwest airports have efficient RNP procedures.

4. Aviation Fuel From Wood Waste.

The Washington State Commissioner of Public Lands plans to propose legislation to promote making aviation fuel out of wood waste as part of the Department of Natural Resources' forest biomass program.

VI. U.S. CONGRESS

1. Senate Bill to Authorize FAA Introduced.

The FAA Air Transportation Modernization and Safety Improvement Act, which would authorize FAA programs for the next two years, was introduced by Senate Commerce Committee Chairman Jay Rockefeller (D-WVA). The bill includes \$8 billion for airport construction, which Democrats say will support employment of 90,000 workers and affect another 190,000 jobs, according to an American Association of Airport Executives estimate. In addition to provisions covering the Next Generation Air Transportation System (NextGen), the bill would require better safety oversight of foreign repair stations, strengthen inspections of airline operations and propose improvements to the Essential Air Service program. House Transportation Committee Chairman John Mica (R-FL) said FAA reauthorization will be his first priority in the new session.

2. Petri Named House Aviation Subcommittee Chairman.

Tom Petri (R-WI) was named Chairman of the House Aviation Subcommittee for the 112th Congress and Chip Cravaack (R-MN) Vice Chair.

3. King Elected Chairman of House Homeland Security Committee.

Peter King (R-NY) was named Chairman of the House Committee on Homeland Security; he previously was ranking member. Improving cargo security on passenger and all-cargo planes is one of his priorities.

4. Lieberman, Hutchison to Retire From Senate in 2012.

Joe Lieberman (I-CT) and Kay Bailey Hutchison (R-TX) will not seek reelection in 2012. Lieberman has served as Chairman or Ranking Member of the Senate Homeland Security Committee since its post-9/11 inception, and was involved in creating the Department of Homeland Security and enacting recommendations of the bipartisan 9/11 Commission. Hutchison is Ranking Member of the Senate Committee on Commerce, Science and Transportation and its Aviation Operations, Safety and Security Subcommittee.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. U.S. Offers Evacuation Flights From Cairo.

Amid widespread civil unrest in Egypt and chaos at Cairo International Airport, the U.S. Department of State began providing chartered flights for U.S. citizens to safe haven locations in Europe. Evacuation plans were being assembled by governments and corporations, as airlines worldwide, including Delta, cancelled flights to Cairo. Separately, the State Department advised U.S. citizens to cancel nonessential travel to Tunisia, during civil unrest; and advised against all but essential travel to Haiti, due to a cholera outbreak, violence, lack of adequate medical facilities and limited police protection; at least two U.S. citizens have been killed after departing Port-au-Prince airport.

2. U.S.-China Presidents Meet in Washington.

During a state visit between Chinese President Hu Jintao and U.S. President Barack Obama in Washington, Chinese officials formally confirmed a \$19 billion aircraft agreement and announced a GE Aviation-AVIC avionics joint venture. Orders for 200 Boeing 737s and 777s will be delivered to Chinese airlines in the 2011-2013 period. Boeing projects that over the next 20 years China will need 4,330 new airplanes, worth more than \$480 billion, and will be the company's largest commercial airplane customer.

3. Travel Restrictions for Cuba Eased.

The Obama Administration modified existing Cuban Assets Control and Customs and Border Protection regulations and policies to allow certain religious travel, educational exchanges and journalistic activities. Any U.S. international airport with adequate customs and immigration capabilities and a licensed travel service provider prepared to operate qualified charter from the airport may apply to provide services. Prior to the new policy departures and arrivals of qualified Cuban flights could only operate at JFK, Los Angeles International and Miami International.

4. WTO Ruling on Airbus-Boeing Aid Dispute.

The World Trade Organization (WTO) panel deciding European Union (EU) claims of U.S. government assistance to Boeing issued a confidential report to the parties, which Boeing said "rejected almost all of Europe's claims against the United States, including the vast majority of its R&D claims, except for some \$2.6 billion." Airbus said the WTO decision "confirms that Boeing has received massive and illegal government subsidies for many decades, and that they have had a significant and ongoing negative effect on European industry." The final WTO report will be publicly released at a later date.

EUROPE AND AFRICA

1. Virgin Atlantic CEO Named AEA Chairman.

Virgin Atlantic CEO Steve Ridgway was named Chairman of the Association of European Airlines (AEA) for 2011, succeeding British Airways' CEO Willie Walsh.

2. UAE Carriers Rattling Europe.

AEA Secretary General Ulrich Schulte-Strathaus, in remarks to the International Aviation Club of Washington, suggested that ICAO become a negotiator with the World Trade Organization and find a mechanism to deal with capacity dumping in aviation. He noted that Emirates in 2009 became the world's largest international airline, in passenger-kilometer terms, and that Emirates, Qatar and Etihad together have more widebody seats on order than the entire U.S. industry has in its current fleet. "Does it make sense," he asked, "if three carriers, two of which have never made a profit, collectively commit \$100 billion to transforming the aviation map of the world?" Gulf airlines are embroiled in a dispute with European and U.S. carriers over access to aircraft financing from export credit agencies. Emirates President Tim Clark said he intends to re-engage with the German government, after Lufthansa lobbied successfully to prevent it from obtaining landing slots in Stuttgart and Berlin-Brandenburg, which opens in 2012. And, Etihad CEO James Hogan, speaking at the European Aviation Club in Brussels, warned European carriers to adapt to changing competitive realities, saying "Massive benefits come from opening markets [and] those that cling to the old order of things will be left behind."

3. Iberia-British Airways Merger Completed.

Iberia and British Airways completed their merger. The new company, International Airlines Group (IAG), is Europe's third largest and the sixth largest in the world by revenues (€14 billion), with a fleet of 406 aircraft, 55 million passengers in 2010 and a network of 204 destinations. Annual synergies worth €400 million are expected to start in the fifth year, 60% from cost savings and 40% from larger revenues. IAG is a Spanish company with tax domicile in Madrid, where its board of directors and general shareholders meetings will be held; financial and operational headquarters will be located in London. Antonio Vázquez, Chairman of IAG and Iberia, and Willie Walsh, CEO of IAG and British Airways, said this is the first step toward creating a multinational multi-brand airline group. In other news, Iberia announced Madrid-Los Angeles and Barcelona-Miami service, both part of its joint venture with American Airlines and British Airways. And British Airways cabin crew

members of Unite voted to support industrial action, the fourth time in 13 months.

4. **EC Blocks Aegean-Olympic Merger.**

The European Commission (EC) prohibited the proposed merger of Olympic Air and Aegean after a 10-month investigation showed that the combined company would control 90% of the Greek market.

5. **Snow Fallout.**

Europe's airlines reported the effect of weather disruptions in December, when 35,000 flights were cancelled and thousands of passengers were stranded. Air France KLM estimated the impact on revenues at €70 million; passenger numbers, at 5.4 million, were down 1.6% due to flight cancellations. . . . British Airways expected a Q3 financial impact of £50 million, with additional impact in January from cancelled return journeys; December passenger traffic fell by 8.3%, cargo by 10.2%. . . . Airport operator BAA said its UK passenger numbers were down 10.9% in December, affecting profits across the BAA group by £24 million (£19m at Heathrow). Airlines pressured BAA for compensation for weather-related disruptions at Heathrow, where planes were grounded for up to four days before Christmas. . . . EC Transport Vice President Siim Kallas said an Airports Package will address such issues as slow snow removal, lack of de-icing products, insufficient information delivery to passengers, and contingency plans. . . . ACI Europe noted that 85% of air traffic was unaffected and no accidents occurred despite extremely challenging operating conditions and called for "effective cooperation on the ground between all actors" and that airports be empowered by EU law to set minimum service and quality requirements for ground handlers. . . . In related news, flights of many foreign airlines were stranded at New York Kennedy because no gates were available during a major snowstorm; five Cathay Pacific flights with a total of more than 1,100 people on board were on the tarmac for four to 11 hours. If approved, a proposed DOT rule will impose fines on international airlines for long tarmac delays.

6. **EC Begins Infringement Proceedings Over Bilaterals with Russia.**

The EC initiated infringement procedures against Belgium, Denmark, Italy, Luxembourg, the Netherlands, Sweden and the UK regarding their bilateral air service agreements with Russia, which do not include the EU designation clause. The Commission is also concerned that these agreements may provide a basis for Siberian overflight charges, which may be in breach of international law and incompatible with EU competition law. Russia has linked implementation of a 2006 agreement to phase out the charges for EU airlines with being allowed to become a full WTO partner. In 2008 alone, EU carriers paid \$420 million, most of it directly to Aeroflot.

7. **Lufthansa Launching A380 Service to New York, San Francisco.**

Lufthansa will operate Airbus A380 flights to New York from the end of February and on May 10 will become the first airline to operate the superjumbo to San Francisco. The carrier expects to take delivery of its eighth A380 in first half 2011. In other news, the company is hiring 4,000 new staff this year.

8. **Icelandair Offers Washington Dulles Service.**

Icelandair will launch service to Washington Dulles on May 17; the carrier no longer serves Baltimore/Washington. Icelandair offers service to Iceland from Boston, New York Kennedy, Seattle, and seasonal service from Minneapolis-St. Paul, Orlando, Halifax and Toronto, with connections through Keflavik to over 20 destinations in Europe.

9. **Cargoitalia Adds Atlanta Service.**

Milan-based Cargoitalia will begin two weekly MD-11 SF flights to Atlanta via New York Kennedy on February 3.

VIII. ASIA/PACIFIC AND MIDDLE EAST

1. Air China Expands North American Service.

Air China will add a second daily Beijing-Los Angeles nonstop on September 1, and on March 27 will increase Beijing-Vancouver flights from 10 to 12 per week. In July, the flag carrier will take delivery of the first of 15 Boeing B-777-300ERs, featuring private suites in first and flat beds in business class; the aircraft will gradually replace B-747s on transpacific flights. In other news, the General Administration of Civil Aviation of China (CAAC) reports that China spent \$151.5 billion dollars on civil aviation infrastructure and aircraft purchases over the past five years. New airports numbered 33 and 70 were expanded and renovated; number of civil transports rose by 741 to 1,604, and the general aviation fleet doubled to 1,000. In 2010, passenger demand rose 15.8%, and airline profits rose to \$5.28 billion.

2. ANA, United Continental Set Start Date for Joint Venture.

Star Alliance partners United Continental and All Nippon will begin their joint venture on Pacific routes on April 1, having received necessary approvals from U.S. and Japanese authorities for antitrust immunity. The venture will fly between Tokyo Kansai and San Francisco and between Hong Kong and Newark, Chicago and San Francisco.

3. JAL, American Begin Japan- North America Joint Sales.

American Airlines and Japan Airlines (JAL) implemented the next phase of their trans-Pacific joint business, which takes effect April 1, through joint selling in Japan. As of February 1, JAL will increase destinations available for sale to some 200 cities in American's North America route network.

4. Hawaiian Launches Service to Seoul.

Hawaiian launched four weekly Boeing 767-300ER nonstops between Honolulu and Seoul Incheon. Arrivals through November last year from Korea to Hawaii totaled 79,131, up 75% over same period 2009, and the Hawaii Tourism Authority projects that number will rise to 115,000 this year. Hawaiian's other Asian destinations are Manila and Tokyo.

5. Korean Air to Begin A380 Flights JFK, LAX.

Korean Air will offer Airbus A380 service to New York starting August 2 and Los Angeles October 1; three weekly to Kennedy and daily to LAX. The aircraft will have 407 seats: 12 first class and 301 economy class on the first level, and 94 Prestige class on the upper level.

6. **Qantas Resumes A380 Flights to Los Angeles.**

Qantas began resumption of Airbus A380 services to Los Angeles, saying Airbus, Rolls Royce and Australian and European regulators were satisfied it was safe to begin flying the aircraft on routes that regularly require use of maximum engine thrust. The carrier grounded its six A380s after a Trent 900 engine broke up shortly after takeoff from Singapore on November 4. Some A380 flights to Singapore and London also have been reinstated. Qantas also announced four weekly Boeing 747 flights from Sydney to Dallas Fort Worth, the primary hub of oneworld partner American Airlines, and the carriers are seeking regulatory approval to expand their commercial relationship. Direct Sydney-San Francisco services will be discontinued in May.

7. **Air New Zealand Acquires Stake in Virgin Blue.**

Air New Zealand acquired a 14.99% stake in Australia-based Virgin Blue. Rob Fyfe, CEO of ANZ, said the move “reinforces Air New Zealand’s strategy to grow its business in Australasia which is continually evolving as a single aviation market.” The 14.99% shareholding will keep total foreign ownership of Virgin Blue within the statutory limit of 49%; UK-based Virgin Group has a 26% shareholding. Fyfe said ANZ has no intention of entering the Australian domestic market in its own right, and there is no intention to make a takeover bid for Virgin Blue. In related news, ANZ and Virgin Atlantic agreed to code share on routes between the UK and New Zealand, effective February 28, subject to government approvals. Connecting flights will include Los Angeles-Rarotonga, San Francisco-Auckland, and London Heathrow-San Francisco.

8. **Alliance News.**

Saudi Arabian became the first Middle East airline to agree to join Skyteam; the flag carrier plans to complete a four-year turnaround program by 2013, to include infrastructure modernization, network restructuring and acquiring 88 new aircraft (35 Airbus A320s, 15 A321s, eight A330s, 12 Boeing 777s and eight Boeing Dreamliners). Lebanon-based Middle East Airlines-Air Liban (MEA) will sign an agreement in February to join SkyTeam.

IX. AMERICAS

1. United Continental Labor Update.

A federal arbitrator ruled that Continental may not use its code on 70-seat regional jets operated by United commuter affiliates, due to a contract clause stipulating that only Continental pilots may fly regional services on planes with more than 50 seats. The company said the planes would be operated under the United flight code. Air Line Pilots Association said the plan was a management effort to leverage its position in negotiating in favor of outsourcing, a key issue in mediation talks between United and Continental pilots as they work toward a combined contract. The flight attendants union at United, Association of Flight Attendants, asked the National Mediation Board to declare a single airline after the merger, which will trigger a union representation election; Continental flight attendants are represented by International Association of Machinists and Aerospace Workers.

2. No Blackout Dates, Seat Restrictions for Southwest Frequent Flyers.

Southwest's new frequent flyer program, to begin March 1, will have "absolutely no blackout dates or seat restrictions, and points won't expire with any earning activity in a 24-month time period."

3. Virgin America to Triple Fleet Size.

Virgin America tripled its fleet size with a firm order for 60 new Airbus A320s, to be delivered starting in 2013, including 30 of the A320neo, the new eco-efficient engine option. The San Francisco-based carrier introduced service to Dallas-Fort Worth, Los Cabos and Cancun, and will suspend service to Toronto Pearson in April.

4. UPS Airlines President Retiring.

UPS Airlines President Robert Lekites is retiring after 36 years with the global logistics company. He will be replaced by Mitch Nichols, Vice President of UPS Air Group.

5. Horizon Moves to Capacity Purchase Agreement With Alaska.

Alaska Air Group subsidiary Horizon Air transitioned to a capacity purchase agreement, under which it operates and maintains its aircraft, while Alaska Airlines is responsible for scheduling, marketing and pricing all flights. Horizon will continue to operate as a separate airline, but its Bombardier Q400 fleet will be repainted to feature Alaska's trademark Eskimo.

6. Mesa Restructuring Plan Approved.

A bankruptcy court approved the restructuring plan for Mesa and its subsidiaries, after Delta agreed to waive most of its claims against the Phoenix-based regional. The plan extends the term of a code share agreement with US Airways through September 2015 and eliminates over 100 aircraft leases and restructures others. The company expects to emerge from Chapter 11 in February operating 76 aircraft.

7. Spirit Offers Service to San Salvador, El Salvador.

Spirit offered \$22 introductory fares for service to San Salvador, El Salvador from Fort Lauderdale, to begin on June 13 subject to foreign government approval. This is the sixth destination in the region for Spirit.

8. Victory Park to Buy Gulfstream Airlines.

Gulfstream International is being sold to Victory Park Capital Advisors, which provided financing when the Fort Lauderdale-based airline filed for bankruptcy protection in November. The firm's total investment is said to be under \$30 million. Gulfstream code shares with Continental, United and Copa.

9. Florida-Based Vision to Begin Scheduled Service.

Charter carrier Vision Airlines will begin regularly scheduled Boeing 737 service on March 25 from southern U.S. cities to its hub at Northwest Florida Regional Airport near Destin/Fort Walton Beach. Vision also offers direct flights from several cities to Ft. Lauderdale; Miami; Ft. Myers; Orlando and St. Petersburg. A \$49 introductory fare sale sold out within 48 hours and was offered again. The company said its website "recorded upward of 50,000 hits" when the launch was announced.

10. News From Mexico.

Mexico plans to implement a fund for national and foreign airlines that offer new routes in the country. . . . Continental and Mexico City-based Aeromar will begin code share cooperation on routes within Mexico on February 1; Aeromar is phasing in its first regional jets and further developing its route network, said President Ami Lindenberg. . . . Interjet ordered 15 Superjet 100s, with delivery scheduled for second half 2012. The regional jet is a joint venture between Finmeccanica's Alenia and Russia's Sukhoi. Interjet currently operates 22 Airbus A320s and is scheduled to receive four more this year. Interjet has a 20% share of Mexico's domestic market, between AeroMexico and Volaris. . . . Mexicana carried out test flights for certification purposes, as it prepares to resume operations in mid-February; Mexicana suspended flights in August and declared bankruptcy.

11. LAN-TAM Merger Suspended.

The merger of Chile's LAN and Brazil's TAM was suspended, as Chile's antitrust court conducts its investigation. LAN and TAM earlier signed binding agreements, approved by both boards, and said completion of their proposed business combination, LATAM, would take between six to nine months to complete, subject to approval of authorities.

12. Brazil Logs 23.5% Hike in Travel Demand in 2009.

Brazil's Civil Aviation Authority (Anac) said air travel demand in 2010 increased a record 23.5% over 2009, and load factor rose 68.8%. TAM had a 42.8% market share and Gol 39.5%. Azul, launched in 2008 by JetBlue founder David Neeleman, doubled its market share to 6.1%.

13. Lufthansa Launching A380 Service to New York, San Francisco.

See Section VIII, item 7.

14. Icelandair Offers Washington Dulles Service.

See Section VIII, item 8.

15. Cargoitalia Adds Atlanta Service.

See Section VIII, item 9.

16. Air China Expands North American Service.

See Section IX, item 1.

17. ANA, United Continental Set Start Date for Joint Venture.

See Section IX, item 2.

18. JAL, American Begin Japan- North America Joint Sales.

See Section IX, item 3.

19. Hawaiian Launches Service to Seoul.

See Section IX, item 4.

20. Korean Air to Begin A380 Flights JFK, LAX.

See Section IX, item 5.

21. Qantas Resumes A380 Flights to Los Angeles.

See Section IX, item 6.