



WASHINGTON AVIATION SUMMARY

July 2010 EDITION

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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. IATA: Airlines to Post \$2.5 Billion Profit This Year.

Airlines are expected to post a profit of \$2.5 billion in 2010, reported the International Air Transport Association (IATA), the industry's first profit since 2007 after a decade in which they lost a cumulative \$47 billion and a major improvement over the March forecast of a \$2.8 billion loss. However, warned Giovanni Bisignani, IATA Director General and CEO, the profit represents a net margin of just 0.5% and a major part of the global industry is still posting big losses. IATA forecasts world passenger traffic will grow by 7.1%, cargo by 18.5%, yields by 4.5% for both cargo and passenger, revenues by 13%. Some 500 of 1,340 aircraft scheduled to join the fleet in 2010 are replacements, the rest new capacity; average demand improvement of 10.2% (passenger and cargo) will be met with a 5.4% increase in capacity, supporting load factors which remained near record levels for most of the first quarter. Premium travel was rebounding at an annualized growth rate of 20% over the first quarter and economy travel is now back to pre-recession levels.

"It is time to think big and to look beyond the cycles and shocks. Our duty is to work together to define a vision on which to build a sustainable future," said Bisignani, at the 66th IATA Annual General Meeting and World Air Transport Summit held in Berlin. He launched "Vision 2050—Shaping Aviation's Future." By 2050, he said, airlines will: be very near to zero accidents; emit half the carbon; have eliminated queues with integrated systems ensuring security as we process more passengers; operate with almost no delays in globally united skies; share costs and profits equitably; be a consolidated industry of a dozen global brands supported by regional and niche players; and deliver value to investors. "We must improve the value proposition of price, speed, and quality," said Bisignani, "to gain the support of customers in demanding change from the governments."

Bisignani announced he will step down as IATA Director General and CEO next year. FedEx Express CEO David Bronczek started a one-year term as IATA Chairman, succeeding Cathay Pacific CEO Tony Tyler, who served from June 2009.

2. Michael Huerta, Confirmed as FAA Deputy Administrator.

Michael Huerta, President Obama's nominee for Deputy Administrator of the Federal Aviation Administration (FAA), was confirmed by the Senate. Huerta served in two senior positions at the Department of Transportation (DOT)

under President Bill Clinton, and was a member of the Obama transition team for transportation.

3. DOT Proposes Additional Passenger Protections.

Additional protections for air travelers were proposed by DOT. Among its provisions, the new rule would extend some recently enacted tarmac delay requirements to foreign airline operations at U.S. airports. DOT would collect tarmac delay data from all U.S. and foreign airlines operating aircraft of 30 or more seats on flights to and from the United States and charter flights, rather than only domestic scheduled flights of the 18 largest U.S. airlines. The rule would allow passengers to make and cancel reservations within 24 hours without penalty; require full and prominently displayed disclosure of baggage fees, as well as refunds and expense reimbursement when bags are not delivered on time; require full price advertising; prohibit price increases after a ticket is purchased; and mandate timely notice of flight status changes.

4. DOT Reports Increase in Denied Boarding.

DOT's proposed additional consumer protections also include increased compensation for passengers involuntarily bumped from flights. The maximum required reimbursements would increase from the current \$400 and \$800 levels for delays of 1 to 2 hours and more than 2 hours respectively to \$650 and 1,300, with inflation adjustments every two years. Denied boardings in 2009 numbered 762,400, the most since 2001, and were at 220,00 in first quarter this year with about 90% of bumped passengers giving up seats voluntarily in exchange for inducements. Consumer complaints to DOT regarding oversales numbered 56 in April, compared to 42 in April 2009.

5. DOT Reports 33% Increase in Baggage Fee Revenue.

Airlines collected \$769 million in baggage fees in first quarter, reports DOT, compared with \$578 million in first quarter 2009. Reservation change fees came to \$554 million and other ancillary revenue totaled \$534 million. First quarter 2010 revenue from all ancillary sources was \$1.86 billion, with Delta reporting the most, \$592 million; this category does not include sales of food, drinks, pillows, blankets, inflight entertainment or seat assignments.

6. ADS-B Equipment Required for Airlines by 2020.

FAA is requiring aircraft operating in U.S. airspace to be equipped with Automatic Dependent Surveillance-Broadcast Out (ADS-B Out) by 2020 and said the technology is a key element of NextGen. The nationwide rollout of ADS-B ground stations will be complete in 2013. Air Transport Association of America (ATA) will do an in-depth review of the requirement, which could cost between \$2.5 and \$6.2 billion.

7. FAA Proposes Major Changes to Icing Certification Rules.

In an expansion of icing certification standards, FAA proposed that aircraft and system manufacturers ensure that airplanes can operate safely in freezing drizzle or freezing rain, conditions that constitute an icing environment known as “supercooled large drops” (SLDs). The National Transportation Safety Board (NTSB) recommended more stringent rules after a 1994 icing-related accident in Roselawn, IL.

8. NTSB Nominations Confirmed.

The Senate confirmed Earl Weener, formerly a Boeing chief engineer, and flight crew fatigue expert Mark Rosekind to full five-year terms on the NTSB.

9. Court Upholds NMB Decision on Union Organizing.

ATA lost a court bid to block a new federal law that makes it easier for unions to organize employees into collective bargaining units. ATA had claimed the change, approved by the National Mediation Board (NMB) in May, was arbitrary and illegal. The new procedures are effective July 1. “We are disappointed with the Court’s ruling,” said ATA, “and believe the National Mediation Board does not have the authority to impose this new rule. We will thoroughly study the decision to determine what, if any steps, ATA will take, including exercising our right to appeal the ruling.”

10. Delta, AirTran Fined for Violating Price Advertising Rules.

DOT assessed civil penalties against AirTran and Delta for violating rules that require advertisements to disclose the full price consumers must pay for air transportation. AirTran was fined \$20,000 for advertising a fare that was not available. Delta was fined \$40,000 for failure to provide adequate notice of taxes and fees on its website.

11. FAA Proposes Civil Penalties Against Regional Airlines.

FAA proposed a civil penalty of \$700,000 against Executive Airlines, based in San Juan, Puerto Rico and doing business as American Eagle Airlines, for operating eight ATR-42s on 6,479 flights when they were not in compliance with federal aviation regulations. FAA proposed \$2.5 million in civil penalties against Trans States and GoJet of Bridgeton, Mo., for violation of various maintenance procedures and operating nine jets on 320 revenue passenger flights when the aircraft were non-compliant; both airlines are owned and operated by Trans States Holdings.

12. FAA Proposes Civil Penalties for HazMat Violations.

FAA proposed civil penalties for violations of hazardous materials regulations against Lion Mentari Airlines (\$150,000), Stewart & Stevenson (\$53,000),

Trans States Airlines (\$121,000), Shanghai Fountainhead Electronics (\$70,000), SOSGlobal Express (\$50,000), IIS & Allied Services (\$227,500), and Gallant Freight (\$195,000).

13. April Passenger Airline Employment Down 4.1%.

U.S. scheduled passenger airlines employed 376,200 workers in April, 4.1% fewer than in April 2009, reports DOT, and the lowest monthly total since at least 1990. The six network airlines employed 255,700 in April, 68% of the passenger airline total, while low-cost carriers employed 16.9% and regional carriers employed 13.7%.

14. FDA Report Reveals Airline Catering Problems.

Several airline catering facilities were cited for health and sanitation violations this year and last, says *USA Today*, which reviewed Food and Drug Administration (FDA) inspection reports for LSG Sky Chefs, Gate Gourmet and Flying Food Group; together they operate 91 kitchens that provide million meals to airlines at U.S. airports.

15. DOT Air Travel Consumer Report for April.

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

	April '10 / '09	March '10	Full Year				
			2009	2008	2007	2006	2005
On-time arrivals %	85.3 / 79.1	80	79.5	76	73.4	75.4	77.4
Cancellations %	0.7 / 1.5	1.5	--	--	--	--	--
Mishandled baggage*	2.89 / 3.89	3.72	3.91	5.26	7.05	6.73	6.64
<i>Consumer complaints:</i>							
Airline service	878 / 782	961	8,819	10,648	13,180	8,325	8,741
Disability-related	41 / 47	44	517	477	488	430	511
Discrimination**	13 / 15	15	132	115	99	114	129

Note: There was one flight with a tarmac delay of four hours or more in April.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. Extension to July 2 on Delta-US Airways Slot Swap.

Delta and US Airways were granted a 30-day extension, to July 2, to decide whether to pursue their proposed slot swap at Washington National and New York LaGuardia. They would be required to sell slots to airlines with little or no service at those airports.

2. Rebuilt Kennedy Runway Opens.

About two-thirds of Runway 13R-31L reopened at New York Kennedy, after being closed since March for repairs; the final segment will reopen in the fall.

3. Mineta San Jose Completes Terminal B.

Mineta San Jose opened a new high-tech terminal befitting its Silicon Valley location. Part of a \$1.8 billion improvement program, the project includes solar power, ample power outlets and USB ports and free Wi-Fi. Carriers can share gates, shifting planes as needed, and counters. Body scanners are deployed at every security checkpoint, with 12 planned, and officials say baggage scanning machines are the most sophisticated in the United States.

4. Task Force to Address Capacity Constraints at London Airports.

The UK government formed a task force to study aviation potential in southeast England within existing runway capacity constraints, after killing expansion plans for Heathrow, Gatwick and Stansted airports. The UK said it may switch from a per-passenger to a per-plane duty, in consultation with airlines. An increase in the air passenger duty is planned for November.

5. Schiphol Introduces “Innovative Gate.”

Amsterdam Schiphol introduced the “Innovative Gate,” a three-month pilot project that incorporates lighting, images, design, information services and entertainment meant to improve the passenger experience.

6. Dubai Al Maktoum Cargo Ops Begin.

Dubai Airports opened Al Maktoum International for cargo operations; passenger ops will begin next March. Phase 1 of the project will feature one A380-capable runway, 64 remote stands, one cargo terminal and a passenger terminal designed to accommodate five million passengers per year. At completion, the airport will be the largest in the world, with five runways, four terminals and capacity for 160 million passengers and 12 million tons of cargo.

III. **SECURITY AND DATA PRIVACY**

1. **John Pistole Confirmed by Senate as TSA Administrator.**

The Senate confirmed former FBI Deputy Director John Pistole as Administrator of the Transportation Security Administration (TSA) and Assistant Secretary of the U.S. Department of Homeland Security (DHS). Pistole was President Obama's third nominee for the post. In testimony before the Homeland Security and Commerce Committees, Pistole said he would push for terrorist watchlist accuracy and ensure that TSA officers receive threat- and risk-based data daily, even hourly. He said he would conduct a comprehensive rail and mass transit threat assessment and allocate TSA resources based on the findings. On collective bargaining for TSA employees, a Republican sticking point, he said DHS Secretary Janet Napolitano asked him to review the issue.

2. **TSA to Refund Airlines \$119 Million.**

The U.S. Court of Appeals in Washington ruled that airlines should be reimbursed for TSA overcharges for post-9/11 security costs, saying the levies were excessive and based on flawed assumptions. TSA plans to disburse \$119 million to affected airlines, but ATA said refund amounts appear to be substantially less than amounts indicated in an economic study submitted by carriers.

3. **DHS Performing All Watchlist Matching for Domestic Flights.**

DHS said all passengers traveling within the United States and its territories are now being checked against terrorist watchlists through TSA's Secure Flight program. Airlines previously conducted the checks. TSA expects all international carriers with direct flights to the U.S. to begin using Secure Flight by the end of 2010.

4. **ACLU Mounts First Legal Challenge to No-Fly List.**

The American Civil Liberties Union (ACLU) sued the U.S. government on behalf of 10 citizens or legal permanent residents who have been placed on a No-Fly list, claiming Americans are being deprived of their rights as citizens and of due process. "The Constitution does not permit such a fundamental deprivation of rights to be carried out under a veil of secrecy and in the absence of even rudimentary due process," said ACLU. "The government has provided no process for individuals denied boarding on commercial flights to or from the United States or over U.S. airspace to find out the reasons for their inclusion on the No-Fly List or to rebut the evidence or innuendo against them."

5. **Registered Traveler Program Returns.**

Two companies are set to re-launch Registered Traveler (RT), which ended in 2009 when the dominant provider, Verified Identity Pass (VIP), declared bankruptcy. RT is a biometric identification program offering pre-screened members expedited access through airport security checkpoints. Former VIP unit Clear will reinstate service at Denver International this fall, at \$179 per year; Alclear, a new company based in New York City, was formed specifically to acquire and restart Clear. An RT program at Indianapolis International will be offered by iQueue at \$149 annually; iQueue is a partnership of Cogent, ARINC, FLO Corp and International RAM Associates.

6. **Passive Energy Scanners Deployed At Bradley.**

Connecticut's Bradley International deployed passive screening devices (SPO-7) that scan passengers walking through non-sterile areas of the airport. The portable devices, known as SPO-7, work on millimeter-wave technology and receive energy generated by an individual and concealed objects. If an energy anomaly is detected, additional screening is initiated. The machines are in use at some of the largest airports and have been used in mass transit and maritime environments since 2007. Airport officials said they are safe and do not reveal body images.

7. **Georgia Governor Blocks Guns in State Airports.**

Georgia Governor Sonny Perdue vetoed a bill that would have allowed firearms to be carried into unsecure areas of the state's airports. The bill allows gun permit holders to have a firearm in their cars while picking up or dropping off passengers at an airport and in airport parking lots. GeorgiaCarry.Org said, "It is vital for law-abiding citizens who wish to arm themselves for self-defense to know definitively what places are off-limits."

IV. E-COMMERCE AND TECHNOLOGY

1. Slot Trading Web Portal Launched.

A new slot trading Web portal allows airlines to advertise slots securely where slot trading is not prohibited by local laws, and provides a registry of completed slot trades. SlotTrade is meant to make slot trading more open, efficient and transparent, says Airport Coordination Ltd. (ACL). Owned by nine UK airlines, ACL provides scheduling services at airports in the UK, Ireland, Canada, Nigeria and United Arab Emirates. James Cole is Director of ACL International, which is leading the SlotTrade service.

2. Sabre Red to Include Ancillary Fees in Price Calculations.

Sabre Travel Network rolled out Sabre Red, a Windows-based graphical user interface that allows agents to calculate and compare fares with ancillary fees included. In other news, Sabre unit GetThere and Tata Communications will team to provide access to public and private Telepresence rooms worldwide for virtual meetings. And Travelocity extended its contract with Yahoo!, remaining the exclusive booker on Yahoo! Travel.

3. Travelport Launches New Leisure Portal.

Travelport Leisure, an upgrade of Galileo Leisure, includes new functionality to add localized content at a country level. The portal will continue to be free for all travel agents, even non-subscribers to a Travelport global distribution system. Global leisure travel spending is expected to reach around \$700 billion by 2014, said Travelport.

4. Aircell Offers Gogo Monthly Subscription.

Aircell is offering a \$34.95 monthly subscription for unlimited wireless Internet access on nearly 1,000 Gogo-equipped aircraft, with first-month introductory rate of \$19.95. Gogo is currently available on domestic flights of eight airlines.

V. ENERGY AND ENVIRONMENT

1. Fuel Bill for Global Airline Industry.

The price of aviation jet fuel, as of June 18, was \$91.4/barrel, up 8.7% for the month and 13.9% year-on-year, reports the International Air Transport Association. Fuel price average year-to-date was \$88.5/barrel.

2. FAA Awards \$125 Million in Contracts for Green Technology.

FAA awarded \$125 million in contracts to five companies to develop and demonstrate technologies that will reduce commercial jet fuel consumption, emissions and noise, as part of the Continuous Lower Energy, Emissions and Noise (CLEEN) program. Under the five-year, cost-sharing arrangement, Boeing, General Electric, Honeywell, Pratt & Whitney, and Rolls-Royce-North America will match or exceed FAA's contribution, bringing overall value of the program to more than \$250 million. Technologies to be explored include sustainable alternative aviation fuels; lighter and more efficient gas turbine engine components; noise-reducing engine nozzles; advanced wing trailing edges; optimized flight trajectories using onboard flight management systems; and open rotor and geared turbofan engines. Goals include reduction in fuel burn by 33%, of nitrogen oxide emissions by 60%, and cumulative aircraft noise levels by 32 decibels. The CLEEN program helps develop environmentally friendly and energy efficient aircraft and engine technology that could be introduced into the commercial aircraft fleet beginning in 2015.

3. DOE Announces Funding for Pyrolysis.

The U.S. Department of Energy has made up to \$11 million in funding available over three years, for research and development on conversion of biomass into advanced biofuels that are compatible with existing fueling infrastructure. The objective is to improve conversion of nonfood biomass to liquid transportation hydrocarbon fuels via pyrolysis, a process that decomposes biomass using heat in the absence of oxygen to produce a bio-oil that can be upgraded to renewable diesel, gasoline, or jet fuel. This project is part of the department's effort to accelerate development and deployment of sustainable, renewable biofuels that significantly reduce U.S. dependence on foreign oil and lower greenhouse gas emissions. Selected applicants will share a minimum of 20% of the project cost.

4. Solar Liquid Fuels Studied.

A team led by Arizona State University (ASU) will explore research and development of fuels from sunlight and barriers to transforming energy technologies into commercially viable materials, devices and systems. Similar

to photosynthesis, solar liquid fuel refers to the process by which concentrated solar energy is used in conjunction with carbon dioxide and water to create hydrocarbons. In addition to creating combustible fuels like methanol and ethanol, processing potentially can yield more traditional fuels like gasoline, diesel and jet fuel. ASU partners in the \$122-million LightSpeed Solutions project include Sandia National Laboratories, Princeton, Yale and University of Minnesota. They have submitted a proposal to the U.S. Department of Energy to become an Energy Innovation Hub. Arizona has enacted a bill that creates tax credits for research and development, production and delivery system costs associated with solar liquid fuels; research must be conducted in the state and the program will be in effect from 2011 to 2026.

5. System for Certifying Sustainable Biofuels Urged.

The European Commission (EC) urged industry, governments and organizations to establish voluntary schemes to certify that biofuels deliver substantial reductions in greenhouse gas emissions. They also should be sustainable; i.e., they should not come from forests, wetlands and nature protection areas. The schemes will be checked by independent auditors. EU states must meet binding national targets for renewable energy and biofuels must deliver greenhouse gas savings of at least 35% compared to fossil fuels, rising to 50% in 2017 and to 60%, for biofuels from new plants, in 2018.

6. “Cargo Needs The Night” Initiative in Germany.

Germany’s logistics community launched “Cargo needs the night,” an initiative aimed at gaining “competitive operating times at this country’s commercial airports.” Lufthansa Cargo CEO and Chairman Carsten Spohr said, “The right of local residents living near the airport to be protected from unnecessary noise is not at issue. We accept our responsibility as an airline and we are investing massive sums in new technologies. At the same time, we are responsible for thousands of jobs in the logistics industry in Germany . . . Anyone who shuts down central logistics hubs at night is acting irresponsibly and putting the future viability of Germany’s export industry at risk.”

VI. U.S. CONGRESS

1. Senator Robert Byrd Dies.

Senator Robert Byrd (D-W.Va), the longest serving member of Congress, died on June 28 at age 92. Byrd was President pro tempore of the Senate, senior member of the Senate Appropriations Committee and Chairman of the Senate Appropriations Subcommittee on Homeland Security. He also served on the Senate Budget, Armed Services, and Rules and Administration Committees. Byrd cast 18,689 roll call votes, more than any other Senator in U.S. history, and had a 97% attendance record in his more than 50 years in the Senate. Frank Lautenberg (D-NJ) was appointed to serve as Interim Chairman of the Subcommittee on Homeland Security.

2. House Passes FAA Extension.

The House approved and sent to the Senate an extension of funding and taxing authority for federal aviation programs through August 1, 2010. An existing extension was scheduled to expire July 3. House Transportation Committee Chairman James Oberstar (D-Minn.) said the House and Senate are very close to resolving differences on a long-term FAA bill and hoped it would be completed in July. The most recent long-term FAA reauthorization act expired on September 30, 2007.

3. Airlines Support Passage of Financial Reform Bill.

In a June 29, 2010 letter to senators ATA President and CEO James May urged passage of the financial overhaul bill approved by the conference committee which addresses several goals established by ATA: Rein in excessive speculation by establishing tough regulatory oversight and transparency in commodity markets. Increase transparency by requiring exchange trading and clearing of most derivatives and other contracts, while preserving ability of bona fide physical hedgers to continue to hedge their own commercial risks. Allow regulators, through aggregate position limits, to stop large financial institutions from manipulating markets, and preventing another energy bubble like that of summer 2008.

4. Hearings on Proposed United-Continental Merger.

In hearings on Capitol Hill regarding their planned merger, Continental CEO Jeff Smisek and United CEO Glenn Tilton expected few job losses and said substantial financial benefits through synergies would result.

In the House, Transportation Committee Chairman James Oberstar (D-Minn.) said the merger would reduce consumer choice and increase air fares in U.S.

and world markets. Jerry Costello (D-Ill.), Aviation Subcommittee Chairman, was concerned about how the merger would affect ticket prices and employees of both airlines, and said he would ask the Department of Justice, which, along with DOT is in the process of reviewing the merger, to determine if there is evidence to support the synergy claims. House Judiciary Committee members raised similar questions.

In the Senate, Commerce Committee Chairman Jay Rockefeller (D-W.Va.) asked if the industry has done enough to shore up its bottom line and survive the next crisis, the next spike in oil prices, or a recession in Europe. "It is increasingly clear that the current structure is not financially sustainable," he said. Ranking Member Kay Bailey Hutchison (R-Tex.) said the proposed merger "will have a dramatic impact" on Houston, where Continental is headquartered, but "government should not stand in the way of companies and their ability to grow and expand within the parameters of the law." She told reporters she expects the merger to be approved.

International Association of Machinists and Aerospace Workers' (IAM) General Vice President Robert Roach, Jr. told the Committees the new entity may be too big to succeed and failure could be disastrous to employees, the industry and the national economy. Mergers alone do not provide the answers, he said; "the only way to establish an air transportation industry that is both competitive and profitable is through some form of re-regulation."

In other news, the Air Line Pilots Association, Int'l (ALPA), said talks with Continental and United management on a transition agreement have stalled over non-economic issues. "The transition agreement is designed to ultimately result in a joint collective bargaining agreement (JCBA) and integrated seniority list," said ALPA. "Reaching an integrated seniority list allows the new merged carrier to secure a single operating certificate and reap the full potential of the merger." And, a group of consumers and small businesses seeking to block the merger filed a complaint in federal court in San Francisco, claiming it would create a monopoly, increase fares, reduce number of flights, diminish services and eliminate jobs; the carriers said the suit has no merit.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. U.S.- EU Second Stage Air Transport Agreement Signed.

The United States and European Union (EU) signed a second stage aviation agreement, which: affirms that terms of the 2007 open skies agreement will remain in place indefinitely; deepens cooperation in security, safety, competition and ease of travel; provides greater protections for U.S. carriers from restrictions on night flights at European airports; adds a new article on the importance of high labor standards; provides greater access for EU airlines to the Fly America program; and stresses close cooperation on environmental matters in order to advance a global approach. As for reciprocal liberalization of airline ownership and control, it provides for further discussion of whether legislation is appropriate.

2. U.S., Switzerland Sign New Air Transport Agreement

An enhanced U.S.-Switzerland open skies agreement was signed in Bern, replacing one signed in 1995. The new agreement, immediately effective, adds 7th freedom rights, allowing airlines of both countries to operate all-cargo flights to third countries without a connection to the home country. It also permits Swiss airlines to be owned and controlled by nationals of any member state of the EU and to compete under the Fly America Act for certain U.S. government civilian agency-funded passenger and cargo traffic between the United States and Switzerland and between non-U.S. points.

3. U.S., EU Specify Areas of Cooperation on NextGen/SESAR.

The United States and the European Commission signed an agreement to work together on research aimed at providing aircraft flying over the North Atlantic with consistent service in terms of avionics, communication protocols and procedures, and operational methods under NextGen and the Single European Sky ATM Research (SESAR). With 22 specific areas of cooperation, the agreement replaces a Memorandum of Understanding signed in 2007.

4. WTO Rules Airbus Loans Illegal Subsidies.

The World Trade Organization ruled that loans received by Airbus from European governments for the A380 program were illegal subsidies, in a complaint brought by the United States. The EU said it remains committed to a negotiated outcome to the dispute.

VIII. EUROPE AND AFRICA

1. Europe's Airlines Expected to Post \$2.8 Billion Loss in 2010.

"A stagnating economy, strikes, natural disasters, and a currency crisis have left European carriers struggling with an anticipated \$2.8 billion loss this year," said IATA. European carriers bore 70% of the \$1.8 billion loss in revenue resulting from the volcanic ash crisis in April, with over 100,000 flight cancellations over six days. Early May figures show a rebound in traffic. African carriers are expected to post a \$100 million profit this year, their first since 2002; compared to a \$100 million loss in 2009.

2. British Airways, Iberia Merger Update.

British Airways and Iberia signed a merger plan that calls for creation of a new Spanish company, BA Holdco SA, over British Airways. Iberia will transfer its assets to an operating subsidiary before both are merged into the International Consolidated Airlines Group SA holding company. British Airways CEO Willie Walsh will run the combined company; Iberia's Antonio Vazquez will be Chairman. The merger is being implemented under Spanish law, and is subject to approvals by shareholders and the European Commission. Completion of the merger also requires approval by UK regulators for a recently reached British Airways pension deficit reduction plan. In other news, British Airways cabin crew continued strike actions in June, but at month's end delayed a ballot to consider a new offer on pay.

3. Germany Plans Tax on Air Travel.

The German government plans to impose a passenger tax until the airline sector is included in the trade of CO2 emission allowances in 2012. The International Air Transport Association (IATA) branded the €1 billion annual burden on aviation "the worst kind of short-sighted policy irresponsibility . . . a cash-grab by a cash-strapped government," and said, "Painting it green adds insult to injury. . . Climate change is a global issue." Lufthansa Chairman Wolfgang Mayrhuber noted the sum exceeds collective earnings of all German airlines last year. The German Airline Association estimated the tax would increase air fares by up to €15 per ticket.

4. Swiss Offers New Zurich-San Francisco Nonstops.

Swiss International inaugurated six weekly Airbus 340 nonstops between Zurich and San Francisco. Separately, Swiss CEO Harry Hohmeister told the International Aviation Club in Washington that taxes, regulation and inadequate investment in infrastructure are contributing to European airlines' lagging behind airlines in emerging markets in the Middle East and Asia. We

can no longer take competitiveness of the European aviation industry for granted, he said.

5. United Launches Africa Service.

United launched its first service to Africa with Boeing 767 flights between Washington Dulles and Kotoka International Airport in Accra. The carrier joined with Malaria No More and ExxonMobil to distribute 1,000 nets to families in rural Ghana, “the beginning of a larger commitment to improve the lives of Ghanaians.”

6. Continental to Offer Daily Houston-Lagos Nonstops.

Continental plans to launch daily Boeing 787-8 Dreamliner nonstops between Houston and Lagos in November, subject to government approval. It will be Continental's first destination in Africa and the first daily scheduled service offered between Texas and Africa by any carrier. Continental also announced nonstop service between Houston and Auckland, to begin in November subject to government approval.

7. Virgin Nigeria is Now Air Nigeria.

Virgin Nigeria is now Air Nigeria Development Limited, after a brief rebranding as Nigerian Eagle. New Chairman is Jimoh Ibrahim. Virgin Atlantic is no longer involved in the airline's operations and wants to sell its 49% share. Nigeria's Central Bank said the government has extended a \$3.3 billion bailout to domestic airlines.

8. Alliance News.

See Section IX, item 3.

9. Delta Expands International Reach from Minneapolis-St. Paul.

See Section X, item 2.

10. Sun Country Begins Atlantic, Pacific Flights.

See Section X, item 6.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. Asia Pacific Growth Continues in May.

Asia Pacific-based airlines carried a total of 14.6 million international passengers in May, 17.6% more compared to the same month last year, reports the Association of Asia Pacific Airlines (AAPA). International passenger traffic, measured in revenue passenger kilometers, grew by 14.6%. With a 3.3% expansion in capacity, average international passenger load factor increased by 7.3% to 74.6%. International air cargo shipments, measured in freight tonne kilometers, saw 39% growth in traffic; load factors climbed 8.7% to reach 72.6%, despite 22.2% growth in freight capacity. Asia Pacific carriers are expected to deliver a \$2.2 billion profit for the year, said IATA, compared to a \$2.7 billion loss in 2009. Middle Eastern carriers are expected to post a profit of \$100 million, their first since 2005, compared to a \$600 million loss in 2009.

2. Merger Groups Submit ATI Applications to Transport Ministry.

Oneworld partners Japan Airlines and American Airlines applied to the Japanese Transport Ministry for antitrust immunity (ATI) on flights between North America and Asia, as did Star partners ANA, United and Continental. ATI applications filed with the U.S. DOT in February are pending.

3. Alliance News.

Vietnam Airlines joined SkyTeam, the first member in Southeast Asia; China Eastern membership is in process. SkyTeam dropped its associate airline program, making Kenya Airways, Romania's Tarom and Spain's Air Europa full members. Kingfisher became a member-elect of oneworld; the six oneworld carriers serving New Delhi will share Kingfisher's premium passenger lounge at a new international terminal set to open in July. And, Aegean Airlines was accepted into the Star Alliance; Aegean is the largest Greek airline in terms of passengers.

4. South Korea Fines 19 Carriers for Price-Fixing

The Korea Fair Trade Commission (KFTC) imposed fines totaling almost \$100 million on 19 airlines for colluding on air freight rates between 1999 and 2007, and issued corrective orders on two others. Korean Air, which cooperated in the probe and voluntarily reported the price-fixing schemes, was given a reduced fine.

5. **Delta Expanding Asian Gateway at Seattle.**

Delta began nonstops to Beijing and Osaka from Seattle, which will be the carrier's primary West Coast gateway to Asia.

6. **Cyprus Turkish Airlines Operations Suspended.**

Turkey's Civil Aviation General Directorate suspended Cyprus Turkish Airline's operating license until further notice, due to financial problems and high losses. Istanbul-based Pegasus Airlines announced that the Turkish Republic of Northern Cyprus has accepted a proposal in principal to establish a joint company with Cyprus Turkish.

X. AMERICAS

1. May Passenger Revenue Rose 21%.

U.S. airline passenger revenue rose 21% in May, versus same month 2009, reports ATA, the fifth consecutive month of growth. About 2% more passengers traveled on U.S. airlines in May, while average price to fly one mile rose 17%. International passenger revenue rose 36%, led by 51% gain in trans-Pacific markets. Cargo traffic, measured in cargo revenue ton miles, rose 17% year over year (8% domestic, 25% international) in April 2010; May data was not yet available. IATA forecasts a profit of \$1.9 billion for North American carriers for the year, compared to a \$2.7 billion loss in 2009. Latin American carriers will show a profit of \$900 million, up from a \$500 million profit in 2009.

2. Delta Expands International Reach from Minneapolis-St. Paul.

Delta will add international service from its Minneapolis-St. Paul hub, including new daily Airbus A319 nonstops to Mexico City, beginning December 18 subject to foreign government approval. Boeing 767-300ER nonstops to Paris De Gaulle will change from seasonal to year-round and five weekly Boeing 767-400ER nonstops to London-Heathrow will expand to daily for winter 2010. In other news, Delta will offer first class service on all domestic flights longer than 750 miles, beginning this fall; Delta Connection flights on 50 routes with only one class of service will be upgraded to two-cabin aircraft with first and economy class service.

3. American-TWU Contract Talks Break Down.

Contract talks between American Airlines and its fleet/ground workers reached a “complete breakdown,” said Transport Workers Union (TWU), and a tentative agreement reached earlier is no longer valid. TWU asked the federal National Mediation Board (NMB) to release it from further mediation in preparation for a possible strike. Voting on tentative agreements is moving forward for TWU-represented mechanics, technicians and workers who handle parts at American. “Those pending agreements have different terms and do not have the same issues related to contracting-out work that has caused the breakdown in the fleet/ground service tentative agreement,” said TWU.

4. American Awarded Brazil Frequencies.

American was awarded rights by DOT for 11 new U.S.-Brazil flights per week beginning November 18, and is offering New York-Rio de Janeiro (Boeing 767-300) and Miami-Brasilia (Boeing 757) nonstops.

5. **Continental, TAM Code Share on Brazil Routes.**

Star partners Continental and TAM will code share on routes within Brazil and between Brazil and the U.S., effective July 1, 2010.

6. **Sun Country Begins Atlantic, Pacific Flights.**

Utilizing Boeing 737-800 ETOPS aircraft, Sun Country launched transatlantic and Pacific service. The one-stop Minneapolis/St. Paul to London Stansted seasonal service will operate weekly through August 15. The St. Paul-based carrier is offering charter service from Phoenix to Honolulu.

7. **Spirit, Pilots Sign Tentative Agreement.**

Spirit Airlines reached a tentative agreement for a new collective bargaining agreement with its pilots, represented by ALPA, ending a five-day work stoppage. The new contract is subject to ratification in July. The airline thanked customers “for their support and loyalty” with a \$50 coupon toward a round-trip purchase and 5,000 bonus miles.

8. **Horizon Plans 120 Layoffs in Portland, Seattle.**

Alaska Air regional subsidiary Horizon Air is laying off 120 flight attendants, mechanics and pilots in Portland and Seattle and closing bases in Idaho and Arizona. Four Bombardier CRJ-700 regional jets have been leased to Atlantic Southeast. Jeff Pinneo is retiring after eight years as Horizon’s President and CEO and 28 years at Horizon and Alaska; Group CFO Glenn Johnson was named President of Horizon.

9. **Swiss Offers New Zurich-San Francisco Nonstops.**

See Section VIII, item 4.

10. **United Launches Africa Service.**

See Section VIII, item 5.

11. **Continental to Offer Daily Houston-Lagos Nonstops.**

See Section VIII, item 6.

12. **Alliance News.**

See Section IX, item 3.

13. **Delta Expanding Asian Gateway at Seattle.**

See Section IX, item 5.