



WASHINGTON AVIATION SUMMARY

August 2012 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. FAA Proposes \$13.5 Million Fine Against Boeing.

The Federal Aviation Administration (FAA) proposed a fine of \$13.5 million against Boeing for failing to meet a deadline to submit service instructions for preventing fuel tank explosions on 383 U.S.-registered B-747s and -757s. The Fuel Tank Flammability Rule requires airlines to retrofit half of its fleet by 2014, and complete the retrofit by 2017. FAA said it will consider a proposal by airlines to extend the 2014 deadline, based on specific circumstances per operator, but will not consider extensions to the 2017 deadline. FAA has issued hundreds of directives to eliminate fuel ignition sources since the 1996 TWA 800 accident.

2. FAA Proposes \$987,500 Fine Against Delta.

FAA proposed two civil penalties totaling \$987,500 against Delta, for allegedly operating non-compliant aircrafts. A penalty of \$687,500 is proposed for operating a Boeing 737-800 on 20 flights without repairing a known chip in the nose cone. A civil penalty of \$300,000 is proposed for operating an Airbus A320 on 884 flights without repairing or replacing a broken cockpit floodlight socket at the first officer's position.

3. DOT Fines Travelocity, TripAdvisor.

The U.S. Department of Transportation (DOT) fined Travelocity \$180,000 for violating the rule on full-fare advertising by failing to include fuel surcharges and other fees in advertised airfares. TripAdvisor was fined \$80,000 for violating price advertising requirements and for failing to disclose that flights were being operated under code sharing agreements. The ticket agents were ordered to cease and desist from further violations.

4. May 2012 Passenger Airline Employment Rose 1.6%.

U.S. scheduled passenger airlines employed 390,957 workers in May 2012, 5,983 or 1.6% more than in May 2011, reports DOT. The five network airlines employed 67.6% of the scheduled passenger airline total; the six low-cost carriers employed 17.9% and the 14 regional carriers employed 13.2%. Network airlines increased employment by 1.3% and low-cost airlines by 5.3%, while regional airlines decreased employment by 2.2%.

5. **DOT Air Travel Consumer Report for May.**

Based on data filed by U.S. airlines.

	May '12/'11	April '12	Full Year				
			2011	2010	2009	2008	2007
On-time arrivals %	83.4 / 77.1	86.3	79.6	79.8	79.5	76	73.4
Cancellations %	0.9 / 2.1	1	1.91	1.76	1.39	1.96	2.16
Mishandled baggage*	2.77 / 3.54	2.63	3.39	3.51	3.91	5.26	7.05
<i>Consumer complaints:</i>							
Airline service	1,260/1,065	1,068	11,545	10,988	8,821	10,648	13,180
Disability-related	68 / 58	65	630	572	519	477	488
Discrimination**	5 / 10	14	127	143	131	115	99

Note: Airlines reported one tarmac delay of more than three hours on a domestic and one of more than four hours on an international flight in May.

* Reports per 1,000 passengers.

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

6. **Global Demand for 460,000 New Pilots by 2031.**

By 2031, the world will require 460,000 new commercial airline pilots, according to Boeing's 2012 Pilot and Technician Outlook. At 601,000, projected demand for maintenance personnel, has decreased from last year, due in part to improving airplane technology and maintenance efficiencies, as well as older airplanes being retired sooner than average due to higher fuel prices.

7. **Boeing Forecasts \$4.5 Trillion Market for 34,000 New Airplanes.**

Boeing projects a \$4.5 trillion market for 34,000 new airplanes over the next 20 years, a doubling of the world fleet, in its 2012 Current Market Outlook. Airline traffic is expected to grow 5% annually over the period, cargo at 5.2%. Widebodies will account for \$2.5 trillion dollars worth of new deliveries, with 40% of demand coming from Asia. Robust growth in emerging markets is a major factor in the increased deliveries. Low-cost carriers are growing faster than the market as a whole. There is also a strong demand to replace older, less fuel-efficient airplanes; replacement accounts for 41% of new deliveries. Boeing revised downward its projection for freighters; still, the world freighter fleet is projected to nearly double from 1,740 aircraft today to 3,200 at the end of the forecast period. MRO (maintenance, repair and overhaul) is expected to grow 4% annually, to \$2.4 trillion.

8. **Court Upholds New Fare Advertising Rule.**

See Section X, Item 7.

AIRPORTS

1. **DOT Names Accountability Officer to Monitor MWA.**

DOT Secretary Ray LaHood appointed an accountability officer to monitor the Metropolitan Washington Airports Authority (MWA), the *Washington Post* reported. MWA oversees Dulles and Reagan National airports, the Dulles Toll Road and construction of the Silver Line rail extension to Dulles. Kimberly Moore, a DOT attorney, will “help ensure that the organization’s policies and practices meet high standards of ethics and fiscal responsibility,” said LaHood. Moore will report directly to LaHood. A permanent Inspector General to ensure independent scrutiny of MWA operations was proposed by Congressman Frank Wolf (R-Va.), after a DOT IG report indicated questionable travel and entertainment expenses by Board members and contracting issues.

2. **Miami Opens \$180 Million International Arrivals Facility.**

Miami opened a three-level, 400,000-square-foot Federal Inspection Service, which will serve American Airlines and carriers in concourses D, E and F. The \$180 million wing has 72 passport control lanes that can process 2,000 passengers per hour, and six dedicated Global Entry lanes for travelers registered with the U.S. Customs and Border Protection program. The second-level baggage claim area will have 10 carousels. A recently completed \$220 million baggage system in Concourse D can move up to 40,000 bags per day; the system has 22 explosive detection machines and 12 miles of conveyor belts and scanners.

3. **Bradley to Begin Expansion.**

An expansion plan for Bradley International includes a new 19-gate terminal to replace the closed Terminal B, which was the oldest terminal at any major U.S. airport, and a parking garage. Phase one of the project would cost an estimated \$650 million, using federal and state funds. The state DOT is overseeing early stages of the project, but the newly formed Connecticut Airport Authority is expected to assume control. Bradley currently has 23 gates on two concourses of Terminal A. The proposed new terminal will include two gates for widebodies.

4. **Aerostar to Operate, Upgrade San Juan Airport.**

Puerto Rico selected Aerostar Airport Holdings to operate Luis Munoz Marin International for 40 years as a public-private partnership (PPP). Aerostar, a 50-50 joint venture between infrastructure investment firm Highstar Capital and Mexican airport management firm ASUR, plans to invest \$1.4 billion in capital improvements over the course of the lease. The airport handles 8.5 million passengers per year and is served by 14 airlines.

5. UK Airport News.

UK airport operator BAA said it will take its case to the Supreme Court of the United Kingdom after the Court of Appeal upheld a Competition Commission ruling forcing it to sell London Stansted. BAA also owns Heathrow and Southampton in England, and Glasgow and Aberdeen in Scotland, but had to sell Edinburgh and Gatwick after a ruling that it exerted a dominant hold on airports in Scotland and the southeast of England. . . . A UK Department for Transport draft aviation policy framework proposes liberalization to encourage foreign airlines to develop routes from airports other than Heathrow; £500m toward a new rail link to Heathrow; and reduced airport impacts on local communities. The measures support limiting access to smaller aircraft to maximize existing capacity, and airport performance charters to establish service levels. A Civil Aviation Bill, expected to pass next year, would replace current mandatory five-year price caps for airports and require airports to invest in infrastructure and facilities. A separate call for evidence on how to maintain international connectivity and hub status is ahead. “While the UK dithers, our international competitors race ahead,” said Virgin Atlantic CEO Steve Ridgway; Richard Branson urged UK Prime Minister David Cameron to intervene and reappraise the government’s stance on aviation as soon as possible, including the ban on a third runway at Heathrow. . . . A finalized Gatwick master plan addresses the impact of growth on road and rail and aircraft noise. Gatwick handles 34 million passengers/year, with 40 million expected by 2021/22 and full capacity of 45 million by 2030, and is prohibited from building a second runway.

6. Dubai Lines Up \$1.75 Billion in Loans for Airport Expansion.

Dubai Duty Free (DDF) lined up \$1.75 billion in loans for expansion of Dubai International. The six-year syndicated credit facility will be provided by a group of 26 international, regional and local banks. DDF is owned by government-run Investment Corporation of Dubai, which also controls Emirates Airlines.

7. Kunming Changshui International Opens.

The \$3.6 billion Kunming Changshui International Airport, in southwest China's Yunnan province, has replaced 90-year-old Wujjaba. Changshui will be a hub for southeast and west Asia, said operator Yunnan Airport Group; 17 airlines, including seven foreign airlines, with 303,000 flights per year, will handle 38 million passengers and 950,000 tonnes of cargo initially, and 65 million passengers and 2.3 million tonnes of cargo long-term.

II. **SECURITY AND DATA PRIVACY**

1. **TSA PreCheck Expands.**

The Transportation Security Administration (TSA) announced the start of PreCheck operations at Charlotte Douglas International for select US Airways frequent flyers and members of the U.S. Customs and Border Protection (CBP) Trusted Traveler program; American, Delta and United also have PreCheck at CLT. PreCheck operations also started at Tampa International for select Delta frequent flyers and at George Bush Intercontinental for select United frequent travelers and members of CBP Trusted Traveler programs. Operations expanded at Los Angeles International to Terminal 7 with United Airlines; Delta and American already participate at LAX. The passenger prescreening initiative is now available in 19 airports for Alaska, American, Delta, United and US Airways frequent travelers.

2. **Known Crewmember Program to Extend to Flight Attendants.**

TSA will expand the Known Crewmember (KCM) initiative to include flight attendants traveling from U.S. airports. The program currently offers expedited security screening to verified U.S. airline pilots only. Flight attendants will receive KCM benefits at as many as 31 airports by the end of the year, and TSA said it could take up to 12 months for air carriers and their service providers to make necessary system modifications and fully develop, test, and implement this change to the KCM program.

3. **Sacramento to Use Private Security Screeners.**

TSA granted Sacramento International preliminary permission to employ private screeners at security checkpoints in place of federal employees. Montana's Bozeman Yellowstone International also has applied. San Francisco, Kansas City and 14 smaller airports currently participate in the federal Screening Partnership Program.

4. **EU Will Not End LAG Ban in April.**

The European Commission (EC) will not remove restrictions on the screening of liquids, aerosols and gels (LAGs) at EU airports in April 2013, as planned, since, "the risk posed by liquid explosives to civil aviation is still significant." Instead, a phased approach would allow passengers to carry screened duty free LAGs in January 2014, followed by "proposals for subsequent phases to achieve the final objective of screening all LAGs at the earliest possible date." The proposed postponement is supported by airports, said ACI Europe: "As much as we would like to get rid of the existing restrictions on the carriage of LAGs, the trials carried out at several European airports have shown that the

technology allowing for that just isn't there yet. Further progress is needed to develop more mature and robust technology fully geared for operational reality and effectively improving the passenger experience." . . . A joint statement signed by the EC, TSA and European and American aviation stakeholders confirms their intention to cooperate toward screening of LAGs at EU/US airports. "The sides intend to find a comprehensive risk-based security solution which will facilitate the lifting of the restrictions to LAGs as soon as practical, maintaining security and facilitating passengers and trade in international civil aviation."

III. **E-COMMERCE AND TECHNOLOGY**

1. **Online Agencies Opting for American's Direct Connect.**

Brazilian travel technology company Wooba agreed to use American Airlines' direct connect link to "add value for our consolidator, tour operator and agency clients." A Wooba client recently issued the first Electronic Miscellaneous Document (EMD) by a travel agency in Latin America, using American's direct connect capability. Among other agencies adopting American's direct connect link is BookIt.com, the largest privately held online travel agency in North America. . . . Priceline.com is the first major online travel agency to sell American's preferred seats.

2. **Travelocity's Online Travel and Expense Management.**

Travelocity now provides online travel and expense management for small business, using booking technology of nuTravel Technology Solutions and expense management technology of Certify, LLC. With Travelocity Business Express, travelers can access stored frequent flyer information, 24/7 travel agent support, unused ticket tracking, seat selection at booking, travel discounts and mobile travel tools.

3. **Hipmunk Adds Features for Business Traveler.**

The travel site that gained fame with its "agony index," has added features meant to aid those who book trips for business travelers. Hipmunk Business Class includes integration with calendars, maps showing hotel vis-à-vis scheduled meetings, and travel preferences. The fee is \$10 per month, after a 60-day trial period.

4. **Sabre Platform Books High Definition Video Conference Rooms.**

Sabre is launching its virtual meeting platform to corporations and travel agencies through GetThere and the Sabre Red Workspace. The high definition video conference solution will also be available to other travel and third-party distribution channels including global distribution systems, travel management companies, online booking tools, and directly on the Internet.

5. **Ancillary Revenue at \$22.6 Billion in 2011.**

Ancillary revenue grew to \$22.6 billion last year among 50 airlines worldwide that disclose such activity, reports IdeaWorksCompany, in the Amadeus Review of Ancillary Revenue Results. United, Delta, American, Qantas/Jetstar, US Airways, easyJet, Ryanair, Emirates, TAM and Alaska Air topped the list, with 75% of the total disclosed for 2011. In the first IdeaWorks ancillary

revenue report, issued in 2007, 23 airlines disclosed activity worth \$2.45 billion.

6. Corporations Reimburse Employees for Fewer Airline Fees.

Corporations are reimbursing travelers for fewer ancillaries compared to last year, according to the annual GetThere Corporate Travel Benchmark Survey of 40 leading companies. Reimbursement for onboard food and beverage dropped 11 points to 42%, while WiFi dropped one point to 50%; 78% reimburse for a first checked bag compared to 95% in 2010. “Companies are likely negotiating away some ancillary fees and establishing firm travel policies around what they will pay for,” said GetThere.

7. Business Travelers Want Improved WiFi Experience.

Mobile functionality, WiFi accessibility and push-travel notifications are in high demand, according to a new FlightView survey of 600 business travelers. Only 28% were satisfied with their onboard WiFi experience, 32% like WiFi service at airports and 36% want to be able to use mobile devices to book upgrades and rental vehicles. FlightView provides real-time flight information solutions for the aviation and travel industries.

IV. ENERGY AND ENVIRONMENT

1. Fuel Bill for Global Airline Industry.

The average price of aviation jet fuel, as of July 13, was \$119.6/barrel, up 5.6% on the month and down 9.9% year-on-year, reports the International Air Transport Association (IATA). Fuel price average for 2012 was \$128.5/barrel.

2. ICAO: Progress on CO2 Standard for New Aircraft.

The International Civil Aviation Organization (ICAO) Committee on Aviation Environmental Protection agreed on a metric to define a carbon dioxide (CO₂) standard for new aircraft. The acceptance paves the way for ICAO formally to adopt a standard, expected to be fully developed by the end of 2013. IATA and Airlines for America (A4A) applauded the milestone.

3. U.S. Hosts Meeting of EU ETS Opponents.

The U.S. State Department and DOT hosted a meeting in Washington of nations opposed to the EU Emissions Trading Scheme (ETS), to try to accelerate efforts within ICAO to find a solution acceptable to all sides. At a February meeting in Moscow, the countries, known as the “coalition of the unwilling,” agreed on retaliatory measures against the EU; including barring airlines from participating in ETS, lodging a formal complaint with ICAO, and imposing retaliatory levies on EU airlines. . . . ICAO is considering three market-based measures to address emissions, to be presented at the March 2013 ICAO Assembly; they are global carbon offsetting, a revenue-generating mechanism, and cap and trade emissions trading. . . . EC President José Manuel Barroso, EU Climate Commissioner Connie Hedegaard and ICAO President Roberto Kobeh held talks in Brussels regarding ETS. . . . Hedegaard published proposals to strengthen the carbon market that include adjusting the auction timetable; implementation would artificially inflate the price of carbon allowances, said Association of European Airlines.

4. New U.S. Government Investment in Advanced Biofuels

The Obama Administration will invest up to \$30 million in a public-private partnership to produce commercial-scale advanced drop-in biofuels, as well as \$32 million for early-stage efforts to advance biofuel technology.

V. U.S. CONGRESS

1. Bill Would Require Airlines to Seat Families Together.

Legislation to help keep families seated together on commercial flights was introduced by Jerrold Nadler (D-NY), a member of the House Transportation and Infrastructure Committee. The Families Flying Together Act of 2012 would require DOT to direct carriers to establish such a policy and post it on their websites. Senator Charles Schumer (D-NY) called for airlines to similarly accommodate families with young children in a May letter to A4A.

2. Senate Hearing on Global Competitiveness of Aviation Industry.

The Senate Aviation Subcommittee held a hearing to address competition issues facing the U.S. aviation industry, including workforce development, regulatory issues, and access to foreign markets. In his testimony, A4A President and CEO Nicholas Calio said U.S. airlines have long operated under a tax, regulatory and infrastructure environment that makes it increasingly difficult to sustain profitability and compete globally. He cited a risk of U.S. airlines “increasingly shifting to feeding foreign airlines at our gateways, rather than expanding their flying of lucrative international routes,” and urged the Senate to support a National Airline Policy that would address the rising tax burden, reduce the industry’s regulatory burden, expedite implementation of a satellite-based air traffic management system, expand access to global markets and enable the U.S. airline industry to attract investment.

3. Senate Hearings on Homeland Threats.

Cyber attacks on the transportation system were among a range of potential threats to the United States described by security experts, at the first of a series of hearings before the Senate Homeland Security and Governmental Affairs Committee. “Attacks from cyberspace by rival nations, terrorists, criminal gangs and individual hackers are already costing us billions of dollars,” said Committee Chairman Joe Lieberman (ID-Conn.), who urged Congress to “pass cybersecurity legislation now, before an attack occurs.” He and Ranking Member Susan Collins (R-Maine), along with Senators Jay Rockefeller (D-W.Va.) and Dianne Feinstein (D-Calif.), introduced the Cybersecurity Act of 2012 to establish minimum cybersecurity standards for the nation’s most critical networks. . . . In a second hearing, a panel of homeland security leaders told the Committee that stronger, more integrated management and operations rank high among objectives the Department of Homeland Security must accomplish to better fulfill its mission; since operational coordination, acquisition management, financial management, and IT management are splintered among the 22 agencies and offices that were

incorporated into the Department when it was formed in 2003. In its second decade, DHS “will have to be as agile as our enemies,” said Lieberman, and may have to cut back in areas less relevant to the threat and “invest that money in programs to meet the new threats that come along.” Witnesses noted that DHS has made substantial progress in some areas, including international border screening and enlisting the general public in prevention via the See Something, Say Something program.

4. **Groups Want CBP Resources Focused on U.S. Gateway Airports.**

In a joint letter to the Senate Homeland Security Subcommittee, A4A, Air Line Pilots Association and other groups objected to a DHS spending proposal, which would allow foreign governments to pay for preclearance facilities at international airports, “regardless if they are served by U.S. airlines and without consideration to where the greatest need for Customs and Border Protection (CBP) staffing exists.” The groups want Congress to focus limited CBP resources “on better serving U.S. gateway airports rather than creating a new pay-to-play scheme that diverts funds overseas and puts U.S. jobs at risk.” They cited “significant unintended consequences for national security as well as the competitiveness of the U.S. airline industry,” if “private or third parties fund a government function.”

5. **House Hearing Challenges the Status Quo at TSA.**

At a hearing on “Challenging the Status Quo at TSA: Perspectives on the Future of Transportation Security,” Mike Rogers (R-AL), Chairman of the House Transportation Security Subcommittee, said, “Giving up on TSA without having something better to fill its place is not an option,” but “letting TSA carry on the way it has for the last 11 years is equally not an option.” Rogers called the hearing a chance to have an open discussion about meaningful reform at TSA, building upon the success of PreCheck and the private-sector screening program. In their testimony, former government officials suggested giving local TSA airport managers more authority to intervene when children or elderly passengers are singled out for pat downs, providing more training for those managers, and use of more private company screeners. . . . At a separate hearing, the Committee heard testimony from TSA and Immigration and Customs Enforcement on how they ensure proper vetting of foreign nationals enrolling in U.S. flight schools. A report by the Government Accountability Office (GAO) notes weaknesses in the Alien Flight Student Program (AFSP) process. For instance, AFSP is not designed to determine whether a foreign flight student entered the country legally; thus, a foreign national can be approved for training through AFSP after entering the country illegally.

6. Hearing Reviews Cost-Effectiveness of FAA's Contract Tower Program.

The House Aviation Subcommittee held a review of FAA's Contract Tower Program, in which the private sector provides air traffic control services at low activity airports. A 2003 audit by the DOT Inspector General (IG) demonstrated cost-effectiveness of the program; the most recent audit determined that contract towers had a lower number and rate of reported safety incidents than similar FAA towers, and provided air traffic services to low-activity airports at lower costs than the FAA could otherwise provide. The IG determined that the average contract tower costs roughly \$1.5 million less to operate than a comparable FAA tower, due largely to lower staffing and salary levels. The 30-year old program operates at 250 airports in over 45 states, said Subcommittee Chaired Tom Petri (R-WI); contract towers handle 28% of all U.S. air traffic control tower aircraft operations but account for just 14% of FAA's overall tower operations budget. The IG urged FAA to enhance oversight of the program to ensure continued safety, including implementing a voluntary safety incident reporting program, implementing regular safety reviews, and improving agency oversight over contractual aspects.

VI. BILATERAL AND STATE DEPARTMENT NEWS

1. U.S. Initials Open Skies Pacts With Sierra Leone, Suriname.

The United States initialed texts of open skies agreements with Sierra Leone and Suriname. Each agreement will be applied on the basis of comity and reciprocity pending entry into force.

2. DHS Secretary in Brazil, Dominican Republic.

U.S. officials, including Secretary of Homeland Security Janet Napolitano, met with their counterparts in Brazil to discuss joint efforts to enhance aviation and global supply chain security and facilitate legitimate trade and travel. Agreements signed include a Joint Statement on Global Supply Chain Security, a Statement of Intent to establish a Visa Waiver Program (VWP) Working Group, and a Joint Statement of Intent on Civil Aviation Security. Similar meetings in the Dominican Republic resulted in the signing of a Joint Statement of Intent on Aviation Security and a Joint Statement on Global Supply Chain Security.

3. U.S. Hosts Meeting of EU ETS Opponents.

See Section V, item 3.

VII. EUROPE AND AFRICA

1. US Airways, Croatia Airlines to Code Share.

US Airways and Croatia Airlines received approvals to code share from the Croatian Civil Aviation Agency and the U.S. DOT. US Airways customers will be able to connect to Zagreb on Croatia Airlines flights from Amsterdam, Brussels, Frankfurt, London Heathrow, Munich and Zurich. Croatia Airlines will add its code on US Airways flights from Philadelphia to Cleveland, Detroit and St. Louis. The carriers intend to expand their relationship to include Dubrovnik and Split flights.

2. Colin Marshall Dies.

Colin Marshall has died. He was British Airways CEO from 1983 to 1995 and Chairman from 1993 to 2004, and a founder of oneworld In other news, British Airways will launch three weekly Boeing 777 flights to Las Vegas from Gatwick on October 29, bringing weekly total from London to ten, including service from Heathrow.

3. Air France Cabin Crew Rejects Voluntary Redundancy Plan.

Two out of three unions representing cabin crew voted against Air France proposals to rule out compulsory job cuts, and management said it is revoking their collective agreements and preparing unilateral measures. The company's Transform 2015 plan was accepted by ground staff; results of a similar referendum among pilots are expected to be announced in mid-August. . . . Air France-KLM reported a second quarter net loss of €895 million, including €368 million in restructuring costs and a €372 million accounting charge.

4. Aer Lingus Rejects New Ryanair Bids; Code Shares With Etihad.

Aer Lingus rejected Ryanair's latest bids, and said the UK Competition Commission is likely to require Ryanair to sell its current 29.82% stake. The Irish government holds 25% of Aer Lingus and Etihad holds 3%. . . . Etihad and Aer Lingus signed an interline and code share agreement. Etihad will place its code on Aer Lingus flights between Dublin, Manchester and Heathrow and destinations in the UK, Portugal, the Netherlands and the U.S. Aer Lingus will place its code on Etihad flights between Abu Dhabi and Dublin, and to points beyond Abu Dhabi.

5. Cargolux CEO Resigns, Named Luxembourg High Commissioner.

Frank Reimen resigned as President and CEO of Cargolux, following appointment as High Commissioner for National Protection by the

Luxembourg government, effective August 1, 2012. He held the Cargolux position since January 2011. An executive search has been initiated.

6. **Hainan, Ghana Launch Africa World Airline.**

Africa World Airline, a private joint venture between a Ghanaian firm, Strategic African Securities Finance Group, and Hainan Airlines of China, will start operations in September with two aircraft. "The \$50 million enterprise, with a 24-city business plan, will go regional from take off, combining domestic operations with flights to the West coast," said the Ghanaian government, and "aspires to fly to destinations outside Africa."

7. **Airbus to Build Its First U.S.-Based Production Facility.**

Airbus will establish a manufacturing facility in the United States to assemble and deliver A320 Family aircraft. Located at the Brookley Aeroplex in Mobile, Alabama, it will be the company's first U.S.-based production facility. Construction will begin in summer 2013, assembly in 2015, and first deliveries in 2016. Airbus anticipates the facility will produce 40 to 50 aircraft per year by 2018.

8. **Farnborough News.**

Boeing and Airbus won \$52 billion in orders at the Farnborough International Airshow in the UK. Boeing's 396 orders and commitments included 150 planes for United Continental with total list price of \$14.7 billion, and orders valued at \$7.2 billion from Steven Udvar-Hazy's Air Lease Corp. Boeing's fuel-efficient 737 Max jet, set for first delivery in 2017, was included in both orders. Airbus received 115 commitments worth \$16.9 billion. Cathay Pacific placed 10 new orders for the A350-1000 and converted 16 previously ordered A350-900s to the new larger variant. Bombardier wrote orders worth \$3.27 billion. Commercial Aircraft Corporation of China (COMAC) signed a memorandum of understanding with International Airlines Group (IAG) for its planned C919.

9. **Middle East Airlines Joins SkyTeam.**

See Section IX, item 2.

10. **ANA to Add Swiss, Austrian to Lufthansa JV.**

See Section IX, item 4.

VIII. ASIA/PACIFIC AND MIDDLE EAST

1. Hainan to Offer Chicago Flights.

Hainan will be the first Chinese carrier to fly the Beijing-Chicago route, having secured DOT approval to launch four weekly flights next year with Boeing 787 Dreamliners or equivalent long haul aircraft. Hainan code shares with American Airlines on American flights between Chicago and Beijing and Shanghai, Los Angeles and Shanghai, and to 12 other U.S. cities; and on Hainan flights between Seattle and Beijing and beyond Beijing. . . . In other news from China, the State Council issued a plan to create a safe, convenient and highly efficient modern civil aviation industry by 2020. The sector is struggling with uneven air space allocation, slow progress in infrastructure construction, poor quality of domestic airlines and poor management, said the government. Passenger traffic increased 9.5% in 2011, and 10% growth is anticipated this year.

2. Middle East Airlines Joins SkyTeam.

Beirut-based Middle East Airlines-Air Liban (MEA) became the 17th member of SkyTeam. MEA flies to 30 destinations in Africa, the Middle East and Europe with a modern Airbus fleet.

3. JetBlue Partners With Emirates, Cathay Pacific.

JetBlue and Emirates launched a frequent flyer partnership on July 1, and intend to introduce a redemption agreement in February 2013. They earlier announced a code share agreement that connects their networks via New York Kennedy. . . . JetBlue and Cathay Pacific signed an interline agreement for transfers between New York Kennedy and Los Angeles International and onward to JetBlue destinations including Boston, Charlotte, Pittsburgh, Fort Lauderdale, Orlando, Tampa and San Juan, Puerto Rico.

4. ANA to Add Swiss, Austrian to Lufthansa JV.

All Nippon Airways (ANA) filed an application with the Japanese Ministry of Land, Infrastructure, Transport and Tourism for antitrust immunity to add Lufthansa units Swiss and Austrian to its Japan-Europe joint venture with Lufthansa. ANA has a transpacific joint venture with United.

5. Etihad Cleared to Increase Virgin Australia Stake.

Etihad said it received approval from the Australian government to increase its 4.99% equity stake in Virgin Australia to a maximum of 10%. A partnership between the two airlines includes code sharing, joint marketing initiatives and

reciprocal frequent flier programs. Together, they operate 24 flights per week between Australia and Abu Dhabi.

6. AirAsia to Acquire Indonesia's Batavia.

Malaysia-based budget carrier AirAsia will buy Indonesia's Batavia Air for \$80 million in cash, subject to Indonesian regulatory approval, by second quarter next year. To comply with Indonesian ownership law, AirAsia will hold 49% of Batavia, while 51% will be held by its Indonesian unit Fersindo, which also holds 51% of Indonesia AirAsia. Financially troubled Batavia flies domestically and to international destinations such as Jeddah, Singapore and Guangzhou, with a fleet of 33 planes. AirAsia CEO Tony Fernandes said the acquisition will "accelerate our growth plans in one of the most exciting aviation markets in Asia." Indonesia's domestic airlines carried more than 60 million passengers last year, and Indonesia Air Carriers Association predicts a 52% increase by 2015, when a Southeast Asian open sky policy is due to come into effect. AirAsia has subsidiary budget carriers in Indonesia, the Philippines and Thailand, and is planning one that will serve the Japanese market.

7. First Flight for Thai Smile.

Thai Airways' launched Thai Smile with an Airbus A320 flight from Bangkok Suvarnabhumi to Macau. The short-haul carrier, which will provide connections to Star Alliance member flights, will operate to destinations, with a focus on ASEAN, China and India.

8. Royal Jordanian Appoints New President/CEO.

Amer Hadidi was named President/CEO of Royal Jordanian, following the resignation of Hussein Dabbas. Hadidi has served as Secretary General of Jordan's Ministry of Transport and on the Royal Jordanian Board of Directors.

9. Aer Lingus Rejects New Ryanair Bids; Code Shares With Ethiad.

See Section VIII, item 4.

10. Hainan, Ghana Launch Africa World Airline.

See Section VIII, item 6.

11. Hawaiian to Open New Zealand Gateway.

See Section X, item 4.

IX. AMERICAS

1. Deadline for AMR Bankruptcy Plan Extended to December 28.

American Airlines parent AMR received approval from a bankruptcy judge to extend the deadline for filing its Chapter 11 reorganization plan to December 28. . . . Suitor US Airways became an AMR creditor, paying \$600,000 for AMR bonds to enable participation in the bankruptcy case; American CEO Tom Horton said the “meaningless ploy” gives US Airways “no special position with the court or in this process.” American has identified potential merger partners and is evaluating other options, including minority investment from a private-equity firm or another airline. . . . Addressing the National Press Club in Washington, US Airways CEO Doug Parker said a merger would solve American’s “network challenges,” which stem from a focus on five large cities, leaving “a large hole” in the East Coast region. He does not believe a merger would raise competition concerns, and said US Airways has had discussions with officials of the Justice Department’s antitrust division and members of Congress. Parker was joined at the head table by leaders of American’s pilot, flight attendant and transport worker unions, who have negotiated tentative agreements with US Airways that would take effect if there is a merger during bankruptcy proceedings. . . . Association of Professional Flight Attendants said it would send American’s latest contract offer to members for a ratification vote; AMR also has reached tentative pacts with pilots and some Transport Workers Union groups; if labor groups approve AMR offers, they avoid potential termination of contracts by the bankruptcy judge. . . . “We would be supportive of any option that strengthens American Airlines, our transatlantic joint business and the oneworld alliance,” said Willie Walsh, in a speech to the International Aviation Club in Washington; the CEO of International Airlines Group (IAG), parent company of British Airways and Iberia, told reporters IAG would invest in a restructured American, if invited. . . . American reported second quarter revenue of \$6.5 billion, up 5.5% year-over-year and the highest quarterly revenue in company history.

2. Delta Pilots Ratify New Contract; Comair to Cease Operations.

Delta pilots ratified a collective bargaining agreement that took effect July 1 and will run through December 31, 2015. The contract caps the number of 50-seat jets at 125, among other provisions, and allowed Delta to finalize an agreement with Southwest and Boeing to lease 88 B-717s, currently in service at Southwest subsidiary AirTran. Delivery begins next year, with 16 scheduled to enter Delta’s fleet in 2013; an additional 36 will be delivered in 2014, and the remaining 36 in 2015. . . . Delta announced its subsidiary Comair will cease operations after September 29, due to the reduction of regional jets in its network.

3. United Continental Pilots Vote to Authorize Strike.

Pilots at United and Continental authorized a legal withdrawal of service, after two years of negotiating a post-merger joint contract. If the National Mediation Board concludes that further mediated negotiations will not produce an agreement, a strike could ensue after a 30-day cooling-off period.

4. Hawaiian to Open New Zealand Gateway.

Hawaiian will begin Boeing 767-300ER nonstops between Honolulu and Auckland three days weekly beginning March 13, 2013, and will be the only U.S. carrier flying into Auckland. In other news, Hawaiian Holdings signed a Letter of Intent to acquire turboprops with the aim of establishing a subsidiary carrier to serve routes not currently in Hawaiian's neighbor island system. The carrier also implemented a new fare structure for neighbor island travel that lowers ticket prices across all classes.

5. Spirit Expands Service.

Spirit is expanding service at Dallas/Fort Worth, adding nonstops to Baltimore/Washington, Houston, Oakland, Los Angeles, Fort Myers, New Orleans, Minneapolis-St. Paul, Philadelphia, Latrobe/Pittsburgh and Cancun. Spirit filed with DOT to begin nonstops to Los Cabos, Mexico from DFW and San Diego. In September, Spirit will end its flights between Washington National and Fort Lauderdale and offer the frequency from Baltimore-Washington; Southwest purchased Spirit's DCA slots for service to St. Louis. Spirit reported second quarter net income, excluding special items, increased 35.4% to \$35.3 million; total operating revenue was \$346.3 million, a 25.5% increase over Q2 2011 on a capacity increase of 16.5%; passenger flight segment volume grew 18.8%.

6. Virgin America Offers Virgin Galactic Space Flight.

Virgin America is offering a sub-orbital space flight on Virgin Galactic to frequent flyers who earn the most status points between August 8, 2012 and August 7, 2013. The promotion coincides with the airline's fifth anniversary. Virgin Galactic, owned by Sir Richard Branson's Virgin Group and aabar Investments PJS, is preparing for commercial operations, which will be based at Spaceport America in New Mexico.

7. Court Upholds New Fare Advertising Rule.

The U.S. Court of Appeals in Washington upheld the DOT rule requiring airlines and ticket agents to show more prominently the total price including all taxes and fees the first time a price is advertised. The rule had been challenged by Allegiant, Spirit and Southwest, which claimed DOT arbitrarily abandoned its long-held policy permitting airlines to advertise their base fares

so long as taxes and fees were prominently shown and the total price provided before purchase. The airlines also argued the rule violated their First Amendment right to free speech. Airlines are complying, but voiced disagreement with the decision: "We continue to believe that this rule enables the government to effectively hide the ball regarding how high airfare taxes are," said Airlines for America (A4A). The court also upheld a requirement that airlines hold a reservation without payment or penalty for 24 hours after the reservation is made, and another that prohibits baggage price increases after initial ticket sale. DOT is considering other consumer protection measures for future rulemaking, including requiring that all airline optional fees be disclosed wherever consumers can book a flight, strengthening disclosure of code share flights, and requiring additional carriers to file on-time performance reports.

8. American Gains Authority to Increase Service to Brazil.

American Airlines received approval from U.S. and Brazilian authorities to launch 17 additional frequencies between the two countries this fall. American will add a second daily New York Kennedy-Sao Paulo flight; convert daily Miami-Salvador-Recife to five weekly nonstops between Miami and both Recife and Salvador; and increase one daily nonstop between Miami and Rio de Janeiro to two daily.

9. Aeromexico to Place \$11 Billion Aircraft Order.

Grupo Aeromexico signed a letter of intent with Boeing to purchase 90 narrow body B-737-8 MAX airliners, with delivery to begin in 2018, and 10 wide body B-787-9 Dreamliners, with first delivery scheduled for next summer; total value is \$11 billion. Last year Aeromexico ordered 10 Embraer 190s and 10 Boeing 707-8 NGs. The SkyTeam member carried 14 million passengers in 2011, with a 6.1% increase in first half 2012, and offers 600 daily flights to 45 domestic and 32 international destinations.

10. US Airways, Croatia Airlines to Code Share.

See Section VIII, item 1.

11. Hainan to Offer Chicago Flights.

See Section IX, item 1.

12. Middle East Airlines Joins SkyTeam.

See Section IX, item 2.

13. JetBlue Partners With Emirates, Cathay Pacific.

See Section IX, item 3.