



WASHINGTON AVIATION SUMMARY

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The Kirstein & Young law firm specializes in representing U.S. and foreign airlines, airports, leasing companies, financial institutions and aviation-related companies before U.S. Government agencies, Congress, the courts and in commercial and financing matters.

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I. REGULATORY NEWS

1. U.S. to Improve Visa Application Process.

U.S. President Barack Obama announced visa process improvements and expansion of the Global Entry program for expedited travel, “in order to create jobs and spur economic growth in the United States, while continuing to protect our national security.” The executive order calls for an interagency process for coordinating implementation of regulatory improvements and evaluation of legislative proposals to enhance and expedite travel to and arrival in the United States by foreign nationals. It also calls for a plan to increase non-immigrant visa processing capacity in China and Brazil by 40% this year, ensure that 80% of non-immigrant visa applicants are interviewed within three weeks of receipt of application, expand the Visa Waiver Program and travel by nationals of program participants, and expand reciprocal recognition programs for expedited travel, such as Global Entry. An interagency Task Force on Travel and Competitiveness was established to develop the National Travel and Tourism Strategy, which will recommend new policies and initiatives to promote travel opportunities throughout the United States, with the goal of increasing U.S. market share of worldwide travel, including obtaining a greater share of long-haul travel from Brazil, China, and India. Airlines for America (A4A) welcomed the effort, saying “An improved visa process is a key component of a much-needed national airline policy [and] will help to expand U.S. access to rapidly growing global markets.” But Republican Senator Chuck Grassley, ranking Republican on the Judiciary Committee, said the proposal “flies in the face of the law we’ve had on the books because of 9/11; only two of the 19 hijackers were interviewed by consular officers, so Congress mandated that all visa applicants be interviewed, with very few exceptions.”

2. New Airline Passenger Protections Take Effect.

New consumer protection regulations went into effect requiring both U.S. and foreign airlines and ticket agents to include all mandatory taxes and fees in published fares (the full-fare rule), and to disclose baggage fees upon booking; baggage fee information must be included on all e-ticket confirmations, and for most trips the same baggage allowances and fees must apply throughout a passenger’s journey. Among other provisions, passengers can hold a reservation without payment or cancel a booking without penalty for 24 hours after the reservation is made, if they make the reservation one week or more prior to a flight’s departure date. Airlines are required to promptly notify passengers of flight delays of over 30 minutes and cancellations and

diversions, and generally will be prohibited from increasing ticket prices after purchase. The U.S. Department of Transportation (DOT) said it is reviewing other airline consumer protection measures for possible future rulemaking, including requiring that all airline optional fees be disclosed wherever consumers book a flight, strengthening disclosure of code share flights, and requiring additional carriers to file on-time performance reports.

Meanwhile, an industry wide challenge to three of these consumer protection provisions continues. Spirit and Allegiant airlines challenge the full-fare rule, the rule requiring 24-hour holds on tickets, and a provision that prohibits airlines from increasing prices of optional services after purchase of a ticket. They were joined by Southwest on the fare rule, the International Air Transport Association (IATA) and Airlines for America. Briefs for both the airlines and government have been filed. The airlines argue that the rules exceed the scope of DOT authority under the Airline Deregulation Act and are arbitrary and capricious due to a lack of evidence that they address unfair or deceptive practices. The Department claims the rules are a modest and reasonable response to consumer problems. Largely as a result of issues surrounding implementation of the rule prohibiting price increases on optional products that surfaced in this proceeding, DOT announced it will suspend enforcement of the rule except with respect to fees for carry-on and the first and second checked bags.

3. DOT Fines Airlines.

DOT fined AirTran (\$60,000), Asiana (\$70,000), LOT Polish Airlines (\$60,000), Icelandair (\$50,000) and Finnair \$35,000) for violating rules prohibiting deceptive price advertising in air travel in 2011. . . . Alitalia was assessed a civil penalty of \$80,000 for violating the Montreal Convention by limiting reimbursement for baggage lost or delayed on flights to and from the United States to between \$50 and \$75 per day of delay, regardless of the amount of expenses claimed by passengers or whether they provided original receipts documenting their expenses.

4. Authorities Approve American, LAN Ecuador Code Share Agreement.

American Airlines and LAN Ecuador received approval from DOT and Ecuadorean authorities for authorization to begin code share cooperation. The agreement allows American to code share on LAN Ecuador flights from New York Kennedy to Guayaquil and Miami to Guayaquil and Quito, and on several routes within Ecuador. LAN Ecuador will code share on American's flights from Miami to Guayaquil and Quito and between Miami and Kennedy. LAN and American are oneworld partners.

5. FAA Announces Safety Ratings for Curacao, Sint Maarten

Curacao and Sint Maarten do not comply with international safety standards set by the International Civil Aviation Organization (ICAO), said the Federal Aviation Administration (FAA), based on an assessment of each country's civil aviation authority. Both were assigned an International Aviation Safety Assessment (IASA) Category 2 rating, which means their air carriers will not be allowed to establish new service to the United States, but can continue existing service. Both countries were previously part of the Netherlands Antilles, which had a Category 1 rating.

6. DOT Air Travel Consumer Report for November.

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

	Nov. '11 / '10	Oct. '11	Full Year				
			2010	2009	2008	2007	2006
On-time arrivals %	85.3 / 83.2	85.5	79.8	79.5	76	73.4	75.4
Cancellations %	0.7 / 0.7	0.8	1.76	1.39	1.96	2.16	1.71
Mishandled baggage*	2.72 / 2.91	2.71	3.99	3.91	5.26	7.05	6.73
<i>Consumer complaints:</i>							
Airline service	873 / 668	862	10,985	8,821	10,648	13,180	8,325
Disability-related	45 / 44	60	572	519	477	488	430
Discrimination**	9 / 11	15	143	131	115	99	114

Note: Airlines reported one tarmac delay of more than three hours on domestic flights and one of more than four hours on international flights in November.

* Reports per 1,000 passengers.

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

7. AIR Conference Now Part of A4A.

Integration of Airline Industrial Relations Conference (AIR Conference) into Airlines for America has been completed. AIR Conference was chartered as a nonprofit association by the industry in 1971 to facilitate inter-carrier exchange of information on negotiations and other employee relations, and was the only legally approved forum for joint study of labor policy matters of interest to scheduled carriers. A4A has formed a Labor and Employment council to strengthen and advance labor relations and employment interests of its member carriers and employees, and said it looks forward to "building on Air Conference's strong tradition of working collaboratively with the National

Mediation Board.” AIR Conference Robert DeLucia has joined A4A as Assistant General Counsel and Vice President of Labor and Employment.

8. November Airline Employment Rose 2.6%.

U.S. scheduled passenger airlines employed 389,361 workers in November, 10,026 or 2.6% more than in November 2010, reports DOT. The six network airlines employed 6,697 more workers, while employment was up 5.9% at the seven low-cost airlines and up 0.6% at the 17 regional airlines. Network airlines employed 67.6% of the scheduled passenger airline total in November, low-cost carriers employed 17.6% and regionals employed 13.6%. Delta had the highest employment among network airlines, Southwest among low-cost airlines, and American Eagle among regionals.

II. AIRPORTS

1. US Airways Expands Washington Reagan National Service

US Airways will expand service at Washington Reagan National Airport as a result of its slot transaction agreement with Delta. Eight of 11 new communities to be served, as of March 25, currently have no service to the airport. More routes will be added in July, when US Airways will add gates, build a second lounge and hire 125 airport customer and fleet service employees. US Airways will operate a reduced schedule at New York LaGuardia, but remain the third largest carrier there.

2. Houston's \$1 Billion Redevelopment Project Breaks Ground.

Houston Airport System, in partnership with United Continental Holdings, broke ground on a \$1 billion redevelopment project at George Bush Intercontinental. Phase One, to be completed in 2013, will create a \$160 million, 225,000 square-foot Terminal B south concourse to accommodate United's regional aircraft. The entire three-phase redevelopment project is planned over the next seven to 10 years, based on demand.

3. Runway Expansion Begins at Ft. Lauderdale-Hollywood.

A \$791 million project to expand a 5,276 foot runway at Ft. Lauderdale-Hollywood International to 8,000 feet has begun, with completion anticipated in 2014. The project will give the airport two parallel runways that can accommodate air carrier flights, increasing capacity from 84 flights per hour to 107. Without the runway expansion, delays could reach more than ten minutes per flight, said FAA, which intends to provide \$250 million in Airport Improvement Program funding over 12 years for the project.

4. Court Rules for Republic in DCA Slot Case.

Sun Country may have to give up its service from Lansing, Michigan to Reagan Washington National, which resulted from a DOT reallocation of Midwest Airlines landing rights. The U.S. Court of Appeals has found in favor of Republic Airways Holdings, which owned now-defunct Midwest and claims it intended to continue using the slots. The court said DOT ignored its own precedent of allowing slot transfers if they are part of a corporate acquisition or merger. DOT said it is studying the decision.

5. Howard Eng Named CEO of GTAA.

Howard Eng will succeed Lloyd McCoomb as President and CEO of Greater Toronto Airports Authority (GTAA). Eng, originally from Canada, has been

Hong Kong International's Executive Director of Airport Operations since 1995, and earlier was an Edmonton International executive.

6. Brazil Airport Auctions in February.

Brazil will hold a public auction for concessions of Guarulhos (20 years), Campinas (30 years) and Brasilia (25 years) on February 6, with participation open to both the Brazilian and international private sector. Since Brazil will host the 2014 FIFA World Cup and 2016 Olympics, concessionaires are required to initiate investments immediately. INFRAERO will be a minority shareholder (49%) and continue to operate 63 airports, which handle 67% of total passenger traffic.

7. Schiphol Plans €1 Billion Expansion.

Amsterdam Schiphol recaptured its ranking as Europe's fourth-largest airport in 2011, when it handled 49.8 million passengers, a 10.2% year-on-year increase, and moved 1.5 million tons of cargo; total movements rose by 8.8% from 386,319 to 420,245. Schiphol Group President and CEO Jos Nijhuis announced a €1 billion expansion, which will generate at least 10,000 additional jobs.

8. Spain Halts Madrid, Barcelona Airports Sale

Spain halted the sales of Madrid Barajas and Barcelona El Prat airports, which were expected to raise at least €5.3 billion. Six groups had expressed interest in bidding for Barajas and six for El Prat, and five groups were interested in both. Transport Minister Ana Pastor said current market conditions prevented the chance of attracting a large number of bids. A plan to sell a 49% stake in airport management group Aena was abandoned earlier.

9. Passenger, Freight Traffic at European Airports Weakening.

Traffic at European airports continued to weaken significantly in November, reports ACI Europe. Passenger traffic increased by 2.8%, compared with November 2010, while freight traffic decreased by 5.5%; movements were down 0.2%. Full 2011 figures remain positive for passenger traffic, but "the entrenched decrease for freight has already wiped out all previous growth for the year," said ACI Europe Director General Olivier Jankovec. "Prospects for 2012 are worrisome, with passenger traffic decreasing in 13 national markets as of November, compared to just four in September."

10. Study Concludes New EU Slot Rules "Will Leak Jobs Out of Europe."

In late 2011, the European Union (EU) announced a revision of "inefficient" airport slot rules. The new proposals would allow transparent trading of slots between airlines across the EU, supervised by national authorities; and

increase the slot utilization threshold from 80% to 85% and the length of the slot series from five to 10 for the winter season and 15 for the summer season. The EU estimated the changes would allow the system to handle 24 million more passengers a year, add €5 billion to the European economy and create 62,000 more jobs over the 2012-2025 period. Now, a new study released by European Regions Airline Association (ERA) and the European Business Aviation Association (EBAA) concludes that the EU impact assessment on slots was based on inaccurate analyses. “Any gains from changes in slot allocation rules are likely to benefit non-EU economies,” say the groups, and “would lead to job losses throughout Europe and be detrimental to Europe's air service connectivity, its economic and social well-being; particularly within the peripheral often disadvantaged regions of Europe.” ERA and EBAA are calling for the European Parliament and Council to reconsider some of the proposals “and will expose the failings to the regional and national representatives across Europe to ensure that the negative aspects of the proposed regulatory amendments are removed.”

11. EC Probing State Aid to Four Airports.

The European Commission (EC) is investigating financial arrangements between authorities and airports in Germany (Niederrhein-Weeze and Altenburg-Nobitz), France (Pau) and Sweden (Vasteras), as well as airline agreements with them, to ensure they meet competition rules and do not involve state aid.

III. **SECURITY AND DATA PRIVACY**

1. **Strategy for Global Supply Chain Security Unveiled at Davos.**

The U.S. Department of Homeland Security (DHS) unveiled the National Strategy for Global Supply Chain Security at the World Economic Forum in Davos. Secretary of Homeland Security Janet Napolitano said the U.S. and international partners in the public and private sector are working “to strengthen global supply chains to ensure that they operate effectively in time of crisis, recover quickly from disruptions, and facilitate international trade and travel.” In other news, 89 participating nations and international organizations in Program Global Shield have been sharing information since November 2010 about the export of 14 precursor chemicals used in Improvised Explosive Devices. As of January 2012, seizures of chemical precursors totaled over 62 metric tons and 31 arrests were made related to the illicit diversion of these chemicals. The program was launched by DHS with the World Customs Organization, the UN Office on Drugs and Crime and Interpol.

2. **DHS Awards Biometric Identity System Contract.**

DHS awarded Accenture Federal Services a 13-month, \$71 million contract to support the US-VISIT (U.S. Visitor and Immigrant Status Indicator Technology) program. Work will include increasing the number and types of biometrics used in identification and adding technical services and capabilities to support users of the system. A pilot program included in the contract will test facial and iris voluntary identification enrollment and matching.

3. **Additional Tests on Airport Scanners Possible.**

Following a report in the *Los Angeles Times* that the Transportation Security Administration (TSA) is considering additional tests on airport body scanners to determine radiation exposure, TSA said, “Based on all of our previous testing, as well as monitoring from independent sources, we’re confident that all of our equipment meets national safety standards, and is safe for all passengers and our workforce.” The *Times* story was prompted by a recent TSA Request for Information (RFI) about devices that measure radiation exposure. “To ensure that its employees are provided safe and healthful working environment, TSA is planning to perform radiation measurement using personal and area dosimeters at selected federalized airports,” said the RFI.

IV. E-COMMERCE AND TECHNOLOGY

1. Inflight Wi-Fi Revenues to Surpass \$1.5 Billion in 2015.

Inflight Wi-Fi revenues will surpass the \$1.5 billion mark in 2015, says market-analysis company In-Stat. Among research findings: onboard Wi-Fi use grew from 4% in 2010 to 7% last year; inflight broadband will rapidly transition to a competitive requirement in international markets as it did in the U.S.; providers are beginning to introduce new revenue opportunities, including additional passenger services (video and voice); combined, smartphones and tablets are now the predominant devices, in terms of percent of connects.

2. Sabre Survey: Regulation Harms Profitability, Revenue.

Government regulation regarding airport security, emissions and taxes is a top issue negatively impacting global airlines' revenues over the next 18 months, finds Sabre Airline Solutions' biannual survey of executives. Survey participants represented 77 of the top 200 airlines worldwide. Challenges they believe have the greatest negative impact on revenues are fuel prices (81%), regulations (72%) and airport/passenger security (59%). Challenges having the greatest positive impact on airline revenues are revenue/yield (81%), customer loyalty and retention (81%) and IT investment (76%).

3. Travelport Gains Major Foothold in Africa.

Under a new agreement, Satguru Travel & Tourism will set up and run operations for GDS provider Travelport in Burkina Faso, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Senegal, Sierra Leone, Southern Sudan and Togo. Dubai-based Satguru operates in 27 African countries. Travelport owns Galileo and Worldspan and holds a 48% stake in Orbitz.

4. Lufthansa Updates MySkyStatus.

Lufthansa has redesigned MySkyStatus, an onboard tool that allows passengers to stay connected with those on the ground by automatically sending status updates to social networks like Facebook, Twitter and LinkedIn, or through email. MySkyStatus 2.0 offers travelers the ability to create a personal profile, personalize status updates, track flight history and connect multiple social networks.

V. ENERGY AND ENVIRONMENT

1. Fuel Bill for Global Airline Industry.

The average price of aviation jet fuel, as of January 13, was \$129.5/barrel, up 6.8% on the month and up 15.9% year-on-year, reports the International Air Transport Association (IATA). Fuel price average for 2012 was \$129.7/barrel.

2. EU Open to Dialogue With U.S. on ETS.

European Commissioners Slim Kallas and Connie Hedegaard (Transport and Climate Action, respectively) said they are open to negotiating an exemption from the EU emissions trading system (ETS) for U.S. carrier incoming flights from the U.S., if the U.S. takes “equivalent measures” to cut emissions in its aviation industry. Their remarks were in a letter to Secretary of State Hillary Clinton, in response to a letter sent in December by Clinton and Secretary of Transportation Raymond LaHood, which warned EU officials that the U.S. would be compelled to take “appropriate action” unless the EU abandoned its plan. EU ETS took effect on January 1, with about 40 countries having declared the unilateral rules in breach of international law. “We see the inclusion of aviation in the EU ETS as an important contribution to, and a catalyst toward global action, rather than an obstacle,” said the EU response to Clinton. “We believe there is now a growing recognition of the need to move forward in ICAO to develop a global solution and we hope that the U.S. shares our view that we must seize this opportunity.” Speaking at the International Aviation Club in Washington, ICAO Secretary General Raymond Benjamin said the resolution on environmental protection adopted by the ICAO Assembly of 2010 calls for facilitating development and wider use of sustainable alternative fuels, and voluntary submission to ICAO by June 2012 of national action plans that will allow States to identify how they can reduce CO₂ emissions from international aviation and what assistance they may need. He pledged to have a proposal this year on how to regulate airline emissions on a global basis.

3. Airlines Add Surcharges to Cover EU ETS.

Airlines worldwide have started to pass EU ETS costs to passengers. Delta, United Continental, American and US Airways added a \$6 surcharge for U.S.-Europe roundtrips. Air France, KLM, British Airways and Air Canada added \$6 equivalents. Brussels Airlines increased its fuel surcharge by €10 to €135 for international flights and €3 to €39 for EU routes. Lufthansa raised its fuel surcharge for European and long-haul flights by €3 to €10, saying that will reflect both the price of oil and the cost of acquiring emission rights. EU ETS

will “distort competition and impact on the sustainability of the aviation industry if it proves impossible to implement with the competitive neutrality promised by policy makers,” said Lufthansa, but “given the huge resistance at an international level, it is unclear just how the situation will develop.”

4. Impact of EU ETS on Airlines Studied.

A new study released by the Journal of Air Transport Management finds that EU ETS will have a small impact on U.S. airlines and emissions from 2012 to 2020. If carriers pass on all additional costs, including opportunity costs associated with free allowances, to consumers, profits will increase. Windfall gains from free allowances may be substantial because, under current allocation rules, airlines would only have to purchase about a third of the required allowances. However, an increase in the proportion of allowances auctioned would reduce windfall gains, and profits for U.S. airlines may decline. Airlines for America disagreed, telling *USA Today*, “it defies logic and the experience of the airline industry to suggest that a tax that imposes costs on the airlines would in practice serve as a revenue-raiser for the industry.” A4A estimated that complying with EU ETS would force U.S. airlines to transfer \$3.1 billion to the EU from 2012 to 2020. . . . An analysis of the ETS calculation process, by UBM Aviation unit OAG, finds that “the knock-on effect of an estimated €3.5 billion cost to the aviation sector could increase passenger fares by up to 5.2% on key long-haul routes.” There are only two scenarios for airlines, said OAG: pay ETS charges or use non-EU points. This not only has significant ramifications for airlines’ operating costs, it also carries the very real threat of slowing, or in extreme cases eradicating, airport network driven economic growth within the EU.”

5. Etihad Operates Biofuel-Powered Seattle–Abu Dhabi Flight.

An Etihad Airways flight from Seattle to Abu Dhabi—the delivery flight of a Boeing 777-300ER—was the first in the Gulf to be operated using sustainable biofuel. A combination of traditional jet fuel and plant-based jet fuel, supplied by Amsterdam-based SkyNRG, was used on the 14-hour flight. Etihad is a founding member of the Masdar Institute’s Sustainable Bioenergy Research Consortium (SBRC) in Abu Dhabi. The five-year program, backed by \$2 million of financial and other support from the airline, supports research into the use of salt water tolerant plants as the basis for alternative aviation fuels.

VI. U.S. CONGRESS

1. Bill Extends FAA Funding Through Mid-February.

Congress was in recess for the Christmas–New Year period. On its return it passed a short-term extension to fund FAA programs through February 17, the 23rd stopgap bill since the last long-term FAA law expired in 2007. The bill clears the way for negotiators to complete work on a final FAA reauthorization. Leaders have reached agreement on airline unionization voting rules, which had been a major obstacle to passage of legislation, but issues still to be negotiated include Washington Reagan National airport slot allocations for beyond perimeter flights and a reduced Essential Air Service program.

2. New Bill Would Overturn DOT Fare Rule.

Legislation that would overturn the new DOT rule that requires airlines to include all taxes in fare prices is being introduced in the House by Tom Graves (R-GA). Graves said his Travel Transparency Act would require airlines to itemize taxes and fees. “The federal government should not be inserting itself in the private sector to limit consumers’ ability to see how much they’re getting taxed,” said Graves. “If the American people can’t see these costs clearly, I fear it will be easier for these fees and taxes to be raised without their knowledge.”

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. WTO Appoints Arbitrator in Airbus–Boeing State Subsidies Dispute.

The European Union and the United States held formal consultations in Geneva, in the latest development in the dispute on state subsidies to Airbus and Boeing. A U.S. Trade Representative said the latest talks were meant to “lead to the goal of ending subsidized financing at the earliest possible date.” The U.S. claims European governments failed to comply with a World Trade Organization (WTO) ruling that called for Airbus launch subsidies to be cut by December 2011, and has requested authorization to take countermeasures, which could be sanctions of up to \$10 billion annually. The WTO has appointed an arbitrator to assess the EU compliance plan. A WTO ruling on the EU complaint against U.S. aid to Boeing is expected in February.

2. U.S.–Japan to Talk About Haneda.

The United States and Japan will meet April 18-19 in Tokyo to continue discussing Haneda Airport slots.

VIII. EUROPE AND AFRICA

1. Spanair Ceases Operations.

Spanair ceased operations and filed for bankruptcy protection in Barcelona, after takeover talks with Qatar Airways ended. Chairman Ferran Soriano said the regional government of northeastern Catalonia could no longer finance the carrier, due to the economic climate and EU competition rules. Spain's Development Ministry ordered Spanair to fulfill its obligations with passengers, and reportedly is starting infringement proceedings for safety violations. SAS Group owns 10.9% of Spanair, having sold most of its holding in early 2009 to a group of investors led by the Catalan government. In 2008, a Spanair crash killed 154 people in Spain's worst aviation disaster in 25 years.

2. EC Orders Hungary to Recover State Aid From Malev.

The Hungarian government rescued Malev, declaring the national airline a company of strategic importance, after CEO Lorant Limburger said financing "had become unviable and was unresolved from the end of January." Earlier, the EC ordered Hungary to recover illegal state aid of HUF 70 to 100 billion given to Malev between 2007 and 2010. The government has been seeking investors for the airline.

3. EC Probes SkyTeam Joint Venture.

The EC opened an investigation to assess whether the transatlantic joint venture of SkyTeam partners Air France-KLM, Alitalia and Delta breaches EU antitrust rules and harms passengers on certain EU-U.S. routes. The investigation is coherent with recent enforcement action in relation to transatlantic joint ventures of the oneworld and Star alliances, said the Commission, which also closed its initial investigation of all eight SkyTeam members—Aeromexico, Air France, Alitalia, Continental, Czech, Delta, KLM and Korean Air—as part of the priority-setting process in light of significant changes in circumstances on relevant markets.

4. Air France-KLM Announces Plan to Restore Profitability.

"Given the uncertain economic environment and the ongoing imbalance between transport supply and demand," Air France-KLM Group over the next three years (2012-2014) will implement three priorities set out in November: restoring competitiveness through cost-cutting, restructuring short- and medium-haul operations and rapidly reducing debt. Capacity will be increased by about 5% on a cumulative basis, leading to a shrinkage of the fleet; the investment program will be reduced from over €6 billion (2009-2011) to below

€5 billion, resulting in deferral of aircraft deliveries and non-exercise of options. A €2 billion debt reduction, to €4.5 billion, is aimed for by end December 2014, with cost-cutting measures to include a wage freeze at Air France and wage moderation at KLM, and continuation of a hiring freeze introduced in September; existing collective agreements will be renegotiated. A transformation plan encompassing all businesses will target generation of an additional €1 billion in free cash flow. The passenger business will be the primary focus with the restructuring of the short- and medium-haul operations, which lost €700 million in 2011, but cargo and maintenance will also redefine conditions for profitability.

5. American, Iberia to Add Miami–Spain Service.

American Airlines will offer five weekly Boeing 767-300 flights from Miami to Barcelona El Prat starting April 3, with daily service to begin June 14. Iberia will add a second Miami–Madrid Barajas service four times per week on March 25, while American will continue to operate one daily MIA–MAD flight. The carriers are oneworld partners and transatlantic joint business partners with British Airways.

6. IAG Seeks Long-Haul Acquisitions.

IAG is seeking additional takeover targets, said Chairman Antonio Vazquez. The group, comprised of British Airways and Iberia, has agreed to acquire bmi and has declared interest in Portugal's state-owned TAP. Among other airlines said to be of interest are oneworld partners LAN, soon to be LATAM, and bankrupt American Airlines.

7. Tom Enders Named CEO of Airbus Parent EADS.

Airbus CEO Tom Enders will replace Louis Gallois as CEO of EADS for a five-year term beginning June 1 in a planned succession process. Arnaud Lagardère will be Chairman of the Board replacing Bodo Uebber. Fabrice Brégier will be CEO of Airbus.

8. EASA Orders Inspection of A-380 Wings.

The European Aviation Safety Agency (EASA) published an Airworthiness Directive to mandate a prompt detailed visual inspection of Airbus A380 wings on approximately 20 aircraft, following discovery of cracks in metal brackets inside the wings. "This condition, if not detected and corrected, could potentially affect the structural integrity of the airplane," said EASA. Airbus announced that it has a solution and that the aircraft are safe to fly.

9. Norwegian Air Shuttle Buys Boeing 737 MAX.

Norwegian Air Shuttle became the first European customer for the Boeing 737 MAX, with a firm order for 100 of the fuel-efficient plane. Together with 22 Boeing Next-Generation 737-800s, the total order is valued at \$11.4 billion at list prices, the largest-ever Boeing order from a European airline. The Oslo-based carrier also placed its first order with Airbus, for 100 A320neos valued at \$126 million each. CEO Bjorn Kjos said the purchases will be financed by loans guaranteed by the U.S. Export-Import Bank and European export credit agencies. Norwegian began operating in 2002 and is the third-largest low-cost airline in Europe, currently operating some 300 routes across Europe into North Africa and the Middle East

10. London–Birmingham High-Speed Rail Line Approved.

A London to Birmingham high-speed rail line was approved by UK Transport Secretary Justine Greening, who presented “High Speed Rail: Investing in Britain’s Future—Decisions and Next Steps” to Parliament. “High Speed 2 (HS2) is a scheme to deliver hugely enhanced rail capacity and connectivity between Britain’s major conurbations,” she said. The HS2 network will provide direct, high capacity links between London, Birmingham, Leeds and Manchester, with intermediate stations in the East Midlands and South Yorkshire. There will also be direct links to Heathrow and the Continent via the HS1 line. HS2 will be built in two phases; the line from London to the West Midlands and the connection to HS1 are to open in 2026, followed, in 2032-33, by onward legs to Manchester and Leeds and the connection to Heathrow.

11. AirAsia X Withdraws Flights to Europe, India.

See Section IX, item 6.

12. Turkish Airlines Resumes Talks to Acquire Polish Lot.

See Section IX, item 9.

13. Etihad Takes 40% Share in Air Seychelles; Airberlin Stake Approved.

See Section IX, item 11.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. ANA, Hawaiian to Code Share.

All Nippon Airways (ANA) and Hawaiian Airlines signed a code share agreement for passenger flights within Japan and Hawaii. They began cargo code sharing on Hawaiian's daily Haneda–Honolulu service in December 2010 and started a joint frequent flyer program in December 2011. Hawaiian will upgrade from the Boeing 767-300 to the Airbus A330-200 on the Osaka–Honolulu route, starting April 21, adding nearly 11,000 seats annually.

2. JAL Reshuffles Management; Will Offer Tokyo–Boston Nonstop.

Japan Airlines named Senior Managing Executive Officer Yoshiharu Ueki as its next President, in ongoing restructuring efforts. He will replace Masaru Onishi, who will become Chairman. Kazuo Inamori will become Honorary Chairman. JAL plans to relist its stock in the third quarter. The carrier's first Tokyo Narita–Boston nonstop will launch on April 22, with its first use of the Boeing 787 Dreamliner.

3. China Adds 14,000 Flights During Spring Travel Rush.

Domestic airlines are adding 14,000 flights for the current 40-day peak travel season, said the Civil Aviation Administration of China (CAAC). Passengers are expected to make 35 million more trips by air during the Spring Festival travel rush, up 7% from last year. CAAC approved an additional 412 flights from Taiwan. . . . In other news, China's air passenger volume is expected to reach 290 million in 2011, 8% more than a year earlier, and may rise to 320 million in 2012. CAAC said 2011 air freight volume was expected to reach 57.4 billion ton-kilometers, up nearly 7% from 2010.

4. India Moving Toward Foreign Investment in Airlines.

Civil Aviation Minister Ajit Singh is proposing that India allow up to 49% investment by foreign carriers in local airlines; currently, overseas carriers are barred from investing in the sector. In other news, the *New York Times* revealed that many of India's airlines have safety issues, according to an unreleased report by the Directorate General of Civil Aviation, which conducted a probe "amid a background of severe financial stress being faced by almost all of the carriers." Concerns include pilot, instructor and equipment shortages, and auditing delays.

5. **American to End New Delhi Service.**

American Airlines cancelled Chicago–New Delhi flights, effective March 1, and will offer U.S.–India service through oneworld partners British Airways, Kingfisher and Finnair, via London Heathrow or Helsinki (summer only), and through code share partner Jet Airways via Brussels.

6. **AirAsia X Withdraws Flights to Europe, India.**

AirAsia X realigned its network with a focus on core markets of Australasia, China, Taiwan, Japan, and Korea. The carrier is withdrawing services to India (Mumbai and Delhi), CEO Azran Osman-Rani said, due to “continued visa restrictions for travel between India and Malaysia, and the increase in airport and handling charges”; and to Europe (Paris, London), where continued high jet fuel prices and weakening demand, “together with exorbitant government taxes,” have placed cost pressures on operating long-haul low-cost flights between Asia and Europe. “Implementation of the Emissions Trading Scheme and the escalating Air Passenger Duty taxes in UK, which will rise yet again in April 2012, have forced our decision to withdraw services to Europe,” he said.

7. **Malaysia Increases Los Angeles Service.**

Malaysia Airlines will increase three weekly Kuala Lumpur–Taipei–Los Angeles flights to four, with a return via Tokyo Narita; the Taipei–Los Angeles return sector will be delinked from the network on March 23. The carrier will increase service to several ASEAN destinations as well as Beijing and Taipei.

8. **ACCC Takes Action Against Air Asia For Misleading Pricing.**

The Australian Competition and Consumer Commission (ACCC) instituted legal proceedings in Melbourne against Air Asia Berhad, alleging the budget airline failed to display on its website some fares inclusive of all taxes, duties, fees and other mandatory charges, for certain routes out of Melbourne, Perth and the Gold Coast. ACCC seeks penalties and legal costs.

9. **Turkish Airlines Resumes Talks to Acquire Polish Lot.**

Turkish Airlines is in talks to acquire Lot Polish Airlines, which is restructuring; talks previously were held in 2010, reports *Warsaw Business Journal*.

10. **Emirates, Alaska Launch Frequent Flier Partnership.**

A new Emirates–Alaska Airlines partnership will offer reciprocal frequent flier miles for travel throughout their networks. Starting March 1, Emirates will operate a daily Dubai–Seattle Boeing 777 nonstop; other U.S. gateways are New York, San Francisco, Los Angeles, Houston and Dallas/Fort Worth.

11. Etihad Takes 40% Share in Air Seychelles; Airberlin Stake Approved.

Etihad Airways agreed to take a 40% stake in Air Seychelles for \$20 million, with the government of the African island nation investing another \$20 million. Etihad also agreed to provide the carrier with a \$25 million loan. Abu Dhabi-based Etihad will increase its four weekly flights to Seychelles to daily. . . . In other news, German and Austrian regulatory authorities approved Etihad's plan to increase its shareholding in airberlin to 29.21%. Etihad and airberlin group carry a combined total of more than 40 million passengers a year, operate 233 aircraft and employ 18,000 people. . . . And, in an interview with *The Australian Financial Review*, Etihad President/CEO James Hogan said he is considering new investments in China, India and elsewhere in Asia and may seek a stake in alliance partner Virgin Australia Holdings. Australia has a 49% foreign ownership cap on its international airlines; currently, Air New Zealand holds a 20% stake in Virgin, while Sir Richard Branson owns 26%.

12. Air New Zealand CEO Resignation.

CEO Rob Fyfe will leave Air New Zealand on December 31, when he also completes four years as an IATA Board member and his term as Star Alliance Chairman. ANZ Chairman John Palmer said Fife wants to explore new opportunities and does not "want to become a road block to the career aspirations of the executive management team." Appointment of a new CEO is expected in "roughly six months."

13. Saudi Aviation Authority Seeks Bids for New Domestic Airline.

Saudi Arabia's General Authority of Civil Aviation (GACA) invited airlines and investors to submit bids to operate flights from Saudi airports. GACA is receiving tenders until March 18, and will issue a request for proposal in April.

14. ILFC to Expand Asia Presence.

International Lease Finance Corporation (ILFC) will establish offices in Beijing and Singapore in 2012. "We seek to expand our presence in the Asia Pacific region, which will continue to grow in significance and importance in the global aviation market," said CEO Henri Courpron. The AIG subsidiary has opened an Amsterdam office, which services Europe, the Middle East and Africa.

X. AMERICAS

1. American Bankruptcy Update.

American Airlines contributed only \$6.5 million of \$100 million due for a January 15 quarterly contribution to employee pension plans, in a move to preserve cash. Amid speculation that the airline might terminate the plans, Pension Benefit Guaranty Corp. (PBGC) filed liens against AMR's international assets. "We think that commitments to 130,000 workers and retirees shouldn't be disposable," said PBGC. Other bankrupt airlines found ways to increase revenues and get competitive costs while honoring pension benefits. "American has more than \$4 billion in cash," said PBGC. "Congress, hoping to preserve plans, allowed American to defer the payments. It would be a tragedy if American repaid Congress's generosity by turning around and killing the plans anyway." . . . American ends Burbank service February 9, in a cost-cutting move. . . . In other news, due to loss of a U.S. Postal Service contract, closing of a refurbishment shop in St. Louis and an earlier trimmed winter schedule, the company will lay off 150 workers in February, including 45 full-time mechanic positions and 105 fleet service clerk positions.

2. Allegiant Announces New Oakland Base.

Allegiant is establishing a new base of operations at Oakland, in the San Francisco Bay area, as of April 26, with nonstops from Billings, Bozeman, Kalispell and Missoula, Montana; Idaho Falls, Idaho; and Medford and Redmond, Oregon. The Las Vegas-based company will create jobs for 60 people at Oakland, including flight attendants, pilots, mechanics and airport service personnel; economic impact is estimated at \$75 to 100 million in the first year of operation.

3. Hawaiian–JetBlue Partnership.

A new Hawaiian–JetBlue partnership allows customers to purchase single tickets combining travel on both airlines via Los Angeles International, where Hawaiian offers multiple daily departures. In June, Hawaiian will launch the only nonstops between New York City and Hawaii from the JetBlue Terminal at Kennedy. Code sharing is planned and the carriers have reached a preliminary frequent flyer program agreement. In other news, Hawaiian Airlines is creating a Maui hub for connections within the Islands and to and from mainland West Coast, and will reintroduce Maui–Los Angeles nonstops in June. Hawaiian provides nonstop service to Maui from Seattle, Las Vegas, Oakland, and San Jose. Hawaiian carried 8.7 million passengers in 2011, the

most in its history. Passenger statistics for December and the fourth quarter were also company records.

4. **David Siegel Named Frontier CEO, President, Interim COO.**

David Siegel was named CEO, President and interim COO of Republic subsidiary Frontier. Siegel, a former US Airways CEO, has been serving on the Republic board. The appointment “is another step towards the goal of making Frontier Airlines a viable, strong and independent business,” said Bryan Bedford, Chairman of Republic Airways Holdings, which also owns Chautauqua and Shuttle America.

5. **Delta, WestJet Begin Code Share Service.**

Delta and WestJet expanded their partnership to include code sharing on flights within the United States and Canada. Under the first phase of the new agreement, Delta will place its code on WestJet flights to more than 15 cities, while the WestJet code will be added to Delta flights to five markets.

6. **Porter Airlines to Offer Toronto-Washington Service.**

Porter Airlines will offer up to three daily roundtrips between Washington Dulles and Billy Bishop Toronto City Airport, beginning April 16. “We expect great interest for both business and leisure trips and look forward to bringing competition to the route,” said Porter CEO Robert Deluce.

7. **Copa to Fly to Las Vegas.**

Panamanian airline Copa will begin four weekly nonstops to Las Vegas, Nevada, in June. Last year, Copa transported 8.8 million passengers, said CEO Pedro Heilbron, and that figure will rise to 10 million this year. Copa joins Star Alliance in April.

8. **Venezuela, Bolivia to Expand Airlines.**

The Venezuelan government plans to buy up to 20 new Embraer jets from Brazil and four used Airbus 340-500s from a United Arab Emirates airline to expand state airline Conviasa. “It’s enough to see Venezuela’s location on the map to conclude on the pressing need for us to have a very powerful airline,” said President Hugo Chavez. Separately, Bolivian President Evo Morales recently announced plans to expand state-controlled Boliviana de Aviacion.

9. **Court Refuses to Stop Ex-Im Loans to Air India.**

A U.S. federal court rejected a request from Airlines for America for a preliminary injunction to block the Ex-Im Bank from giving a loan to Air India to purchase Boeing 787 Dreamliners. The judge said A4A failed to demonstrate

that U.S. carriers would experience financial losses if Air India purchased the jets before a final decision in the case, noting that “none of the airlines participating in this lawsuit currently offers a direct flight between the US and India.” Referring to the continuing litigation, A4A, which filed the lawsuit on behalf of nine of its members, said, “We are confident the court will find that there is clear evidence demonstrating that the Ex-Im Bank failed to meet its statutory requirements.” A4A has called for “greater transparency and process reform at the Ex-Im Bank, saying U.S. loan guarantees enable foreign carriers to obtain financing for aircraft at considerably lower rates, in some cases up to 50% lower, than what U.S. airlines must pay on the commercial market

10. Authorities Approve American, LAN Ecuador Code Share Agreement.

See Section I, item 4.

11. EU Probes SkyTeam Joint Venture.

See Section VIII, item 3.

12. American, Iberia to Add Miami–Spain Service.

See Section VIII, item 5.

13. ANA, Hawaiian to Code Share.

See Section IX, item 1.

14. JAL Reshuffles Management; Will Offer Tokyo–Boston Nonstop.

See Section IX, item 2.

15. American to End New Delhi Service.

See Section IX, item 5.

16. Malaysia Increases Los Angeles Service.

See Section IX, item 7.

17. Emirates, Alaska Launch Frequent Flier Partnership.

See Section IX, item 10.