



WASHINGTON AVIATION SUMMARY

January 2014 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. **Centennial Celebration of Scheduled Airline Service.**

The International Air Transport Association (IATA) was set to celebrate the 100th anniversary of the birth of commercial aviation (January 1, 1914) with a re-enactment of the first scheduled airline flight across Tampa Bay in Florida. The Centennial will be noted over the course of 2014, with a focus on the value that aviation creates: “Every 60 seconds, 52 aircraft take off, \$12.1 million worth of cargo is delivered, 5,700 passengers will board aircraft somewhere in the world, and the global fleet will cross over 70,000 kilometers,” said IATA. “Aviation supports some 57 million jobs and over \$2.2 trillion in economic activity. And this industry delivers about 50 million tons of cargo that accounts for \$6.4 trillion—or about 35%—of the value of goods traded internationally.”

2. **IATA: Global Airline Net Profit of \$12.9 Billion for 2013.**

Airlines are expected to return a global net profit of \$12.9 billion for 2013, reports IATA. Anticipated \$19.7 billion profits in 2014, on projected revenues of \$743 billion, would be the industry’s largest absolute profit. Passenger numbers are expected to reach 3.1 billion in 2013 and rise by 6% to 3.3 billion in 2014, with average yields to fall by 0.2% in 2013 and 0.6% in 2014. Worldwide ancillary revenues have risen to \$13/passenger; without them the industry would see a loss from core seat and cargo products. Airlines are expected to carry 51.6 million tons of cargo in 2013, increasing to 52.5 million in 2014, with demand offset by a decline in yields (-2.1% in 2014). Cargo revenues are expected to be \$60 billion in both 2013 and 2014, compared to a peak in 2011 at \$67 billion. . . . The IATA Airline Industry Forecast 2013-2017 predicts a 31% increase in global passenger numbers by 2017, to 3.91 billion, with demand to expand by an average of 5.4%. Of the new passengers, 292 million will be carried on international routes and 638 million on domestic. Emerging economies of Middle East and Asia-Pacific will see strongest international passenger growth. Routes within or to China will account for 24% of new passengers during forecast period. With 677.8 million domestic passengers in 2017, the U.S. will continue to be the largest single market for domestic passengers, but will add only 70 million passengers over forecast period, reflecting market maturity.

3. **DOT Fines American Airlines for Violating Price Advertising Rule.**

The U.S. Department of Transportation (DOT) fined American Airlines \$60,000 for violating the full-fare advertising rule by telling consumers that surcharges

were government-imposed taxes. Under the rule, the first price quoted must state entire price to be paid, including all mandatory taxes, fees and airline surcharges. Airlines do not have to break out components of the fare, but if they do, they must accurately show costs of services or taxes. The carrier has corrected its website and provided additional training to agents.

4. FAA Proposes Fines Against Great Lakes.

The Federal Aviation Administration (FAA) is proposing a \$304,000 civil penalty against Great Lakes Aviation for allegedly conducting 19 flights with non-compliant aircraft in January 2011. Great Lakes operated Beech 1900s aircraft with deicing fluid that exceeded maximum temperature of 180 degrees Fahrenheit at risk of damage to the aircraft or the deicer.

5. FAA Postpones Plan To Screen Pilots for Sleep Apnea.

FAA postponed plans to screen overweight pilots and air traffic controllers for obstructive sleep apnea (OSA). The plan responded to a National Transportation Safety Board recommendation, but it drew opposition from airlines and unions, and a bill was quickly passed by the House Transportation Committee that would require a rulemaking proceeding. In a letter to FAA Administrator Michael Huerta, the Civil Aviation Medical Association (CAMA) objected to the plan and suggested that “a more formal study was needed to justify the added rigor to the examination.” CAMA is concerned that testing criteria are too restrictive and could “tax the available resources and create undue delay and financial hardship on the pilot.” It is believed that OSA can affect flying safety because it causes excessive daytime sleepiness and cognitive impairment.

6. DOT Deputy Secretary John Porcari Resigns.

DOT Deputy Secretary John Porcari has stepped down after four years of service. He formerly was head of Maryland DOT. Federal Highway Administrator Victor Mendez will serve as Acting Deputy Secretary, effective January 1; he formerly was with the Arizona DOT.

7. UNWTO Calls for Visa Facilitation, Air Transport Liberalization.

“If we are to achieve the forecast rise in international tourist arrivals from 1 billion in 2012 to 1.8 billion in 2030, with all the concomitant economic and social benefits, we must work as one,” said Taleb Rifai, Secretary General of the UN World Tourism Organization (UNWTO), in remarks to the Royal Aeronautical Society at International Civil Aviation Organization (ICAO) headquarters in Montreal. Rifai, the first speaker from outside the aviation industry to give the Assad Kotaite Lecture, called for increased coordination among airlines, tourism destinations and airport authorities at national levels,

and the joint work of UNWTO and ICAO at the global level, as well as visa facilitation and the liberalization of air transport, saying World Trade Organization estimates show that replacing the most restrictive bilateral air agreements with liberal ones may increase traffic by over 75%. Other issues addressed were tourist/consumer protection, taxation and climate change.

8. International Travel To U.S. Reached 69 Million Visitors in 2013.

Visitor volume in 2013 increased 3.4% to reach 69 million who stay one or more nights in the United States, reports the Department of Commerce. A 6.4% increase in 2012 arrivals resulted in a record 66.7 million visitors. For the 2013-2018 timeframe, the U.S. would see 3.4% to 4.3% annual growth rates in visitor volume; by 2018 this growth would produce 83.9 million visitors, a 26% increase compared to 2012.

9. FAA Selects Six Testing Sites for Civilian-Use Drones.

New York's Griffiss International, a general aviation airport in Oneida County, was chosen by FAA to test civilian-use drones for sense and avoid capabilities and complexities of integrating unmanned aircraft systems (UAS) into the congested, northeast airspace. FAA also selected five other test site operators: University of Alaska, State of Nevada, North Dakota Department of Commerce, Texas A&M University and Virginia Polytechnic Institute and Virginia Tech. Research goals include System Safety & Data Gathering, Aircraft Certification, Command & Control Link Issues, Control Station Layout & Certification, Ground & Airborne Sense & Avoid and Environmental Impacts. Under current law, test site operations will continue until at least February 13, 2017. Among other requirements, test site operators must comply with federal, state and other laws protecting privacy and civil liberties.

10. DOT IG: Better Data Needed on Flight Delays.

The DOT Inspector General (IG) audited flight delay and cancellation trends, air carrier scheduling practices and FAA use of capacity benchmarks to assess airport capacity and monitor airline scheduling practices at the largest U.S. airports. Overall, flight delays fell by 33% from 2000 to 2012, and cancellations decreased by 56% at the 55 major airports. But data limitations hinder DOT's ability to track some delays or fully understand causes. While carrier scheduling practices have had a major impact on reducing flight delays, over-scheduling and congestion remain a problem at several major airports, particularly in the New York area. FAA's capacity benchmarks are useful for assessing capacity needs at major airports, but have not been shared with outside stakeholders and the public since 2004. Among other concerns, statistics for major carriers do not include late arrivals by regional partners, which are exempt from reporting delays (a proposal to require broader

reporting is expected in 2014). If reporting requirements were changed to include all regional partners and airlines that have as much as 0.5% of total industry revenues, DOT would capture 92% of scheduled passenger flights, rather than a current 76%. . . . Separately, the IG found flaws in FAA's safety-data collection program and a contract to train air traffic controllers.

11. **DOT Air Travel Consumer Report for October.**

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

	Oct.	Sept.	Full Year				
	'13 / '12	'13	2012	2011	2010	2009	2008
On-time arrivals %	84.1 / 80.2	83.8	81.85	79.6	79.8	79.5	76
Cancellations %	0.6 / 2.8	0.9	1.29	1.91	1.76	1.39	1.96
Mishandled baggage*	2.52 / 2.83	2.7	3.83	3.35	3.51	3.91	5.26
Consumer complaints:							
Airline service	857 / 1,296	1,008	15,335	11,546	10,988	8,821	10,648
Disability-related	49 / 58	49	743	628	572	519	477
Discrimination**	8 / 7	5	99	128	143	131	115

Note: No tarmac delays of more than three hours on domestic flights or more than four hours on international flights were reported by airlines in October.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. ACI-NA Names New CEO.

Airports Council International–North America (ACI-NA) named Kevin Burke as President and CEO, effective January 22. He most recently served as CEO of the American Apparel and Footwear Association. Deborah McElroy, who served as ACI-NA Interim President, will return to her role as Executive Vice President, Policy and External Affairs.

2. Southwest, Virgin America Acquire LaGuardia Slots.

Southwest and Virgin America have acquired New York LaGuardia slots that are being divested by American Airlines as part of its merger with US Airways. Southwest acquired 12 slot pairs and gained permanent control of 10 slot pairs it currently operates under lease from American, and on May 11 will increase service between LaGuardia and Nashville, Houston Hobby, Chicago Midway and Akron-Canton. Southwest and subsidiary AirTran currently operate 27 daily LaGuardia roundtrips to eight nonstop destinations and serve Newark and MacArthur airports in the New York City area. Southwest plans to bid on American's slots at Washington Reagan National. Virgin America reportedly acquired six slot pairs at LaGuardia, where flight restrictions prohibit nonstops to its San Francisco and Los Angeles hubs. Virgin America serves New York Kennedy and Newark.

3. Review Concludes Need for Additional London Runway by 2030.

A UK Airports Commission independent review of capacity and connectivity found there is a need for one additional runway to be operational in the south east by 2030, and likely demand for a second additional runway by 2050. Proposals for new runways at London Heathrow and Gatwick will be studied, with public consultation in autumn 2014. Stansted and Birmingham options were not "shortlisted" for further study, but an Isle of Grain proposal will be reviewed and the case for a new airport in the Thames Estuary will be assessed. "Narrowing the options to Heathrow and Gatwick is a welcome development in the ongoing saga on the UK's future airport capacity needs," said the Board of Airline Representatives (BAR UK); "other proposals would cost billions in public funding and could create mass relocations and associated social upheaval and economic pain, or not deliver on the core objectives." . . . In other news, the UK Air Passenger Duty (APD) will increase from £67 to £69 for economy seats on U.S.-bound flights, effective April 1, and from £134 to £138 pounds for premium class. On Caribbean flights, the tax will rise by £2 and £4, to £85 and £170, for economy and premium class seats,

respectively. Some 250 airline and other CEOs charged the Treasury with ignoring evidence that year-on-year APD rises are making the UK economy increasingly uncompetitive. This will be the sixth ADP increase in six years.

4. New Pulkovo Terminal 1 Opens.

Saint Petersburg's Pulkovo has a new 110,000 square meter Terminal 1, with maximum capacity of 17 million passengers per year, reports airport operator Northern Capital Gateway (NCG), a consortium comprised of VTB Capital, Frankfurt-based Fraport and Greek investment group Capelouzos. The modernization project is a public private partnership implemented without any state budget allocation; project investment totals €1.2 billion. Sergey Emdin is CEO of NCG.

5. Kenya Begins Nairobi Airport Expansion.

Work on a \$653 million expansion of Nairobi Jomo Kenyatta International Airport is underway. A new terminal will be able to handle 20 million passengers upon completion in 2016. There is also a plan to construct a second runway. The government will fund 15% of the project, reports Reuters, with the balance coming from a consortia of local and foreign banks. The Kenya Airports Authority will develop a Special Economic Zone within the airport for manufacture of goods, said officials.

III. **SECURITY AND DATA PRIVACY**

1. **Jeh Johnson Confirmed as Secretary of Homeland Security.**

The Senate confirmed Jeh Johnson as Secretary of Homeland Security. The former General Counsel of the Department of Defense has “a deep understanding of the threats we face and a proven ability to work across agencies and complex organizations,” said President Barack Obama. “Jeh has been a critical member of my national security team, and he helped to shape some of our most successful national security policies and strategies.” Alejandro Mayorkas was confirmed as Deputy Secretary; he formerly was Director of United States Citizenship and Immigration Services.

2. **New Application Process for PreCheck.**

Transportation Security Administration (TSA) announced a new application process that allows U.S. citizens to directly enroll in PreCheck, rather than only through existing programs, such as U.S. Custom and Border Protection’s Global Entry program, and frequent flier programs with certain airlines. Application centers have opened in Indianapolis and the New York City, Washington, D.C. and Los Angeles areas, with plans to expand to 300 across the country. In other news, TSA PreCheck expedited screening benefits have been extended to all U.S. Armed Forces service members.

3. **ACI, IATA Collaborate To Deliver ‘Smart Security.’**

Airports Council International and the International Air Transport Association signed a Memorandum of Understanding to develop Smart Security (SmartS), which is meant to simplify the passenger experience from curb to boarding. Security resources are allocated based on risk with SmartS, which replaces Checkpoint of the Future, launched by IATA in 2011 and adopted by the ICAO High Level Conference on Aviation Security in September 2012. Checkpoint of the Future tests have been conducted in airports including Geneva, London Heathrow and Gatwick and Amsterdam Schiphol. From 2014, SmartS tests will be conducted at airports with support and participation of regulators and home carriers.

IV. E-COMMERCE AND TECHNOLOGY

1. FCC Initiates Review of Rules for Onboard Wireless Services.

The Federal Communications Commission (FCC) is seeking comment on proposals to: remove restrictions on airborne use of mobile devices in the 800 MHz cellular and Specialized Mobile Radio (SMR) bands, replacing them with a framework encompassing access to mobile communications services in all mobile wireless bands; harmonize regulations governing operation of mobile devices on airborne aircraft across all commercial mobile spectrum bands; add authority to provide mobile communications services on airborne aircraft across all commercial mobile spectrum bands to existing aircraft station licenses; allow mobile communications services on airborne aircraft only if managed by an Airborne Access System certified by FAA, which would control emissions of onboard portable electronic devices (PEDs) by requiring them to remain at or near their lowest transmitting power level; and limit authorization for mobile communications services to aircraft travelling at altitudes of more than 10,000 feet. FCC also seeks comment on alternative authorization frameworks, potential impact of the proposals on public safety and national security, and issues related to the use of voice services onboard aircraft.

In testimony before the House Subcommittee on Communications and Technology, FCC Chairman Thomas Wheeler said the rulemaking is an effort to weed out outdated regulations. “The issue of what to do with spectrum while on an airplane has garnered a great deal of attention and been widely misunderstood,” he said. “FAA is the expert agency on determining which devices can be used on airplanes. The FCC is the expert agency when it comes to technical communications issues. For over 20 years, the FCC banned the use of mobile devices on airplanes because of their potential to interfere with networks on the ground below. . . New on-board technology has been operational in many of the world’s major airlines since 2008 and has been demonstrated to resolve the interference problems on which the FCC rule is based. . . I do not want the person in the seat next to me yapping at 35,000 feet any more than anyone else. But we are not the Federal Courtesy Commission. Our mandate from Congress is to oversee how networks function . . . I have placed calls to the CEOs of major airlines to deliver a simple message: we are not requiring them to do anything and that, absent new systems on their planes, the ban on mobile devices continues. I am reminding them that if they choose to install the new technology, it permits the airline to disable the ability to make calls while still allowing for text messaging, emails and web surfing.”

Amid wide public and congressional opposition to potential inflight phone use, DOT said it would begin the process to look at the possibility of banning the calls. Delta and other airlines announced they will not allow inflight cellular calls or internet-based voice communications. Delta said it “will move quickly to enable customers to use text, email and other silent data transmission services gate to gate,” if FCC lifts its ban on cellular use in flight.

2. **JetBlue Launches High-Speed Inflight Wi-Fi.**

JetBlue became the first airline to use Ka-band satellite connectivity with the launch of Fly-Fi, its branded inflight internet product, which is eight times faster than older inflight connections. During the beta period, JetBlue will offer free basic web browsing on board, called Simply Surf, on Fly-Fi equipped aircraft through June 2014. JetBlue also offers a live video streaming high-bandwidth plan, Fly-Fi Plus, at \$9 per hour. JetBlue has partnered with its LiveTV subsidiary and ViaSat on the technology, which will be on more than 140 aircraft by end of 2014.

3. **Southwest Launches Gate-To-Gate Messaging.**

Southwest launched a messaging service for use in all stages of flight for passengers with Apple devices operating on iOS 5 or later for an introductory price of \$2 per day. Android-friendly messaging apps will be added early in 2014. The new service is powered by Global Eagle’s satellite-based connectivity platform, and is currently available on 435 aircraft.

4. **Gogo Receives STC for International Wi-Fi Service.**

Gogo received a Supplemental Type Certificate (STC) to install its satellite technology for inflight Internet service on Boeing 747-400s and also plans to install the equipment on other international aircraft in 2014.

V. ENERGY AND ENVIRONMENT

1. Fuel Bill for Global Airline Industry.

Average price of aviation jet fuel, as of December 6, was \$127.7/barrel, up 6.2% on the month and up 2.6% year-on-year, reports the International Air Transport Association. Fuel price average for 2013 was \$124.6/barrel.

2. Southwest Installs Water Vapor Sensing Systems on 87 Aircraft.

Southwest has installed Water Vapor Sensing Systems (WVSS-II) on 87 Boeing 737s to improve weather forecasting by providing real-time and frequent humidity data when aircraft take off and land. The initiative is a result of a partnership between Aeronautical Radio Incorporated (ARINC), National Oceanic and Atmospheric Administration (NOAA) and SpectraSensors. National Weather Service (NWS) forecasters use WVSS-II data to help determine location and timing of fog, cloud formation and dissipation, and altitudes of cloud ceilings. WVSS-II measures water vapor in the atmosphere hundreds of times during flight. These measurements are automatically transmitted to ARINC and, along with other aircraft weather data, are forwarded in near real-time to NWS, which uses them to improve accuracy of forecasts and severe weather warnings. Weather balloons previously were the only method to capture weather data and measure wind, temperature, and humidity data just twice per day at certain locations; while the water vapor sensors gather humidity data throughout the day at multiple points across the nation. Southwest plans to expand WVSS-II installations on its fleet.

3. Frankfurt Charges To Be Based on Noise Categories.

Frankfurt Airport will reward airlines that deploy modern, low-noise aircraft on international routes and achieve passenger growth of more than 1% per year, with retroactive reductions in fees during 2014 and 2015 and additionally thereafter. Effective January 1, 2014, the program will be part of Fraport's Airport Charges Regulation.

4. Electric Taxiing Solutions Offer Fuel, CO2 Savings.

Airbus will develop and evaluate the EGTS Electric Green Taxiing System, or eTaxi, for the A320 family, with EGTS International, a joint venture of Safran and Honeywell. With eTaxi, aircraft taxi without operating the main engines, using the aircraft's auxiliary power unit to power electric motors fitted to the main landing gear wheels. Pilots control from the cockpit aircraft speed and direction. The eTaxi option would save two minutes on pushback, with 4% projected fuel savings and CO2 reductions per trip and taxi-related carbon and

nitrous oxide emissions cut by more than half. . . . Lufthansa is testing an electric-powered tug, TaxiBot, developed by Israel Aerospace Industries, that slides under the nose wheel and is steered by the pilot. . . . WheelTug, projects total savings of \$1.1 million per aircraft per year from reduced ground operation fuel consumption, engine wear, emissions and noise, and speed turnarounds. WheelTug will be offered to airlines entirely on a lease, or power-by-the-hour basis.

VI. U.S. CONGRESS

1. Budget Agreement Raises Passenger Security Fee.

Congress reached a two-year budget agreement that prevents a looming government shutdown in January and rolls back sequestration cuts, including those to FAA's Airport Improvement Program. The Bipartisan Budget Act of 2013 was signed into law by President Obama. It eliminates the Aviation Security Infrastructure Fee charged to carriers. The passenger security fee will increase from the current \$2.50 per enplanement with a maximum of \$5.00 per one-way trip, to a \$5.60 one-way fee, regardless of connecting flights, effective July 1, 2014. Another provision requires the Transportation Security Administration to continue monitoring exits from sterile area at 155 airports that currently receive this service, the cost for which was to have shifted to airports in early 2014.

2. Shuster: Congress Working on Next Aviation Reauthorization Bill.

Congress has begun work on the next reauthorization of FAA and federal aviation programs, said House Transportation Committee Chairman Bill Shuster (R-PA), in a speech before the International Aviation Club in Washington. The current 2012 FAA Modernization and Reform Act, which followed 22 short-term funding extensions, expires in September 2015. Noting that the U.S. aviation sector provides millions of jobs, is essential to our competitiveness, and is responsible for over a trillion dollars in economic activity every year, over 5% of GDP, he called on the aviation community and lawmakers to propose bold, innovative ideas, and urged a collaborative approach for developing a comprehensive vision for the future. Asking what lessons can be learned by examining aviation systems in other countries, he said, "We may have the world's best aviation system for the moment, but that title comes with no guarantee." Shuster's remarks preceded an Aviation Subcommittee hearing on the State of American Aviation, which included statements from representatives of DOT and industry segments. Airlines for America (A4A) CEO Nicholas Calio said the new federal budget, "which relies on raising taxes on airline passengers, on top of the \$19 billion airlines and their customers already pay, speaks to the disjointed and hostile government action facing the industry"; he identified tax, regulatory and infrastructure challenges facing the U.S. industry and challenges from foreign competitors who enjoy favorable treatment from their governments.

3. Bill Would Ban Inflight Cell Phone Calls.

House Transportation Chairman Shuster introduced a bill prohibiting in-flight cell phone voice communications on commercial aviation flights. The Prohibiting In-Flight Voice Communications on Mobile Wireless Devices Act of 2013 directs the Secretary of Transportation to issue regulations prohibiting an individual on an aircraft from engaging in voice communications using a mobile device during scheduled passenger interstate or intrastate air transportation. Exempted are on-duty flight crews and attendants and federal law enforcement officers acting in an official capacity. In related news, 14 members of Congress cosigned a letter to FAA Administrator Michael Huerta, urging him to maintain the ban on inflight voice communications.

4. House Passes TSA Reforms.

Bipartisan legislation to reform the Transportation Security Administration was passed in the House of Representatives. H.R. 2719, the Transportation Security Acquisition Reform Act, holds TSA accountable for spending decisions and increases transparency by requiring the agency to create a long term plan for technology purchases. H.R. 1095, the TSA Loose Change Act, directs the TSA Administrator to transfer unclaimed money recovered at airport security checkpoints to nonprofits such as the United Service Organization (USO) that provide places of rest and recuperation at airports for members of the Armed Forces and their families. H.R. 1204, the Aviation Security Stakeholder Participation Act of 2013, authorizes the Aviation Security Advisory Committee, ensuring that private sector partners are consulted before major policy changes are made.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. WTO Negotiates Trade Facilitation Agreement.

The World Trade Organization (WTO) negotiated a Trade Facilitation Agreement, which will help developing countries by simplifying, harmonizing and modernizing international border procedures. It is the first successful conclusion of multilateral trade negotiations in the two-decade history of WTO. U.S. Trade Representative Michael Froman estimated potential cost reduction of the measures at 10% for developed and 15% for developing countries. “Studies indicate that for every 1% in cost reduction, worldwide income increases by more than \$40 billion, 65% accruing to developing countries,” said Froman, with potential “global GDP gains of nearly \$1 trillion.” Boeing and UPS hailed the agreement, noting it will cut red tape at borders throughout the world, expediting movement of goods and reducing unnecessary paperwork. The European Union (EU) pledged support worth €400 million over five years to cover a third of funding needs of developing countries to implement the agreement, and “stands ready to make a contribution of up to €30 million to a dedicated facility for the most urgent actions for aligning legislation and procedures in developing countries to the new agreement.” Two-thirds of WTO members are developing countries, including emerging economies and commodities-rich countries.

2. Negotiators Hold Third Round of T-TIP Talks.

U.S. and EU teams met in Washington D.C. for the third round of negotiations since June on the Transatlantic Trade and Investment Partnership (T-TIP). In advance of the negotiations, Edward Wytkind, President of Transportation Trades Department, AFL-CIO, told the House Aviation Subcommittee that “despite the historical precedent of excluding air services in these types of broad trade negotiations, the EU is attempting to include aviation in these talks. We are strongly opposed to this approach, as it is an attempt by the EU to force changes to U.S. rules that limit foreign ownership of U.S. airlines and reserve domestic point-to-point service, or cabotage, to U.S.-controlled carriers.” The fourth round of talks will take place in first quarter 2014 in Brussels.

VIII. EUROPE AND AFRICA

1. AerCap to Acquire ILFC.

Netherlands-based aircraft leasing company AerCap agreed to acquire AIG subsidiary International Lease Finance Corporation (ILFC) for \$3 billion in cash and stock. The combined portfolio will consist mainly of Airbus A320, A330 and Boeing 737NG and 777 family aircraft, with \$25 billion of future deliveries in the order book. The transaction, which will create the largest aircraft lessor in the world, is subject to shareholder and regulatory approvals.

2. Norwegian to Offer New U.S. Service.

Norwegian Air Shuttle (NAS) launched twice-weekly Boeing 787-7 services to Fort Lauderdale from Copenhagen, Oslo and Stockholm, with a third Copenhagen flight to be added next summer. NAS will begin weekly Dreamliner service from New York Kennedy to Bergen, “gateway to the fjords” and Norway’s second largest city, next summer, with launch fare of \$178 one way, and plans to add services between Scandinavian cities and Orlando, Los Angeles and Oakland. Norwegian plans to open crew bases in Fort Lauderdale and New York in first quarter 2014. NAS is the second largest airline in Scandinavia and third largest low-cost carrier in Europe. CEO is Bjørn Kjos. . . . In related news, Airlines for America and Air Line Pilots Association, Int’l (ALPA) are challenging a NAS proposal for service from London Gatwick to U.S. markets. “Norwegian appears to be attempting to evade its national laws and regulations to compete unfairly against U.S. airlines and their employees,” wrote ALPA. “The company uses aircraft registered in Ireland and has applied for an air operator certificate from that country. It appears that its flight crews will work under individual employment contracts that are governed by Singapore law and that have wages and working conditions substantially inferior to those of NAS’s Norway-based pilots.” ALPA also urged the Irish government to reject NAS’s plan to register the aircraft in Ireland. An AFL-CIO Transportation Trades Department piece published by *Aviation Daily*, states, “We must reject business models premised on scouring the globe for cheap labor no matter the consequences.”

3. Alitalia Completes Capital Increase of €300 Million.

Alitalia completed a €300 million capital increase. Large shareholders include Poste Spa, Unicredit Spa and Odissea Spa. Air France-KLM did not participate, bringing its 25% share to 8%. Etihad said it is in discussions with Alitalia.

4. Europe Updates List of Banned Airlines.

The European Commission updated the list of airlines subject to an operating ban or operational restrictions within the EU, adding all airlines from Nepal. Airlines from the Philippines, Sudan and Zambia remain on the list, but are “moving in the right direction,” said EC Transport Vice President Siim Kallas.

5. Athar Husain Khan Named CEO of AEA.

Association of European Airlines (AEA) appointed Athar Husain Khan as CEO. Khan was a traffic rights negotiator for the Dutch Ministry of Transport and a KLM official before joining AEA in 2007, where most recently he served as Deputy Secretary General and Acting Secretary General. Bernard Gustin is Chairman of AEA, which represents Europe’s major airlines. In other news, Italy’s second largest carrier, Meridiana fly, is the newest member of AEA.

6. EADS To Rebrand as Airbus Group.

European Aeronautic Defense and Space (EADS) will be rebranded as Airbus Group and will cut 5,800 military and space jobs, as it consolidates those units into a new division, Airbus Defense and Space, on January 1. The commercial aircraft business generates most of EADS’ revenue.

7. JetBlue, South African Begin Code Share.

JetBlue and South African Airways will code share on connections via New York Kennedy or Washington Dulles. JetBlue is placing its code on SAA-operated flights between the U.S. and Johannesburg, and on connecting flights to select destinations beyond Johannesburg.

8. AerCap to Acquire ILFC.

See Section VIII, item 1.

9. Air India To Join Star Alliance.

See Section IX, item 7.

10. Garuda To Join SkyTeam in March.

See Section IX, item 8.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. Hawaiian, China Airlines Code Share Begins.

Hawaiian and Taiwan's China Airlines are offering code share service between North American, Hawaiian and Asian destinations, as well as reciprocal frequent flyer programs and an interline agreement for additional destinations in Asia such as Okinawa, Manila, Ho Chi Minh City, Hong Kong and Jakarta. Earlier this year, Hawaiian began three weekly nonstops to Taipei. . . . In other news, Hawaiian's inter-island subsidiary 'Ohana resumed the FAA certification process, which was delayed due to sequestration. 'Ohana by Hawaiian will offer daily service between Honolulu International and Molokai and Lanai. The 48-seat ATR42 flights will be operated by contractor Empire Airlines; reservations and sales will be handled by Hawaiian. 'Ohana Managing Director is Hadden Watt.

2. Hainan's Beijing-Boston Nonstops Begin in June.

Hainan will launch four weekly Beijing-Boston Boeing 787 nonstops on June 20, the first ever scheduled nonstop to Boston from Mainland China. Hainan's current North American routes to Beijing include Seattle, Chicago and Toronto. Recent changes to visa regulations permit U.S. citizens to stay in Beijing for 72 hours visa-free when traveling to international points beyond China, enabling online onward travel to destinations like Bangkok and Phuket.

3. China Southern Executives Investigated in Anti-Corruption Campaign.

China Southern reported several executives to authorities after an internal audit uncovered irregularities, amid China's anti-corruption campaign. . . . China Southern is China's largest airline, with 65 million passengers in first three quarters 2012, followed by China Eastern with 55 million, Air China with 37 million and Hainan with 17 million. According to Research and Markets' "China Air Transport and Airport Industry Report," these four airlines accounted for 73% of total air passenger traffic in China. In 2011, Chinese airports handled 620.537 million passengers, and 11.578 million tons of cargo and mail, up 10% and 2.57% year-on-year respectively. Airports in Beijing, Shanghai and Guangzhou accounted for 32% of total throughput. Beijing Capital ranked No.1 in Asia and No.2 in the world with 79 million passengers; Guangzhou Baiyun ranked No.2 in China with 45 million.

4. Etihad, Qatar To Launch Dallas Services.

Etihad will launch three weekly direct flights from Abu Dhabi to Dallas/Fort Worth, with three-class Boeing 777-200LRs, on December 3, 2014, its fifth

U.S. destination. CEO James Hogan said Etihad's "extensive flight network and those of partner airlines, such as Jet Airways in India and American Airlines, will ensure air travelers have an unparalleled proposition when flying between the Middle East and Indian Subcontinent and the United States." . . . Qatar will begin daily nonstops from Doha to Dallas/Fort Worth on July 1, operating two-class Boeing 777-200LRs. The oneworld member also will begin service to Philadelphia and Miami in 2014, and currently flies to New York, Washington DC, Chicago and Houston. . . . Air Line Pilots Association, said the Dallas services underscore "the growing penetration of state-supported Middle Eastern airlines into large and important U.S. markets" tilting an uneven playing field. In the case of Etihad, said ALPA, "the situation is made dramatically worse by U.S. government policy actively promoting the foreign carrier to the detriment of U.S. carriers and U.S. jobs." ALPA referred to U.S. intention to establish a Customs and Border Patrol preclearance facility at Abu Dhabi International for U.S.-bound passengers, and financing through the U.S. Export-Import Bank, Etihad's Boeing widebody purchases.

5. Etihad, Jet Airways Plan India-U.S. Code Share via Abu Dhabi.

Etihad is expanding its Indian operations following approval of a 24% investment in Jet Airways, the first foreign investment permitted in an Indian airline. Subject to regulatory approvals, Etihad plans to code share on new flights by Jet between India and the U.S., via Abu Dhabi, and the carriers plan to code share on each other's flights between Abu Dhabi, India and other markets in the Middle East, North America and Europe. Etihad's "equity alliance" now includes airberlin (29%), Air Seychelles (40%), Virgin Australia (21.2%), Jet Airways (24%) and Aer Lingus (3%). Etihad awaits regulatory approval to acquire 33.3% of Swiss regional carrier Darwin and in January will activate a 49% investment in Air Serbia.

6. Qantas Sale Act May Be Amended.

"Qantas is not looking for protection from the free market," said CEO Alan Joyce, in an ongoing clash with the government regarding foreign ownership of rival Virgin Australia. "Not only has Qantas competed successfully in Australia and the world for nearly twenty years [since privatization], it has done so while handcuffed by the Qantas Sale Act, which limits the company's access to foreign capital." Joyce said Virgin Australia's 2012 restructure "enabled it to circumvent Australia law and pretend to be an Australian airline, when it is majority owned by three foreign-government backed airlines. Through Virgin, they are pouring money into our domestic market to weaken Qantas and ultimately funnel Australian traffic on their airlines and through their hubs [and] are focused on advancing the national interests of Singapore, Abu Dhabi and New Zealand." Joyce's remarks came after Qantas Group

reported before tax loss of \$250 million to \$300 million for six months ending December 31. Qantas will slash costs to achieve savings of \$2 billion over three years, including reduction of 1,000 positions within 12 months, CEO and Board pay cut and freeze and no FY14 executive bonuses. Qantas' credit rating dropped to junk status and Australia's Prime Minister offered the possibility of amending the Qantas Sale Act. . . . Meanwhile, Air New Zealand's stake in Virgin Australia rose slightly to 24.5% and those of Singapore Airlines and Etihad to 21.2%, after a \$350 million capital raising.

7. Air India To Join Star Alliance.

Air India will begin the integration process with the Star Alliance, which said, "The market in India is now showing signs of stabilization. Today we see an Air India which has successfully completed its merger with Indian Airlines and is building up a new fleet that forms the basis for a much improved level of service." The Indian national carrier was originally accepted as a future member of Star Alliance in December 2007, but integration was halted in July 2011 during the merger process with Indian Airlines.

8. Garuda To Join SkyTeam in March.

Garuda will become the twentieth member of SkyTeam on March 5. The national airline of Indonesia operates nonstops from Jakarta to seven SkyTeam hubs: Seoul, Guangzhou, Beijing, Shanghai, Taipei and Amsterdam.

9. Asiana Replaces CEO.

Asiana named Kim Soo Cheon as CEO to replace Yoon Young Doo, as of January 1, and said Yoon is not resigning to take responsibility for the crash of Flight 214 in San Francisco. Kim is CEO of low-cost Air Busan, which is 46% owned by Asiana; he joined Asiana when it was established in 1988. Asiana executive Han Tae-geun will replace Kim at Air Busan. . . . The National Transportation Safety Board held a fact-finding hearing in Washington on the Asiana crash. On July 6 the Boeing 777-200ER with 291 passengers, 12 cabin crew, and 4 flight crew aboard, struck a seawall during approach to San Francisco International Airport. The accident resulted in three fatalities, one of which occurred on the runway when a passenger was struck twice by rescue vehicles; some 200 passengers and crew were transported to hospitals. This was the first fatal Boeing 777 accident. The hearing focused on the human-machine interface in highly automated aircraft and emergency response and cabin safety, and revealed cockpit culture and communication issues.

10. Asia-Pacific Budget Airlines Form New Alliances.

Tigerair, which comprises Tigerair Singapore, Tigerair Mandala, Tigerair Philippines and Tigerair Australia, has entered into a joint venture agreement

with China Airlines to establish an independently managed Taiwan-based budget carrier; Tigerair initially will hold 10% of Tigerair Taiwan, subject to regulatory approvals. A three-year interline agreement begins January 1 for Tigerair Singapore and India's SpiceJet. Tigerair and Singapore's Scoot signed an alliance agreement, subject to approvals, that could include joint operation, sales and marketing of parallel routes and alignment of policies, pricing and scheduling. Scoot plans to establish a new budget airline with Thai Airways budget unit Nok Air. If approved by regulators, NokScoot will operate from Bangkok on medium- and long-haul routes previously operated by Thai's recently grounded U-Airlines, R-Airlines and P.C. Air.

11. El Al CEO Shkedy Resigns; UP Ticket Sales Begin.

Elyezer Shkedy announced his departure after four years as CEO of EL AL and expressed regret that "we have not moved ahead in formulating a new collective agreement." EL AL must reduce expenses, if it "wishes to continue to flourish, be competitive and cope in the aviation field with all its fluctuations and challenges." . . . EL AL launched low-fare unit, UP, offering two-class services to Berlin, Budapest, Kiev, Prague and Larnaca, at introductory fares starting at \$69 each way, for travel to begin March 30. UP will compete with European low-fare carriers with increased access to Israel due to a recent open skies agreement. . . . Bloomberg reported that a group of investors is interested in acquiring a controlling stake in the Israeli flag carrier. In October, Fimi Opportunity Funds backed out of a planned investment of up to \$75 million that hinged on a new labor agreement.

12. AerCap to Acquire ILFC.

See Section VIII, item 1.

13. Europe Updates List of Banned Airlines.

See Section VIII, item 4.

14. Air India To Join Star Alliance.

See Section IX, item 7.

15. Garuda To Join SkyTeam in March.

See Section IX, item 8.

X. AMERICAS

1. AMR, US Airways Merger Completed.

The merger of AMR and US Airways was completed to form American Airlines Group, which includes American Eagle and US Airways Express, has 6,700 daily flights to 330 destinations in 50 countries and more than 100,000 employees worldwide. US Airways will exit Star Alliance on March 30 and enter oneworld on March 31; until full integration, US Airways and its regionals will operate as affiliate members under the American umbrella. A Single Operating Certificate is expected in 18 to 24 months. Meanwhile, the airlines' websites, reservations systems and loyalty programs will continue to operate separately. An American-US Airways code share agreement will roll out. The merger is expected to generate \$1 billion in annual net synergies by 2015. . . . Unions representing flight attendants agreed to jointly file for a Single Carrier Determination from the National Mediation Board within the next six months, after which Association of Flight Attendants-CWA will be certified as the collective bargaining representative. . . . U.S. Supreme Court Justice Ruth Bader Ginsburg denied an application by a group of consumers and travel agents to stop the merger, which plaintiffs said could cause irreparable injury to the domestic airline industry. . . . Doug Parker, CEO of the new carrier, said there are no plans to divest American Eagle and American signed an agreement with Bombardier for 30 CRJ900s, with options for up to 40 more, to be operated on behalf of American by US Airways subsidiary PSA Airlines, and will purchase 60 Embraer E175s, with options for up to 90 more. All will fly in American Eagle livery.

2. American, Cantor Fitzgerald Settle 9/11 Lawsuit.

American Airlines agreed to settle a 2004 lawsuit filed by Cantor Fitzgerald for \$135 million. The carrier was accused of failing to prevent the hijacking of Flight 11 on September 11, 2001, which crashed into the north tower of the World Trade Center, killing 658 of Cantor Fitzgerald employees. This was the final 9/11 airplane-focused case resulting from claims of wrongful death and personal injuries. None of the 9/11-related trials involved airlines.

3. JetBlue Names Robin Hayes President.

JetBlue promoted Robin Hayes to President, effective January 1, from Executive Vice President-Chief Commercial Officer. CEO Dave Barger has held the roles of both CEO and President. Hayes joined JetBlue as Chief Commercial Officer in 2008 after a long career at British Airways.

4. **Alaska, Spirit Reach Flight Attendant Agreements.**
Alaska Airlines and Spirit Airlines both reached tentative five-year agreements with their flight attendants, represented by Association of Flight Attendants.
5. **AerCap to Acquire ILFC.**
See Section VIII, item 1.
6. **Norwegian to Offer New U.S. Service.**
See Section VIII, item 2.
7. **JetBlue, South African Begin Code Share.**
See Section VIII, item 7.
8. **Hawaiian, China Airlines Code Share Begins.**
See Section IX, item 1.
9. **Hainan's Beijing-Boston Nonstops Begin in June.**
See Section IX, item 2.
10. **Etihad, Qatar To Launch Dallas Services.**
See Section IX, item 4.
11. **Etihad, Jet Airways Plan India-U.S. Code Share via Abu Dhabi.**
See Section IX, item 5.
12. **Air India To Join Star Alliance.**
See Section IX, item 7.
13. **Garuda To Join SkyTeam in March.**
See Section IX, item 8.
14. **Asiana Replaces CEO.**
See Section IX, item 9.