



WASHINGTON AVIATION SUMMARY

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For further information, including documents referenced, contact:

Joanne W. Young
Kirstein & Young PLLC
1750 K Street NW
Suite 200
Washington, D.C. 20006
Telephone: (202) 331-3348
Fax: (202) 331-3933
Email: jyoung@yklaw.com

<http://www.yklaw.com>

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

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I. REGULATORY NEWS

1. East Coast Storm Causes Thousands of Flight Cancellations.

Federal offices in Washington closed for two days and airlines canceled some 20,000 flights at month's end, as a devastating storm struck the U.S. East Coast. In the New York area, flooding and high winds forced closure of Kennedy, Newark and LaGuardia airports, which account for one-quarter of U.S. daily air traffic. Air traffic control towers shut down at many regional airports. Financial impact due to disruptions and damage to equipment and infrastructure was unknown at press time. The event affected passenger and cargo flights around the globe.

2. IATA: Global Airlines to Earn \$4.1 Billion in 2012.

Global airlines will earn \$4.1 billion in 2012, up \$1.1 billion from the June forecast of \$3 billion, reports the International Air Transport Association (IATA). Net profit margins will fall from 1.4% in 2011 to 0.6%. Regionally, European airlines will post the largest loss at \$1.2 billion. North American carriers will see largest improvement among regions, due primarily to tight capacity management, with profits of \$1.9 billion, compared to \$1.3 billion in 2011. Asia-Pacific airlines will post a \$2.3 billion profit. With 40% of the global cargo market, Asia-Pacific carriers are more exposed to weak cargo demand, though they see relatively robust performance in passenger markets. Middle East carriers will post a \$0.7 billion profit, with strongest passenger traffic growth and the majority of cargo growth. Latin American airlines will post profit of \$0.4 billion. African airlines will break even. . . IATA predicts 2013 global profits will rise to \$7.5 billion, due to slightly lower oil prices and predicted global gross domestic product (GDP) growth of 2.5%, up from 2.1% in 2012.

3. DOT Fines Airlines.

The U.S. Department of Transportation (DOT) fined British Airways \$250,000 for violating DOT full-fare advertising rules, as well as the Montreal Convention on reimbursements for mishandled baggage. . . . DOT fined Qantas \$100,000 for violating DOT's new rule requiring carriers, including foreign carriers, to "clearly and prominently disclose on the first screen that offers a fare for a consumer's specific itinerary that additional fees for baggage may apply, as well as show consumers where they can view the baggage fees." . . . Xtra Airways was fined \$300,000 for violating rules protecting charter passengers when flights it operated for Direct Air were suddenly canceled when Direct Air ceased operating in March. In July, the Department assessed a \$180,000

penalty against World Atlantic Airlines, another carrier operating flights for Direct Air; DOT is investigating the Direct Air shutdown.

4. FAA Proposes Fines.

The Federal Aviation Administration (FAA) is proposing a \$354,500 civil penalty against US Airways for operating a noncompliant Boeing 757 on 916 revenue flights between August and December 2010. FAA alleges US Airways removed and replaced a leaking engine fuel pump on the aircraft and failed to carry out required tests and inspections before returning the aircraft to revenue service. . . . FAA is fining aircraft repair stations for violating drug and alcohol testing regulations: Santa Clarita, Calif.-based Woodward, Inc. subsidiary HRT (\$246,450), El Cajon, Calif.-based GKN Aerospace Chem-Tronics (\$359,350); and Sylmar, Calif.-based Circor Aerospace (\$205,250).

5. DOT Air Travel Consumer Report for August.

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

	August '12/'11	July '12	Full Year				
			2011	2010	2009	2008	2007
On-time arrivals %	79.1 / 79.3	76	79.6	79.8	79.5	76	73.4
Cancellations %	1.3 / 2.5	1.4	1.91	1.76	1.39	1.96	2.16
Mishandled baggage*	3.38 / 3.45	3.52	3.39	3.51	3.91	5.26	7.05
Consumer complaints:							
Airline service	1,886 / 1,416	2,466	11,545	10,988	8,821	10,648	13,180
Disability-related	73 / 48	97	630	572	519	477	488
Discrimination**	9 / 12	16	127	143	131	115	99

Note: Airlines reported no tarmac delays of more than three hours on domestic flights in August and one of more than four hours on an international flight.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. O'Hare Terminal 5 Plans Unveiled.

Redevelopment plans for Chicago O'Hare Terminal 5 were unveiled by the Chicago Department of Aviation. Scheduled for completion next fall, the project repositions dining and retail options previously located pre-security. Westfield Concession Management and tenants are investing \$26 million in the renovation. Currently, 24 air carriers operate from 21 common-use gates at Terminal 5, which was built in 1993.

2. JetBlue Breaks Ground on JFK International Arrivals Terminal.

JetBlue broke ground for a new international arrivals facility at New York Kennedy. The 150,000 sq. ft. extension to its Terminal 5 hub will open in 2015.

3. Pittsburgh Rate Rise Approved.

Allegheny County Airport Authority approved a per passenger increase of 38 cents to \$14.66 at Pittsburgh International in 2013, following two years of rate cuts. The increase will fund debt service on a \$50 million bond issued for facility improvements, and offset an expected drop in enplanements.

4. BAA Airports Now Operate Under Their Own Names.

Heathrow, Glasgow, Aberdeen Southampton and Stansted now operate under their stand-alone brands, rather than as BAA. Since we sold our stakes in Gatwick and Edinburgh and are in the process of selling Stansted, noted Heathrow CEO Colin Matthews, "we do not represent all British airports; we are not a public authority; and practically speaking the company is no longer a group as Heathrow will account for more than 95% of the business." The British Airports Authority was established in 1965 and in 1986 moved to become a private company, BAA, which in 2006 was acquired by Ferrovial.

5. Ryanair Withdraws From Stansted Sale Process.

Ferrovial excluded Ryanair and any Ryanair-related consortium from the Stansted sale process and Ryanair withdrew from participation.

6. Quieter, Four-Runway Heathrow Promoted.

The UK needs a four-runway airport either at Heathrow or Luton if it wants to compete with other European hubs, says a Policy Exchange report. The study rules out a proposed Thames estuary airport and a four runway airport at Gatwick or Stansted.

7. Prague International Renamed Vaclav Havel.

Prague International has been renamed to honor the late President Vaclav Havel. The playwright who led the 1989 revolution that ended communist rule of Czechoslovakia died in 2011.

8. EC Clears Financing of Munich Terminal 2.

European Commission (EC) competition regulators cleared public loans granted to Lufthansa and Munich Airport in 1998 for construction and operation of a second terminal, after an investigation found that the financing was granted on market terms and therefore did not involve state aid; before 2000, EU state aid rules did not apply to the financing of airport infrastructure. The decision is among some 60 on-going state aid investigations in the aviation sector; new guidelines are expected next year.

9. Hong Kong to Continue New-Destination Incentive.

Hong Kong Airport Authority will extend the existing new-destination incentive arrangement to December 31, 2014, to encourage airlines to continue to launch new routes. Airlines receive a 75% rebate on landing charges for flights between Hong Kong and a new destination for the first six months after the route is launched, and a 25% rebate for the next six months.

10. India to Eliminate Some Airport Fees.

India's Civil Aviation Ministry is eliminating development fees at some airports. Delhi and Mumbai operators were asked to submit proposals on how they will meet resulting funding shortfalls; state-owned Airports Authority of India, which holds a 26% stake in both airports, will also add capital. In July, IATA estimated that previously planned fee increases at Delhi would raise airline operating costs by \$400 million, and affect travel demand by as much as 7%. . . . In other news, five facilities were re-designated as international airports. Located in Varanasi, Lucknow, Trichy, Coimbatore and Mangalore, the airports have runways that can handle long-range aircraft and night landing.

III. SECURITY AND DATA PRIVACY

1. TSA Pre-Check Added to Several Airports.

The Transportation Security Administration (TSA) announced the start of TSA Pre-Check operations at Honolulu, Denver and Pittsburgh International Airports and an expansion at Dallas/Ft. Worth. U.S. citizens traveling domestically who are select frequent travelers on airlines, including Alaska, American, Delta, United or US Airways, or members of U.S. Customs and Border Protection (CBP) Trusted Traveler programs are eligible to participate in TSA Pre-Check and may receive expedited screening benefits. Some 3.5 million passengers are in the program. Pre-Check will open on November 15 to Canadian citizens traveling domestically in the United States who are members of CBP and the Canada Border Services Agency NEXUS program. . . . Use of a private vendor to expand Pre-Check will be tested next year, TSA Administrator John Pistole told reporters at the American Bar Association Aviation Law Forum.

2. Stansted Tests Generic Image Body Scanner.

London Stansted began a three-month trial of the L-3 ProVision body scanner, a walk-through portal that detects prohibited items and addresses privacy concerns by using a generic computer image. Already in many airports worldwide, the scanner uses radio frequency millimeter wave technology, rather than X-rays or ionizing radiation.

3. e-Gate Technology.

A boarding gate with built-in explosives detection equipment was successfully prototyped by Hitachi in collaboration with Nippon Signal and the University of Yamanashi. The technology can inspect 1,200 passengers per hour without disrupting flow. Mass spectrometry technology detects explosive compounds on IC [smart] cards or portable devices used as boarding passes within two seconds. . . . An Accenture system processes passengers who have biometric passports issued by an EU member state in about eight seconds. Facial recognition technology validates identity, processes passenger information and alerts border officers when persons of interest, who may be on watch lists, enter the e-gates. Amsterdam Schiphol has deployed 36 Accenture e-gates since March that by yearend will have processed some one million passengers.

IV. E-COMMERCE AND TECHNOLOGY

1. IATA Adopts Standard for New Distribution Capability.

IATA adopted the New Distribution Capability (NDC) at the World Passenger Symposium in Abu Dhabi. About 60% of tickets, by value, are sold indirectly through travel agencies using global distribution systems (GDS). With the new standard, airlines can recognize these customers and provide tailored offerings, as they already do for customers who go directly to their websites. Passengers will have access to all airline products and services regardless of distribution channel. "A Foundation Standard for the NDC is the first step to enabling the development of open XML standards that will be available for all interested providers to work on and develop their own offerings" said IATA. . . . Travel associations question the transparency of the NDC project, among them American Society of Travel Agents (ASTA) and Business Travel Coalition (BTC). "There is reason for significant concern over negative impacts to consumers, competition and costs [since IATA] refuses to let organizations that represent travel agents and corporate travel departments have a seat at the table," said BTC. "IATA only welcomes individual travel agents or travel managers who are largely prevented from speaking up for fear of retaliation on their businesses or airline contracts." ASTA noted that travel agents, which sold \$68 billion in air transportation in 2011 in the U.S. alone, could sell "current airline innovations such as special meals, expedited boarding, roomier seats and access to airport lounges," if those products were "available to agents in a transparent and transactable manner, which is entirely possible through GDS technology and the ATPCO OC process."

2. American, Sabre Settle Disputes, Renew GDS Agreement.

American Airlines and Sabre settled their disputes and renewed their current distribution agreement for multiple years. American will receive a monetary payment from Sabre, as part of the settlement, which requires review and approval by the court presiding over AMR's restructuring procedures, and will continue pursuing its direct connect initiative.

3. Allegiant Systems to Provide Mobile Technology Services.

Allegiant, in a joint venture with AvlIntel and Lixar IT, has formed Allegiant Systems to provide mobile technology services to the commercial aviation industry. Initially, Allegiant Systems will provide Allegiant Air and other airlines with Software-as-a-Service (SAAS) solutions. The cloud-based model will provide software for such areas as Electronic Flight Bag, inflight operations including buy-on-board, and cabin crew automation.

4. **Orbitz U.S. Mobile Bookings to Top \$700 Million.**

With 2012 mobile gross bookings to exceed \$700 million in U.S. sales, Orbitz is the highest ranked full-service travel company in mobile commerce. According to Internet Retailer Mobile 400, which lists mobile commerce sales in the U.S., Europe and Latin America, Orbitz ranks number four, behind Amazon, Apple and Marriott and ahead of Walmart.

5. **Survey Finds Passengers Oppose Inflight Cellphone Use.**

According to an online survey of 710 people by business travel specialist Corporate Traveller, 624 (88%) said mobile phones should be used only for texting, emailing and internet browsing and were against phones being used for voice calls.

6. **Routehappy Debuts.**

Routehappy, a “flight experience” search engine, closed a \$1.5 million funding round. A Beta website introduced in March offers comparisons of amenities by flight and route and targeted tips from flyers. CEO/Co-Founder is Robert Albert, former General Manager of Site59 and Travelocity executive. Scott Hintz of TripIt and Hotwire sits on the board and advisors include former airline industry executives.

7. **Southwest Shuts Down Automatic Check-In Site.**

Southwest sent a cease and desist letter to Checkintomyflight.com, a startup website that attracted thousands of travelers seeking to ease the airline’s check-in process. A recent Stanford graduate built the “fun little tool” for himself, as a reminder to check in for his Southwest flight, and it instantly attracted the traveling public.

V. ENERGY AND ENVIRONMENT

1. Fuel Bill for Global Airline Industry.

The average price of aviation jet fuel, as of October 19, was \$132.9/barrel, up 1.4% on the month and up 4.3% year-on-year, reports the International Air Transport Association. Fuel price average for 2012 was \$130.2/barrel.

2. \$10 Million Grant to Develop Biofuels.

Pennsylvania State University was awarded a five-year, \$10 million research grant by the U.S. Department of Agriculture (USDA) to lead a team that will develop biomass supply chains for production of liquid transportation and aviation biofuels in the Northeast. The NEWBio Consortium will focus on non-food biomass sources of willow, miscanthus and switchgrass, which can be grown on former strip mines and marginal floodplains, and will address crop genetic development, harvesting, storage and processing techniques and sustainable production systems. The research will develop sustainable production practices to improve yield by 25% and reduce costs by 20%. Earlier USDA grants were awarded for regional systems in the Pacific Northwest, the Northwest, Northern states, Southern states and the Southeast, as part of Obama Administration efforts to build the framework for a competitively-priced, American-made biofuels industry.

3. EU Proposal Amends Biofuel Production Requirements.

The EC is proposing to increase the minimum greenhouse gas saving threshold for new installations to 60%, to improve efficiency of biofuel production processes and discourage investment in installations with low greenhouse gas performance. The proposal would limit the amount of food crop-based biofuels and bioliquids that can be counted toward the EU 10% target for renewable energy in the transport sector by 2020, to the current consumption level, 5% up to 2020, while keeping overall renewable energy and carbon intensity reduction targets. It would provide market incentives for biofuels with no or low indirect land use change emissions, particularly second and third generation biofuels produced from feedstock that do not create additional demand for land, including algae, straw and waste. After 2020 biofuels should receive financial support only if they lead to substantial greenhouse gas savings and are not produced from crops used for food and feed. Critics have called for the European Union and the U.S. to abandon biofuels altogether, since land used to produce them is needed for farming.

VI. U.S. CONGRESS

1. Congress in Recess.

The Senate and the House were in recess until after November elections.

2. Schumer Calls for Probe of TSA Thefts.

After an ABC News report that 381 TSA officers were fired for theft between May 2003 and December 2011, Sen. Charles Schumer (D-NY) asked TSA Administrator John Pistole for immediate random and frequent audits at checkpoints. Noting that the number fired represents less than one-half of 1% of Transportation Security Officers, TSA said it “takes prompt and appropriate action with any employee who does not follow our procedures and engages in misconduct,” and announced a proposed removal of 25 individuals and suspension of 19 others at Newark Liberty Airport.

3. Thompson, Jackson-Lee Prod TSA on Insider Threat Policies.

In response to a Department of Homeland Security Office of Inspector General report on TSA efforts to address insider threat risks, Bennie Thompson (D-MS), Ranking Member, House Committee on Homeland Security, and Sheila Jackson-Lee (D-TX), Ranking Member, House Transportation Security Subcommittee, wrote to TSA Administrator Pistole about a “failure to implement low-cost methods to reduce risk as recommended in the report.” The report says TSA has begun to address the issue with vulnerability assessments of personnel, physical, and information systems at selected airports and off-site offices, among other efforts. Last year the Administration ordered federal agencies to set up internal threat programs.

4. Congressman Wants Smarter, Leaner DHS.

Rep. Mike Rogers (R-AL) proposed in a *Washington Times* column that Congress apply a litmus test to everything DHS does: Will it improve security? Is it a wise use of taxpayer dollars? Will it reduce the regulatory burden and partner with the private sector? If DHS cannot produce satisfactory answers, now is the time to find a smarter, leaner way, wrote Rogers, who is Chairman of the House Homeland Security Subcommittee on Transportation Security.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. Taiwan Added to U.S. Visa Waiver Program.

The U.S. Department of Homeland Security announced the designation of Taiwan into the Visa Waiver Program (VWP). Taiwan will join 36 participants in the VWP, which permits visa-free travel for eligible travelers visiting the United States for up to 90 days. Last year, the VWP accounted for 18.3 million U.S. visits, or more than 60% of tourist and business travelers entering the U.S. by air. According to U.S. Travel Association, the number of Taiwanese travelers to the U.S. could reach 346,000 in 2013 due to the VWP, 55,500 more than in 2011. Legislation that would allow for expansion of the Visa Waiver Program is currently before Congress.

2. U.S. Comments on Cuba's Move to End Exit Permit Requirements.

In response to Cuba's announcement that it will end exit permit requirements for its citizens as of January 14, the U.S. Department of State said: "This is consistent with the Universal Declaration of Human Rights, which provides that everybody ought to have the right to leave any country, including their own, and/or to return to their own country. We obviously welcome any reforms that will allow Cubans to depart from and return to their country freely. We remain committed to the migration accords under which our two countries support and promote safe, legal and orderly migration. Our own visa requirement remains unchanged."

3. EU Presses Boeing Subsidies Case at WTO.

The EU urged the World Trade Organization (WTO) to formally take up its complaint that the U.S. government has not removed billions of dollars in illegal subsidies for Boeing. In September, the U.S. Trade Representative said the United States had complied with an order to withdraw subsidies to Boeing. The EU disagreed and requested WTO clearance to impose \$12 billion annually in counter-measures. . . . In related news, the EC accused the United States of breaching confidentiality regarding sensitive documents on Airbus A350 funding obtained from the WTO . . . And, a proposed merger of Airbus parent EADS and the UK's BAE Systems collapsed.

VIII. EUROPE AND AFRICA

1. EU Court Confirms Passenger Compensation for Delays.

The EU Court of Justice confirmed a previous ruling that passengers whose flights have been delayed three hours or more may be treated the same as those whose flights are cancelled. They may claim fixed compensation of €250 to €600 from the airline, unless the delay is caused by extraordinary circumstances. The court was providing guidance for a case involving Lufthansa in a German court and another involving TUI Travel, British Airways, easyJet and IATA in the UK. "Passengers whose flights are delayed and those whose flights are cancelled 'at the very last moment' must be regarded as being in comparable situations as regards the application of their right to compensation, because those passengers suffer similar inconvenience, namely, a loss of time," said the Court.

2. HNA First Chinese Company to Invest in European Airline.

HNA Group completed the acquisition of a 48% equity interest in Aigle Azur, becoming the first Chinese aviation enterprise to invest in a European airline. Go Fast Transport is the majority owner of Paris-based Aigle Azur, which operates 12 Airbus A320s on 300 scheduled weekly flights to Algeria, Mali, Portugal, Russia and Tunisia, as well as charter, cargo and wet leases services. HNA said two wide-body aircraft will be added to the Aigle Azur fleet, and routes to Beijing and other destinations will be opened. HNA is a major investor in recently launched Africa World Airlines.

3. Air France Reorganization.

Air France will implement a reorganization on January 1, with the company structured into eight business units: long-haul; medium-haul at Paris Charles de Gaulle; Paris Orly and the regional airports; the French Regional Hub; Transavia France; cargo; industrial operations; and Servair. No additional employee reductions were announced.

4. OpenSkies Offers Three-Class New York-Paris Service.

British Airways unit OpenSkies will begin daily three-class Boeing 757 service from Paris Orly to New York Kennedy on March 31.

5. United to Add UK Service.

United will offer five weekly Boeing 757-200 Chicago-Shannon nonstops from June 6 to August 26, and a third daily Boeing 767-300 Houston-London Heathrow service from March 30.

6. JetBlue, Royal Air Maroc Partner.

JetBlue and Royal Air Maroc launched an interline agreement for transfers from New York Kennedy to JetBlue destinations and from Casablanca Mohammed V to cities across the Maghreb and West Africa.

7. Aegean to Acquire Olympic Air.

Aegean agreed to purchase Olympic Air for €72 million, pending approval from competition authorities. Olympic will be a subsidiary of Aegean and maintain its own identity, fleet and staff. An earlier attempt was blocked by the EC.

8. Vueling to Expand to 100 Destinations From Barcelona.

Vueling will launch 28 new routes from Barcelona El Prat Airport in March 2013, bringing destinations to 100. London Gatwick, Frankfurt and Düsseldorf are among new cities in the network, and new countries are the Gambia (Banjul), Finland (Helsinki), Bulgaria (Sofia) and Luxembourg. The number of aircraft based at El Prat will rise from 34 to 43 and Vueling will incorporate 500 new employees including pilots, cabin crew and support staff.

9. Gambia Bird Begins Service.

The Gambia's new national carrier, Gambia Bird, launched scheduled Airbus A319 services from Banjul to Accra, Monrovia, Dakar, Freetown, Conakry, London Gatwick and Barcelona. The West African carrier is majority owned by Germania Group and operated by Germania Express. Gambia Bird co-founder and CEO is Thomas Wazinski, who is also Director of Germania Express and Germania Technik Brandenburg.

10. Malaysia, Qatar to Join Oneworld.

See Section IX, item 2.

11. Etihad, Air France-KLM Begin Strategic Partnership.

See Section IX, item 6.

12. DHL Investing \$130 Million in India.

See Section IX, item 8.

13. Virgin Atlantic Re-Launches London-Mumbai Service.

See Section IX, item 10.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. Asia Pacific Outlook.

Half of the world's future traffic growth over the next two decades will be to, from or within the Asia Pacific region, said Andrew Herdman, Director General, Association of Asia Pacific Airlines (AAPA), in remarks to the International Aviation Club in Washington. As a result of faster growth rates, Asian airlines' share of the overall market is projected to increase to 32% of a much larger (today x 2.5) global market by 2030, compared to European airlines' 24% and U.S. carriers' 20%. Herdman noted a growing feeling among developing countries that the influence of the U.S. and EU is becoming disproportionate to economic and political realities and said governance and regulatory frameworks must adapt with the times. Referring to safety, Herdman said U.S. category downgrades and the EU banned airline list "may be well intentioned, but are fundamentally misguided, lacking transparency, with no clarity as to what is required to get off the list. From an airline perspective, it appears unjust to be punished simply in order to put pressure on another foreign government. It is hard to imagine how not being allowed to operate new aircraft on a route because of such restrictions can provide any safety benefit . . . we have strong reservations about the use of unilateral measures to extra-territorially enforce such rules."

2. Malaysia, Qatar to Join Oneworld.

Malaysia Airlines will become a full member of oneworld on February 1. The Kuala Lumpur-based carrier flies to 60 destinations in 30 countries with a fleet of 88 aircraft, including the Airbus A380, boarding 13 million passengers in 2011 and generating revenues of \$4.5 billion. Qatar Airways also will join oneworld, becoming the first of the major Gulf-based airlines to sign on to a global airline alliance. Qatar boarded 15 million passengers in 2011, generating group revenues of \$6.4 billion, and operates 111 Boeing and Airbus aircraft, with orders and options for another 250. The Doha-based carrier is 50% state-owned.

3. FedEx to Build New Logistics Hub in Shanghai.

FedEx signed an agreement with Shanghai Airport Company to establish a \$100 million international express and cargo hub at Pudong with triple capacity of the company's current Shanghai enterprise. The new facility, with designated onsite customs clearance, is slated for completion in early 2017. Pudong is expected to become the world's top air cargo hub by 2015; an expansion project expected to increase freight handling capacity to five million

tons annually by 2020 has been approved. Shanghai's GDP increased by 8% over last three years, and foreign trade volume surged to 32% and 18% year-over-year in 2010 and 2011, respectively. FedEx serves Shanghai with 68 flights a week, inbound and outbound. . . . FedEx expects to have its busiest day in history on December 10 when it moves a projected 19 million holiday shipments, up 10% over last year; last year U.S. consumers spent \$1.1 billion on "Green Monday." . . . The company announced cost reductions to achieve annual profitability improvement of \$1.7 billion during the next three years; \$1.55 billion will come from streamlining the Express unit, \$300 million from modernizing the air fleet and \$350 million from domestic changes.

4. **Singapore Airlines to Acquire 10% Stake in Virgin Australia.**

Singapore Airlines will acquire a 10% stake in code share partner Virgin Australia for A\$105.3 million. Australian Foreign Investment Review Board (FIRB) approval has been obtained for the purchase, which is expected to be completed on November 16. Singapore Airlines also owns a stake in Virgin Atlantic. Virgin Australia shares are held by Virgin Group (26%), Air New Zealand (18%) and Etihad (10%).

5. **Virgin Australia to Acquire Skywest, Tiger Australia Stake.**

Virgin Australia will acquire 60% of budget carrier Tiger Australia from Tiger Airways, which is part-owned by Singapore Airlines, for A\$35 million, subject to regulatory approvals. An additional payment of A\$5 million will be made if Tiger Australia achieves certain financial performance targets within five years. Tiger Airways and Virgin Australia committed to invest up to a further A\$62.5 million to fund growth in Tiger Australia. The joint venture has flexibility to build Tiger Australia's fleet from 11 to up to 35 aircraft by 2018. The Tiger Australia business model and brand will be maintained. "This transaction enables Virgin Australia to access the budget market," said Virgin Australia CEO John Borghetti. . . . Virgin Australia reached an in-principle agreement to acquire 100% of regional operator Skywest, subject to approvals of regulatory bodies in Singapore and Australia. "This transaction will enable us to fast-track our advancement in the high growth fly-in-fly-out (FIFO) and regional markets," said Borghetti. Skywest, based in Western Australia, would become part of the Virgin Australia brand but retain its current operator's certificate, CEO and management team.

6. **Etihad, Air France-KLM Begin Strategic Partnership.**

Etihad and Air France-KLM began a strategic partnership that will include code sharing on flights to destinations in Europe, the Middle East, Asia and Australia. Potential areas of cooperation include joint procurement and maintenance and repair collaboration. SkyTeam member Air France will also

code share with Oneworld member airberlin, in which Etihad holds a 29.21% stake. . . . Etihad also owns minority stakes in Virgin Australia, Air Seychelles, and Aer Lingus; CEO James Hogan said he would consider acquiring the Irish government's 25% stake in Aer Lingus and is considering investment in an Indian carrier. . . . Etihad signed an agreement with Saudi Arabia-based low-fare nasair to code share on 26 routes across the Middle East, North Africa and Asia, subject to regulatory approvals. . . . Speaking at World Routes 2012 in Abu Dhabi, Hogan said Etihad is projecting \$5 billion in revenues in 2012, up from \$4.1 billion last year. The four-day event attracted 40 airline CEOs and 16 tourism ministers

7. AirAsia Halts Batavia Acquisition.

AirAsia ended plans to acquire Batavia Air, but will maintain close cooperation with the Indonesian carrier in a multilateral, multi-phase collaboration agreement encompassing ground handling, distribution and inventory systems. A separate training joint venture will be established immediately. "The timing was perhaps not appropriate as it would have induced too many risks and would ultimately be earnings dilutive to our shareholders," said AirAsia CEO Tony Fernandes; "our aggressive focus in Indonesia remains."

8. DHL Investing \$130 Million in India.

DHL will invest \$130 million to expand operations in India, due to recent government announcements of infrastructure improvements and policies favorable to foreign direct investment. DHL currently offers express delivery, global forwarding and supply chain services in India, with a large free trade warehousing zone in Tamil Nadu; warehouse space will be added in Mumbai, Gurgaon, Delhi, Bangalore, Nagpur, Chennai, Kolkata and Ahmedabad.

9. Kingfisher License Suspended.

India's Director General of Civil Aviation suspended Kingfisher's scheduled operator's permit after months of instability, including violent employee protests due to unpaid salaries, and ordered the debt-ridden airline, a oneworld member-elect, to submit "a concrete and reliable revival plan." Kingfisher CEO Sanjay Aggarwal then reached agreement with employees on salary payments and said they are "back at work and fully supportive."

10. Virgin Atlantic Re-Launches London-Mumbai Service.

Filling a void left by Kingfisher's problems, Virgin Atlantic re-launched service to Mumbai with a daily Airbus A330 flight from London Heathrow. Virgin Atlantic suspended the route in 2009.

11. Emirates Ordered to Pay \$10 Million for Price Fixing.

Emirates was ordered by a Sydney federal court to pay a total of \$10 million in penalties for engaging in cartel conduct, and admitted to “illegal understandings relating to a fuel surcharge, a security surcharge and a customs fee on air freight carried from Indonesia to Australia and other countries between October 2001 and May 2006,” among other charges. The Australian Competition and Consumer Commission said the settlement brings total penalties ordered in Australia against international airlines involved in alleged price fixing to \$68 million.

12. China Airlines Joins SkyTeam Cargo

SkyTeam member China Airlines became the tenth member of SkyTeam Cargo, and will adopt alliance unified service standards and simplify handling procedures.

13. First Private Vietnam Carrier With Foreign Route.

VietJet will become the first privately owned Vietnamese carrier to fly internationally when it launches service from Ho Chi Minh City to Bangkok in December. The low-cost airline currently serves domestic routes with four Airbus A320s that will “soon be joined by many more.”

14. JetBlue, Royal Air Maroc Partner.

See Section VIII, item 6.

15. HNA First Chinese Company to Invest in European Airline.

See Section VIII, item 8.

16. Malaysia, Qatar to Join Oneworld.

See Section IX, item 2.

X. AMERICAS

1. AMR Seeks Extension of Bankruptcy Period.

American Airlines parent AMR filed a request with the bankruptcy court to extend the deadline for its reorganization plan to January 28; AMR's unsecured creditors committee filed jointly for the extension. The court also was asked to approve a plan to refinance \$1.32 billion in high-interest debt with \$1.5 billion in new debt with lower interest rates, secured by American's aircraft; saving would be more than \$200 million. Approval was also sought for renegotiated terms on Embraer regional jets flown by American Eagle. . . . The bankruptcy judge declined to rule on an Allied Pilots Association appeal to preserve their original agreement during contract talks. Angry pilots were alleged to have caused cancellations and delays in late September and early October. (Further disruption ensued when the airline's Boeing 757 seats became dislodged inflight and the fleet had to undergo a repair to the locking mechanism.) The net impact of September disruptions to third quarter financial results "was not material," said AMR, which posted a Q3 net profit of \$110 million, excluding reorganization items and special charges, a \$272 million improvement over prior year period. . . . American will hire 1,500 new flight attendants over the next year; more than 2,000 attendants with at least 15 years at the airline accepted a \$40,000 buyout. The airline will furlough fewer than 300 mechanics and parts clerks because more than 1,500 applied for buyouts. A federal appeals court overturned a ruling that would have blocked a union election for passenger service agents, clearing the way for a vote on whether to ally with Communications Workers of America. . . . American Eagle pilots ratified a new contract. Eagle is hiring to handle recently won ground service work, said CEO Dan Garton, who told reporters he anticipates AMR will revive earlier plans to spin off the regional after emerging from bankruptcy. . . . American will launch new international service next year, including Dallas/Ft. Worth to Lima in April and to Seoul in May, Chicago to Dusseldorf in April, and New York Kennedy to Dublin in June. New domestic flights via regional affiliates American Eagle and ExpressJet will begin in February from Dallas/Ft. Worth and Chicago O'Hare. CEO Tom Horton said 2,500 pilots will be hired over the next five years to accommodate route growth.

2. Randy Babbitt to Head Southwest Labor Relations.

Southwest named J. Randolph Babbitt as Senior Vice President of Labor Relations, responsible for all negotiation, communication and relationships with the 11 organizations that represent 87% of Southwest employees. After 25 years as an Eastern Airlines pilot, Randy Babbitt served as President and

CEO of Air Line Pilots Association. He served as FAA Administrator from 2009 through 2011, when he resigned after being wrongly accused of drunk driving; the charges were dropped.

3. Southwest/AirTran Integration.

Integration of AirTran into Southwest continues, with conversions at Charlotte, N.C.; Flint, Michigan; Portland, Maine; and Rochester, New York announced for April. Seniority list integrations for seven of eight unions have been resolved. “We produced approximately \$110 million in pre-tax synergies in the first nine months of 2012, and we plan for \$400 million in pre-tax synergies in 2013,” said CEO Gary C. Kelly. Total acquisition and integration costs will be \$550 million. Kelly said layoffs are not expected amid planned spending cuts due to concerns about high fuel prices and economic uncertainty.

4. US Airways Flight Attendants Holding Strike Vote.

US Airways flight attendants are holding a strike vote until November 20 “to back up demands for a single contract in the US Airways/America West merger.” The Association of Flight Attendants said management “has consistently refused to address concerns . . . a strike vote is necessary to achieve a different dynamic for these negotiations.” . . . US Airways reported highest third quarter earnings in company history and said employees have earned \$17 million in incentive payouts related to operational performance.

5. Spirit to Open Crew Base at Dallas/Ft. Worth.

Spirit will open a crew base on December 1 at Dallas/Ft. Worth, where it offers nonstops to 17 destinations currently, with 26 planned by mid-June. . . . Spirit will lease five Airbus A320neos from International Lease Finance Corporation (ILFC), becoming the first airline to commit to an operating lease for the new aircraft. . . . Spirit reported third quarter total operating revenue of \$342.3 million, up 18.6% over Q3 2011, on a capacity increase of 22.7%. Total revenue per available seat mile was down 3.4%, driven by lower load factor and operating yields against very strong results last year. Average non-ticket revenue per passenger flight segment (PFS) increased 11.5%, while average ticket revenue per PFS decreased 12.1%, as Spirit “continued its strategy to offer low base fares while increasing revenue from non-ticket sources”; PFS ticket revenue included the benefit from the federal excise tax holiday.

6. Air Canada, United JV Cleared With Restrictions.

Air Canada and United Continental reached a consent agreement with Canada’s Competition Bureau that clears a proposed joint venture, with exclusions for 14 high-demand transborder routes. On those routes, the airlines are prohibited from coordinating prices, coordinating number of seats

available at each price, pooling revenue or costs, and sharing commercially sensitive information.

7. Air Canada Forms Leisure Group.

Air Canada is forming an integrated leisure group comprised of its tour operator business, Air Canada Vacations, and its planned low-cost leisure airline. Michael Friisdahl was named President and CEO of the new wholly owned subsidiary, reporting to Ben Smith, Air Canada Executive Vice President and Chief Commercial Officer; Friisdahl was CEO of Thomas Cook North America. The new low-cost leisure carrier will begin service in June 2013, subject to regulatory approvals, to holiday destinations in Europe and the Caribbean, with two Boeing 767-300ERs and two Airbus A319s that will be released from Air Canada's mainline fleet.

8. New Stab at Private Jet Commercial Service.

Blackjet, a new service in which members book seats on private jets from New York to Los Angeles and Florida, wants to compete with airlines for premium business. Flights are booked online and the fare for the New York to Los Angeles route is about \$3,500; annual membership fee is \$2,500. Cofounder Garrett Camp also founded Uber, which offers a smartphone app that allows customers to book automobile rides.

9. OpenSkies Offers Three-Class New York-Paris Service.

See Section VIII, item 4.

10. United to Add UK Service.

See Section VIII, item 5.

11. JetBlue, Royal Air Maroc Partner.

See Section VIII, item 6.

12. Malaysia, Qatar to Join Oneworld.

See Section IX, item 2.

13. FedEx to Build New Logistics Hub in Shanghai.

See Section IX, item 3.