



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. **Report: Potential Effect of Sequestration on FAA.**

A new study offers scenarios of how a \$1 billion annual cut over nine years would impact Federal Aviation Administration (FAA) funding if federal sequestration is implemented beginning in January 2013, as mandated by the Budget Control Act. Released by Aerospace Industries Association and Econsult Corporation at a meeting of aviation leaders in Washington, the study says the cuts could cost 132,000 aviation jobs, an annual decrease of 37 million passenger enplanements and annual reductions of two billion pounds of transported air freight. Sequestration could result in closure of 246 airport control towers, and the loss of 1,500 air traffic controllers, 9,000 security screeners and 1,600 customs officers, said Norm Mineta, former Secretary of the Department of Transportation (DOT), citing an October 2011 letter to the Joint Select Committee on Deficit Reduction from ranking minority member of the House Appropriations Committee Norm Dicks (D-Wash.). "The inability of the two parties in Congress to get together and figure this matter out is baffling," said Mineta. "Sequestration is a fancy word for abdication," said Todd Hauptli of American Association of Airport Executives; "Congress needs to act to avoid these devastating and indiscriminate cuts. This study confirms that the entire aviation industry should be on high-alert in the weeks and months ahead as this process unfolds."

2. **\$1 Billion Loss for U.S. Airlines in First Half 2012.**

The largest U.S. airlines lost \$1.07 billion in first half 2012, said Airlines for America (A4A), at a state-of-the-industry press briefing. Operating revenue grew 8.2%, expenses increased 9.4% and fuel costs jumped 13.1% compared with 2011. Fuel remained industry's largest cost at about 34% of total operating expenses. At the briefing, the Massachusetts Institute of Technology released, "Productivity Trends in the U.S. Passenger Airline Industry 1978-2010." Through improvements in aircraft utilization, labor productivity and fuel efficiency, U.S. airlines have reduced unit operating costs by more than 35% in real terms since deregulation in 1978, despite surging fuel prices, said researchers. When combined with schedule optimization and capacity planning, these cost reductions have allowed real airfares to remain about 50% lower than before deregulation. Average round-trip domestic airfares fell 16% from 2000 through 2011, as the inflation rate increased more than 30% and the average tax burden per domestic round-trip journey rose 42%.

3. DOT Fines Airlines for Rules Violations.

DOT fined JetBlue \$90,000 for violating the tarmac-delay rule, by failing to inform passengers on an aircraft delayed at New York Kennedy that they could leave the plane as it sat at the gate. . . . Online ticket agent Orbitz was fined \$50,000 for failing to clearly and prominently inform consumers of possible baggage fees. . . . DOT fined Aerolíneas Argentinas (\$50,000), Philippine Airlines (\$80,000) and ticket agent Pacific for Less (\$20,000), for violating rules requiring that all taxes and fees be included in advertised fares. Venezuela-based Santa Barbara Airlines was fined \$80,000 for failing to disclose baggage fees.

4. FAA Proposes Fines Against Airlines.

FAA filed four claims totaling \$162.4 million with the AMR bankruptcy court for proposed and potential civil penalties in connection with ongoing enforcement cases involving American and American Eagle. Of that figure, \$156.5 million is for alleged maintenance-related problems going back to 2007. FAA filed the claims to ensure that the government is paid as a creditor in AMR's restructuring. . . . FAA proposed a civil penalty of \$1,005,000 against Horizon Air, for allegedly operating noncompliant Bombardier turboprops between December 1, 2007 and June 1, 2011. Horizon installed new security flight deck doors using blind rivets instead of the required solid rivets. Installation of blind rivets can damage other components, including wiring; the violations were discovered when a plane experienced an inflight wiring damage incident. . . . FAA proposed a civil penalty of \$681,200 against Federal Express, for allegedly violating DOT Hazardous Materials Regulations in August 2010, when the airline failed to provide pilots of flights to and from Los Angeles with required "accurate and legible written information" about hazardous materials shipments, and failed to document hazardous materials training and testing for individuals who accepted the shipments.

5. Delta Seeks Changes to Detroit to Beijing, Tokyo Services.

Delta is seeking DOT approval to increase its Detroit-Beijing service to daily from five days a week, beginning October 28, with 269-seat Boeing 777s. . . . Delta also requested to transfer daily Detroit-Tokyo Haneda slots to Seattle. "Based on actual operating experience," said Delta, "Eastern U.S.-Haneda service is underperforming relative to the West Coast-Haneda service. Seattle is the largest U.S.-Tokyo market without nonstop Haneda service." DOT awarded four routes to Haneda in July 2010, to American from New York Kennedy, to Delta from Los Angeles and Detroit and to Hawaiian from Honolulu. Other applicants were Continental, Continental Micronesia and United. American has applied to use the Delta slots to add Los Angeles

service, Hawaiian applied for Kona-Haneda flights and United for service to San Francisco.

6. FAA to Reexamine Rules on Inflight Device Usage.

FAA is forming a government-industry group to review policies and procedures on inflight use of portable electronic devices (PEDs). Established through an Aviation Rulemaking Committee, the group will meet for six months and include representatives from the mobile technology and aviation manufacturing industries, pilot and flight attendant groups, airlines, and passenger associations. Airborne use of cell phones for voice communications will not be considered. Current FAA regulations require the aircraft operator to determine that radio frequency interference from PEDs is not a flight safety risk before authorizing their use during certain phases of flight. Issues to be examined include testing methods operators use to determine which new technologies passengers can safely use and when they can use them, and establishment of technological standards for use during any phase of flight. FAA is seeking public comments on issues including: operational, safety and security challenges associated with expanding PED use; aircraft operator and manufacturer data sharing; certification rules requiring new aircraft designs to tolerate PED emissions; information-sharing for manufacturers who have proven PED and aircraft system compatibility; consumer electronics industry standards for aircraft-friendly PEDs, or aircraft-compatible modes of operation; and restriction of PED use during takeoff, approach, landing and abnormal conditions to avoid distracting passengers during safety briefings.

7. IG: FAA Wildlife Hazard Mitigation Program Insufficient.

A DOT Inspector General audit found FAA's oversight and enforcement of the Wildlife Hazard Mitigation Program inadequate. The program requires airports to create and implement plans to assess and minimize wildlife strike risk. Reported bird strikes rose from 1,770 in 1990 to 9,840 in 2011. In 2010 the IG found that 108 of 507 (21%) strikes in airports' internal strike logs were not reported to FAA's strike database, largely because reporting is voluntary. Wildlife strikes have resulted in at least 24 deaths and 235 injuries in the U.S., and, since 1988, 229 deaths worldwide, and have caused 600,000 hours of aircraft downtime and \$625 million in damages annually. From 1997 to 2011, FAA provided \$458 million to airports for wildlife mitigation and estimates it will spend \$366 million over the next 20 years. FAA has adopted and completed most IG recommendations and continues to improve the program.

8. Industry Urges DHS to Finalize Repair Station Ruling.

Twelve aviation associations, in a joint letter to Secretary Janet Napolitano, urged the U.S. Department of Homeland Security (DHS) to finalize the

rulemaking on repair station security. Congress in 2003 required the Transportation Security Administration (TSA) to issue security rules for all aviation repair stations by August 2004. TSA failed to meet that deadline and Congress mandated completion by August 2008. FAA has been unable to issue new foreign repair station certifications since that unmet deadline. TSA has committed to a fourth quarter 2012 completion date. “The ban on new foreign repair station certificates is having a detrimental impact on U.S.-based aerospace companies looking to tap into rapidly expanding overseas markets. The longer the prohibition is in effect, the more damage it will cause our nation’s competitiveness in aviation and exports,” states the letter. Signatories include Aerospace Industries Association and Airlines for America.

9. June Passenger Airline Employment Rose 1.4%.

U.S. scheduled passenger airlines employed 390,923 workers in June, 5,540 or 1.4% more than in June 2011, reports DOT. The five network airlines employed 67.6% of the total; the six low-cost carriers employed 17.9%, and the 14 regionals employed 13.2%.

10. DOT Air Travel Consumer Report for June.

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

	June '12/'11	May '12	Full Year				
			2011	2010	2009	2008	2007
On-time arrivals %	80.7 / 76.9	83.4	79.6	79.8	79.5	76	73.4
Cancellations %	1.1 / 1.8	0.9	1.91	1.76	1.39	1.96	2.16
Mishandled baggage*	3.35 / 3.59	2.77	3.39	3.51	3.91	5.26	7.05
Consumer complaints:							
Airline service	1,653 / 1,128	1,260	11,545	10,988	8,821	10,648	13,180
Disability-related	81 / 49	68	630	572	519	477	488
Discrimination**	10 / 12	5	127	143	131	115	99

Note: There were no domestic flights with tarmac delays over three hours in June, and one international flight with a tarmac delay of more than four hours.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. ACI: Passenger Traffic Up 5% in First Half 2012.

Global passenger markets saw almost 5% year-on-year growth in first half 2012, reports Airports Council International (ACI). While certain domestic markets have slowed in North America (+0.8%), Europe (-0.3%) and Africa (-2.4%), international passenger traffic has shown strong growth. Asia-Pacific international passenger traffic was up 12.3%. Africa (+19.2%) and the Middle East (+13.9%) recovered from sharp declines. Freight traffic declined by 1% in first half, but gained 1% year-on-year in June. While Memphis is still the busiest cargo hub in the world, Hong Kong is only slightly behind with throughput of 1.92 million tonnes. Memphis achieved growth of 3%, but eight of top 10 major U.S. freight airports saw declines. Domestic freight volumes in Europe declined by 1%. Freight traffic increased in the Middle East and Latin America-Caribbean by 9.2% and 3.7% respectively.

2. MIA Lowers Landing Fees.

Miami-Dade County Aviation Department will lower landing fees at Miami International (MIA) by nearly 9% for FY2013 (October 1 -September 30), from \$1.92 to \$1.75 per 1,000 pounds of landed weight. MIA passenger numbers increased 7% last year, and another 7% through June this year; freight volumes surged 5% after slowing to less than 1% last year. MIA will carry over \$85 million of the surplus into FY2013, and begin the new fiscal year with 20% of its budget already funded; a year's worth of debt payments will be set aside to pay back bonds sold for a new people mover system.

3. Las Vegas Airport Awarded \$17.8 Million AIP Grant.

Las Vegas McCarran was awarded a \$17.8 million Airport Improvement Program grant to reconstruct two major taxiways and improve taxiway signage. The airport opened its new \$2.4 billion Terminal 3 in June. The 1.9 million sq. ft. facility includes 14 gates, half of which can handle direct international flights.

4. Charlotte Douglas Plans 12,000-Foot Runway.

Charlotte Douglas International will begin environmental studies next year on construction of a \$160 million, 12,000-foot runway, reports the *Charlotte Observer*.

5. **Avatars Debut at LaGuardia, Kennedy.**

Virtual Customer Care Representatives (CCRs) made their debut at New York's LaGuardia, Newark and Kennedy airports. The avatars provide travelers with automated airport information broadcast from a projector onto the hologram-like figures. Motion sensors prompt a 90-second script when someone approaches. Port Authority of New York and New Jersey purchased the devices from Parabit Systems.

6. **BAA to Sell Stansted; Qatar Holding to Acquire Stake in BAA.**

BAA is proceeding with the sale of Stansted Airport, having decided not to further appeal the Competition Commission's (CC) ruling. BAA sold Edinburgh Airport to Global Infrastructure Partners in May, as required by the CC, and will still own Heathrow, Southampton, Aberdeen and Glasgow. Ryanair held discussions with infrastructure companies regarding a consortium bid for Stansted, said CEO Michael O'Leary. In other news, Qatar Holding will acquire a 20% stake in BAA from Ferrovial, subject to approval by European Union (EU) competition authorities.

7. **Lufthansa, Fraport Sue German Trade Union Over Strikes.**

Lufthansa and airport operator Fraport are suing German trade union GdF over a series of strikes by airfield workers at Frankfurt airport in February, which resulted in cancellation of 1,800 flights. German air traffic controller authority DFS, Air Berlin and Condor reportedly also filed complaints. Separately, Lufthansa, Air Berlin and Ryanair failed in a bid to claim €3.3 million in compensation from GdF over narrowly averted strikes by air traffic controllers in August 2011; the airlines likely will appeal the decision.

III. SECURITY AND DATA PRIVACY

1. GOP Platform Calls for Airport Security Privatization.

The platform approved at the Republican National Convention calls for private airport security screening and a change in Transportation Security Administration (TSA) procedures. TSA is now a massive bureaucracy of 65,000 employees “who seem to be accountable to no one for the way they treat travelers,” stated Republicans.

2. TSA, AFGE Agree on Labor Contract.

TSA reached a collective bargaining agreement with American Federation of Government Employees (AFGE). The first-ever labor contract at the agency would affect 44,000 employees, if ratified. Terms of a new dispute resolution process were finalized, which, said AFGE, “will enhance fairness and due process . . . Independent, third-party review is a right that ensures transparency and will improve the working lives of our officers.”

3. TSA PreCheck Begins at Indianapolis, Phoenix.

TSA PreCheck operations began at Indianapolis International for select American, Delta, United and US Airways frequent flyers, and at Phoenix Sky Harbor for select US Airways frequent flyers. PreCheck operates in 22 airports for Alaska, American, Delta, United and US Airways frequent flyers and members of U.S Customs and Border Protection (CBP) Trusted Traveler programs; by yearend PreCheck will be available at 35 airports.

4. TSA Year-to-Date Report.

From January to July this year, TSA officers discovered 821 firearms in carry-on bags at checkpoints in 160 U.S. airports; 691 were loaded. Explosive items included fireworks, a cannonball, an M147 firing device, warheads, a 60mm mortar round, a bazooka round, “and more grenades than we’ve seen in years past.” More than 375 million passengers passed through TSA checkpoints—1.8 million daily—and 30,204 or 0.008% submitted complaints.

5. Court Orders TSA to Hold Public Hearings on Body Scanners.

The U.S. Circuit Court of Appeals for the District of Columbia ordered TSA to explain by August 30 why it has not complied with a July 2011 order to promptly hold public hearings on use of airport body scanners. The order responded to a third request by Electronic Privacy Information Center (EPIC), which has charged in a lawsuit that TSA breached federal law when it adopted Advanced Imaging Technology without holding a 90-day public comment

period. EPIC also cited “the invasive nature of the devices, potential health risks, questionable effectiveness and the impact on religious freedom.” After the court’s order last year, TSA introduced technology that displays generic outlines of passengers to lessen public concern about scanners that display graphic body images.

6. Report: Costs, Benefits, Efficiency of Aviation Security Measures.

Efficient security policy—a focus on getting the most security for the least cost—should be the priority in an era of fiscal austerity, according to a new RAND Corporation report, “Efficient Aviation Security: Strengthening the Analytic Foundation for Making Air Transportation Security Decisions.” The report details ways TSA and Congress could better consider not only the risks posed by terrorists, but the cost effectiveness of security efforts to reduce those risks.

7. Dulles Installs Wait-Time Displays at Security Lines.

Dulles International is the first U.S. airport to install video screens that display wait times in security lines, enabling passengers “to eliminate the guesswork in selecting which checkpoint to use.” The system, developed by French company Blue Eye Video, can be accessed on the Airports Authority’s website—www.mwaa.com/dulles—for desktop and mobile devices.

IV. E-COMMERCE AND TECHNOLOGY

1. DOT Committee Holds Hearing on Ancillary Fees.

DOT's Advisory Committee for Aviation Consumer Protection held a hearing on the display and sale of ancillary services through third-party distributors. In its presentation, Sabre Travel Network urged DOT to issue a rule requiring airlines to share fee information with third-party distribution channels so that consumers can comparison shop for the 'all-in' cost of their air travel. Sabre countered a charge by Airlines for America (A4A) that global distribution systems (GDSs) provide outdated technology at inflated prices. A4A said airlines can tailor offers more effectively through their own websites, but noted that some airlines have reached pacts with GDSs to sell certain ancillary products. Listing ancillary service information should be a contractual decision between an airline and a GDS, said A4A. Travel managers said regulation is needed if airlines and the GDSs fail to resolve issues.

2. American's Antitrust Suit to Continue.

A federal judge denied a request by Orbitz, Sabre and Travelport to dismiss an antitrust lawsuit filed by American Airlines, which claims the reservations firms are conspiring to block usage of its Direct Connect system. The court's order confirms that American has adequately pleaded numerous antitrust claims against the defendants, including monopolization and conspiracy claims, stated the airline. "We would prefer to resolve our dispute with the defendants amicably, but such resolutions need to end anticompetitive practices and to account for harm done to American. We are convinced these claims have substantial merit, and absent settlements, we intend to continue vigorously pursuing our legal rights." The judge also upheld American's move to dismiss a Travelport antitrust counterclaim.

3. Delta Expands Agreement With Amadeus.

Delta and Amadeus expanded their long-term agreement to include sales of Delta's premium economy seats through the Amadeus GDS. Amadeus also will work with Delta on the carrier's "initiatives to further personalize and enhance the customer experience." Delta has a similar agreement with Travelport.

V. ENERGY AND ENVIRONMENT

1. Fuel Bill for Global Airline Industry.

The average price of aviation jet fuel, as of August 10, was \$131.8/barrel, up 11.3% on the month and down 6.2% year-on-year, reports the International Air Transport Association (IATA). Fuel price average for 2012 was \$128.6/barrel.

2. EU ETS Update.

The U.S. State Department and DOT concluded a two-day meeting of 17 countries opposed to the EU Emissions Trading Scheme (ETS) without a joint declaration, but agreed to pursue goals within the International Civil Aviation Organization (ICAO), including carbon-neutral growth from 2020, and to explore feasibility of global market-based-measures. . . . Australia's House of Representatives passed a non-binding resolution calling for the government to use all legal and diplomatic means to stop application of ETS to international airlines. . . . In a letter to Secretary of State Hillary Clinton and DOT Secretary Ray LaHood, a coalition of transportation groups requested that a motion be filed with ICAO to oppose EU ETS. "We urge the Administration to file an action under Article 84 of the Chicago Convention and to take all other action necessary to overturn this wrongful scheme," the groups wrote. "It has been eight months since you sent a firm letter to EU officials urging them to halt or suspend application of the ETS. As each day goes by without an EU act to halt or suspend the ETS, the harm to U.S. airlines and aircraft operators and the threat to U.S. sovereignty grow while the U.S. government's credibility is weakened." . . . In response to the industry letter, 16 environmental groups urged President Obama not to file an Article 84 action. "Filing a formal proceeding to block the directive would be highly inconsistent with your Administration's efforts to reduce carbon pollution from other sources," the groups wrote, and "would undermine your stated goal of achieving an agreed framework in ICAO to limit global warming pollution from international aviation. An Article 84 proceeding is at base a transparent effort to allow airlines to evade responsibility for their carbon pollution in perpetuity."

3. China, Boeing to Refine Cooking Oil into Av Biofuel.

A collaborative effort of Boeing and Commercial Aircraft Corp. of China (COMAC) will explore opportunities to refine waste cooking oil, known in China as "gutter oil," into sustainable aviation biofuel. The Boeing-COMAC Aviation Energy Conservation and Emissions Reductions Technology Center aims to identify contaminants in gutter oil and processes that may treat and clean it for use as jet fuel. China annually consumes 29 million tons of cooking oil, while

its aviation system uses 20 million tons of jet fuel. Finding ways to convert discarded gutter oil into jet fuel could enhance regional biofuel supplies and improve biofuel's affordability. State-owned COMAC is building the new C919 jet and ARJ21 regional jet. In related news, Civil Aviation Administration of China said domestic airlines and plane manufacturers will be granted subsidies of 30% to 60% of total investment for emission reduction efforts. The money will come from the Civil Aviation Development Fund—the former airport construction fee—which is funded by passenger charges.

4. Airbus Developing System to Reduce Fuel Consumption.

Airbus is developing a fuel-cell system, with Cleveland-based Parker Aerospace and others, which would remove the need to run engines when the plane is on the ground, and reduce the drain on engines during flight from non-propulsion systems, such as lighting, entertainment systems and environmental controls. The 90-kilowatt hydrogen fuel cell could reduce fuel consumption by as much as 15%; flight tests are expected by 2015.

5. FedEx Ups Emissions Reduction Goal to 30% by 2020.

FedEx increased its goal of a 20% reduction in aircraft emissions by 2020 to 30%, having achieved a 13.8% reduction by yearend 2011; vehicle fuel efficiency improved by 16.6%. FedEx Express will have replaced all Boeing 727s with more fuel-efficient and greater payload 757s by 2015, continues to introduce B-777Fs and plans to introduce the new B-767 in 2013. In this fiscal year, FedEx Express increased its advanced alternative-vehicle road fleet by 18%; the 364 hybrid-electric vehicles and 118 electric vehicles have traveled 12.1 million miles and conserved 345,000 gallons of fuel. Annual carbon emissions offset by the FedEx Carbon-Neutral Envelope Shipping “is equivalent to planting 2,179,487 tree seedlings and letting them grow for 10 years.” In FY11, network-wide recycling efforts resulted in an increase of 6 million pounds from FY10. The company “also reaffirmed its commitment to sourcing at least 30% of its jet fuel from alternative fuels by the year 2030.”

VI. U.S. CONGRESS

1. Senate Panel Votes to Confirm Huerta as FAA Administrator.

Before adjourning for the August recess, the Senate Commerce Committee voted unanimously to confirm Michael Huerta as FAA Administrator. The nomination next moves to the full Senate. Huerta has been Acting Administrator since December, when Randy Babbitt resigned.

2. Senate Commerce Approves EU ETS Bill.

The Senate Commerce Committee approved a bill that would provide the Secretary of Transportation with authority to ensure that U.S. aircraft operators are not penalized or harmed by the European Union Emissions Trading Scheme. The bipartisan bill would require the Secretary to hold a public hearing before implementing any ban, and to conduct international negotiations to pursue a worldwide approach to address aircraft emissions. The bill, which next moves to the full Senate for consideration, is similar to legislation passed by the House of Representatives last fall.

3. House Subcommittee Passes DHS Accountability Act.

Bipartisan legislation to increase accountability and efficiency of Department of Homeland Security (DHS) management was passed by the House Homeland Security Subcommittee on Oversight, Investigations, and Management. The DHS Accountability Act of 2012 would create an eight member advisory panel to conduct a “top-to-bottom assessment of the management structure and capabilities of DHS [and] provide recommendations with a report due within two years of the panel’s appointment.” Subcommittee Chairman Michael McCaul (R-TX) said a majority staff investigation found that DHS “has not always reviewed major investments at key phases in the acquisition lifecycle; employed reliable cost and schedule estimating practices; or used effective requirements development and test management practices.” An investigative report highlighted, among other examples, poor acquisition management in TSA’s explosive trace portals, and recommends solutions to help ensure sound acquisition programs in the future. The bill next will be considered by the full Committee.

4. House Hearing on TSA Employee Issues.

The latest of a series of House Homeland Security Subcommittee hearings on Transportation Security Administration performance addressed employee management issues. TSA Deputy Administrator John Halinski said the agency is working to improve hiring standards, training and management, has created

an office dedicated to investigations and disciplinary actions and is policing itself and taking swift action in response to accusations of stealing, bribery and other criminal activity by employees. Of 600 million passengers screened a year, fewer than 60,000 complain of their treatment, said Halinski. In related news, Sheila Jackson Lee (D-TX), a senior member of the House Homeland Security Committee, complained of “hearings that criticize TSA instead of looking at solutions.” Citing several cabin security breaches, she plans to ask the full committee to conduct hearings on the training of flight crews.

5. Schumer Wants Sales of Laser Pointers Restricted.

In letters to federal regulators, Senator Charles Schumer (D-NY) urged that online sales of laser pointers be restricted. Pointers intended for use in office presentations are being aimed at airplanes, said Schumer, who also wants the Food and Drug Administration to require warning labels making it clear that directing lasers at aircraft is a federal offense.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. U.S.-Macedonia Open Skies Agreement Formalized.

A U.S.-Macedonia open skies agreement was formalized in Skopje, by Deputy Assistant Secretary of State Philip Reeker and Macedonian Minister of Transportation Mile Janakieski. The pact was initialed in July 2011.

2. Russia, Vanuatu Join WTO.

After 18 years of negotiations, Russia became the 156th member of the World Trade Organization (WTO), resulting in a decrease in import duties for goods from a current average of 10% to an average 7.8%. The EU estimates overall tariff reduction will result in savings of €2.5 billion annually in import duties for EU exporters, and could stimulate €3.9 billion of additional EU exports to Russia per year. Vanuatu also joined the WTO in August. "Trade can bring a predictable and stable basis for economic growth," said WTO Director-General Pascal Lamy. "This is especially important as the world goes through troubled times and continues to suffer from one of the worst global economic crises in memory."

3. Israel, EU Sign Open Skies Agreement.

After three years of negotiations, Israel and the EU signed an open skies agreement, subject to ratification by the Israeli government and EU Parliament. The pact will be implemented gradually over five years. Israeli airlines opposed the expanded competition that an open skies policy will bring, but government officials say the agreement is an essential move that will expand tourism and lower air fares for Israelis. The new agreement will replace existing aviation bilaterals between Israel and EU nations.

VIII. EUROPE AND AFRICA

1. EC Probes Proposed Ryanair Takeover of Aer Lingus.

The European Commission (EC) opened an in-depth investigation (Phase II) into the proposed acquisition of Aer Lingus by Ryanair, due to competition concerns. A 2007 EC decision to prohibit Ryanair's first attempt to acquire Aer Lingus was upheld by the EU General Court in 2010. A second attempt was withdrawn. Since 2007, the number of routes where both operate has increased. Ryanair is prepared to make radical concessions to overcome competition concerns, said CEO Michael O'Leary. The current offer lapses with the probe, but Ryanair will rebid if its offer is cleared by the EC. Ryanair's current 29.82% shareholding of Aer Lingus is under review by the UK Competition Commission.

2. IAG To Restructure Iberia.

International Consolidated Airlines Group (IAG) reported a first half €263 million operating loss for Iberia, due to labor strife, high fuel prices, the negative impact of exchange rates and economic weakness in Spain. Iberia traffic was down 2.9% for first seven months. IAG CEO Willie Walsh called Iberia's problems "deep and structural," and said the economic environment reinforces the need for permanent structural change, which likely will include downsizing and reshaping the network. . . . IAG set up a euro-zone crisis management group and is making plans for Spain's possible exit from the single European currency. IAG has reduced its exposure to banks in Spain, Greece, Ireland, Portugal and Italy, reports the *Wall St. Journal*. . . . Iberia entered into a hedging transaction with Nomura International to protect the value of its 7.5% interest in Amadeus IT Holding, said IAG.

3. Lufthansa Cabin Crew Begins Strike Actions.

Lufthansa flight attendants began rolling strikes, after talks failed. On day one, hundreds of flights were disrupted at Frankfurt. A lack of parking positions due to planes grounded by the eight-hour strike caused airport operator Fraport to curtail arrivals. Most of the cancellations were short- and medium-haul flights, but some long-haul flights were affected as well. Lufthansa said it "does not have any knowledge of further strike action. However, the union may call labor measures again at short notice."

4. Air France Regional Hub Planned.

Air France will combine operations of units Brit Air and Regional and partner Airlinair into a single hub as part of its recovery plan. A new brand, fares and

schedules will be announced in January for an April launch. The French regional hub will operate 86 aircraft (93 currently) with a greater number of seats. Negotiations with unions on labor cuts will begin in September.

5. Virgin Atlantic to Begin Domestic Flying.

Virgin Atlantic will operate three daily Airbus A319 flights between London Heathrow and Manchester from March, its first foray into domestic flying and the start of a new network which will provide regional feed for long haul service. The airline is applying for all remedy slots being awarded by the EC following the IAG takeover of bmi, but is using some of its existing slots for the route. "Our new service will provide strong competition to overly-dominant British Airways," said CEO Steve Ridgway, "keep fares low and give consumers a genuine choice of airline to fly to Heathrow and beyond." In related news, Virgin Rail lost the contract for London-Scotland service, which stops in Manchester, after 15 years. Virgin Atlantic revenues increased by 3% for year ending February 29; passenger numbers increased by 2% to 5.4 million, and cargo revenue increased by 7%.

6. United, Aer Lingus Partnership Ends in October.

United in October will end a two-year enhanced code share on daily Aer Lingus-operated Madrid-Washington Dulles flights. United does not plan to operate the service.

7. Icelandair to Introduce Nonstops to Anchorage.

Icelandair will begin seasonal nonstops from Anchorage in May, with partner Alaska Airlines providing connections to the flights. Icelandair also offers service from Boston, New York Kennedy, Seattle, Denver, Washington, D.C., Minneapolis-St. Paul, Orlando, Halifax and Toronto to Keflavik and beyond to 20 destinations in Europe. Future destinations are St. Petersburg and Zurich.

8. Ethiopian to Fly Dreamliner on Washington Route.

Ethiopian Airlines will deploy a Boeing 787-800 Dreamliner on its Washington Dulles-Addis Ababa route as of mid-September. The Star Alliance Member is the second airline outside Japan to operate the mid-size Dreamliner, and will receive five of its firm order of 10 by December.

9. Aerolíneas Argentinas Joins SkyTeam.

See Section X, item 11.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. EVA, United Begin Code Share Flights.

A new code share agreement between United and EVA Airways took effect for United-operated flights on Cleveland-Los Angeles, Cleveland-San Francisco, Houston-Los Angeles, Houston-San Francisco and Houston-Seattle routes. EVA flies daily from Taipei to Los Angeles, San Francisco and Seattle, and is preparing to join the Star Alliance.

2. AirAsia ASEAN Launched for Group's Regional Expansion.

As Association of Southeast Asian Nations (ASEAN) moves toward a planned 2015 open skies policy, AirAsia opened AirAsia asean in Jakarta. The office will be “the nerve center” of our regional expansion,” said Tony Fernandes, AirAsia Group CEO, and proximity to ASEAN headquarters “will help ensure that our voice, our concerns and our appeals are heard.” The AirAsia head office remains in Malaysia.

3. Silk Air Names New Chief Executive.

Leslie Thng was named SilkAir CEO, effective September 3, replacing Marvin Tan, who will return to parent company Singapore Airlines (SIA) in the position of Senior Vice President Cabin Crew. Thng has been with SIA for 13 years, most recently as Vice President Network Planning.

4. Qatar to Begin Daily Chicago Service.

Qatar Airways in April will begin daily Boeing 777-300 ER passenger nonstops from Doha to Chicago O’Hare, its fourth U.S. gateway. Qatar already operates twice-weekly cargo flights to O’Hare. . . . Qatar and Porter implemented an interline partnership for Qatar's Doha service to Montreal and Washington Dulles. This is the first interline pact for Porter, said CEO Robert Deluce, who “plans to add multiple interline partners in 2012.”

5. Delta Seeks Changes to Detroit to Beijing, Tokyo Services.

See Section I, item 5.

6. Aerolíneas Argentinas Joins SkyTeam.

See Section X, item 11.

X. AMERICAS

1. American Airlines Bankruptcy Update.

Allied Pilots Association (APA) rejected a tentative new contract offer from American Airlines parent AMR. AMR then filed a motion in bankruptcy court to void their current contract, rejected by Judge Sean Lane. AMR offered a revised contract, which retains current limits on furloughs and restricts code sharing relationships; a September 4 hearing is scheduled. Lane said concessions from pilots are needed. He rejected a union argument that AMR must consider a merger with US Airways while still in bankruptcy. Flight attendants, mechanics and maintenance-stock clerks ratified new contracts. At American Eagle, mechanics rejected a tentative agreement, while fleet-service workers approved a new six-year contract. . . . AMR and US Airways entered into a non-disclosure agreement, “under which they agreed to exchange certain confidential information and, in close collaboration with AMR’s Unsecured Creditors Committee, to work in good faith to evaluate a potential combination.” Earlier, US Airways President Scott Kirby and CEO Doug Parker told *The Arizona Republic* a combined airline would be called American and be based in Fort Worth, Texas. US Airways’ Phoenix Sky Harbor hub would be the domestic hub in the West. American’s Los Angeles hub would remain an international gateway. A study produced by American Antitrust Institute and Business Travel Coalition, and sent to the U.S. Department of Justice, says the merger could substantially reduce competition, leaving four majors controlling over 70% of the U.S. domestic market. . . . Judge Lane approved a transaction in which AMR buys 11 Boeing 737-823s and sells them to AerCap, which will lease them back to AMR. . . . American posted a second quarter \$95 million net profit, excluding reorganization and nonrecurring costs, a \$381 million improvement from last year and first Q2 profit in five years.

2. United, Pilots Reach Agreement-In-Principle.

After more than two years of negotiating, United Continental reached an agreement-in-principle on a new joint collective bargaining agreement with Air Line Pilots Association (ALPA) representing pilots at United and Continental. United also agreed to enter into expedited contract negotiations with International Association of Machinists and Aerospace Workers, with National Mediation Board assistance, for fleet service, customer service and reservations, stock clerk, dining service, maintenance instructor, ground instructor and security officer employees. Association of Flight Attendants began negotiations on a single contract covering workers from pre-merger United, Continental and Continental Micronesia; separate contracts were ratified earlier this year. . . . In other news, United announced the first

international routes for its Boeing 787 Dreamliners: Houston-Amsterdam (December 4), Los Angeles-Tokyo Narita (January 3), Houston-Lagos (January 7), Houston-London Heathrow (February 4), Los Angeles-Shanghai (March 30) and Denver-Tokyo Narita (March 31). Temporary flights from Houston to other domestic hubs begin in November, after proving/validation flights and training.

3. US Airways, Flight Attendants Reach Tentative Agreement.

US Airways reached a tentative agreement with Association of Flight Attendants (AFA) for a contract covering workers based in Phoenix, Philadelphia, Charlotte and Washington, D.C. "Providing AFA members with an opportunity to vote on an agreement that reflects flight attendant priorities prior to any new potential merger has been a key focus," said AFA, referring to the carrier's pursuit of a merger with American. In other news, flight attendants for US Airways subsidiary Piedmont Airlines voted to approve a strike.

4. JetBlue Offers Washington National-Puerto Rico Service.

JetBlue launched Airbus A320 nonstops from Washington Reagan National to San Juan, Puerto Rico, using beyond-perimeter slot exemptions awarded by DOT in May. This route is JetBlue's 14th destination from San Juan. . . . JetBlue CEO Dave Barger told Bloomberg he has no interest in a merger with American. "We're just not interested in participating in the consolidation path, either being acquired or in acquiring another company," he said. "Independence is our plan today and it's our path on a go-forward basis." The two carriers have an interline agreement for New York and Boston flights.

5. Virgin America Begins Washington National Service.

Virgin America launched beyond-perimeter daily nonstops to Washington Reagan National from its San Francisco base. Virgin America flies to 18 destinations, including Washington Dulles.

6. Hawaiian Realigns Bay Area Flights.

Hawaiian is doubling Boeing 767-300 nonstops to 14 per week year-round between the Bay Area and its new Maui hub, adding nearly 90,000 seats annually to better match capacity with consumer demand at Oakland and San Jose. Service to Honolulu from Oakland and San Jose will decrease, and remain daily from San Francisco.

7. Allegiant Expands Fleet, Services.

Las Vegas-based Allegiant reported its 38th consecutive profitable quarter, and announced it will lease 19 Airbus A319s to augment the current fleet of 58 MD-80s and six Boeing 757-200s. Allegiant will expand service to Honolulu in

February with new nonstops from Boise and Spokane, the first scheduled service to Hawaii for those cities; and will return to Lansing, Michigan with year-round nonstops to Orlando in November. Allegiant suspended Los Angeles International flights to Sioux Falls, Billings and Pasco, citing inadequate gates and ticket counters at LAX. Allegiant pilots voted to join the Airline Professionals Association, a unit of the International Brotherhood of Teamsters. "Contract negotiations can be a lengthy process and we do not anticipate any disruptions to our business or operations," said Allegiant CEO and Chairman Maurice Gallagher, Jr.

8. Spirit Adds Mexico Service.

Spirit announced schedules for new service to Mexico, including daily Los Cabos-San Diego nonstops, to start November 8, with connecting service to Dallas/Fort Worth; three weekly Cancun-Dallas/Fort Worth nonstops beginning April 25, increasing to daily on June 13; and four weekly Los Cabos-Dallas/Fort Worth nonstops beginning June 13.

9. Air Canada, Pilots Reach Agreement.

A new five-year collective agreement with pilots was reached after 19 months of talks and mediated negotiations, said Air Canada CEO Calin Rovinescu; the arbitrator's selection of management's final offer "preserves our pilots' compensation and benefits in the top quartile of the North American industry and will help ensure the sustainability of the company's defined benefit pension plans." Pilots had opposed plans for a new low-cost operation, which Rovinescu said will debut by early 2013.

10. Interjet Begins Daily New York Nonstops; DOT OKs Six New Routes.

Interjet launched daily Mexico City-New York Kennedy service. Mexico's second largest carrier, after Aeromexico, also flies to Miami, San Antonio, Guatemala, Havana and Costa Rica and 26 cities in Mexico, with 35 Airbus A320s; 20 Sukhoi Superjet 100s are on order. Interjet received DOT approval for six new routes to the United States: to Orange County from Mexico City, Guadalajara and San Jose del Cabo; and to Houston, Chicago and Las Vegas from Toluca, a secondary airport serving Mexico City.

11. Aerolíneas Argentinas Joins SkyTeam.

Aerolíneas Argentinas became the 18th member of SkyTeam, and the first South American member. The Buenos Aires-based carrier operates flights to 18 international and 35 domestic destinations with a fleet of 57 aircraft: 11 Airbus 340s, 26 Boeing 737-700/800s and 20 Embraer 190s.

12. **Delta Seeks Changes to Detroit to Beijing, Tokyo Services.**
See Section I, item 5.
13. **United, Aer Lingus Partnership Ends in October.**
See Section VIII, item 5.
14. **Icelandair to Introduce Nonstops to Anchorage.**
See Section VIII, item 6.
15. **Ethiopian to Fly Dreamliner on Washington Route.**
See Section VIII, item 7.
16. **EVA, United Begin Code Share Flights.**
See Section IX, item 1.
17. **Qatar to Begin Daily Chicago Service.**
See Section IX, item 4.