



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. IATA: Revised Profit Forecast.

The world's airlines will see a net profit of \$15.1 billion in 2010, and \$9.1 billion in 2011, said the International Air Transport Association (IATA), revised from September forecasts of \$8.9 billion and \$5.3 billion, respectively. Net margins remain weak at 2.7% for 2010 and falling to 1.5% in 2011. Air cargo demand deteriorated from previously forecast growth of 19.8%, to 18.5%, limiting yield growth to 7% (below previously forecast 7.9%); since May, overall volumes fell by 5%. The world's five largest airlines, by market capitalization, are now in Asia (Air China, Singapore, Cathay Pacific, China Southern) and Latin America (LATAM). Exceptionally adverse weather conditions in Europe and the U.S. at year-end resulted in travel chaos, as did the Icelandic volcano last spring, said Giovanni Bisignani, IATA Director General and CEO. "It's time to evaluate a long list of government imposed industry handicaps, including excessive taxation, out-dated ownership restrictions, over-regulation where market forces could do better, under-investment in infrastructure and generally poor regulation of monopoly suppliers." IATA is launching Vision 2050 in February with a mission to build a vision for a successful and sustainable industry in four decades.

2. Alfred E. Kahn Dies.

Alfred E. Kahn, chief of the Civil Aeronautics Board in 1977-78 and leader of the movement to deregulate U.S. airlines, has died. A Cornell economics professor, Kahn died of cancer in Ithaca. He was 93.

3. Executive Changes at IATA, ATA.

Cathay Pacific CEO Tony Tyler will succeed retiring Giovanni Bisignani as Director General and CEO of IATA, effective July 1. Delta CEO Richard Anderson is the new Chairman of the Board of the Air Transport Association of America (ATA), for a two-year term beginning January 1, 2011, and Southwest Chairman, President and CEO Gary Kelly is Vice Chairman. Nicholas Calio replaces James May as ATA President and CEO; Calio currently leads Global Government Affairs for Citigroup, and held senior legislative affairs positions in both Bush administrations.

4. FAA Raises Safety Rating for Mexico

The Federal Aviation Administration (FAA) upgraded Mexico's safety rating from Category 2 to Category 1, based on results of a November review of Mexico's civil aviation authority. A Category 1 rating means the authority complies with safety standards set by the International Civil Aviation

Organization (ICAO). With the Category 2 rating, Mexican air carriers could not establish new service to the U.S., but could maintain existing service. The Category 1 rating prohibited U.S. airlines from offering code share service on any airline overseen by Mexican authorities. Following the upgrade, SkyTeam partners Delta and Aeromexico reinstated code sharing between 20 Mexican and nine U.S. airports on 125 Aeromexico flights. Aeromexico also announced two new daily frequencies to San Antonio.

5. Singapore Cargo to Pay \$48 Million Criminal Fine for Price Fixing.

Singapore Airlines Cargo agreed to plead guilty and pay a \$48 million criminal fine for its role in a conspiracy to fix prices, the U.S. Department of Justice announced. According to a one-count felony charge filed in U.S. District Court for the District of Columbia, the company engaged in a conspiracy to fix rates in the U.S. and elsewhere for international air shipments, from as early as February 2002 until at least February 14, 2006. Under the plea agreement, the company also agreed to cooperate with the Department's ongoing antitrust investigation, in which 20 airlines and 17 executives so far have been charged. More than \$1.7 billion in criminal fines have been obtained and four executives have been sentenced to serve prison time; charges are pending against the remaining 13 executives.

6. JetBlue Fined for Violating Disability, Code Share Disclosure Rules.

The Department of Transportation (DOT) assessed a civil penalty against JetBlue for violating rules protecting air travelers with disabilities, and failing to disclose when flights sold by the carrier were being operated under a code sharing arrangement by Cape Air. The carrier must pay \$350,000 of the \$600,000 fine and; up to \$250,000 may be used to improve service to disabled passengers beyond services required by law.

7. Review Finds FAA Oversight of Airline Maintenance Lacking.

In a review of FAA oversight of repair stations, the DOT Office of Inspector General (DOT IG) found that FAA inspectors failed to complete 207 key inspections on time, over an eight-year period, said the Associated Press, which obtained a copy of the IG report. FAA launched the Air Transportation Oversight System in 1998 at the 10 largest U.S. airlines, in response to complaints that inspections were missing serious problems; the program now includes 94 airlines.

FAA Proposes Penalties Against American Eagle, Continental.

FAA is proposing a \$330,000 civil penalty against American Eagle for operating an Embraer 135 regional jet on 12 revenue passenger flights when it was not in compliance with Federal Aviation Regulations. Violations included broken passenger seats and arm rests that would not raise and stow into the

upright and locked position for takeoffs and landings. A civil penalty of \$275,000 was proposed against Continental for operating two Boeing 737-900ERs on 73 flights after mechanics installed incorrect main landing gear wheel-tire assemblies.

8. FAA Proposes Upgrades to Certain TCAS Devices.

FAA issued a proposed directive to upgrade Traffic Alert and Collision Avoidance Systems (TCAS) manufactured by a unit of L-3 Communications. The devices are installed on about 7,000 airliners and 1,800 business aircraft in the U.S.

9. FAA Launches Aircraft Re-Registration Rules.

FAA is notifying owners and pilots about changes to federal rules that will require aircraft re-registration every three years. Ownership information for about 119,000 of the 357,000 aircraft on the FAA registry is inaccurate, a potential security and law enforcement problem. The data are also necessary for safety reasons, including product recalls, safety directives and locating an overdue flight, said FAA.

10. Future of Aviation Committee Makes Recommendations.

The Future of Aviation Advisory Committee (FAAC), created in April, presented 23 recommendations to DOT Secretary Ray LaHood, on how to address challenges faced by the industry. The committee focused on five issue areas: safety, workforce, competitiveness and viability, stable funding for aviation systems, and environmental challenges and solutions. Among specific recommendations: federal government should speed implementation of NextGen and assist in funding NextGen equipment on aircraft, ensure greater transparency for consumers in airline pricing, expand sources of safety data available to FAA, and ensure that global airline alliances enhance the viability and competitiveness of the U.S. aviation industry. The committee's 19 members represented airlines, airports, labor, manufacturers, environment, finance, academia, consumers and general aviation. DOT will review the recommendations and develop an implementation plan.

11. NTSB Differs With FAAC Recommendations on Child Safety.

The National Transportation Safety Board (NTSB) said FAAC recommendations do not go far enough to ensure safety of small children. The panel advised the DOT secretary to utilize the full resources of his office to educate the flying public about dangers of flying with lap children. "We would have preferred to see the FAA be mandated to require that every person including our youngest children be restrained appropriately for their age and size," said NTSB Chairman Deborah Hersman. The FAAC also requested that the Secretary update economic and safety data concerning small children, and

take decisive steps, which may include rulemaking, to address child passenger safety in aviation. NTSB held a Public Forum on Child Passenger Safety in December and plans to promote the issue through education and advocacy aimed toward caregivers, regulatory agencies and the transportation industry. Separately, NTSB is seeking a major role identifying aviation hazards before they can cause crashes, reported the *Wall Street Journal*, in addition to its accident investigation mission.

12. Study: Flight Delays Cost \$32.9 Billion.

The direct cost of air transportation delays in 2007 was \$32.9 billion, according to a recent study commissioned by FAA “to quantify total cost of congestion to the aviation industry, the economy and society.” Of that figure, \$8.3 billion was borne by airlines and \$16.7 billion by passengers; impact on GDP was \$4 billion and costs from lost demand were \$3.9 billion. The study was conducted by researchers at the University of California, Berkeley, Massachusetts Institute of Technology (MIT), George Mason University, University of Maryland and Virginia Tech, all affiliated with National Center of Excellence for Aviation Operations Research (NEXTOR).

13. AIA: 2011 Civil Aircraft Sales to Reach \$50 Billion.

Civil aircraft sales dropped nearly 6% in 2010 to \$48.2 billion, but are expected to rebound in 2011, with an increase to \$50 billion. “This is still short of the pre-recession 2007 levels, but on the right trajectory,” said Aerospace Industries Association in its Year-End Review and Forecast.

14. OECD Proposes New Export Finance Rules.

Negotiators representing the U.S., EU, Brazil, Japan and Canada proposed a new Aircraft-Sector Understanding (ASU) on export credits, which, said the Organization for Economic Cooperation and Development (OECD), is meant to bring more uniformity to financing new commercial aircraft. If approved, premiums on government guarantees on commercial loans to buy aircraft would increase significantly. Boeing and Airbus order backlogs would be exempt from the new rules. Final approval from the governments is needed by January 20; implementation would become effective February 1. ATA said the proposed new ASU will not eliminate the cost advantage that foreign airlines enjoy from subsidized export credit financing, but it is a significant improvement over the current ASU; “today’s below-market, subsidized financing of foreign airlines by the Ex-Im Bank puts U.S. airlines at a clear disadvantage [and] failure to conclude a new agreement will mean more U.S. subsidies of foreign airlines, continued market share loss by U.S. airlines and more job loss by U.S. airline workers.”

15. DOT Air Travel Consumer Report for October.

Based on data filed by 18 of the largest U.S. airlines.

	Oct. '10 / '09	Sept. '10	Full Year				
			2009	2008	2007	2006	2005
On-time arrivals %	83.8 / 77.3	85.1	79.5	76	73.4	75.4	77.4
Cancellations %	0.97 / 0.99	0.90	--	--	--	--	--
Mishandled baggage*	2.91 / 3.51	2.89	3.91	5.26	7.05	6.73	6.64
<i>Consumer complaints:</i>							
Airline service	749 / 898	755	8,819	10,648	13,180	8,325	8,741
Disability-related	49 / 55	41	517	477	488	430	511
Discrimination**	6 / 10	10	132	115	99	114	129

Note: The nation's largest airlines reported no flights in October with tarmac delays of more than three hours, down from 11 flights in October 2009, and 12 in the May-October period, compared to 546 during same period 2009.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. O'Hare Expansion Project to Slow.

United reportedly is urging Chicago Mayor Richard Daley and other city officials to delay the 2014 target completion date for the \$8 billion O'Hare expansion project until air traffic increases. American is also trying to delay construction; the city and airlines are expected to reach a compromise date.

2. Bosco Named LaGuardia General Manager.

LaGuardia Deputy General Manager Tom Bosco was promoted to General Manager. The 24-year employee, a West Point graduate, led his National Guard battalion in providing post-9/11 security at Ground Zero and said safety, security, noise and efficiency will be his priorities.

3. Maryland Moves to Keep British Airways at BWI.

The Maryland Board of Public Works voted to pay British Airways up to \$5.5 million annually between April 2011 and March 2013, in an effort to keep the airline at BWI Thurgood Marshall Airport. The subsidy is similar to earlier agreements. Officials said British Airways carries about 100,000 passengers a year into BWI; the daily nonstops to London Heathrow generate about \$110 million per year for the state.

4. Prague Airport, Czech Airlines Seek to Merge.

Prague Airport and Czech Airlines, both state-owned, plan to enter into a single, government-owned and -managed holding company. Involved parties say Cesky Aeroholding will adhere to competition laws.

5. New Doha Arrivals Terminal Opens.

A 13,500 square meter arrivals terminal opened at Doha International Airport, featuring a dedicated lounge for Qatar Airways' first and business class passengers that includes showers, a retail outlet operated by Qatar Duty Free, and concierge assistance. The airport will be replaced by the \$14.5 billion New Doha International Airport in 2012. Qatar Airways launched 10 new routes in 2010, adding 18 new aircraft, and in the first quarter will begin flights to Budapest, Bucharest, Brussels and Stuttgart. By 2013, the airline plans to serve 120 destinations worldwide with a fleet of 120 aircraft.

III. SECURITY AND DATA PRIVACY

1. DHS Deployed 500 Body Scanners in 2010.

The Department of Homeland Security (DHS) has deployed nearly 500 Advanced Imaging Technology (AIT) units at over 75 domestic airports, said Secretary Janet Napolitano, as she highlighted 2010 accomplishments. The Transportation Security Administration (TSA) accelerated deployment of new technologies to U.S. airports including the AIT units, explosive detection systems, advanced technology x-ray systems and bottled liquid scanners.

2. IATA: Vision For Seamless Airport Processing.

IATA introduced a blueprint for the security checkpoint of the future that dispenses with a 'one size fits all' approach, and calls for passengers to be screened to a degree commensurate with what is known about them. "Combining biometrics, stand-off screening, and passenger data, travelers would walk uninterrupted through a 'tunnel of technology' where all security and customs processing would occur in a transparent manner," says Giovanni Bisignani, IATA Director General and CEO. A new Known Traveler system would establish a high degree of certainty in terms of an individual's risk level. Passive and active behavioral analysis and questioning based on intelligence would be conducted by trained personnel. Body scanning probably would remain as a secondary rather than primary screening methodology, mainly due to the time taken for a scan, said Ken Dunlap, IATA Global Director of Security and Travel Facilitation. Some major hubs already are falling to 160 passengers per hour. Also, it would cost TSA \$2.4 billion to place AIT machines at all U.S. checkpoints, about 40% of its total budget.

3. Secure Flight Fully Implemented.

All passengers on flights within or bound for the U.S. are now being checked against government watchlists under the Secure Flight program; matching for all domestic airlines was achieved in June 2010. Under Secure Flight, TSA prescreens passenger name, date of birth and gender against terrorist watchlists before passengers receive boarding passes. Individuals found to match watchlist parameters are subject to secondary screening, a law enforcement interview or prohibition from boarding, depending on specific case. Airlines formerly held responsibility for checking passengers against watchlists. Separately, a TSA official told the *Washington Post* that Secure Flight is a phased-in program and addressing routes that overfly the U.S. is the next phase in its implementation.

4. **Federal Trusted Traveler Program Proposed.**

The U.S. Travel Association (USTA) asked DHS to create a trusted traveler program, in which pre-screened travelers who voluntarily share biometric and biographical data could pass through an alternative airport security process. This would enable the shift of security resources from a large pool of low-risk travelers to allow a more sustained focus on a smaller pool of travelers who are not pre-screened, said CEO Roger Dow. Also, eliminating many physical security measures for passengers who opt in to a trusted traveler program will strengthen public trust that the federal government is working to balance privacy, civil liberties, efficiency and security of air travelers who are verified as being low risk. USTA convened a Blue Ribbon Panel for Frictionless Aviation Security comprised of industry and security experts and former government officials to make recommendations on how to improve air travel security in a way that maximizes security and minimizes the burden on travelers. The panel is expected to issue its report in early 2011, including specific details related to the proposed trusted traveler program.

5. **ACLU Seeks End to Religious Questioning by CBP Agents.**

The American Civil Liberties Union (ACLU) asked the DHS inspector general to investigate why U.S. Customs and Border Protection (CBP) agents are questioning “innocent Americans who are perceived to be Muslim about their religion and their political beliefs without any suspicion that they have done anything wrong.” ACLU and the Muslim Advocates Program to End Racial and Religious Profiling sent the letter on behalf of five individuals who have been questioned about religious and political beliefs, associations, religious practices and charitable giving when returning to the U.S.. The groups want to know if DHS and CBP have a policy for such questioning, if that policy complies with the Constitution and federal law, and if questioning of the individual travelers violated their constitutional rights or the law, what standards govern use of information provided during the questioning and whether CBP agents are subjecting other travelers to the same treatment. They also filed Freedom of Information Act (FOIA) requests with DHS and CBP on behalf of the five individuals for information about their treatment, and a FOIA request seeking records related to the questioning of U.S. citizens and legal residents about their religious and political beliefs at the border.

6. **European Plan to Strengthen Air Cargo Security.**

A joint EU approach to strengthen air cargo security will replace measures of several EU member states with “a holistic approach.” The action plan is a response to the discovery of explosive devices concealed in air cargo originating from Yemen. Strategies include, simultaneously: New, harmonized EU cargo and mail security controls; reconvening the air cargo working group to advise on new measures on cargo originating from non-EU countries; using

a risk-based approach and requiring more advance information about shipments. Criteria will be defined to identify cargo presenting a particular risk, and to evaluate security standards of non-EU airports. Research will be conducted to enhance existing screening methods and technologies for cargo and develop new possibilities. Steps will be taken to establish, facilitate and strengthen information sharing. A common all-source EU threat assessment capability will be developed. ICAO audits and capacity-building initiatives should be used as primary tools to strengthen aviation security, including cargo supply chains in non-EU countries.

7. **Yemen Improves Airport Security.**

Authorities in Yemen set up modern security equipment in the country's airports, with the help of TSA, in an effort to have the U.S. ban on air freight lifted. The ban began in October when it was learned that two U.S.-bound parcel bombs originated in Yemen; Yemen-based Al-Qaeda in the Arabian Peninsula (AQAP) has claimed responsibility for several terrorist attempts.

8. **Senate Hearing on International Aviation Screening Standards.**

See Section VI, item 2.

9. **Bill to Criminalize Misuse of Airport Body Scan Images Introduced.**

See Section VI, item 3.

10. **DH IG Asked to Report on Body Screening Equipment.**

See Section VI, item 4.

11. **Chaffetz Pursues Release of TSA Radiation Inspection Records.**

See Section VI, item 5.

IV. E-COMMERCE AND TECHNOLOGY

1. American Stops Displaying, Selling Fares Through Orbitz.

An Illinois state court lifted a temporary restraining order that had prevented American Airlines from pulling its listings from Travelport unit Orbitz Worldwide, and the carrier immediately discontinued displaying and selling fares through Orbitz websites. American said a failure to reach a mutually beneficial commercial agreement caused it to revoke Orbitz authority to display and sell its fares, and encouraged travelers to use its own website and other travel agencies. Business Travel Coalition (BTC) said American's "outrageous act" shows the carrier "has near-zero interest in preserving an open and transparent marketplace." Single-supplier direct connect proposals can cause massive fragmentation of airfares and ancillary fees, said BTC, "depriving consumers of the ability to compare the total cost of air travel options across all airlines." Expedia said American has shown it only "intends to do business with travel agencies through a new model that is anti-consumer and anti-choice," and began displaying American's flights at the bottom of its fare results; American called Expedia's action "discriminatory" and "unwarranted."

2. Delta Pulls Flights From Small Travel Sites.

Delta pulled flights from three small online travel sites, CheapOAir.com, OneTravel.com and BookIt.com, and said bookings will still be available through the largest travel websites, which have "enormous value." The airline seeks to cut distribution costs and increase bookings through its own site.

3. Continental Introduces FareLock.

Continental introduced FareLock, which allows customers to hold a reservation and lock in a quoted fare for up to a week. Minimum fees for the service range from \$5 to hold a reservation for three days and \$9 to hold it for a week, and can be much higher, depending on length of the hold, the trip and date of travel.

4. IATA Launches Online Solution for Dangerous Goods Shippers.

IATA released an online integrated application for shipping dangerous goods by air in compliance with industry regulations. The customizable EasyDGR solution allows shippers to create an electronically validated Dangerous Goods Declaration (DGD), and features built-in intelligence to validate information for the DGD in real time, virtually eliminating mistakes. As many as 60% of dangerous goods shipments rejected by airlines are due to mistakes in

documentation, says IATA. EasyDGR was created with International Civil Aviation Organization cooperation and is developed and hosted by InfoTrustGroup.

5. Airlines Complete Move to Bar-Coded Boarding Passes.

IATA announced 100% worldwide implementation of 2D bar coded boarding passes (BCBP), which “opens the door for automated access to premium services [such as] fast-track security lanes or lounges.” The conversion to printed 2D BCBP will save the industry up to \$1.5 billion every year, said IATA. Bringing over 2,000 airports on board and coordinating implementation was done through the StB Matchmaker, a secure web portal that provides information on 3,000 airport terminals and over 200 airlines. The StB Matchmaker system will be expanded in 2011 to facilitate the IATA e-services and Fast Travel projects.

V. **ENERGY AND ENVIRONMENT**

1. **Fuel Bill for Global Airline Industry.**

The average price of aviation jet fuel, as of December 24, was \$107.7/barrel, up 9.6% on the month and 26.3% year-on-year, reports IATA. Fuel price average year-to-date was \$91.1/barrel.

2. **Airlines Spared Emission Tax at UN Climate Change Talks.**

Aviation was not included in an initial agreement to establish a Green Climate Fund, at the United Nations climate change conference held in Cancun (COP16). The fund aims to raise \$100 billion a year by 2020 to help developing countries mitigate the impact of climate change. Aviation officials said industry efforts to set ambitious targets to reduce carbon emissions and the resolution on aviation and climate change agreed to at the 37th Assembly of the ICAO, in October, place ICAO in the driving seat in terms of addressing emissions. The World Tourism Organization (UNWTO) said taxation on air transport emissions would have an adverse effect on tourism in developing nations and highlighted its work with ICAO and the UN Environment Program (UNEP) to address aviation emissions at the global level. In other COP16 news, Richard Branson said 100% of Virgin Group's aviation profits are being reinvested in fuel research, and Virgin is three to five years away from flying biofuel-powered aircraft; among other remarks, he said retrofitting planes with winglets, rationalizing air traffic control in Europe and making planes lighter by using carbon fiber could reduce emissions significantly.

3. **Camelina-Based Biojet Fuel Reduces CO2 Emissions by 75%.**

Camelina-based biojet fuel reduces CO2 emissions by 75% compared to traditional petroleum-based jet fuel, according to a peer-reviewed paper published in the journal *Environmental Progress & Sustainable Energy*. The research was conducted at Michigan Tech University, in collaboration with Honeywell unit UOP, and was based on camelina grown in Montana and processed into biojet fuel using UOP hydroprocessing technology. A specification for renewable jet fuel, known as Hydrotreated Renewable Jet (HRJ), is expected to be fully approved this year by the American Society for Testing and Materials (ASTM).

4. **Focus on Green Aviation.**

Senator Mark Warner (D-Va) is leading an effort to create public and private investment in green aviation, bringing together NASA and other aviation experts located in Virginia to research ways to design and build aircraft that would burn less jet fuel and cause less greenhouse-gas emissions. The

Obama Administration plans to increase NASA funding for green aviation research.

5. Agreement Toward Single European Sky Signed.

Belgium, France, Germany, Luxembourg, the Netherlands and Switzerland signed an agreement to create the Functional Airspace Block–Europe Central (FABEC), said the European Union (EU). This is a key step in achieving the Single European Sky, “which will put an end to the current fragmentation of European airspace and enable more efficient and shorter flights [and] reduce aviation's impact on the environment.” The agreement represents the third functional airspace block, after the UK–Ireland FAB and the Denmark–Sweden FAB. The other member states are expected to sign similar agreements by a December 4, 2012 deadline.

VI. U.S. CONGRESS

1. Nine-Month FAA Reauthorization Extension Approved.

FAA authorization was extended through September 30. James Oberstar (D-Minn), outgoing Chairman of the House Transportation and Infrastructure Committee, said the extension would provide a measure of stability and certainty to FAA programs. John Mica (R-Fla), new Committee Chairman for the 112th Congress, said a long-term aviation reauthorization bill will be one of his priorities.

2. Senate Hearing on International Aviation Screening Standards.

The Senate Commerce Committee held an Aviation Operations, Safety and Security Subcommittee hearing on international aviation screening standards. DHS and other Administration officials said significant steps have been taken to strengthen aviation security in the U.S., and to harmonize international security standards and practices through increased global outreach, coordination of standards and practices, use of enhanced technology, and assessments of foreign airports. However, European restrictions on sharing passenger data remain a challenge and further cooperation with foreign partners is needed. Greg Principato, President, Airports Council International - North America, said the current aviation security system needs “to evolve to keep pace with the projected increase in the number of passengers and volume of cargo in the U.S. and abroad. Only through an effective partnership where government coordinates with industry to apply appropriate security measures can we ensure the long-term sustainability of the aviation system.”

3. Bill to Criminalize Misuse of Airport Body Scan Images Introduced.

TSA rules forbid security screeners from saving or identifying body scan images, but legislation introduced in the Senate by Jon Tester (D-Mont) would make it a federal crime to permanently photograph, record or distribute any image produced using a full body scanner. Federal employees who illegally record or distribute the images would face up to a year in prison and a \$100,000 fine.

4. DH IG Asked to Report on Body Screening Equipment.

Edward Markey (D-Mass), a member of the House Energy and Commerce Committee, asked the DHS Inspector General to produce a report on effectiveness and reliability of TSA inspection plans for “catching and resolving potential issues” with the functioning of full body x-ray screening systems; quality control plans to ensure that systems and protocols remain in compliance with dose-per screening limits; training of TSA employees in

appropriate operation and troubleshooting of the machines; how information about accidental overdoses is shared with other federal agencies and irradiated passengers or employees; and coordination with the Food and Drug Administration (FDA) and other federal agencies with more expertise in this area. Markey also asked TSA Administrator Frank Pistole to respond to questions about the safety and monitoring of full body x-ray screening systems.

5. Chaffetz Pursues Release of TSA Radiation Inspection Records.

Jason Chaffetz (R-UT), new Chair of the House Subcommittee on National Security, plans to pursue release of TSA radiation inspection records; Chaffetz has sponsored legislation that would limit use of full body scans. *USA Today* reported that TSA and its maintenance contractors failed to detect when some X-ray machines used on baggage emitted radiation beyond what regulations allow, according to a 2008 report by the Centers for Disease Control and Prevention. Some machines were missing protective lead curtains or had safety features disabled by TSA employees with duct tape, paper towels and other materials. TSA told *USA Today* it has made significant changes in how it monitors and maintains X-ray equipment since the CDC study, which tested machines at 12 airports in 2003 and 2004, and uses a different contractor, services machines monthly and trains employees to identify and report potential safety problems.

6. Loopholes in 'Do Not Board' List.

Michael Burgess, M.D. (R-Tex), a member of the House Commerce Subcommittee on Health, asked DHS Secretary Janet Napolitano about the effectiveness of the federal Do Not Board list, after learning of loopholes that have allowed people with serious, infectious diseases to board flights. Burgess told *USA Today* he's concerned about passengers with multidrug-resistant tuberculosis getting on a packed flight. Centers for Disease Control and Prevention said no one was sickened by three travelers known to have boarded commercial flights; all had tuberculosis. TSA said it has fixed problems with the list, which was created in 2007 after it was learned that a passenger on a U.S.-bound flight from Europe had drug-resistant tuberculosis.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. United States, Brazil Reach Open Skies Agreement.

Representatives of the U.S. and Brazil agreed to implement an open skies aviation regime, which immediately removed restrictions on pricing and on routes between each country that can be served by U.S. and Brazilian scheduled and charter airlines. The agreement also provides immediately for full code share rights and additional charter flexibility. Between October 2011 and October 2014, U.S. carriers will be allowed to operate significant increases in scheduled combination, all-cargo and charter flights, including additional services to the currently restricted and highly congested Sao Paulo and Rio de Janeiro airports. Full open skies take effect in October 2015.

2. Israel, U.S. Sign Open Skies Agreement.

An open skies agreement was signed by U.S. Ambassador to Israel James Cunningham and Israeli Transportation Minister Yisrael Katz, allowing Israeli airlines to fly to any civilian American airport without restriction. They previously were restricted to only 11 U.S. destinations. The agreement had been initialed in April.

3. EU and Jordan Sign Air Transport Agreement.

The EU and Jordan signed a comprehensive agreement which will enable all EU airlines to operate direct flights to Jordan from anywhere in the EU and vice-versa for Jordanian carriers. Cross-investments will be encouraged and restrictions on prices, routes and quotas of flights will be removed. The agreement will boost trade and tourism, said EC Transport Vice President Siim Kallas, and pave the way toward a wider Euro Mediterranean Aviation Area. Jordan will harmonize its legislation with European standards and implement EU aviation rules in areas such as safety, security, environment, consumer protection, air traffic management, competition issues and social aspects.

VIII. EUROPE AND AFRICA

1. IATA: Shrinking Profits for European Airlines in 2011.

European carriers will reap a \$400 million profit in 2010, shrinking to \$100 million in 2011, said IATA. Intra-European market conditions remain depressed as a result of the debt-crisis, slow economic growth, government austerity measures and increasing taxation. Profitability is further weakened by below trend demand growth of 3.5% and a 4.4% increase in capacity in 2011.

. . . African carriers will see 2010 profits of \$100 million move to break-even in 2011. A capacity expansion of 6.4% in 2011 will outstrip demand growth of 5.5%. African carriers continue to benefit from a commodity-led economic expansion that is fueling growth in both regional and long-haul markets.

2. American, BA, Iberia Expand Joint Business Code Shares.

American, British Airways and Iberia added another 317 transatlantic code share routes. Their joint business, launched in October, now serves about 400 destinations in 100 countries with 5,200 daily departures. New routes to begin in first quarter include New York Kennedy-Budapest and Chicago-Helsinki (operated by American); London Heathrow-San Diego (BA); and Barcelona-Miami and Madrid-Los Angeles (Iberia); American will add frequencies from New York Kennedy to Barcelona and Miami to Madrid. American and BA reportedly will run a shuttle-type summer service between Heathrow and New York from March 27.

3. Virgin Atlantic Receives Offers.

Virgin Atlantic said it received several “lines of enquiry,” after it hired Deutsche Bank to assess growth opportunities, but did not comment on individual details. Delta reportedly is interested in a tie-up; Ryanair “dismissed rumors that it might bid,” saying it “has a long stated plan to enter the transatlantic market with a revolutionary really low fares service [but is] too busy screwing Air France, BA and Lufthansa to waste time on a high fare Virgin.”

4. Lufthansa Executive Shifts.

Christoph Franz will replace Wolfgang Mayrhuber as Chairman and CEO of the Lufthansa Executive Board, on January 1, in a planned succession. Carsten Spohr will head Lufthansa German Airlines, with Jens Bischof as head of Sales and Revenue management; Bischof has been Area Manager The Americas since 2006 and earlier oversaw the integration of SWISS. Thierry Antinori will become Chairman of Austrian Airlines on April 1; he currently is Chief Marketing Officer on the Lufthansa Board.

5. Air France A380 to Serve Washington.

Air France will operate daily Airbus A380 service between Paris Charles de Gaulle and Washington DC, starting June 6. The carrier operates the jumbo jet to New York Kennedy, Johannesburg, Tokyo and Montreal.

6. Lufthansa Flying A380 to New York.

Lufthansa will operate an A380 on twice-weekly Frankfurt-New York Kennedy flights, instead of a Boeing 747 and Airbus A330, from February 18, and plans to increase the A380 frequencies to daily by mid-April. Four A380s are scheduled for delivery to Lufthansa in first half 2011.

7. Sun Country Offers Minneapolis-London Gatwick Summer Service.

Sun Country will offer twice-weekly Minneapolis-London Gatwick summer service from May 27 through September 4. The Boeing 737-800 flights will be the only direct air service between the two cities.

8. Continental to Offer Houston-Lagos Service.

The Nigerian Civil Aviation Authority approved Continental's application to offer planned Houston-Lagos service, scheduled to begin in November and subject to final government approval. It will be the first daily scheduled service between Texas and Africa.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. IATA: Asia-Pacific Carriers to Post Largest 2010 Profit at \$7.7 Billion.

Asia-Pacific carriers will post the largest regional profit in 2010 at \$7.7 billion, said IATA, dropping to \$4.6 billion in 2011. A 6.9% demand growth for 2011 is above global average, but below expected 7.8% capacity expansion.

. . . Middle East carriers' 2010 profits of \$700 million will shrink to \$400 million in 2011; it will be the fastest growing region in 2010 and 2011, but pace of demand growth will halve from 21.5% in 2010 to 10.5% in 2011.

2. Virgin America Partners With Emirates.

Virgin America signed an interline agreement with Emirates that allows travelers to book flights through Emirates with connecting service on Virgin America via its gateways in San Francisco, Los Angeles, New York or Toronto. The San Francisco-based carrier also has interline agreements with V Australia, Virgin Atlantic, Cathay Pacific, El-Al, South African and Qatar.

3. Virgin Blue-Air New Zealand Alliance Approved.

A Virgin Blue-Air New Zealand trans-Tasman alliance was approved by the Australian Competition and Consumer Commission (ACCC) and the New Zealand Minister of Transport for a three-year period. After an earlier denial, ACCC in its final determination imposed conditions "intended to restrict the ability of the alliance to raise fares on these routes by limiting its capacity." New Zealand Transport Minister Steven Joyce said, "More sustainable competition, cost savings and the commitment both airlines have made to maintain trans-Tasman passenger numbers will be major benefits of the alliance."

4. ACCC Proposes to Authorize Virgin Blue-Etihad Alliance.

ACCC issued a draft determination proposing to grant authorization for an alliance between Virgin Blue and Etihad. The airlines would cooperate on joint pricing and scheduling of services across their networks. The alliance will also add capacity between Australia and Abu Dhabi.

5. EVA to Buy Stake in China Cargo.

Taiwan-based EVA plans to acquire a 16% stake in Shanghai-based China Cargo Airlines, which is a joint venture of China Eastern and China Ocean Shipping (Cosco Group).

6. **Taiwan Names New China Airlines Chairman.**

Taiwan's Transport Ministry announced that China Airlines Chairman Philip Wei resigned due to personal reasons. Chang Chia-juch, former China Steel Chairman, was appointed to replace Wei, who joined the company in 1971 and was named President in 2002 and Chairman in 2005.

7. **Cathay Announces Chicago, New York Services.**

Cathay Pacific will launch daily Boeing 777-300ER, Hong Kong-Chicago nonstops on September 1, the carrier's first new U.S. destination since 1998, and plans to code share with oneworld partner American Airlines from Chicago. Cathay Pacific will add three weekly B-777-300ER nonstops from New York Kennedy to Hong Kong on March 27, to become daily in May. In other news, Chief Operating Officer John Slosar will become CEO on March 31, succeeding Tony Tyler who will head IATA.

8. **ANA to Double Weekend Flights on Tokyo-New York Route.**

ANA will increase Tokyo Narita-New York frequencies with a double-daily service on Saturdays during the January to March 2011 period. In other news, ANA and Hawaiian Airlines began daily cargo code sharing between Tokyo Haneda and Honolulu, with plans "to tap the market for freight between local cities throughout Japan and other Asian cities, and American cities beyond Honolulu." CEOs of both airlines in October agreed to explore bilateral cooperation in passenger and cargo code sharing and frequent flyer programs.

9. **Delta Expands Pacific Service From Japan.**

Delta added new nonstops from Nagoya to Honolulu and Narita to the Pacific island of Palau.

10. **American Delays New York-Tokyo Nonstops.**

American requested permission to delay launch of Boeing 777 nonstops from New York Kennedy to Tokyo Haneda to March 1, rather than the planned January 20 start date, to avoid the slow February travel period.

11. **Turkish, US Airways Sign New Code Share Agreement.**

Star Alliance partners US Airways and Turkish Airlines signed a code share agreement covering nonstops to Istanbul via Turkish Airlines from New York and Chicago, for Turkish service from Frankfurt, Munich and Zurich to Istanbul, and to four new destinations in Turkey via Istanbul: Adana, Izmir, Antalya and Ankara. Turkish Airlines customers gain access to Charlotte, Philadelphia and Phoenix via US Airways, flying from Frankfurt, Munich, Zurich, Chicago and New York.

12. AirAsia to Establish Low Cost Airline in The Philippines.

AirAsia plans to establish a low cost airline in the Philippines, in partnership with Philippine investors. As part of the joint venture agreement, AirAsia will provide technical, operational and commercial support to the new airline, which is expected to begin operations in third quarter of 2011, subject to obtaining relevant approvals.

13. Emirates Chairman to Head Dubai World.

Sheik Ahmed Bin Saeed Al Maktoum was named Chairman of global holding company Dubai World. He is also Chairman and CEO of Emirates Airline and Group, President of the Dubai Civil Aviation Authority and Chairman of Dubai Airports.

X. AMERICAS

1. IATA: Region's Carriers to See Profits Decrease in 2011.

North American carriers will see a 2010 profit of \$5.1 billion decrease to \$3.2 billion in 2011, said IATA. The weak U.S. economic recovery will limit demand increases to 3.7% (below global average of 5.3%), while capacity will increase by 4.6%. . . . Latin American carriers will see a \$1.2 billion profit in 2010 cut to \$700 million in 2011. Demand growth of 6.3% in 2011 will be outstripped by capacity expansion of 7.2%. Consolidation within the region and a robust regional economy, led by Brazil, will continue to support profitable growth among the region's leading carriers.

2. U.S. Airline Profit Margins Rise in Third Quarter.

Third quarter operating profit margins were 10.5% for network and 11% for low-cost carriers, DOT reported; regional airlines were not included due to incomplete data. Ancillary revenue constituted 5.8% of total revenue of 26 carriers, including \$906 million in baggage fees, \$590 million from reservation change fees and \$2.1 billion from other ancillary sources. As the year ended, several U.S. airlines raised domestic fares by \$10 each way, reportedly due to rising fuel costs. Carriers canceled thousands of flights over the holiday week due to snow and blizzard conditions; analysts estimated lost revenue of \$100 million. It was unclear whether U.S. airlines opted to cancel rather than risk tarmac delays, which could result in hefty fines due to new DOT rules.

3. Bruce Ashby Named oneworld CEO.

Bruce Ashby is the new CEO of oneworld, replacing Managing Partner John McCulloch who elected not to relocate from Vancouver to new oneworld headquarters in New York. The new office will also house the American/British Airways/Iberia management team and the New York offices of several oneworld members. Ashby held executive positions with United, Delta and US Airways. He was the first CEO of India's Indigo and most recently was CEO of Saudi Arabia's SAMA Airlines

4. Southwest Orders 20 B-737-800ERs.

Southwest pilot and flight attendant unions ratified contracts to add the Boeing 737-800 to their current collective bargaining agreements. The airline will substitute 20 of its 737-700 orders for -800s, with first delivery scheduled for March 2012. Chairman, President and CEO Gary Kelly, in remarks to the Wings Club in New York City, said "the -800 sets the stage to offer better scheduling flexibility in high-demand, slot-controlled, or gate-restricted markets," and could be used to fly to Hawaii, Alaska, Canada, Mexico and the

Caribbean; pending acquisition AirTran flies to Mexico and the Caribbean. The -800s will be delivered in full Extended-range Twin-engine Operational Performance Standards (ETOPS) configuration.

5. **Barger Re-Ups With JetBlue.**

JetBlue extended the employment agreement of President and CEO Dave Barger by two years, to 2015. He has been with the 10-year-old airline since 1998, and succeeded founder David Neeleman as CEO in 2008. In other news, JetBlue intends to serve Providenciales, Turks & Caicos Islands in February 2011 and Anchorage in May 2011.

6. **Sun Country Offers Minneapolis-London Gatwick Summer Service.**

See Section VIII, item 7.

7. **Continental to Offer Houston-Lagos Service.**

See Section VIII, item 8.

8. **Virgin America Partners With Emirates.**

See Section IX, item 2.

9. **Cathay Announces Chicago, New York Services.**

See Section IX, item 7.

10. **ANA to Double Weekend Flights on Tokyo-New York Route.**

See Section IX, item 8.

11. **Delta Expands Pacific Service From Japan.**

See Section IX, item 9.

12. **American Delays New York-Tokyo Nonstops.**

See Section IX, item 10.

13. **Turkish, US Airways Sign New Code Share Agreement.**

See Section IX, item 11.