



WASHINGTON AVIATION SUMMARY

June 2012 EDITION

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

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I. **REGULATORY NEWS**

1. **Charges Against Babbitt Dismissed.**

A judge dismissed drunken driving charges against J. Randolph Babbitt, former head of the Federal Aviation Administration (FAA), determining that a police officer erred in charging him with driving on the wrong side of the road. Babbitt resigned after the incident.

2. **FAA to Reconsider Fatigue Rule Exempting Cargo Pilots.**

Responding to a lawsuit by Independent Pilots Association (IPA), the union representing UPS pilots, FAA said it will review the exemption of cargo pilots from recent rules to combat pilot fatigue. IPA claims FAA exceeded its authority by relying on a sketchy, imprecise cost-benefit formula and failed to provide the public with legally required notice to comment on the intent to treat cargo differently than passenger operations. FAA said an outside group will review the cargo analysis, which then will be reissued for public comment.

3. **FAA Asked to Revise Proposed Pilot Qualification Rule.**

FAA was urged to revise proposed pilot certification requirements, issued in February, that require first officers to hold an Airline Transport Pilot (ATP) certificate and have a minimum of 1,500 hours flight time to obtain the certificate. Existing FAA regulations do not require a first officer to hold an ATP certificate; only the pilot in command must meet this requirement. Comments filed by Airlines for America (A4A) noted the changes could result in a pilot shortage and recruitment barriers. A4A recommends that FAA establish a restricted ATP certificate for Second in Command pilots, which takes experience and training into account; and form an Aviation Rulemaking Committee to provide recommendations on adoption of a Multicrew Pilot Licensing Program.

4. **Special Counsel Urges Stronger DOT Oversight of Airline Safety.**

The U.S. Office of Special Counsel (OSC) wrote to the White House and Congress regarding slow responses to safety lapses reported by whistleblowers at FAA. Of 178 disclosures by FAA employees since 2007, 89 related to safety. OSC referred 44 of those to the U.S. Department of Transportation (DOT) for investigation, and all but five were substantiated. In several cases, the whistleblower had to make repeat disclosures with OSC because "FAA took inadequate steps to correct the concern or failed to implement any corrective action." Stronger oversight of air safety by FAA was urged by OSC, an independent investigative and prosecutorial agency that protects federal employees and acts as a secure channel for whistleblower

disclosures. FAA has one of the highest rates of whistleblower filings per employee of any executive branch agency.

5. **FAA Steps Up Enforcement of Laser Penalties**

FAA will pursue stiffer penalties for individuals who purposefully point laser devices at aircraft. The maximum penalty for one laser strike is \$11,000, and FAA has proposed civil penalties for multiple laser incidents, with \$30,800 the highest proposed to date. The number of reported laser incidents nationwide rose from 2,836 in 2010, to 3,592 in 2011. Many pilots reported temporary blindness or took evasive measures to avoid the intense light.

6. **American Awarded Additional Brazil Frequencies.**

American Airlines filed an application with DOT and was granted the right to fly 17 additional U.S.–Brazil weekly frequencies from Miami and New York Kennedy. American also would convert daily Miami to Recife-Salvador one-stop service to five weekly Miami–Recife and Miami–Salvador nonstops.

7. **Passenger Protection Proposals Delayed Again.**

DOT postponed proposed passenger protection rules to November 30, saying more time is needed for analysis. The contested proposals have been delayed several times.

8. **DOT Urged to Restrict Preferred Seating Fees.**

In a letter to Transportation Secretary Ray LaHood, New York Senator Charles Schumer urged DOT to issue a new guidance “for airlines separating children from their parents due to new pricing schemes that place a premium fee on aisle and window seats and serve as an obstacle to consecutive seat assignments.” He cited safety concerns for children, potential liability for airlines, and burdens for flight attendants and passengers. “Will airlines that charge a premium for consecutive seating assignments assume liability for the safety of a child who isn’t seated next to their parent because of these onerous fees?” Schumer asked Airlines for America, in a similar letter. He pressed airlines to reconsider preferred seating fees, particularly when it comes to consecutive seating for families with children. “Abstaining from charging such premiums should be the industry standard,” said Schumer.

9. **DOT Fines Virgin America, Air India.**

DOT assessed a civil penalty of \$100,000 against Virgin America for filing incomplete reports of complaints registered by passengers with disabilities, and for not responding adequately to those complaints. . . . A civil penalty of \$80,000 was assessed against Air India for failing to post customer service and tarmac delay contingency plans on its website, and failing to adequately inform passengers about optional fees. Each carrier was required to pay half

the penalty and the remainder would be paid if the terms of the orders were violated during the next year.

10. FAA Proposes Fines Against Airlines.

FAA proposed a \$395,850 civil penalty against US Airways for violating hazardous materials regulations. During a dangerous goods inspection of US Airways' facilities at Hartford's Bradley International in May 2010, alleged violations were found involving 12 flights. . . . A \$210,000 civil penalty was proposed against Alaska Airlines for allegedly failing to properly document and tag deactivated systems and equipment before making repairs on six Boeing 737s, from June 2010 to January 2011. . . . A \$445,125 civil penalty against Horizon was proposed for allegedly operating a non-compliant Bombardier Dash-8-400 on 45 flights in March 2011. Horizon failed to comply with an airworthiness directive that required inspections for cracked or corroded engine nacelle fittings on the aircraft every 300 operating hours.

11. Mandate Delivered for National Travel and Tourism Strategy.

President Obama ordered federal agencies to immediately begin to develop implementation plans for a National Tourism and Travel Strategy. The goal is 100 million international visitors annually by the end of 2021, a 50% increase over the number expected this year. The effort includes expanding the Visa Waiver Program (VWP); enhancing U.S. visa processing to meet the expected growth in demand; expanding trusted traveler programs and expedited screening initiatives; and improving processes for arrival and aviation security screening. The government will continue to use discretionary grant programs to make strategic investments in transportation infrastructure. The Department of Commerce will establish a national travel and tourism office.

12. DOT Forms Aviation Consumer Protection Committee.

An Aviation Consumer Protection Committee has been established, as mandated in the FAA Modernization and Reform Act of 2012, and DOT Secretary LaHood has appointed the required four members representing carriers, airports, state or local governments, and nonprofit public interest groups with expertise in consumer protection. According to the law, the committee will terminate on September 30, 2015. Those appointed are Lisa Madigan, Illinois Attorney General, who will chair the committee; David Berg, Senior Vice President at Airlines for America; Deborah Ale-Flint, Director of Aviation at Oakland International Airport; and Charles Leocha, Director of the Consumer Travel Alliance. The committee will evaluate current aviation consumer protection programs and provide recommendations to the Secretary for improving them, and will recommend additional consumer protections that may be needed. Meetings, which will be open to the public, will be published in the Federal Register.

13. March Passenger Airline Employment.

U.S. scheduled passenger airlines employed 389,010 workers in March 2012, 1.6% more than in March 2011, reports DOT. The five network airlines employed 67.7% of the scheduled passenger airline total in March, the seven low-cost carriers employed 18%, and the 14 regionals employed 13.1% .

14. DOT Air Travel Consumer Report for March.

Based on data filed by U.S. airlines.

	March '12/'11	Feb. '12	Full Year				
			2011	2010	2009	2008	2007
On-time arrivals %	82.2 / 79.2	86.2	79.6	79.8	79.5	76	73.4
Mishandled baggage*	3.09 / 3.32	2.64	3.39	3.51	3.91	5.26	7.05
<i>Consumer complaints:</i>							
Airline service	1,117 / 803	691	11,545	10,988	8,821	10,648	13,180
Disability-related	48 / 50	38	630	572	519	477	488
Discrimination**	4 / 10	4	127	143	131	115	99

Notes:

Airlines reported three tarmac delays of more than three hours on domestic flights, on one day in St. Louis during severe storms, and no tarmac delays of more than four hours on international flights.

The high number of airline service complaints included 213 related to charter operator Direct Air ceasing operations.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. New Nonstop Service to Reagan Washington National.

DOT announced new beyond-perimeter nonstops for Reagan Washington National from four cities. Carriers selected are Alaska for service to Portland, Ore.; JetBlue for San Juan, Puerto Rico; Southwest for Austin, Texas; and Virgin America for San Francisco. This is Virgin America's first service at Reagan National; the other carriers currently have limited service at the airport. Each city will receive one new nonstop roundtrip per day. The FAA Modernization and Reform Act of 2012 created eight daily slot exemptions at National for airlines with little or no service at the airport to serve cities farther than 1,250 miles from Washington. The new law also allows four large carriers already serving National to exchange a total of eight slots for flights within the perimeter for an equal number of slot exemptions for beyond-perimeter nonstops. American will trade one roundtrip to Dallas-Fort Worth for a flight to Los Angeles, Delta will trade New York LaGuardia for Salt Lake City, United will trade Chicago O'Hare for San Francisco, and US Airways will trade Dallas-Fort Worth for San Diego.

2. Southwest Wins OK for International Flights at Houston Hobby.

Houston's City Council approved a Southwest proposal to construct five gates and a customs facility for flights from currently domestic-only Houston Hobby to Latin American destinations. United maintained that international flights should continue to operate only from Houston Intercontinental, where it is the dominant carrier.

3. Atlanta's International Terminal Opens.

Hartsfield-Jackson Atlanta opened its 1.2 million-sq.-ft. Maynard Jackson International Terminal. A Delta flight to Tokyo was the first to depart the \$1.4 billion facility; Delta's "contribution to the new terminal and concourse is part of a more than \$3 billion investment in facilities, products and technology in the air and on the ground." The airport handled nearly 10 million international passengers in 2011 and expects a 30% increase by 2015.

4. Denver, United Reach Accord.

A proposed agreement could save United up to \$22 million a year on its Denver International lease, as the airport assigns passenger facility charge monies to pay off \$100 million in debt associated with unused space. United, in turn, must increase capacity by 4.5% and maintain that level through 2016. Southwest and Frontier, which also would see substantial lease savings, question the legality of the plan, as it was negotiated only with United. Frontier

said the agreement fails to address the critical shortage of gates due to inefficient use by United.

5. **DOT IG Audit Finds Weakness in MWAA Policies, Procedures.**

The DOT Inspector General (IG) issued an interim report on an audit of Washington Dulles and Reagan National operator, Metropolitan Washington Airports Authority; MWAA is also responsible for designing, constructing, and partially financing the Dulles Corridor Metrorail Project. The IG says weakness related to financial disclosures, travel, and transparency have limited Board accountability, and contracting policies and practices are also insufficient. Republican Congressmen Frank Wolf and Tom Latham requested the audit. In a letter to DOT Secretary LaHood, Wolf cited numerous “egregious” MWAA practices and asked for “immediate action.” Wolf has introduced legislation to create a permanent IG for MWAA, with access to all board actions. A final report is expected later this year.

6. **Memphis Plans \$1 Million Effort to Win New Nonstop Service.**

Memphis-Shelby County Airport Authority authorized up to \$1 million in incentives for the first year of a program to attract new service to Memphis International. Airlines adding scheduled daily service to certain domestic markets, or international service no less than five days per week, can expect landing fee credits for one year. The Air Service Development Program, which begins July 1, also includes terminal rental credit and advertising allowances.

7. **N.Y.-N.J. Port Authority Works to Improve Customer Service.**

Port Authority of New York and New Jersey is introducing service improvements at Kennedy, LaGuardia and Newark Liberty, as a result of a survey of 10,000 passengers. In addition to curtailing taxi hustling, more power poles for charging electronic devices, and cleaner restrooms, customer care agents offering 27 languages will be prevalent. Computerized, hologram-like avatars, to be installed in July, will provide automated information to travelers.

8. **Atlantic City Completing \$27 Million Expansion.**

Atlantic City International is completing a \$27 million, 75,000-sq.ft. addition that includes new gates and a federal inspection station for international flights. A \$40 million connector road will be completed by 2016. Currently, there is no international service at the airport, and Spirit is its only regularly scheduled carrier; past carriers included AirTran, U.S. Airways, Delta, Continental and West Jet.

9. **New Berlin Airport Opening Delayed to 2013.**

Berlin-Brandenburg International will not open until March 2013, rather than June 3 this year, for technical reasons. The airport originally was to open in

2011. The city said it will terminate the relationship with general planning consortium PGBBI. Airlines are expected to utilize Tegel and Schonefeld, which will close after the opening of BER.

10. Budapest Consolidates Operations in One Terminal.

Budapest Airport consolidated all airline operations into its Terminal 2, due to “loss of traffic in the wake of the collapse of Malev and additional tax burdens.” Airport offices remain in Terminal 1.

11. Ukraine Airport Developments.

To prepare for the EURO 2012 soccer tournament in June, Ukraine has been developing its airports. Prokofiev, in the eastern city of Donetsk, has a new terminal capable of handling 3,100 passengers/hour. An artificial runway can accommodate the Airbus A380, and a 52-meter tower is the tallest in the country. A new terminal at Lviv, in western Ukraine, can handle up to 2,100 passengers/hour. A new runway in Kharkiv can accommodate the A380, and Kiev airports, Zhuliany and Boryspil, are in final stages of renovations; Boryspil operates 62% of passenger traffic in the country.

12. ADP Purchases Stake in TAV.

French airport operator Aeroports de Paris acquired a 38% stake in Turkish airport operator TAV Airports, and 49% of TAV Yatirim Holding, owner of TAV Construction.

III. **SECURITY AND DATA PRIVACY**

1. **Final Cargo Screening Deadline Set.**

The deadline for passenger carriers to conduct 100% cargo screening for explosives on inbound international flights is December 3, said the Transportation Security Administration (TSA), fulfilling a requirement of the Implementing Recommendations of the 9/11 Commission Act. Currently, all cargo on domestic and international passenger aircraft departing U.S. airports undergoes screening.

2. **TSA PreCheck Expands.**

TSA expanded PreCheck operations to Orlando and Portland. The passenger pre-screening initiative is now available in 15 airports for Alaska, American and Delta frequent flyers, and for members of federal trusted traveler programs, including Global Entry, SENTRI and NEXUS. As of early May, said TSA, more than one million travelers had been screened through PreCheck. United, Jet Blue and US Airways and additional airports will begin PreCheck operations later this year.

3. **Sacramento Files Opt-Out Request for Screening.**

California's Sacramento International applied for permission to opt out of federal security screening and instead use private contractors. Currently, 16 airports participate in the Screening Partnership Program, the largest of which are San Francisco and Kansas City.

4. **CLEAR Opens at San Francisco.**

CLEAR is now available at San Francisco International. The biometric secure ID program has operated at Denver and Orlando since re-launching in November 2010. Enrollees pass through dedicated security lanes in five minutes or less on average, says CEO Caryn Seidman-Becker.

5. **Sikh Coalition Creates FlyRights App.**

A mobile application for travelers who suspect discrimination by airport screeners is available for free from the Sikh Coalition. With the FlyRights app, the passenger submits complaints directly to TSA, which supports the effort, and allows the user to post on social media that a complaint was filed; it also contains information on rights of passengers and TSA procedures.

IV. E-COMMERCE AND TECHNOLOGY

1. New Trial Date for Sabre-American Antitrust Lawsuit.

Sabre won a 60-day extension in the Texas antitrust lawsuit filed by American Airlines last year. Their current distribution agreement remains in effect until 14 days after conclusion of the trial, which is now set to begin in October.

2. Travelocity TBiz Chat Connects Business Travelers to Agents.

Business travelers can connect with a Travelocity Business agent 24/7, via TBiz Chat, “comprised of agents certified in the nuances of chat.” TBiz Chat can be used for booking or changing a reservation, questions regarding an invoice or receipt and airline schedule changes, “no dialing or phone prompts required.”

3. Corporate Airfare Price Tracking Solution.

An independent airfare tracking solution for the corporate travel industry was launched by fare search site Yapta. FareIQ was tested in a six-month study that revealed \$2.8 million in savings on a sample of 100,000 business itineraries, said Yapta.

4. Virgin Atlantic Offers Inflight Mobile Calls.

Virgin Atlantic is the first UK airline to offer inflight mobile phone calling, using technology from Panasonic unit AeroMobile Communications; by yearend, Aeromobile will be available on 13 aircraft. Emirates and Malaysia airlines also use the technology.

5. Gogo Partners With AeroSat.

Gogo will partner with AeroSat to bring a Ku-satellite solution to commercial airlines for connectivity services that extend beyond the United States, including transoceanic routes. AeroSat will deliver the equipment to Gogo following the airworthiness qualification and certification process, and Gogo expects to install the systems this year. Gogo also will provide Inmarsat's Global Xpress Ka-satellite service after the first of three Inmarsat-5 satellites launches in mid-2013.

6. Digital Ad Displays and Video Walls for Philadelphia Airport.

With a new, seven-year contract, Clear Channel Airports (CCA) will add digital advertising to static displays already in place at Philadelphia International. CCA will install LCD screens in high traffic areas, synchronized 55-inch vertical digital panels to display dynamic advertising and digital art; 70-inch double-sided LCDs in domestic baggage claims, and 50-sq.-ft. digital walls on

overhead arches of two concourses. CCA operates 280 airport programs worldwide, including 32 in the U.S.

7. Ticket Sales by U.S. Travel Agents Up 6%.

The consolidated dollar value of airline tickets sold by U.S.-based travel agencies increased 6.37% in first four months 2012, compared to same period 2011, and 15% over same period 2010, said financial settlement link, Airlines Reporting Corporation (ARC). Ticket sales totaled \$31 billion, compared to \$29.2 billion in 2011, and \$26.9 billion in 2010. Passenger segments increased by 0.90%, at 117.5 million, compared to 116.4 million in 2011, and decreased 1.78% over same period 2010. Ticket transactions for first four months were flat, at .66%, compared to same period 2011, while down 1% over same period 2010. Results are based on sales data from 14,465 U.S. retail and corporate travel agencies, ticket printing offices and online travel agencies; sales of tickets purchased directly from airlines not included.

8. Amadeus: Ancillary Fees Benefit Passengers.

An IdeaWorks report entitled “A la Carte Shopping is Good for Consumers” says fee-based services are often better than free. The Amadeus-sponsored study says that since checked bag fees were added, U.S. airlines’ baggage service has improved considerably. Among other benefits, ancillary fees enrich airlines, allowing them to provide better service, operate newer aircraft, and have more staying power. . . . “The ultimate compliment for the consumer acknowledges their right to choose,” says Amadeus.

V. ENERGY AND ENVIRONMENT

1. Fuel Bill for Global Airline Industry.

The average price of aviation jet fuel, as of May 18, was \$123/barrel, down 8.3% on the month and down 3.9% year-on-year, reports the International Air Transport Association. Fuel price average for 2012 was \$133.9/barrel.

2. EU ETS Update.

International Airlines Group CEO Willie Walsh urged the European Commission (EC) to diffuse tensions and break the deadlock over the EU Emissions Trading Scheme (ETS), calling for “concrete steps to achieve a global solution” and avert a trade war. Walsh was among CEOs of 34 major European airlines who warned EC Vice President Siim Kallas that Europe’s economic recovery could be jeopardized if regulators do not create conditions that airlines need to stimulate growth. “This means a global solution on emissions trading, a Single European Sky which actually delivers and an end to economically illiterate regulation,” said Bernard Gustin, Chairman of the Association of European Airlines.

3. Delta Subsidiary to Acquire Trainer Refinery Complex.

Delta subsidiary Monroe Energy reached agreement with Phillips 66 to acquire the Trainer refinery near Philadelphia. BP will supply crude oil to be refined at the facility and Monroe Energy will exchange gasoline and other refined products from Trainer for jet fuel from Phillips 66 and BP. The acquisition includes pipelines and transportation assets to provide access to the delivery network for jet fuel reaching Delta operations in the Northeast. Production will provide 80% of Delta's jet fuel needs in the United States, with expected 2012 fuel savings of more than \$100 million.

4. Midwest Aviation Sustainable Biofuels Initiative Launched.

United, Boeing, Honeywell's UOP, the Chicago Department of Aviation and the Clean Energy Trust formed the Midwest Aviation Sustainable Biofuels Initiative (MASBI) to advance aviation biofuel development in a 12-state region. MASBI's Advisory Council will include the U.S. Department of Agriculture, U.S. Department of the Navy, other federal agencies, non-governmental organizations and academic institutions.

VI. U.S. CONGRESS

1. Senate Bill Would Double Passenger Security Fee.

The Senate Appropriations Subcommittee on Homeland Security approved fiscal year 2013 funding legislation that includes \$7.63 billion for TSA, \$208 million below fiscal year 2012. This amount is reduced by offsetting collections and fees, including the controversial increase in the air passenger security fee from \$2.50 to \$5. The bill directs TSA to submit a strategy for expanding the Pre-Check Trusted Traveler program, allowing cabin crew to participate in Known Crewmember, and conducting a health study on Advanced Imaging Technology units. Funding oversight requirements include expenditure plans for checkpoint security technology, explosives detection systems for checked baggage and air cargo security. Travel initiatives are also funded, with \$24 million allocated to expansion of preclearance operations at foreign airports for travelers to the U.S.; expansion of Global Entry; improved signage and training; and increasing the number of countries that participate in the Visa Waiver Program.

2. TSA Oversight Hearing.

The House Oversight and Transportation Committees held a joint hearing entitled, "TSA Oversight Part IV: Is TSA Effectively Procuring, Deploying, and Storing Aviation Security Equipment and Technology?" Members criticized TSA for spending hundreds of millions of dollars on body scanners they say have not been properly tested and may not be effective. The latest of two joint-committee reports on TSA operations in Orlando, Dallas, Los Angeles and San Francisco states that TSA is inefficiently deploying screening equipment and technology to commercial airports. Investigators found 5,700 pieces of non-utilized security equipment held at TSA's Dallas Transportation Logistics Center in February, with an estimated value of \$184 million, in addition to the \$3.5 million annual cost to lease and manage the warehouse; TSA's preference to have equipment shipped to the centralized warehouse rather than direct to deployment site created an additional inefficiency. The report also says TSA delayed Congressional oversight of the logistics center in an attempt to hide disposal of 1,300 pieces of equipment, and potentially violated U.S. law by knowingly providing inaccurate warehouse inventory reports during an investigative visit. The report recommends that TSA halt equipment purchases in bulk unless there is a bona fide need; conduct an extensive procurement and deployment process review with cost-benefit analysis; establish a deployment plan prior to procurement of screening technology; utilize direct shipping to deployment sites; and ensure compliance with Congressional oversight.

3. Hearing Finds Airport Security Breaches Go Unreported.

A hearing entitled “Access Control Point Breaches at Our Nation's Airports: Anomalies or Systemic Failures?” was held by the House Transportation Security Subcommittee. Chairman Mike Rogers (R-AL) cited a recent Department of Homeland Security (DHS) Office of Inspector General (OIG) report that reviewed and compared data on security breaches at six airports. The investigation was initiated by Senator Frank Lautenberg (D-NJ) following security breaches at Newark Liberty in 2011. Lautenberg is Vice Chairman of the Homeland Security Appropriations Subcommittee and a member of the Commerce Aviation Subcommittee. The OIG investigation found that TSA at Newark took corrective actions for only 42% of security breaches that occurred from the start of 2010 through May 31, 2011. The report concluded that, nationwide, TSA lacks an effective mechanism to gather information about security breaches and is therefore limited in its ability to prevent them or take corrective actions.

VII. **BILATERAL AND STATE DEPARTMENT NEWS**

1. **Summit: Arab Open Skies Vital.**

“The lack of a true open skies policy in the Arab world is restricting the aviation industry from realizing its full potential,” said Adel Ali, Group CEO, Air Arabia, at the Arab Aviation and Media Summit 2012. Eight countries have signed the Damascus Convention, which provides a framework for regional liberalization; however, said Abdul Wahab Teffaha, Secretary General, Arab Air Carriers Organization, “many Arab countries still nurture the notion that they should have a flag carrier irrespective of the losses their airlines accumulate.” Separately, speakers noted that 2011 passenger numbers on Middle East airlines rose by 8.9%, after 50% drops in arrivals in countries such as Egypt, Tunisia and Yemen due to unrest. IATA raised its 2012 profit forecast for Middle East airlines from \$300 million to \$500 million. The 21-nation Arab League plans to spend \$200 billion on new aircraft in the next 15 years. The Middle East is home to 65 airlines with 1,029 aircraft in service, operating from 70 commercial airports.

2. **New Zealand Has Focus on East Asia, South America Open Skies.**

Immediate priorities for new air services agreements will focus on East Asia and South America, said New Zealand Transport Minister Gerry Brownlee. Negotiations were completed this year with Japan and China, and are underway with Brazil and French Polynesia. An International Air Transport Policy discussion document proposes removing limits on foreign ownership of New Zealand airlines (currently 25% by one foreign airline, 35% by foreign airlines in total), with the exception of Air New Zealand. “The government remains committed to holding a majority share in the company and the Kiwi-share controls in Air New Zealand’s constitution will continue to take precedence over any changes to general policy,” said Brownlee.

3. **Macedonia, Singapore Initial Air Transport Agreement.**

A bilateral air transport agreement was initialed in Singapore by Dejan Mojsoski, Director of Macedonia's Civil Aviation Agency, and Yap Ong Heng, Director General of the Civil Aviation Authority of Singapore.

VIII. EUROPE AND AFRICA

1. Air France Restructures Regional Operations.

As part of a plan to increase productivity and economic efficiency by 20%, Air France will restructure regional operations, with Regional, Britair and Airlinair units operating from Paris Orly to de Gaulle on behalf of Air France, and on point to point flights. No-frills leisure airline Transavia France will operate to Europe and the Mediterranean from Orly and regional cities (excluding Marseille, Nice and Toulouse). The Transavia fleet will increase from eight today to 22 aircraft by 2015-16, while the overall short- and medium-haul fleet will be reduced by 34 aircraft. Talks about measures to trim excess staff will begin following hoped-for labor agreements in June, said Chairman and CEO Alexandre de Juniac; “avoiding involuntary lay-offs remains an objective.”

2. Lufthansa to Cut 3,500 Jobs.

Lufthansa will cut 3,500 full-time administrative jobs worldwide over coming years, “by merging duplicate functions and eliminating activities which create no added value for the customer.” The carrier generated first quarter revenue of €6.6 billion, 5.6% more than same period last year, but “increased fuel costs, the air traffic tax imposed in Germany and Austria and the costs of emissions trading in force in Germany since 2012” led to a Group operating result of €212 million less than in Q1 2011. Lufthansa transfers flight operations from Austrian Airlines to Tyrolean, effective July 1, plans greater cooperation with Germanwings and will cancel loss-making routes. Capacity growth is set at zero for 2012 and a maximum 4% in 2013 and 2014.

3. US Airways Adds Flights to Europe This Summer.

US Airways will add daily, seasonal service from Philadelphia to Barcelona, Athens, Glasgow, Venice and Lisbon, and from Charlotte to Dublin, Madrid, and Rome, and increase frequency to Frankfurt from both hubs.

4. Etihad Takes Stake in Aer Lingus.

Etihad has taken a 3% stake in Aer Lingus, which said partnership talks have focused on code sharing and joint procurement. Etihad had stated interest in the Irish government’s 25% stake in Aer Lingus, and recently acquired shares in Air Berlin and Air Seychelles. . . . In other Aer Lingus news, the UK Court of Appeal upheld the Office of Fair Trading (OFT) decision that it is “in time” to investigate Ryanair’s 30% stake in Aer Lingus, a decision earlier upheld by the Competition Appeal Tribunal. “It is unacceptable that our principal competitor has been allowed to remain a significant shareholder even though the EC blocked their hostile takeover almost five years ago,” said Aer Lingus CEO

Christoph Mueller; this decision “confirms that the OFT has the jurisdiction to investigate the anti-competitive effects of Ryanair’s minority shareholding in Aer Lingus.” Ryanair has filed a Supreme Court Appeal.

5. Finnair, Flybe Expand Cooperation.

Finnair and UK-based Flybe signed a Memorandum of Understanding under which Finnair will transfer 12 Embraer 190s to Flybe and, as of October 2012, Flybe will operate these aircraft on Finnair routes for Finnair. Crew will transfer with the business, unless otherwise agreed to in union negotiations; pilots would return to Finnair in stages to be trained as Airbus pilots for Finnair’s Asian traffic. Last year the carriers formed Flybe Nordic (Flybe 60%, Finnair 40%), and acquired Finnish Commuter Airlines.

6. Cimber Sterling Rescued.

Cimber Sterling declared bankruptcy and cancelled all flights, after financial support was withdrawn by Cypriot-based company, Mansvell. The Danish domestic airline then was sold to former management, with Mansvell acquiring maintenance activities.

7. Saudia Joins SkyTeam.

See Section IX, item 1.

8. JAL, IAG Joint Business Wins ATI Approval.

See Section IX, item 4.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. Saudia Joins SkyTeam.

Re-branded Saudia, known as Saudi Arabia Airlines since 1996, became the 16th member of SkyTeam and the first from the Middle East. The flag carrier is undergoing a four-year turnaround program, to be completed by 2013, which includes modernizing IT, commercial, operational and financial platforms and acquiring 90 new aircraft.

2. United to Fly From Denver to Tokyo Narita.

United plans to launch daily Boeing 787 Dreamliner nonstops between Denver and Tokyo Narita, effective March 31, 2013, subject to government approval. This will be Denver's first nonstop service to Asia.

3. American Resumes New York-Tokyo Haneda Flights.

American Airlines will resume flights from New York Kennedy to Tokyo Haneda Airport on June 1, code sharing with oneworld partner Japan Airlines (JAL). American briefly flew the route in 2011, but suspended the flights following the March 2011 earthquake and tsunami.

4. JAL, IAG Joint Business Wins ATI Approval.

Japanese regulators granted antitrust immunity to a joint business of JAL and International Airlines Group, parent of British Airways and Iberia. The revenue-sharing agreement will allow JAL and British Airways to cooperate on flights between the EU and Japan. British Airways has daily Heathrow-Tokyo Narita and five weekly Heathrow-Tokyo Haneda services. JAL flies daily from Tokyo Narita to Heathrow, Frankfurt and Paris Charles de Gaulle, and has daily Tokyo Haneda-Paris service. The European "regulatory landscape is one of self-assessment," said British Airways; "IAG and JAL have kept the European Commission informed of their planned joint business."

5. Virgin America, China Airlines Sign Interline Pact.

In a new interline agreement, China Airlines will provide service from Taipei to Los Angeles and San Francisco, and beyond to Virgin America destinations including Boston, Fort Lauderdale, Philadelphia, New York and Washington Dulles. China Airlines is the 11th interline partner for Virgin America.

6. JetBlue, Turkish Form Partnership.

JetBlue and Turkish Airlines announced an interline agreement to connect the carriers' networks at New York Kennedy and Washington Dulles. Turkish will

offer three daily Istanbul-New York nonstops this summer, and also offers daily nonstops to Washington.

7. Qantas Strategy Update.

Qantas Group will reduce expenses in 2012/13 by \$400 million, in addition to \$500 million announced in February. The reduction will be achieved through fleet plan changes, including rescheduling two Airbus A380s to 2016/17; a final six A380s will be delivered from 2018/19. CEO Alan Joyce said significant capacity increases and product upgrades are ahead for the Qantas, Jetstar and QantasLink domestic networks in 2013/14. International transformation initiatives will see benefits of \$280-\$365 million across 2012/14 from improving fleet economics, deepening alliances, withdrawing from loss-making routes and modernizing operational practices. Qantas will consolidate heavy aircraft maintenance and engineering operations in Australia into Brisbane and Avalon, with a net reduction of 500 positions and an annual benefit of \$70-\$100 million; new technology and modern aircraft means there will be a further 60% reduction in maintenance requirements over the next seven years.

8. Thai Airways Dismisses President.

Piyasvasti Amranand was terminated as President of state-owned Thai Airways. He was appointed by the previous Democrat-led administration, but officials denied this was a political decision. Executive Vice President Chokchai Panyayong was named Acting President.

9. Air Pacific to Rebrand as Fiji Airways.

Fiji's national carrier, Air Pacific, will be rebranded as Fiji Airways, the name it held until 1970. Recent investment in three new Airbus A330-200s, a new inflight product and airport lounge and better service, "should position us to capture more of Fiji's high-end leisure travel market," said Managing Director David Pflieger. The Fiji government wants to acquire the 46% stake in the airline held by Qantas, which has withdrawn its four directors from the board.

10. Etihad Takes Stake in Aer Lingus.

See Section VIII, item 4.

X. AMERICAS

1. American Airlines Bankruptcy Update.

The U.S. Bankruptcy Court in Manhattan heard arguments from American Airlines and unions representing pilots, flight attendants and mechanics on the bankrupt carrier's request to void labor contracts. A ruling is expected in June. Meanwhile, court-supervised mediation is underway with the three unions, which separately reached agreements on contract terms with US Airways Group, American's unwanted suitor. Five Transport Workers Union groups ratified a new contract, but mechanics and aircraft stock clerks declined. The bankruptcy judge declined to grant an injunction sought by nonunion employees; American had sued the National Mediation Board over a decision directing a union election for the passenger service group. . . . American agreed to jointly develop potential consolidation scenarios with its unsecured creditors committee, saying this "does not in any way suggest that a transaction of any kind or with any particular party will be pursued." . . . American said its business plan, which extends through 2017, would generate \$3 billion in financial improvements through cost cuts and revenue growth. Increasing international flying from a current 38% of business to 44%, by 2017, could result in \$1 billion in revenue improvement. American intends "to redesign and refresh" its international widebody fleet and take delivery of 10 Boeing 777-300ERs from end of 2012 through 2013. Domestic flying would drop to a 56% share in five years, with code shares utilized for certain destinations, such as New York Kennedy, and use of large regional jets and small narrowbodies in some markets. . . . Five officer positions were eliminated in the third phase of an organization redesign, bringing to 20% the reduction in the company's most senior leadership positions; all employee groups are reducing costs by 20%.

2. Delta Pilots Approve Tentative Agreement.

A tentative agreement that improves pay and benefits for Delta pilots was approved by leaders of the Delta Air Line Pilots Association, with review and ratification through June 30; a voluntary early retirement option offered to other groups would be available to pilots upon ratification. If approved, the agreement takes effect July 1, 2012 and becomes amendable December 31, 2015. The pact would allow Delta to accelerate its domestic fleet restructuring. Delta reached an agreement in principle with Southwest and Boeing to lease 88 AirTran B-717s, upon pilot ratification, which would primarily replace 50-seat regional jets and DC-9s, on a capacity-neutral basis. Delta would acquire up to 70 two-class, 76-seat regional jets.

3. United Progress in Labor Negotiations.

United and the International Association of Machinists (IAM) reached tentative agreement on an initial pact covering pilot ground school instructors from Continental; another regarding work performed by airport customer service agents would facilitate integration and redeployment of aircraft pursuant to a single operating certificate and combined passenger service system; and another would provide for, among other things, seniority integration of storekeepers. United announced that currently outsourced airport ground handling work at Fort Lauderdale, Fort Myers, Buffalo, Detroit and Sacramento will be done by employees. In other news, pilot union leaders received authority to call for a strike vote if the groups are released from mediated negotiations; pilots of the merged airlines are still represented by separate groups of Air Line Pilots Association, and are working toward a joint contract. And, 24 African American pilots have sued the carrier, claiming United has withheld promotions and special assignments because of race. United said it will fight the lawsuit, which "is without merit."

4. Delta DIP Loan to Pinnacle Approved.

The U.S. Bankruptcy Court for the Southern District of New York approved \$74.3 million in debtor-in-possession (DIP) financing provided by Delta for bankrupt Pinnacle Airlines; \$44.3 million will be used to repay a secured promissory note held by Delta; the remaining \$30 million will be available to fund operations during the restructuring process. Memphis-based Pinnacle flies as Delta Connection, United Express and US Airways Express.

5. United, Avianca to Code Share.

United and Avianca signed a code share agreement as part of the integration process that Avianca and TACA Airlines are undergoing to become Star Alliance members. Code share cities covered in the United States for Avianca during the first phase of implementation include Denver, Chicago, Newark, Houston, Boston, Cleveland, New Orleans, Phoenix, Raleigh-Durham, San Antonio, Seattle and Tampa. Cities covered in Colombia, for United are Bogota, Barranquilla, Cali, Cartagena, Medellin and Pereira.

6. Neeleman's Azul Acquires Trip.

Azul and Trip agreed to consolidate operations into Azul Trip SA, a holding company that will be Brazil's third largest airline, with 14.2% of the domestic market. Azul shareholders will have two thirds of the new venture and Trip the remainder, in the all-stock transaction. Azul founder David Neeleman, who also founded JetBlue, owns most of Azul's shares. The Campinas-based carriers will retain their brands pending approval by regulators, after which they may use one brand. They compete in 15% of 96 cities they serve. With a

combined workforce of 8,700, Azul Trip would operate 837 daily flights on 316 routes; current fleets comprise Embraer regional jets and ATR turboprops. Azul Trip will end 2012 with 120 planes, said Neeleman, and orders to support expansion until 2015. Utah-based SkyWest agreed to sell its 26% share of Trip to Trip Investimentos Ltda., with an option to acquire 15.38% of the Brazilian limited liability company. Trip Chairman is Renan Chieppe and CEO is José Mario Caprioli.

7. **American Applies For Additional Brazil Frequencies.**

See Section I, item 6.

8. **US Airways Adds Flights to Europe This Summer.**

See Section VIII, item 3.

9. **Saudia Joins SkyTeam.**

See Section IX, item 1.

10. **United to Fly From Denver to Tokyo Narita.**

See Section IX, item 2.

11. **American Resumes New York-Tokyo Haneda Flights.**

See Section IX, item 3.

12. **Virgin America, China Airlines Sign Interline Pact.**

See Section IX, item 5.

13. **JetBlue, Turkish Form Partnership.**

See Section IX, item 6.