



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. Largest U.S. Airlines Report 6% Q2 Profit.

The largest U.S. scheduled passenger airlines reported a 6% profit margin in second quarter 2012, up from 5.3% in Q2 2011, said the U.S. Department of Transportation (DOT). They collected \$931 million in baggage fees and \$661 million from reservation change fees; other ancillary fees are combined in different categories and cannot be identified separately.

2. DOT IG Releases Industry Review.

The U.S. aviation industry has been in flux since 2008, says an update to the Aviation Industry Performance Report published by the DOT Office of the Inspector General, transforming to restore profitability and adapting to survive the challenges of a sustained economic downturn, high and volatile fuel prices, and a reduced demand for travel. The industry aggressively adjusted fares and schedules and dramatically consolidated. Revenues have been enhanced by fees for services that formerly were free; in 2011, baggage fees amounted to \$2.7 billion. Airlines cut scheduled domestic flights by 14% between June 2007 and June 2012, resulting in fewer empty seats and increased fares, especially on short-haul flights. As a result, the industry has become profitable and fewer flights result in fewer delays and cancellations.

3. IATA: International Passenger Traffic Remains Weak.

Globally, the growth trend for international passenger traffic remained weak in August, with expansion of 5.3% dependent on seasonal factors, reports the International Air Transport Association (IATA). North American airlines saw 0.5% growth in demand while capacity was down 0.5%, compared to previous August. This increased load factors by 0.8% to 86.9%, the highest among the regions. European airlines saw 5.6% demand growth, compared to 4.7% in July. Despite recession conditions, European airlines continued to expand on international routes, growing capacity by 4.4%. Load factors rose to 84.9%. Asia-Pacific carriers reported 2.9% growth in demand compared to a year ago; load factor rose to 79.4%. Middle East carriers were again the strongest performers, with an August growth rate of 16.7%, and continue to expand rapidly, particularly on long-haul segments. Capacity expanded by 13.3% which took load factors to 78.4%. Latin American demand rose 7.3% compared to previous August. Growth outpaced capacity expansion of 5.8%, leading to load factors of 78.2%. African carrier demand rose 3.2%, while capacity was up 6%. At 68.3%, the region's load factor remains weakest—1.8% compared to a year ago. Domestic passenger traffic for the world's

airlines grew by 4.8% in August, slightly ahead of a 4.2% rise in capacity, with load factor at 82.3%. International and domestic freight demand fell by 0.8%, behind a capacity expansion of 0.4%.

4. **DOT Fines Pakistan International Airlines.**

DOT fined Pakistan International \$150,000 for not providing passengers on an aircraft diverted to Washington Dulles an opportunity to deplane before it was delayed on the tarmac for more than four hours. The Manchester-New York Kennedy flight was diverted to Washington on October 29, 2011, due to interruptions in JFK's Instrument Landing System equipment. This is the first fined violation of DOT's rule setting a four-hour limit for tarmac delays on international flights, which took effect in August 2011. Other lengthy tarmac delays that day are still under review; Dulles was not subject to weather and other limitations experienced at other airports.

5. **DOT Fines Aeroflot for Violating Consumer Protection Rules.**

DOT fined Aeroflot \$60,000 for violating the full-fare advertising rule and the rule requiring airlines to include a commitment in their customer service plans allowing consumers either to hold reservations at the quoted fare without payment, or cancel without penalty, for 24 hours after they book a flight.

6. **FAA Proposes \$400,000 Civil Penalty Against Atlantic Southeast**

The Federal Aviation Administration (FAA) proposed a civil penalty of \$400,000 against Atlantic Southeast for allegedly operating a noncompliant Bombardier regional jet on 49 revenue passenger flights in July 2010, when it had not been properly released for service. Atlantic Southeast now operates as ExpressJet.

7. **Bidding for Tokyo Haneda Route Reopened.**

DOT reopened bidding for the Tokyo Haneda route originally awarded to Delta in 2010 for service from Detroit. Delta had proposed shifting its Haneda rights from Detroit to Seattle. Hawaiian is proposing nonstops from Kona, American from Los Angeles and United from San Francisco.

8. **July Passenger Airline Employment Data.**

U.S. scheduled passenger airlines employed 390,032 workers in July, 3,189 more than in July 2011. The 0.8% year-over-year improvement, though down from annual increases seen in the last half of 2011, reflects a gradual increase in industry employment following the decline that began in July 2008.

9. NTSB: Anti-Ground Collision System Needed for Large Airplanes.

The National Transportation Safety Board (NTSB) recommended that FAA require large airplanes be equipped with an anti-ground collision aid, such as an external-mounted camera system, to provide pilots a clear view of the plane's wingtips while taxiing to ensure clearance from other aircraft, vehicles and obstacles. The aids should be installed on newly manufactured and certificated airplanes, and existing large airplanes should be retrofitted. The recommendations follow three recent ground collision accidents, which currently are under investigation. NTSB made the same recommendation to the European Aviation Safety Agency. . . . In an address to the Aero Club of Washington, DC, NTSB Chairman Deborah Hersman lauded the “great progress in improving commercial aviation safety,” but said “moving from reactive to predictive to preventive is a challenge.”

10. DOT Air Travel Consumer Report for July.

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

	July '12/'11	June '12	Full Year				
			2011	2010	2009	2008	2007
On-time arrivals %	76 / 77.8	80.7	79.6	79.8	79.5	76	73.4
Cancellations %	1.4 / 1.7	1.1	1.91	1.76	1.39	1.96	2.16
Mishandled baggage*	3.52 / 3.72	3.35	3.39	3.51	3.91	5.26	7.05
Consumer complaints:							
Airline service	2,466 / 1,286	1,653	11,545	10,988	8,821	10,648	13,180
Disability-related	97 / 75	81	630	572	519	477	488
Discrimination**	16 / 5	10	127	143	131	115	99

Note: Airlines reported 18 tarmac delays of more than three hours on domestic flights, 16 of which involved Chicago O'Hare on July 13 amid severe storms; there was one tarmac delay of more than four hours on an international flight. The reported tarmac delays are under investigation by DOT.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. FAA Announces AIP Grants.

FAA announced numerous Airport Improvement Program (AIP) grants. Among the largest are \$25.4 million for Richmond and Newport News airports in Virginia; \$21 million for North Dakota airports; \$19.5 million for Tucson International; \$18 million for Van Nuys in the Los Angeles region; \$16.5 million for Phoenix Sky Harbor; and \$10 million for Fort Worth Alliance. AIP provides \$3.35 billion in annual funding for airport projects throughout the nation.

2. Fort Lauderdale to Expand International Terminal.

Construction starts in October on a six-year, \$450 million expansion of Terminal 4 at Fort Lauderdale-Hollywood International. A bridge to Terminal 3 will enable international passengers to access connecting flights without going through airport security again. Terminals 1, 2 and 3 are being refurbished under a separate \$100 million project.

3. ACI-NA Call for National Aviation Policy

Failing infrastructure is putting U.S. airports at risk,” said Greg Principato, President of Airports Council International-North America (ACI-NA), at the opening of the ACI-NA/World Conference and Exhibition in Calgary. Principato said government policies greatly restrict the ability of airports to fund needed expansion projects. ACI-NA approved a resolution which calls upon the U.S. government “to create a national aviation policy that will provide the kind of long-term stability aviation needs to remain the nation’s gateway for economic growth and development.” Principato cited a recent report from the American Society of Civil Engineers’ (ASCE), “Failure to Act: The Economic Impact of Current Investment Trends in Airports and Waterborne Infrastructure,” which underscores the importance of “investment in U.S. airports today to ensure global competitiveness of our country tomorrow.”

4. Clear Channel to Compete With CNN at Airports.

Raleigh-Durham International will be the first airport to offer television content from over 100 providers via Clear Channel’s ClearVision. The new in-airport TV network enables travelers to view news and entertainment on traditional TV screens or their mobile devices.

5. Heathrow Expansion Revisited.

Prime Minister David Cameron said the UK will hold an inquiry on airport capacity amid a debate over expanding London Heathrow, and named Patrick

McLoughlin as Transport Secretary, replacing Justine Greening who opposed expansion. Greening becomes International Development Secretary; McLoughlin served as a transport minister in the Margaret Thatcher government. Meanwhile, architectural firms are releasing proposals for an airport that would be located in the Thames, meant to relieve Heathrow congestion. Gensler says its “London Britannia Airport” would feature four floating runways and departure concourses. Underwater rail tunnels would connect passengers to central London and European rail networks. Runways can be floated in as required and removed for maintenance. The Gensler concept allows for future expansion and includes a plan for recycling the Heathrow property into an “eco city.”

6. Berlin-Brandenburg Opening Delayed to October 2013.

The opening of Berlin-Brandenburg has been delayed again, to October next year. Airport authorities said the project would cost €4.2 billion, €1.2 billion more than last estimated.

III. SECURITY AND DATA PRIVACY

1. ICAO Conference on Aviation Security.

The International Civil Aviation Organization (ICAO) convened a “High-level Conference on Aviation Security” at its Montreal headquarters, attended by 700 participants. Among initiatives, the Conference: encouraged a risk-based approach; strongly encouraged ICAO to expedite adoption of new security Standards and Recommended Practices to mitigate risk to air cargo and mail; acknowledged that threats posed by insiders are real, and therefore urged member states to implement effective mitigation measures, and adopt a revised ICAO Standard on screening persons other than passengers as soon as practicable; acknowledged need to address the continued threat posed by liquid, aerosol and gel (LAG) explosives, including implementation of technological solutions needed to gradually lift restrictions on carriage of LAGs in cabin baggage; requested member states to treat flights arriving from states where LAG screening is applied in the same way as flights from states where LAGs restrictions are applied; encouraged standardized formats for travel documents and electronic transmission of passenger data to state authorities while ensuring privacy protection; supported initiatives to develop the next generation of passenger and cargo screening processes; and strongly encouraged states to ratify the latest aviation security international legal instruments, namely the Beijing Convention and the Beijing Protocol of 2010.

2. TSA PreCheck Hits 3 Million Mark

The Transportation Security Administration (TSA) has screened more than 3 million travelers through its PreCheck lanes. The program is now available in 26 airports and operational with five airlines—Alaska, American, Delta, United and US Airways. Airports added in September include Newark-Liberty, Boston Logan, Philadelphia and Cincinnati/Northern Kentucky. A temporary information center opened on the ticketing level at Washington Dulles where travelers can learn how to participate in TSA PreCheck and begin the application process for the U.S. Customs and Border Protection (CBP) Global Entry Trusted Traveler Program. Passengers eligible for TSA PreCheck include U.S. citizens in frequent traveler programs on participating airlines and current members of CBP Trusted Traveler programs, including Global Entry, SENTRI and NEXUS. TSA PreCheck will screen about 5 million passengers by the end of 2012.

3. **TSA Hires Outside Consultant Amid Racial-Profilng Charges.**

In response to complaints about racial profiling by behavior-detection officers, TSA has hired a consultant to work with the Homeland Security Department's civil rights section. Officials said the agency will change the program's metrics to eliminate the perception that quotas for enforcement actions unrelated to terrorism must be met.

4. **DHS Partnership With Loews Hotels & Resorts.**

A new partnership between the Department of Homeland Security and Loews Hotels & Resorts will promote expedited traveler programs, which include CBP's Global Entry and TSA PreCheck. Loews is offering its loyalty rewards members complimentary enrollment in the Global Entry program. CBP will review the applicant's information, conduct an in-person interview at a CBP enrollment center, obtain fingerprints and complete a background check.

5. **Five Known Crewmember Program Sites Launched.**

Known Crewmember (KCM) sites opened at Lambert-St. Louis, Indianapolis, New York Kennedy, Houston Intercontinental and Dallas/Fort Worth airports. KCM is an enhanced security-screening program for airline crew members, which positively verifies a pilot's identity and employment status, shortening screening lines for passengers at more than 20 airports. Five additional airport locations will open by yearend.

6. **House Passes "No-Hassle Flying Act."**

See Section VI, item 2.

7. **Subcommittee Releases Report on Reforming TSA.**

See Section VI, item 3.

IV. E-COMMERCE AND TECHNOLOGY

1. Air France-KLM Signs Full-Content Agreement with Sabre.

Sabre Travel Network signed a multi-year, full-content agreement with Air France-KLM to sell seats and ancillary products through travel agents connected to the Sabre global distribution system (GDS). As part of the renewed agreement, KLM will make its Economy Comfort seats available to travel agents by using industry standards developed by ATPCo and IATA. Air France will implement Sabre group-booking technology, for managing group reservations.

2. Travelport Agreements With Qantas, Gulf Air.

Travelport signed a new long term agreement with Qantas that ensures Galileo, Worldspan and Apollo-connected travel agents worldwide have access to Qantas' full published inventory including ancillary content such as paid seating, consistent with the airline's website. Last year, Travelport subscribers received full GDS access to the Qantas advance seat selection product, following introduction of a new booking capability enabling agents to book and pay for preferred seats on Qantas flights via their desktop. . . . Travelport and Gulf Air renewed their full content agreement, giving all travel agents within Travelport's worldwide network access to the airline's full range of published fares and inventory.

3. Court Approves Motion to Stay American's Antitrust Lawsuit.

A federal judge approved a motion filed by American Airlines, Travelport and Orbitz to stay the airline's lawsuit against Orbitz, Sabre and Travelport. The stay expires in December.

V. **ENERGY AND ENVIRONMENT**

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

The average price of aviation jet fuel, as of September 14, was \$138.7/barrel, up 3.9% on the month and up 8.5% year-on-year, reports the International Air Transport Association. Fuel price average for 2012 is \$129.2/barrel.

2. **U.S. Industry Urges Obama Action in EU ETS Row.**

Nineteen U.S. aviation groups urged President Barack Obama to file an Article 84 proceeding in the International Civil Aviation Organization to stop the European Union (EU) from forcing foreign aircraft operators to pay for their carbon emissions in advance of an ICAO-level multilateral solution. "An Article 84 action will prompt, rather than impede, agreement and implementation of a global framework for addressing aviation greenhouse gas emissions," wrote the group, which includes Airlines for America (A4A). ICAO expects to have a draft plan by March 2013.

3. **U.S., Germany to Cooperate in Alternative Aviation Fuels.**

The United States and Germany agreed to work together to facilitate promotion, development and use of sustainable alternative aviation fuels. Goals set out in a Declaration of Cooperation signed by FAA and the German Transport Ministry are "to exchange ideas, information, skills and techniques and to collaborate on problems and projects of mutual interest."

4. **Neeleman Promotes Natural Gas-to-Fuel Innovation.**

David Neeleman, founder of JetBlue and Brazilian carrier Azul, is seeking an affordable way to convert natural gas into jet fuel. Speaking at Boyd Group's International Aviation Forecast Summit, Neeleman said carriers could contribute to a fund that would reward such successful innovators. A Shell GTL (gas-to-liquid) plant in Qatar produces jet fuel from gas at a cost of \$80 per barrel, and in 2009 a Qatar Airways flight became the first to be powered by fuel derived from gas; \$40 per barrel would be a "game changer," said Neeleman.

5. **Australian Biofuel Initiatives.**

Algae.Tec launched Australia's first advanced engineered algae to biofuels facility, Shoalhaven One, in New South Wales. Perth-based Algae.Tec, developer of a high-yield enclosed algae growth and harvesting system, the McConchie-Stroud System, also has a manufacturing base in Atlanta. In other news, the Australian Initiative for Sustainable Aviation Fuels (AISAF) Steering

Committee held its first meeting. Members include representatives from Boeing, GE, Qantas and Virgin Australia. The public-private initiative has initial funding for 12 months.

6. Algae.Tec, Lufthansa to Produce Biofuel in Europe.

Algae.Tec and Lufthansa signed a collaboration agreement for the construction of a large-scale algae to aviation biofuels production facility in Europe. Lufthansa will arrange 100% funding for the project. Algae.Tec will manage and receive license fees and profits. Lufthansa committed to a long-term “offtake” agreement of at least 50% of the crude oil produced at an agreed price. The agreement forms the base for long-term cooperation for industrial production of crude algae suitable for conversion into aviation kerosene and conventional diesel fuels. . . . In other news from Europe, the EU will propose to limit use of biofuels derived from food crops to 5% of transport fuel. “Our clear preference is biofuels produced from non-food feedstocks, like waste or agricultural residues such as straw [which] are not in competition with food, nor do they require additional land. We are pushing biofuels that help us cut substantial CO₂-emissions, do not compete with food and are sustainable and green at the same time,” said a statement. . . . And French researchers are studying use of agricultural and forest waste as sources of alternative energy. The project, ProBio3, has a budget of €24.6 million over eight years.

7. Senate Bill Enables Airlines to Refrain from EU ETS Participation.

See Section VI, item 1.

VI. U.S. CONGRESS

1. Senate Bill Enables Airlines to Refrain from EU ETS Participation.

Before adjourning for the election recess, the Senate passed a bill that would allow the Transportation Secretary to direct U.S. airlines to not participate in the European Union Emissions Trading Scheme because it violates international law and U.S. sovereignty. The measure must be reconciled with similar legislation passed by the House last year.

2. House Passes “No-Hassle Flying Act.”

The House passed a bill that streamlines baggage security measures for international flights arriving from select airports in Canada, the Caribbean and Ireland that have U.S. Customs and Border Protection preclearance facilities. The “No-Hassle Flying Act,” sponsored by Joe Walsh (R-IL), gives TSA discretion to determine whether additional screening of bags already screened at CBP preclearance airports is necessary. “U.S. law today requires all baggage entering the United States to be re-screened regardless of where it originated, which creates additional work and hassle for customers, without providing meaningful additional security,” said Airlines for America, which supported the bill. Similar legislation was introduced in the Senate.

3. Subcommittee Releases Report on Reforming TSA.

“Eleven Years After 9/11 Can TSA Evolve To Meet the Next Terrorist Threat?” was the title of a hearing held by the House Homeland Security Transportation Subcommittee. Following 22 hearings and numerous briefings, site visits and an in-depth review, the Subcommittee released a Majority staff report, “Rebuilding TSA into a Smarter, Leaner Organization,” which suggests that TSA would be more effective with fewer employees, and should contract with “the private sector to modernize and, to the extent possible, automate the passenger screening process to reduce pat-downs, implementing privacy software on all AIT [Advanced Imaging Technology], and sponsoring an independent analysis of the potential health impacts of AIT machines.” TSA should “cut red tape by working with stakeholders to streamline existing security regulations, issuing final rules for long overdue security programs, and reforming the Prohibited Items List to better reflect evolving threats.” TSA has “gone down a troubling path of overspending, limiting private sector engagement, and failing to sufficiently protect passenger privacy,” said Subcommittee Chairman Mike Rogers (R-AL). “This report shines a bright light on TSA and lays the groundwork for meaningful reform.”

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. U.S.-Sierra Leone Open Skies Agreement Signed.

An open skies agreement between the United States and Sierra Leone has entered into force, signed on September 10 in Washington, DC by Under Secretary Robert Hormats and Sierra Leone's Minister of Aviation and Transportation Vandi Chidi Minah. Initialed in June, the agreement has been applied via comity and reciprocity since then.

2. U.S. Complies With WTO Ruling in Aircraft Dispute.

The United States Trade Representative (USTR) advised the World Trade Organization (WTO) it is in compliance with WTO recommendations in the large civil aircraft dispute with the European Union related to U.S. government subsidies to Boeing. USTR said it "has been working extensively over the last six months with all of the government entities affected by the March 23, 2012 ruling in this case—including NASA, the Department of Defense, the State of Washington, and the City of Wichita—to ensure full compliance with the United States' WTO obligations." The EU rejected the U.S. claim of compliance and requested WTO authorization to take countermeasures against the United States valued at \$12 billion annually. In related news, Airbus parent EADS is in merger talks with British defense manufacturer BAE Systems, which would create the world's largest integrated defense and commercial aviation company.

3. Ukraine-U.S. Open Skies Agreement Possible.

After meeting with DOT Secretary Ray LaHood and FAA officials in Washington, Ukrainian Deputy Prime Minister and Infrastructure Minister Borys Kolesnikov said the two nations could sign an open skies agreement this year. Kolesnikov also met with executives from Boeing and other U.S. companies, as Ukraine seeks foreign investment to help overhaul Soviet-era infrastructure.

VIII. EUROPE AND AFRICA

1. EU to Pursue Airline Cross-Border Consolidation.

The European Commission (EC) wants to reduce restrictions on airline cross-border consolidation, and will “take the additional steps envisaged in the EU-U.S. air transport agreement.” Foreign ownership currently is capped at 49% in the EU and at 25% in the U.S., but, said the EC, “exceptions to this rule can be provided for in agreements between the EU and a third country, which is what the EU is seeking to do with key partners.” Ownership caps will be pursued at the ICAO level, including at the March 2013 Air Traffic conference. Among other proposals, the EC wants to negotiate aviation agreements at the EU level with many countries, including India and China, which respectively will see expected average annual GDP growth rates of 7.5% and 7.2% between 2011 and 2030, compared to 1.9% for Europe. Following consultation with member states in the Transport Council in December, the Commission intends to provide a list of priorities for negotiating mandates in early 2013.

2. Lufthansa News.

Lufthansa direct European services, which include all German domestic and European services outside of the Frankfurt and Munich hubs, will be merged with Germanwings to form one company, on January 1, to be based at Cologne. . . . Former CEO Wolfgang Mayrhuber will succeed Jurgen Weber as Chairman of the Board next year. . . . The company will build a new logistics center at Frankfurt Airport to replace the 30-year-old Lufthansa Cargo Center, with operations to begin in 2018.

3. EU Extends Deadline for Probe of Ryanair-Aer Lingus Merger.

EU antitrust authorities extended to February 6 a deadline to analyze Ryanair’s proposed takeover of Aer Lingus. CEO Michael O’Leary said Ryanair could exit all 46 routes from Dublin that overlap with Aer Lingus to help win approval for its bid and is talking with several carriers about selling or leasing the slots.

4. Ridgway to Leave Virgin Atlantic.

Virgin Atlantic CEO Steve Ridgway announced he is retiring in spring 2013, following a 23-year tenure.

5. Bmibaby Shuttered.

bmibaby suspended operations after International Airlines Group (IAG) failed to find a buyer for the low-cost carrier. In April, IAG acquired bmi group, which

also included bmi mainline and bmi Regional, from Lufthansa, and is integrating bmi mainline services into British Airways; bmi Regional was sold to Sector Aviation Holdings.

6. Nigeria's Arik Air Suspends Flights.

Arik Air planned to resume flying domestic routes, said Managing Director Chris Ndulue. The Lagos-based carrier halted operations due to a dispute with the Nigerian government, which both sides say has been resolved. Privately owned Arik offers direct flights to Johannesburg, London and New York, as well as domestic service. Nigeria's Central Bank has ordered banks to stop making loans to both Arik Air and its competitor Aero Contractors Co. of Nigeria Ltd. over debts in the hundreds of millions of dollars, reports the Associated Press.

7. Japan Grants ATI for ANA-Lufthansa Joint Venture Expansion.

See Section IX, item 2.

8. Air Canada to Hire 900 Employees, Signs Pact With Aer Lingus.

See Section X, item 5.

9. British Airways, WestJet to Code Share.

See Section X, item 6.

IX. ASIA/PACIFIC AND MIDDLE EAST

1. Japan-China Dispute Leads to Thousands of Cancelled Flights.

Airlines in China and Japan reduced flights between the two nations, as relations deteriorated after Japan purchased the disputed Senkaku-Diaoyu islands from a private owner. China claims that it owns the islands, while Japan argues it took administrative control of them in 1895, lost control of them after World War II and had the islands returned to it by the U.S. in 1972. All Nippon Airways said 40,000 reservations were cancelled for the September to November period; 12,000 were cancelled at Japan Airlines. Up to 40% of planned trips to Japan were cancelled by Chinese tourists, and China Eastern delayed the start of a new route between Shanghai and Sendai in northeast Japan. The U.S. State Department said it would not take a position on the sovereignty issue.

2. Japan Grants ATI for ANA-Lufthansa Joint Venture Expansion.

The Japanese Ministry of Land, Infrastructure, Transport and Tourism issued antitrust immunity (ATI) to add Lufthansa units Swiss and Austrian to the Japan-Europe joint venture of All Nippon Airways (ANA) and Lufthansa. The airlines will launch joint sales initiatives and pricing products from spring 2013.

3. Qantas, Emirates to Partner.

Qantas and Emirates signed a ten-year commercial agreement, which, pending regulatory approval, will include “integrated network collaboration with coordinated pricing, sales and scheduling and a benefit-sharing model.” There will be no equity investment on either side. From April next year, Qantas will transfer its hub for European flights from Singapore Changi to Dubai, and increase dedicated capacity to Singapore. Qantas will withdraw from its Frankfurt route and will terminate its Joint Services Agreement with British Airways on UK-Australia routes on March 31, 2013, although they will continue to partner via oneworld and code sharing. In a filing with the Australian Competition and Consumer Commission, Virgin Australia opposed the alliance, saying it would make it more difficult for competitors to challenge Qantas’ existing position, not only for international travel, but within domestic Australia.

4. Etihad Increases Stake in Virgin Australia.

Etihad doubled its equity stake in Virgin Australia Holdings to 10%. “We support the management strategy of Virgin Australia and will continue to work closely with them on ways to improve our business,” said Etihad CEO James

Hogan, who reiterated that Etihad is not interested in becoming a majority shareholder or taking control of Virgin Australia.

5. India to Allow Foreign Airline Investment.

Overseas airlines will be able to acquire stakes of up to 49% in Indian carriers, said Prime Minister Manmohan Singh, with the exception of government-owned Air India. . . . Emirates commissioned a study on the economic impact of its operations on the Indian economy, to support efforts to expand to additional airports there. In 2011, Emirates carried over 4.7 million passengers to Indian cities, contributing \$596 million to the Indian economy across several sectors, according to the study, prepared by India's National Council of Applied Economic Research. The study suggests that Emirates' expansion to additional points would add benefits of \$100 million and 13,000 jobs. Emirates said it has no plans to buy into India's aviation sector. . . . Boeing forecasts 1,450 new aircraft orders by Indian carriers through 2031, as air traffic in South Asia grows at 8.4% on average.

6. FedEx, UPS to Offer Courier Service in China.

China granted licenses to FedEx and United Parcel Service for courier service in some cities, as demand rises due to online shopping. Both companies will serve Shanghai, Guangzhou, Shenzhen and Tianjin. FedEx will also serve Hangzhou, Dalian, Zhengzhou and Chengdu, and UPS will serve Xian. Letter delivery is not included. State-owned China Postal Express & Logistics has about 30% of the market.

7. Lion Air to Launch Low-Cost Carrier in Malaysia.

Indonesia's Lion Air will launch a low-cost airline in Malaysia. Malindo Airways will begin flights between Indonesia and Malaysia in May with 12 Boeing 737s. Lion Air President Rusdi Kirana said 12 planes will be added yearly including Boeing 787 Dreamliners for routes to China, Japan and Australia. Lion Air will own 49% of Malindo, and Malaysia's National Aerospace and Defence Industries the remaining 51%. Lion Air will also launch a full-service carrier in Indonesia, Batik Air, in March next year.

8. Saudi Arabia Delays Decision On Foreign Operator.

Saudi Arabia's General Authority for Civil Aviation postponed a decision for foreign airlines hoping to start operating domestic and international services there. The tender process, which began in January and closed in March, reportedly attracted 14 bidders, including Qatar Airways, and consortia of Saudi partners working with EgyptAir, Gulf Air, Bahrain Air and China's HNA Group.

9. New President for Thai Airways.

Thai Airways International named Sorajak Kasemsuvan as President. He replaces Piyasvasti Amranand, who was removed from his post in June. Sorajak is former Chairman of majority state-owned broadcaster MCOT and has been a Vice Minister in Thailand's Foreign Ministry.

10. Emirates Begins Daily Nonstops to Washington Dulles.

Emirates launched daily nonstops from Dubai to Washington Dulles, its seventh gateway in the United States, and the twelfth new route in the airline's international network this year. The Boeing 777-200 LR flights include private suites in first class. . . . On the occasion, Emirates President Tim Clark spoke to the International Aviation Club in Washington. Among his comments: "Today, oil makes up just 5% of Dubai's GDP, while aviation makes up 28%, or \$22 billion, as well as directly and indirectly supporting over 250,000 jobs. This is a direct result of Dubai's pro-aviation policy." "Major alliances do not always operate in the interests of the travelling public, having found very cozy nests in their respective hubs. Were we a member of Star, I am confident there would be no Emirates flight to Dulles; Star leadership in Frankfurt and Chicago would have vetoed the plans. It is in the best interest of the Star alliance to route passengers between Washington and India, for example, through its hubs in Europe, and to protect Star's nonstops between Dulles and Dubai. The same would be true if we were part of SkyTeam, where the focus would be on feeding traffic through Delta's hubs in Atlanta, Detroit and New York and protecting its nonstops to Dubai." "Emirates received \$10 million in start-up capital from the Government of Dubai and was told never to come back asking for more. With 75% of the world's population within eight hours of Dubai, we saw that new aircraft technology would allow us to connect the globe, proactively capitalized on Dubai's location along the New Silk Road to link both developed and developing nations [and] looked beyond existing tourist markets to expand international leisure travel. We also envisioned emerging trade routes for the 21st century."

11. EU to Pursue Airline Cross-Border Consolidation.

See Section VIII, item 1.

X. AMERICAS

1. American Airlines Bankruptcy Update.

American Airlines parent AMR signed non-disclosure agreements with US Airways and oneworld partner International Airlines Group, parent of British Airways and Iberia, for potential merger or stake acquisition consideration. . . . 2,205 American Airlines flight attendants opted for an early-out package, precluding a need for furloughs as a result of near-term restructuring changes; the goal was 2,000 voluntary exits. Departures will be staggered based on seniority and operational needs. . . . American Eagle flight attendants ratified their agreement. . . . Ground workers also accepted voluntary furlough in large numbers; by deadline, almost 3,000 mechanics, clerks, baggage handlers, cabin cleaners and other fleet service workers represented by the Transport Workers Union applied for the early-out program. . . . American released details regarding planned December closing of Fort Worth Alliance maintenance facility; 1,090 jobs will be eliminated. . . . Allied Pilots Association (APA) rejected AMR's last contract offer and the company won bankruptcy court permission to impose new pay and work terms that include cuts in benefits and more outsourced flying. Pilots allegedly staged disruptive actions, including increased maintenance reports and higher-than-normal sick levels, leading to widespread delays and cancellations. American reduced September and October schedules by up to 2%, in response to the "operational challenges," and informed APA it will seek a court injunction if pilots continue to engage "in an unlawful, concerted effort to damage the company." Union leaders denied sabotage, said pilots were reporting to work as usual and attributed cancellations to company mismanagement and old aircraft; they planned to reconvene on October 2 "to discuss next steps in our pursuit of a contract."

2. US Airways Flight Attendants Fail to Ratify Agreement.

In a 51% to 49% vote, flight attendants at US Airways, represented by the Association of Flight Attendants (AFA), failed to ratify a proposed five-year collective bargaining agreement. Voter participation was 85%. A tentative agreement reached in August would have amended existing contracts for the airline's 6,800 flight attendants who are based in Charlotte, Philadelphia, Phoenix and Washington, D.C. "Current collective bargaining agreements remain in place, and we will consult with the National Mediation Board to determine the next steps," said US Airways Chairman and CEO Doug Parker.

3. **Southwest Crew Approve Contract Changes For Overwater Flights.**
Southwest flight attendants approved contract changes that allow overwater flying; pilots voted in June to approve overwater flights. The changes enable the airline to seek authority to fly to Hawaii and international destinations.
4. **Delta, Aeromexico to Build Joint MRO Facility in Queretaro.**
Delta and Grupo Aeromexico will construct a jointly operated maintenance, repair and overhaul (MRO) center at Queretaro Intercontinental Airport. As part of a Memorandum of Understanding, the SkyTeam partners will invest equal amounts in a project to move work currently done at Guadalajara and expand MRO capabilities for their own and other carriers' aircraft. The new facility' will have heavy maintenance capacity for up to seven aircraft simultaneously. Delta acquired a 4.17% stake in Grupo Aeromexico in June.
5. **Air Canada to Hire 900 Employees, Signs Pact With Aer Lingus.**
Air Canada will hire 900 employees over the next year and create 200 new flight attendant and pilot jobs for a low cost carrier to be launched in 2013, which will serve transatlantic and routes in the Caribbean and the United States. . . . Air Canada signed an interline agreement with Aer Lingus, which is preliminary toward full code sharing expected to be finalized next year.
6. **British Airways, WestJet to Code Share.**
British Airways will market WestJet-operated flights connecting from Vancouver, Calgary and Toronto to Ottawa, Edmonton and Victoria, per a new code share agreement. The carriers also have an interline agreement. In the past year, WestJet has initiated code shares with American, Delta, KLM, Cathay Pacific, China Eastern, Japan Airlines and Korean Air.
7. **EU to Pursue Airline Cross-Border Consolidation.**
See Section VIII, item 1.
8. **FedEx, UPS to Offer Courier Service in China.**
See Section IX, item 6.
9. **Emirates Begins Daily Nonstops to Washington Dulles.**
See Section IX, item 10.