



WASHINGTON AVIATION SUMMARY

APRIL 2007 EDITION

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For further information, including documents referenced, contact:

Joanne W. Young
Kirstein & Young PLLC
1001 Pennsylvania Ave. N.W.
Suite 600 South
Washington, D.C. 20004
Telephone: (202) 742-6644
Fax: (202) 742-6649
Email: jyoung@yklaw.com

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

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I. REGULATORY NEWS

1. EU-U.S. Draft Aviation Agreement Reached.

A first stage aviation agreement between the United States and the European Union (EU) was endorsed by EU transport ministers. The draft pact allows U.S. and EU airlines to fly between any city in the EU and any city in the United States without restrictions on the number of flights, aircraft, routes or prices. The pact opens to competition London Heathrow Airport, where landing rights have been restricted to two British and two U.S. carriers, and takes effect March 30, 2008, to coincide with the opening of Heathrow's Terminal 5. If a Stage 2 open skies accord relating to foreign control of U.S. airlines and cabotage is not reached by 2010, individual EU states may suspend participation in the pact. "This first phase of our transatlantic agreement is not a dead-end," said Jacques Barrot, European Commission (EC) Vice President of Transport. "A second stage will deliver greater freedom for investors in aviation." The U.S. is expected to sign the pact April 30, during a U.S.-EU Summit in Washington. As an executive agreement, the open skies pact does not have to be approved by the U.S. Congress, but Deputy Assistant Secretary of State John Byerly said he does not expect opposition there, since an earlier provision to relax U.S. restrictions on foreign investors' control over U.S. airlines had been withdrawn. The open skies pact will deregulate the largest aviation market in the world—air traffic on transatlantic routes represents 60% of the global aviation market—and, according to an EU study, could lower transatlantic airline fares and triple the number of passengers on the routes over the next five years.

2. DOT Tentatively Approves Virgin America Application.

DOT awarded tentative approval for Virgin America's revised application to operate as a U.S. airline. In stating it would significantly reconfigure its ownership and management structure, the startup is "back on track to meet strict U.S. citizenship tests under federal law," said DOT. Virgin America offered to replace CEO Fred Reid, "whose longstanding association with foreign investors," said DOT, "had raised concerns about who would control the new carrier." Reforms proposed by Virgin America include removing some Virgin Group veto power, amending loan agreements with Virgin Group, restructuring its board of directors to reduce the number of foreign representatives, revising its trademark license to ensure that the U.S. carrier can operate independently of UK-based Virgin Atlantic, establishing a voting trust to administer the Virgin Groups' equity interest, and providing advance notice to DOT regarding additional loans from non-U.S.-based investors. Virgin America said it hoped to receive final DOT approval in time for a mid-summer launch from its San Francisco base to New York Kennedy. Within

nine months thereafter, Los Angeles, San Diego, Las Vegas and Washington D.C. would be added. The carrier is also in the final stages of receiving approval from the Federal Aviation Administration (FAA) as the first new airline to be certified through the agency's new Air Transportation and Oversight System (ATOS) safety program. Virgin America finished its formal FAA safety evaluation in December 2006.

3. FAA Forecasts 1.2 Billion Passengers by 2020.

In its 2007-2020 Aerospace Forecast, FAA predicts 768 million passengers will fly this fiscal year, more than one billion by 2015, and 1.2 billion by 2020. About 62.5 million take-offs and landings are expected at U.S. towered airports in FY 2007, and 81.1 million by 2020; general aviation flying hours are expected to increase by 59% by 2020. Hubs predicted to have the most significant growth in the forecast period are Washington Dulles (68%), New York Kennedy (59%), Los Angeles (54%) and Atlanta (38%). Delays last year reached an all time high and now cost the U.S. economy over \$10 billion annually, said FAA, as it promotes replacing current air traffic control architecture with a "21st Century" satellite-based system.

4. FAA to Hire 15,000 Air Traffic Controllers.

FAA plans to hire 15,000 air traffic controllers over the next decade, as nearly three-quarters of today's 14,600 controllers reach retirement age. The agency said it has streamlined training and increased recruitment among military controllers and college students. The agency plans to increase the number of controllers to 16,000 by 2016.

5. DOT Issues Battery Hazard Advisory.

DOT issued an advisory for batteries used in cell phones, laptops, cameras and other portable electronic devices, aimed at reducing the risk of fires on aircraft. Passengers should, according to the advisory, keep spare batteries in original retail packaging; keep loose batteries covered with insulating tape to protect them from contact with metal objects; place each battery in its own protective case, plastic bag, or package; and pack spare batteries in carry-on baggage, rather than checked baggage. Also, passengers should use only chargers designed for the battery type and take steps to prevent crushing, puncturing or dropping batteries. The warning stemmed from two recent incidents, in which batteries were thought to be the source of fires onboard a JetBlue and an American flight; in each case, airline employees extinguished the fire and safely landed the aircraft.

6. Equipment News.

The Airbus A380 made its U.S. debut in two nearly simultaneous landings. On a flight from Frankfurt to New York Kennedy, with about 500 people on board,

the aircraft was performing a 12-day route proving trip organized jointly with Lufthansa. A flight from Toulouse to Los Angeles underwent airport compatibility and functional checks in cooperation with operator Los Angeles World Airports and Qantas, which will be the first carrier to operate the A380 between Los Angeles and Australia. Boeing's new midsize, long-range 787 is undergoing FAA certification tests and should have a first flight in late August, followed by the first delivery in May 2008. China announced it will begin building large passenger jets by 2020, and plans test flights of the mid-size ARJ-21 (70-110 seats), its first commercial jet, by next year. International Lease Finance CEO Steven Udvar-Hazy predicted serious competition for Boeing and Airbus could emerge by 2020 from China, Russia and Japan.

7. **DOT Air Travel Consumer Report for January.**

Based on data filed by 20 of the largest U.S. airlines

	January 2007 / 2006	December 2006	Full Year 2006 / 2005 / 2004 / 2003
On-time arrival rate %	73.1 / 78.8	70.8	75.4 / 77.4 / 78.1 / 82
Cancellations %	2.5 / 1.7	3	1.87 / 1.56 / 1.79
Mishandled baggage*	8.19 / 6.93	8.93	6.73 / 6.64 / 4.91 / 4.19
Consumer complaints:			
Airline service	752 / 829	604	8,321 / 8,741 / 7,452 / 5,983
Disability-related	28 / 44	27	427 / 511 / 521 / 375
Discrimination**	10 / 10	9	114 / 129 / 118 / 85

* Reports per 1,000 passengers.

** Other than disability; i.e., race, religion, national origin or sex.

II. AIRPORTS

1. Preliminary Airport Traffic Results for 2006.

Airports worldwide reported that 2006 passenger traffic increased by 5% and cargo by 4% over 2005. Airports Council International's preliminary data find Atlanta Hartsfield-Jackson remained the busiest airport in the world, with 84.8 million passengers, followed by Chicago O'Hare (76.2m), London Heathrow (67.5m), Tokyo Haneda (65.2m), Los Angeles (61m), Dallas-Fort Worth (60m), Paris Charles de Gaulle (56.8m), Frankfurt (52.8m), Beijing Capital (48.5m) and Denver (47.3m). Memphis International, FedEx headquarters, continued as the world's busiest airport for cargo, followed by Hong Kong and Ted Stevens Anchorage.

2. Fee Increase Approved for LAX International Terminal.

The Los Angeles Board of Airport Commissioners approved fee increases for airlines that use LAX's Tom Bradley International Terminal, effective April 1. The new annual base rate for those 28 airlines is \$27.59 per square foot, compared to \$23.50 in 2006 and \$19.35 in 2005. Airport operator Los Angeles World Airports will generate an additional \$42 million per year from the increase, reported the *Los Angeles Times*. In related news, the Air Transport Association (ATA) petitioned DOT to intervene in a case brought by airlines concerning increased fees at LAX Terminals 1 and 3; those increases took effect February 1.

3. Don Muang Reopens.

Bangkok's Don Muang International Airport, which was closed to commercial flights following the opening of Suvarnabhumi Airport, officially reopened for domestic flights. The move is meant to help ease congestion at Suvarnabhumi, which is undergoing taxiway and terminal repairs.

III. **SECURITY**

1. **TSA News.**

The Transportation Security Administration (TSA) wants federal uniformed officers to administer the first ticket and personal identification check, before travelers proceed to security checkpoints, a job now handled by private security companies. George Naccara, TSA chief of Boston Logan and the northeastern United States, told the *Boston Globe* the move would require up to 1,400 new travel-document checkers nationally, for which the Administration has requested \$60 million in TSA's next fiscal year budget. TSA launched random inspections of airport workers in Miami, Orlando, Fort Lauderdale, Tampa and San Juan, after the arrest of two Orlando-based airline employees who allegedly carried 14 guns onto an airplane. The "surge operation" was the first of new measures to increase layered airport employee security. TSA said it deployed 160 inspectors, federal air marshals and other personnel for the mission. Congress is calling for TSA to screen all airport workers who can access secure areas without going through metal detectors.

2. **Drone Anti-Missile System to be Tested.**

The Departments of Homeland Security (DHS) and Defense (DOD) will test an anti-missile strategy this summer at Patuxent River Naval Air Station near Washington, DC. Project Chloe will assess whether drones equipped with missile-warning systems, flying over commercial airports, can prevent planes from being shot down by shoulder-fired missiles. More expensive anti-missile laser systems being tested on some FedEx aircraft have had a high failure rate, reports *USA Today*.

3. **DHS to Test 10-Fingerprint Scanner Technology.**

DHS's U.S. Visit program will evaluate 10-fingerprint scanners this summer at airports in Atlanta, Boston, Chicago, Detroit, Dallas, Houston, New York, Orlando, San Francisco and Fort Wayne. The scanners have already been fielded at consulates and embassies overseas, reports *Washington Technology*, and early testing of the technology was successful at law enforcement agencies in Boston, Dallas and Houston and in Coast Guard use. In other news, departure processing for travelers who transit into and out of the country will be combined with existing departure desk check-in, screener checks and/or gate processing, since wireless kiosks, where passengers scanned their documents, were not easy to use.

IV. E-COMMERCE AND TECHNOLOGY

1. British Airways Signs on with Galileo, Sabre.

British Airways (BA) reached three-year, full-content agreements with Galileo and Sabre Travel Network. The Sabre pact awards the global distribution system (GDS) preferred provider status and guarantees the full range of fares to Sabre Connected customers. Sabre Connected agents in the UK and Ireland will be required to join a new opt-in program to access these fares. The pact with Travelport subsidiary Galileo makes all fares and inventory available to all Galileo-connected travel agents who sign up for a new opt-in program. British Airways is also in discussions with Worldspan and Amadeus.

2. Cell Phone Ban Likely to Remain.

The Federal Communications Commission (FCC) is expected to reject a proposal to allow inflight cell phone use, due to wireless industry concerns that the calls could interfere with their ground-based networks. Interference with navigation signals has always been a concern, as has interference with passenger sanity—FCC has received thousands of comments from fliers urging continuation of the ban.

3. Sabre Travel Network Expands in Eastern Europe.

Sabre Travel Network acquired a 40% stake in ESS, a Polish technology provider and distributor of tour content. With 38 million people, Poland is a lucrative travel region, said Sabre; the number of organized foreign trips purchased by Poles has grown by 15 to 20% annually. Sabre Travel Network has operated a technology and product development center in Krakow since 2000 and will evaluate opportunities to expand the ESS business into other countries in Eastern Europe.

4. TUI to Buy First Choice.

Germany-based TUI, Europe's largest tour operator, will buy UK-based First Choice and form TUI Travel Plc, which will be based in London and run by First Choice CEO Peter Long. The move came a month after Thomas Cook announced plans to merge with MyTravel. Consolidation of the package travel industry is a reaction to more people planning their own trips via the Internet and using budget airlines.

V. NOISE AND ENVIRONMENT

1. Residents Battle West Palm Beach Runway Extension.

Residents near Palm Beach International oppose plans to extend a general-aviation runway from 3,200 to 8,000 feet to accommodate commercial jets, and say they may conduct their own environmental impact study (EIS). They asked FAA for a comment period extension, reports the *Sun-Sentinel*, so they can weigh in on the scope of FAA's EIS. Donald Trump is among those concerned, saying his Palm Beach resort Mar-a-Lago is a national historic landmark and should be protected.

2. Philadelphia Takes Noise Issue to Congress.

Concerned that a new FAA plan to change flight paths could direct more planes over their communities, residents near Philadelphia International have turned to Congress for help. They say FAA's EIS on fanned departures failed to address numerous quality-of-life and transportation planning issues. Currently, planes fly over the Delaware River, which reduces noise heard on the ground, but FAA says the new flight paths will reduce delays. House Aviation Subcommittee Chairman Jerry Costello (D. Ill.) attended a local meeting where counterarguments were presented to FAA's plan.

3. United Fined For Air Quality Violations.

United was fined \$382,500 by the Bay Area Air Quality Management District for violations at its San Francisco International Airport maintenance facility from September 2003 to mid-2005. Violations included the substitution of jet fuel for natural gas in a turbine used to generate electricity; United's permit requires that natural gas, the cleanest-burning fuel available, be used in the turbine. Other violations involved the improper functioning of an exhaust system in United's chrome-plating shop.

4. Dallas/Fort Worth a Top Environmental Performer.

Dallas-Fort Worth has cut air emissions by 95%, captured and treated 5 million pounds of spent aircraft de-icing fluid and converted all of its bus and shuttle fleet to alternative fuels over the past five years. The airport was named a top environmental performer by the Environmental Protection Agency's National Environmental Performance Track program, for businesses and organizations that have shown the highest level of environmental leadership in the country. The program accepted a total of 55 new members this year.

5. **EU Sets Emission Targets.**

The EU plans to cut greenhouse gas emissions by 20% by 2020, or up to 30% if countries outside the EU agree to match the commitment. EU heads of state also agreed to a 20% increase in energy efficiency, a 10% increase in use of biofuels and a binding 20% target for the use of renewable energy sources. EU Finance Ministers in a side meeting failed to agree to extend emissions trading to airlines and ships, however.

6. **Environmentalists Say EU-U.S. Open Skies a Threat to Climate Policy.**

Increased aviation growth as a result of the EU-U.S. open skies agreement could completely offset emissions reductions from integrating the aviation sector into the EU emissions trading system (EU-ETS), said the European Federation for Transport and Environment (T&E). The pact also preserves a prohibition on fuel taxation on transatlantic flights, which the group says is the most important measure for reducing emissions from the sector. "The EU must ensure that no environmental measures are ruled out in the second round of open skies negotiations and that inclusion of aviation into the emissions trading system is used to maximum environmental effect," said T&E Director Jos Dings.

7. **UK Conservatives Propose Aviation Taxes.**

UK Conservatives proposed new taxes for air travel, including a fuel duty, a value added tax on domestic flights, a per-flight tax directly linked to carbon emissions and a Green Air Miles Allowance, in which frequent fliers pay higher taxes.

8. **Greenpeace Offers Free Rail Tickets to British Airways Passengers.**

Greenpeace urged passengers to boycott a new British Airways service from Gatwick to Cornwall, offering them free rail tickets instead. The 140-seat Boeing 737 flights offer a one hour trip, compared to five hours by train; but, say environmentalists, air travel causes 10 times more damage to the climate than traveling by train. "We really have to do something about this culture of binge-flying that British Airways is doing so much to bring about," said Greenpeace.

VI. U.S. CONGRESS

1. Passenger Rights Bill Introduced in House and Senate.

Passenger rights legislation was introduced in the U.S. Senate and House, which would require airlines to: frequently update passengers in the airport and on aircraft on causes and timing of delays; reveal a flight's on-time record when selling tickets; allow passengers to leave aircraft if a ground delay lasts longer than three hours; and provide passengers with adequate food, safe drinking water, sanitary facilities, air ventilation and a reasonable temperature. The House Transportation Committee has scheduled an April 20 hearing on airline customer service; Chairman James Oberstar (D-Minn.) said he supports language giving DOT more power to investigate poor airline customer service, as part of the FAA Reauthorization bill, and to levy fines against carriers when customer service levels aren't met. A group called the Coalition for Airline Passengers' Bill of Rights (PBOR), based in Napa Valley, CA, has urged Congress to make passengers' rights "a necessary part of FAA Reauthorization."

2. Homeland Security Bill Clears Senate.

The Senate passed a homeland security bill that would implement unfinished recommendations of the 9/11 Commission. The bill would expand the Visa Waiver Program (VWP) to include more countries; establish "model ports" at the top 20 U.S. international arrival airports, with instructional videos, enhanced line management and assistance for foreign travelers upon arrival; and hire at least 200 new U.S. Customs and Border Protection officers to alleviate staffing shortages. It would require all cargo carried on commercial passenger aircraft to be screened for bombs. The bill provides formulas for state and other grant programs; House-passed legislation favors high-risk states such as New York and California, while the Senate would divide funding more evenly. A provision in the bills that could cause a White House veto gives federal screeners collective bargaining rights; the Administration is also against a provision requiring screening of U.S. cargo in foreign ports or inspection of aircraft cargo. The House and Senate must work out differences before the bill can be presented to President Bush.

3. House Members Renew Call to Screen Airport Workers.

Nita Lowey (D-NY) introduced bipartisan legislation in the House that would create a pilot program requiring all employees with access to secure areas of airports to be screened. "Five years ago, the Aviation and Transportation Security Act (ATSA) called for the screening of individuals, property and goods before gaining access to these secure areas; however, until now, TSA has failed to enforce this provision," said Bennie G. Thompson (D-MS), Chairman

of the House Committee on Homeland Security. The proposed bill and Thompson's remarks followed a security breach at Orlando International Airport. "The Transportation Security Administration issued a security surge for five airports based in Florida and Puerto Rico calling for increased screening of airport personnel," said Thompson. "TSA's efforts to enhance perimeter security are welcome but far from applause worthy. They've known about this vulnerability since 2002. TSA had five years to enforce the directives set forth by ATSA; be assured that this type of delay will no longer be tolerated."

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. EU-U.S. Draft Aviation Agreement Reached.

See Section I, item 1.

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

The United States and Canada signed an aviation agreement that gives seventh freedom rights to passenger and cargo carriers, allowing them to fly to third-country markets from cities across the border. The pact removes bilateral restrictions on pricing and alliances. DOT said the total value of trade flowing across the U.S. and Canadian border grew from \$9 billion a year in 1990 to more than \$24 billion in 2006; U.S.-Canada passenger traffic has increased by more than 2 million since 2003.

3. WTO Hearings on Airbus-Boeing Subsidies Dispute.

The World Trade Organization (WTO) held hearings on the Airbus-Boeing subsidies dispute. The United States accused Airbus of benefiting from intolerable government aid to develop new aircraft, saying Airbus would have paid \$100 billion more for its loans at commercial rates than under the terms of its subsidized borrowing; zero-interest repayments, conditional on commercial success, have cost thousands of U.S. jobs and cut into Boeing's earnings. The EU said Boeing has benefited from \$23.7 billion in state aid, including tax breaks, export subsidies and government support for research and development, which has hurt Airbus. Rulings are expected by September in the case against Airbus, and in early 2008 in the Boeing case. Both sides say they are ready to negotiate a settlement.

4. EU Approves Phase-Out of Siberia Overflight Taxes.

EU transport ministers approved an agreement with Russia that will phase out taxes paid by European airlines flying over Siberia by the end of 2013.

5. EU, Malaysia Sign Aviation Agreement.

A new EU-Malaysia agreement removes nationality restrictions in bilateral air services agreements and allows European airlines to operate flights between any EU Member State and Malaysia. The horizontal agreement does not replace bilaterals in place between EU Member States and Malaysia, but brings these in line with EU law.

6. Malaysia, Singapore to Discuss Air Services Pact.

Transport ministers of Malaysia and Singapore are expected to meet in April to discuss a review of their countries' air services agreement. A Singapore-

Malaysia bilateral could lead to a wave of aviation liberalization in Asia this year, according to the Centre for Asia Pacific Aviation (CAPA). "The only thing preventing economic expansion for millions of people in Asia, especially in regional centers, is the constricting grip of government aviation policy," said CAPA Executive Chairman Peter Harbison.

VIII. EUROPE/AFRICA

1. Aer Lingus Announces New U.S. Destinations.

Aer Lingus expects to begin Airbus A330 service from Dublin to San Francisco in October, and to Orlando and Washington Dulles before the end of the year. The company made the announcement in sync with the EU ratification of an open skies pact with the United States.

2. Continental Plans London Heathrow Service.

Upon news of the ratification, Continental immediately filed an amended application at the U.S. DOT for rights to serve new routes to Europe once the open skies agreement takes effect. By summer 2008, Continental plans to inaugurate service from Houston to London Heathrow, subject to government approval and obtaining necessary slots and facilities at Heathrow. As it expands into Heathrow, Continental will retain current service to London Gatwick from its three U.S. hubs. Continental previously announced new service from New York Newark to Athens and Mumbai, both scheduled to start this year, and from Cleveland Hopkins to Paris in 2008.

3. British Airways Weighs in on U.S. Domestic Flights.

British Airways CEO Willie Walsh reports the carrier is shifting some U.S.-bound flights from Gatwick to Heathrow to improve their yields.

4. Iberia Seeking Suitors.

Lufthansa, British Airways and Texas Pacific were among those reported to have an interest in acquiring Iberia, after the Spanish airline announced plans to seek bidders.

5. Europe Updates Blacklist.

The third update of the EC's airline blacklist adds new restrictions on Pakistan International Airlines and adds carriers from Kyrgyzstan, Equatorial Guinea and Democratic Republic of Congo. A partial ban on Sudan's Air West was extended to cover its entire fleet, and 49 airlines previously listed were withdrawn because they ceased operations. Thailand's Phuket Air and DAS Air Cargo/Dairo Air Services of Kenya and Uganda were removed from the list because they successfully raised their safety standards. The list places restrictions on nine Russian carriers, leading Russia's state air control service to warn that it might bar EU carriers from flying into Russia because of alleged violations of Russian flight regulations.

6. **EADS, Russia Form Partnership for A350.**

Airbus parent European Aeronautic Defense & Space (EADS) and Russia's United Aircraft Corporation (UAC) formed a risk-sharing agreement that gives Russian companies 5% of the airframe work on the new Airbus A350XWB. They also will establish a Dresden-based joint venture to set up A320 freighter conversion centers at Lukhovitsy near Moscow and at the German site. A third agreement "foresees a joint study of the transport aircraft market and possible cooperation between EADS and the Russian industry in this field," said EADS, and a fourth defines a shareholder change in the Engineering Centre Airbus Russia (ECAR), in which UAC will buy the Kaskol Group shareholding. In related news, state-owned Aeroflot signed a Memorandum of Understanding to buy 22 A350XWBs and agreed to lease 10 new A330-200s.

IX. ASIA/PACIFIC / MIDDLE EAST

1. Qantas Expands New York Service; APA Bid Uncertain.

Qantas will offer daily Boeing 747-400 flights to New York Kennedy from Sydney via Los Angeles, effective August 14. The Australian government said it would not oppose a proposed bid for Qantas by Airline Partners Australia (APA), but the deal was thrown into doubt when Balanced Equity Management, which owns about 4% of Qantas, said it would vote against the offer. UBS Nominees then raised its stake in Qantas to 10.4% from 8.94%. APA, led by Macquarie and Texas Pacific, needs 90% of Qantas shares for the takeover, and extended the share offer deadline to April 20.

2. Virgin Blue's Transpacific Plans Accelerate.

Virgin Blue accelerated plans for its long-haul operation, signing with Boeing for six B-777-300ERs and options for six additional aircraft, and with International Leasing Finance for a seventh B-777-300ER; the total aircraft commitment price is AUD\$2.6 billion. The new international airline, to launch in 2008, initially will focus on flights between Australia and the U.S. west coast. Virgin Blue has been working with the U.S. government on regulatory approvals.

3. Emirates, Etihad Win Increased Australian Service.

Australia and United Arab Emirates held talks that resulted in a doubling of service for Emirates Airlines by 2011, with an additional 35 weekly flights to Sydney, Melbourne, Perth and Brisbane. Etihad Airways will gain 21 weekly flights to Australia by 2011. Queensland-based Aviation Australia won a contract to support training Emirates engineering maintenance staff.

4. Tiger Airways Australia Obtains FIRB Approval.

Singapore-based Tiger Airways obtained formal approval from Australia's Foreign Investment Review Board (FIRB) to proceed with creation of its wholly owned subsidiary, Tiger Airways Australia. Domestic services are expected to begin later this year, upon certification by Australia's Civil Aviation Safety Authority. CEO Tony Davis said Tiger Airways Australia is negotiating with Australian airports for location of a principal operating base. Meanwhile, Tiger Airways began service to Perth in addition to its Singapore-Darwin flights.

5. Indonesia to Rate Safety of its Airlines.

An evaluation of Indonesian air safety found that none of the nation's airlines met all safety standards. A new three-category safety rating system gives Category 3 airlines three months to improve, or risk loss of operating licenses.

The assessment followed the January crash of an Adam Air Boeing 737 into the Makassar Strait, killing all 102 on board. On March 7, a Garuda Boeing 737 landing accident killed 21 people and another in February caused a fuselage to split in half, with no injuries reported. Newly appointed civil aviation chief Budi Mulyawan Suyitno said maintenance was a concern and that some airlines are leasing discounted, old planes that may not be airworthy. In related news, Garuda announced it has purchased 25 Boeing 737-800s.

6. New CEO for Cathay Pacific.

Cathay Pacific CEO Philip Chen was named Chairman of John Swire & Sons (China) Ltd., effective July 1, but will remain at the airline as Deputy Chairman. Tony Tyler, currently Cathay Chief Operating Officer of the airline, was promoted to CEO, and John Slosar, currently Swire Beverages Managing Director, will succeed Tyler. Swire Pacific owns 40% of Cathay Pacific.

7. China Southern, PIA to Code Share; PIA Chief Resigns.

China Southern and Pakistan International Airlines (PIA) entered a code share agreement for PIA-operated Islamabad-Beijing and China Southern-operated Urumqi-Islamabad service. In other news, PIA Chairman Tariq Kirmani resigned after the airline was added to the EU safety blacklist (see Section VIII) due to concerns about its ageing fleet.

8. Air China Partners with Columbia's Avianca.

Air China and Avianca signed an agreement enabling Air China to offer customers connecting itineraries between China and South America at market-leading fares. Bogota-based Avianca is part of the Synergy Aerospace group, which includes Brazil's OceanAir, Ecuador's Vip S.A. and Peru's Wayra. Last year, Air China launched Boeing 767 service from Beijing to Sao Paulo, via Madrid, initiating the first direct service between China and South America. Air China will increase frequency on its Beijing-San Francisco route to daily service, starting April 1, for its summer schedule. New nonstops between Beijing and Sapporo will begin April 18.

9. US Airways, Singapore to Code Share.

Star Alliance partners Singapore Airlines and US Airways will begin a code share in June, subject to government approvals. US Airways customers traveling to Singapore will connect on Singapore nonstops from Los Angeles and on to Asia Pacific destinations, including Indonesia, Malaysia and Thailand. Singapore Airlines customers traveling to Phoenix and Las Vegas can connect via Los Angeles or San Francisco on US Airways flights.

10. Air Asia Delays Launch of Long-Haul Budget Service.

Citing lack of suitable aircraft, Malaysia's Air Asia announced the delay of long-haul budget flights under the name of Air Asia X. Flights had been planned from July this year to the UK, India and China, but may not begin until August 2008. Air Asia CEO Tony Fernandes said service will start earlier if planes become available; Air Asia X had planned to lease up to fifteen Boeing 777s or Airbus A330s.

11. FBI Investigation at ANA Los Angeles Branch.

The FBI conducted an investigation at the premises of All Nippon Airways (ANA) Los Angeles Branch, reportedly in relation to violation of antitrust laws.

12. Continental to Begin New York- Mumbai Service.

Continental will launch daily Boeing 777-200 nonstops between Mumbai and New York Newark from October 31, subject to government approvals.

13. Air Arabia IPO Launched.

An initial public offering (IPO) of 55% of Air Arabia shares was listed on the Dubai Financial Market at an expected value of \$700 million, the largest offering in United Arab Emirate history. Sharjah-based Air Arabia, the first Middle Eastern carrier to go public, plans to expand its existing fleet from nine to at least 34 aircraft by 2016.

X. AMERICAS

1. US Airways Distributes \$58.7 Million in Profit Sharing.

US Airways distributed \$58.7 million to more than 35,000 employees, retirees and “furloughees” under its profit-sharing plan, which sets aside 10% of the airline's annual pretax profits; the airline posted a 2006 net profit of \$507 million, excluding special items). US Airways plans to retire its oldest jets and will order 60 aircraft by the end of April.

2. Northwest Reorganization Plan Approved.

A federal bankruptcy judge approved a disclosure statement by Northwest detailing its plan to exit Chapter 11, but required revisions related to worker compensation and information on equity compensation for managers. Northwest intends to exit bankruptcy by the end of June with an equity value of \$7 billion.

3. Delta Prepares for Bankruptcy Exit.

Delta says it will emerge from Chapter 11 in late April 2007 and expects its new stock listing in early May. Delta plans to distribute \$480 million in lump-sum payouts to non-union employees and all employees will participate in profit-sharing and other reward programs. CEO Gerald Grinstein declined all management equity awards, incentive payments and severance; he plans to retire when Delta's board selects a new CEO.

4. Mesa, Republic Amend Delta Agreements.

Mesa and Delta amended their existing Delta Connection agreement. Among provisions, Mesa will operate 14 CRJ-900 regional jets for up to 10 years in a new code share service expected to begin in September 2007; the aircraft will be owned by Delta and leased to Mesa. Mesa also flies 36 ERJ-145s for Delta. Republic Airways units Chautauqua and Shuttle America amended their fixed-fee agreements with Delta. Beginning in September 2008, all 15 Chautauqua-operated E135s will be removed from the Delta Connection program at a rate of two per month. Reimbursement on Chautauqua's remaining E145s and Shuttle America's E170s will be permanently reduced by 3%. Delta will surrender all warrants on 3.4 million shares of Republic Airways common stock. Republic will be granted a pre-petition, unsecured, general claim in the amount of \$91 million in Delta's Chapter 11 bankruptcy case.

5. JetBlue Names Russell Chew COO.

JetBlue named Russell Chew Chief Operating Officer (COO), responsible for the “safe and reliable operations of 550 daily flights to 50 cities in six

countries." Chew was COO of FAA for four years and led the System Operations Center of American Airlines, where he played a variety of roles for 17 years.

6. AirTran Extends Deadline for Midwest Bid.

AirTran Holdings extended its \$345 million hostile takeover offer to buy Midwest Air Group to April 11. In February, the Department of Justice closed its review of any impact on competition without challenge.

7. Canada's Air Industry Profits Rising.

Profits in Canada's air transportation industry will regain lost ground in 2007, due to lower fuel prices, according to study group Conference Board of Canada. Profits dropped more than 30% last year, from \$537 million in 2005, to \$372 million in 2006, but are expected to reach \$482 million in 2007 and steadily increase over the next four years. Very strong growth in domestic demand over the past two years is expected to moderate in 2007, but will remain at more than 5% per year over the next five years. Travel demand from non-Canadians has been much weaker, due to confusion over the implementation date of the security-based Western Hemisphere Travel Initiative and a strong Canadian dollar. With the implementation of the new passport rules for air travelers in January expected to further reduce the number of visitors from the United States, growth from foreign travelers will remain weak in 2007.

8. Canada Investigates Travel Companies.

Canada's federal Competition Bureau is investigating large travel companies, including Air Canada Vacations, and the Association of Canadian Travel Agencies for alleged illegal or anticompetitive behavior against Ottawa-based Go Travel Direct. Go Travel, which sells directly to the public, cutting out travel agents and cutting prices by 15% to 20%, says pressure from the large entities has led to lost business and cancellations.

9. Mexico Halts Azteca Operations.

Mexico suspended operations of Lineas Aereas Azteca after the Bureau of Civil Aviation (DGAC) determined the airline had not met basic security standards, mainly due to problems with maintenance and training. In addition, said authorities, Azteca's financial situation is compromised. Azteca has 90 days from March 26 to correct deficiencies. Azteca flew to Los Angeles and 19 Mexican destinations. Airport operator GAP said none of the routes operated at its airports were operated exclusively or dominated by Azteca and expected little impact from the suspension.

10. GOL Announces Acquisition of VRG

GOL will acquire Nova Varig (VRG), subject to approvals from Brazilian regulatory authorities. GOL and Varig will operate as independent companies with GOL maintaining its low-cost, low-fare business model, with a single-class of domestic and South American service. Varig will offer coach and business classes on long-haul international routes, and a single-class in the domestic market. GOL CEO Constantino de Oliveira Jr., said "GOL intends to provide Varig with the necessary ambition, management expertise, financial strength and cost base to compete with South American and world competitors." Varig was acquired in 2006 by an investment group, but has failed to shed financial problems and regain its former prominence.

11. Brazil's President Calls for End to Delays.

Brazil's President Luiz Inacio Lula da Silva called for a diagnosis of and solutions to the country's chronic airport delays and problems, including control-tower failures, a shortage of air traffic controllers and overbooking.

12. Brazil Investigates Air Cargo Cartel.

Brazil's Justice Ministry is investigating a possible cartel in the air cargo industry involving several international airlines, including American, Air France-KLM, Lufthansa Cargo, Alitalia, Brazil's Absa, Swiss WorldCargo and Brazil's VarigLog. Antitrust investigators are probing allegations that the carriers colluded to fix prices for international freight. A similar investigation is underway by U.S. and European antitrust investigators.

13. Pluna Privatized.

Uruguay flagship Pluna is being sold to a group of international investors led by Leadgate Investment Corporation. Leadgate, with Uruguayan investors, will hold a 75% stake, while the government retains the remaining 25%. There are plans to add five long-range and 15 regional jets to the fleet.

14. Aer Lingus Announces New U.S. Destinations.

See Section VIII, item 1.

15. Continental Plans London Heathrow Service.

See Section VIII, item 2.

16. British Airways Weighs in on U.S. Domestic Flights.

See Section VIII, item 3.

17. Qantas Expands New York Service; APA Bid Uncertain.

See Section IX, item 1.

18. **Virgin Blue's Transpacific Plans Accelerate.**
See Section IX, item 2.
19. **Air China Partners with Columbia's Avianca.**
See Section IX, item 8.
20. **US Airways, Singapore to Code Share.**
See Section IX, item 9.
21. **Continental to Begin New York- Mumbai Service.**
See Section IX, item 12.