



WASHINGTON AVIATION SUMMARY

August 2007 EDITION

CONTENTS

I.	REGULATORY NEWS.....	1
II.	AIRPORTS.....	5
III.	SECURITY.....	7
IV.	E-COMMERCE AND TECHNOLOGY.....	9
V.	NOISE AND ENVIRONMENT.....	10
VI.	U.S. CONGRESS.....	12
VII.	BILATERAL AND STATE DEPARTMENT NEWS.....	14
VIII.	EUROPE/AFRICA.....	15
IX.	ASIA/PACIFIC/MIDDLE EAST.....	17
X.	AMERICAS.....	19

For further information, including documents referenced, contact:

Joanne W. Young
Kirstein & Young PLLC
1750 K Street NW
Suite 200
Washington, D.C. 20006
Telephone: (202) 331-3348
Fax: (202) 331-3933
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.

©2007 Kirstein & Young PLLC.

I. REGULATORY NEWS

1. U.S. Carriers Apply for China Routes.

U.S. airlines are bidding for six new routes to China through 2009, made available in the recently revised U.S.-China bilateral. Applying to the U.S. Department of Transportation (DOT) are—

American: Chicago-Beijing (2009)

Continental: New York-Cleveland-Shanghai (2009)

Delta: Atlanta-Beijing; Atlanta-Shanghai (2008)

MAXjet: Los Angeles-Seattle-Shanghai, all-business class (2009)

Northwest: Detroit-Beijing; Detroit-Shanghai (2007 or 2009)

United: San Francisco-Guangzhou (2008); Los Angeles-Shanghai (2009)

US Airways: Charlotte-Philadelphia-Beijing (2009)

2. SkyTeam Carriers File Expanded Antitrust Immunity Application.

SkyTeam carriers Air France, Alitalia, CSA Czech Airlines, Delta, KLM and Northwest applied for antitrust immunity for transatlantic routings. Delta currently has the immunity with Air France, Alitalia and CSA, while Northwest with KLM. Included in the application is a joint venture agreement between Air France, Delta, KLM and Northwest, which, if approved, would allow the six carriers to operate like a single airline, coordinating closely on transatlantic marketing, pricing and schedules.

3. Five oneworld Partners Apply to DOT for Antitrust Immunity.

Five oneworld partners filed with DOT for antitrust immunity, effective March 30, 2008. The application seeks to allow American, Iberia, Finnair, Malev and Royal Jordanian to cooperate in code sharing, frequent flyer programs, route and schedule planning, advertising and marketing, pricing and yield management, revenue allocation, ground handling, cargo services, information technologies and distribution systems and other areas. "An alliance with antitrust immunity is of vital strategic importance and will help us remain competitive with other transatlantic alliances that already have such immunity," said American, adding, "The combined market shares of American and the other joint applicants are comparable or well below the transatlantic market shares of immunized members of the competing Star and SkyTeam alliances." Each of the joint applicants will retain its own separate and independent corporate and national identity under the proposed application. Other oneworld partners are: British Airways, Cathay Pacific, Japan Airlines, LAN and Qantas.

4. **DOT Grants British Airways Authority to Serve Any U.S. City.**

DOT granted British Airways blanket authority to serve any point in the United States from any point in the European Union (EU), upon implementation of the U.S.-EU open skies agreement next March. British Airways was the first Europe-based carrier to file for the blanket authority and, said CEO Willie Walsh, may launch direct flights from the U.S. to major business centers in continental Europe, bypassing London and the UK altogether; this would be the first time the carrier would operate long-haul flights that neither take off nor land in the U.K. Protesting the decision, US Airways said that since the U.S.-EU agreement does not become effective until next year, the grant would enable British Airways to exploit further its presence at London Heathrow, while U.S. carriers remain barred from entry, undermining the goals of the U.S.-EU agreement. However, DOT found that the open skies agreement favored the authority requested by British Airways.

5. **Virgin Blue Files for Australia-U.S. Route Authority.**

Virgin Blue filed an application with DOT to operate 10 weekly Boeing 777-300ER flights from Australia to points in the United States, beginning late next year. Application is for a new long haul international airline, V Australia. Virgin Blue has received Australian regulatory approval for the services.

6. **FAA Raises Safety Rating for Dominican Republic.**

The U.S. Federal Aviation Administration (FAA) announced that the Dominican Republic complies with international safety standards set by the International Civil Aviation Organization (ICAO), following a reassessment of the country's civil aviation authority in April, and raised its safety rating from Category 2 to Category 1. A Category 2 rating means a country lacks regulations necessary to oversee air carriers in accordance with minimum international standards, or that its civil aviation authority is deficient.

7. **FAA Plan Would Cut East Coast Delays by 20%.**

An FAA plan that would cut East Coast airline delays by 20% within the next 18 months is scheduled to be finalized in August. Ten years in the making, due to noise concerns, the plan would change some flight patterns by redesigning airspace over New York, Philadelphia and New Jersey. In other news, FAA and the National Air Traffic Controllers Association (NATCA) signed an employment agreement covering 1,200 Engineers and Architects who are responsible for the planning, design and installation of facilities, systems and equipment to ensure the safety of the National Airspace System.

8. DOT Seeks Comment on Airline Bumping Rule.

DOT issued five proposals for rules governing airline oversales. The proposed rules would (1) require carriers to triple current compensation limits for passengers involuntarily bumped from flights; (2) eliminate all compensation limits and make compensation equal to the value of the ticket with the payment doubling for longer delays; (3) leave current limits in place; (4) extend the current rule to aircraft having 30 to 60 seats; (5) clarify criteria airlines use in deciding the order in which passengers will be bumped. Among more than 550 million passengers boarding major U.S. carriers and their affiliates in 2006, 56,000 were denied boarding. In first quarter 2007, the largest U.S. carriers posted a bumping rate of 1.45 per 10,000 passengers, compared to a rate of 1.31 during first quarter 2006.

9. DOT Air Travel Consumer Report for May.

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

	May '07 / '06	April '07	Full Year			
			2006	2005	2004	2003
On-time arrivals %	77.9 / 78.3	75.7	75.4	77.4	78.1	82
Cancellations %	1.1 / 1.2	1.8	n/a	1.87	1.56	1.79
Mishandled baggage*	5.93 / 4.94	6.32	6.73	6.64	4.91	4.19
Consumer complaints:						
Airline service	929 / 624	1,246	8,321	8,741	7,452	5,983
Disability-related	34 / 39	41	427	511	521	375
Discrimination**	4 / 12	13	114	129	118	85

* Reports per 1,000 passengers.

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

10. Carriers Awarded Government Contracts.

U.S. General Services Administration awarded one-year contracts to domestic carriers to cover federal workers traveling on official business, effective October 1: United (\$661.1 million), American (\$389.7 million), Delta (\$370.5 million), US Airways (\$314.7 million), Alaska (\$54.5 million), Northwest (\$35.8 million), AirTran (\$36.5 million), Frontier (\$17.4 million), ExpressJet (\$8.8

million), Midwest (\$4.1 million), JetBlue (\$2.9 million), Mesa (\$2.5 million), ATA (\$756,486) and North American (\$223,205).

11. NTSB Urges FAA Action on Takeoff Procedure.

The National Transportation Safety Board (NTSB) urged FAA to aggressively enforce safety recommendations issued after a Comair crash last August that killed 49 people. In its investigation, NTSB found that the pilots steered the plane onto an unlit runway at Lexington's Blue Grass Airport that was too short for takeoff by a commercial jet. NTSB recommended that pilots cross-check a plane's runway location before takeoff, and FAA provided nonbinding advisory information. NTSB has since found several operators that have not established recommended procedures. FAA said it is in the process of turning the advisory into a mandatory rule for airlines.

II. AIRPORTS

1. Sao Paulo Congonhas Threatened With Closure.

In the wake of Brazil's worst airline tragedy, prosecutors were attempting to force closure of Sao Paulo Congonhas International, as Brazil's airport authority instead called for a reduction in the airport's 600-plus daily takeoffs and landings. Emergency measures taken include: hub operations will cease at Congonhas within 60 days; the airport will handle mostly shuttle operations from Rio de Janeiro and other regional nonstops; charter and private flights will be restricted; many flights will be diverted to Sao Paulo's Guarulhos International and Viracopos, which is 50 miles from Sao Paulo. Additionally, a new airport will be constructed for the Sao Paulo area, which has a population of nearly 20 million. All 186 people on board and at least 12 on the ground were killed when a TAM Airbus 320 slid off a runway during landing and crashed into an office building and gas station. Safety concerns about Brazil's busiest airport have long been voiced by airlines and air traffic controllers, who say its two runways are too short for large planes. The plane's flight data recorder was recovered and analysts will determine whether mechanical failure or pilot error played a role in the crash. TAM Chairman Marco Antonio Bologna said the A320, added to the fleet last December, "operated in perfect maintenance and airworthiness conditions. It had 26,320 flight hours and was conducted by a very experienced crew."

2. Ocean-Based San Diego Airport Proposed.

OceanWorks Development is seeking exclusive rights to the Southern California Bight for the purpose of developing, building and operating an international airport 10 miles off the San Diego coastline. The company said its Notice of Claim to the 40,000 sq. mile area was prompted by San Diego Airport Authority's failure to find a suitable site for a new airport. An initiative put forth by the Authority seeking public support for locating the airport at Marine Corps Air Station Miramar was opposed by the military and environmentalists and defeated by voters. "The offshore option is the best and apparently the only viable one for San Diego," said OceanWorks CEO Adam Englund. "We aim to make it the most secure, self-sustaining, economically vibrant and greenest airport ever built."

3. Mexico Plans Three New Airports.

A newly announced \$37 billion public works program in Mexico includes funds for the construction of three new airports and the expansion of 31 others. Transport Minister Luis Tellez said economic growth and technological

advancements are enabling the government to make a major effort to modernize the country's infrastructure.

4. BAA to Sell Duty Free Operations.

British airport operator BAA, a division of Spain's Ferrovial, reportedly is selling its duty free operations so it can focus on improving airport conditions. Heathrow CEO Tony Douglas resigned as BAA faced criticism regarding service and security issues at its airports. In other news, Ferrovial appointed Per Utnegaard as the new President and CEO of airport service provider, Swissport Group, effective September 1. He succeeds Santiago Olivares, who was named CEO of Ferrovial Servicios.

5. Moscow Airport Competition Intensifies.

Star Alliance partners are moving Moscow operations from Sheremetyevo to Domodedovo (DME), which also is working to attract oneworld airlines. Moscow airports DME, Sheremetyevo and Vnukovo can expect to generate up to 15 million new passengers in the next three years, DME Director Sergey Rudakov told *Air Transport World*, and easy transfers will be a key component of future airport competition.

6. Singapore, China Form Airport Joint Venture.

Singapore's Changi Airports International (CAI) and China's Shenzhen Airport Group (SAC) formed a strategic partnership to develop regional airports across China. CAI will hold a 49% stake in the joint venture and Shenzhen 51%. They will identify and invest in medium-size Chinese airports with strong growth fundamentals and participate in their management. CAI already has a 29% stake in Nanjing Lukou International Airport, the first private equity airport investment in China by a foreign investor, and consults on other airport projects in China. Passenger traffic in China reached 320 million in 2006 and is expected to grow 15% to 20% per annum over the next decade.

7. Auckland Airport Supports Dubai's \$2 Billion Offer.

Directors of Auckland International Airport (AIA) endorsed a proposal by Dubai Aerospace Enterprise (DAE) to acquire a 51% - 60% stake in AIA for US\$2 billion and become a strategic partner. The offer is conditional on approval from New Zealand's Overseas Investment Board and shareholders. State-backed DAE also faces New Zealand political opposition and potential counter-offers. In other AIA news, the airport will increase landing charges by 2.5% annually for the next five years from September 1, to cover improvement and security expenses; Air New Zealand is disputing the increase.

III. SECURITY

1. EU Approves PNR Exchange Accord.

EU member states approved a new agreement with the U.S. regulating the exchange and storage of passenger name record (PNR) data. The accord replaces an interim agreement signed last October and will be valid for seven years. The U.S. is providing assurances on how the data will be handled, said an EU statement, and will ensure protection of passengers' personal data in line with European standards on fundamental rights and privacy. On January 1, 2008, EU airlines will begin to push PNR data in their reservation systems to the U.S. Department of Homeland Security (DHS); previously, DHS pulled the data from airlines' systems. The data will be retained in an active database by DHS for up to seven years and can be used by U.S. authorities only for preventing and combating terrorism and other transnational serious offenses. Members of the European Parliament continued to voice concerns about the agreement.

2. EU Chief Justice Seeks EU-Wide PNR System.

New anti-terrorism measures are being drafted by EU Justice and Home Affairs Commissioner Franco Frattini, including a plan that would oblige each EU nation to have an airline PNR system which would merge into an EU-wide system. Spurred by recent terrorist activity, Frattini will present EU justice and interior ministers with proposals in October.

3. TSA Lifts Ban on Breast Milk, Lighters

The Transportation Security Administration (TSA) removed the ban on carry-on disposable butane lighters, such as Bics, and refillable lighters, like Zippo, effective August 4; torch-style lighters will still be banned. In addition, travelers may bring more than three ounces of breast milk onto an airplane; under current rules, the passenger carrying that amount of milk must be accompanied by an infant, but the new rules drop that requirement. TSA said the policy changes allow screeners to concentrate on detecting explosive threats. The agency collects more than 22,000 lighters a day. "The United States previously had been the only nation in the world to prohibit lighters from carry-ons," said TSA. "Lifting this ban is another step in our efforts to harmonize security measures with international partners."

4. Airports Warned of Terrorist "Dress Rehearsals."

TSA alerted airport security officers, federal air marshals and other law enforcement agencies to possible practice activity by terrorists carrying explosive components onto aircraft. Since last September, seizures have been

made at airports in San Diego, Milwaukee, Houston and Baltimore of "wires, switches, pipes or tubes, cellphone components and dense clay-like substances," said TSA. "The unusual nature and increase in number of these improvised items raise concern." When the alert became public, TSA said there was no credible, specific threat. But the bulletin said a joint FBI-Homeland Security Department assessment found that terrorists have conducted probes, dry runs and dress rehearsals in advance of previous attacks, including the 9/11 attacks on the World Trade Center and Pentagon.

5. Security and the Corporate Traveler.

Responding to "a world that increasingly requires corporations to immediately locate employees in times of world events—whether they are terrorist events or natural disasters," Sabre Travel Network has launched Traveler Security and Data Suite. The interactive, Web-based application enables companies and agencies to quickly locate travelers worldwide, says Sabre, "providing insight through historical and advanced-booking reports." A survey by business risk consultancy Control Risks found that 80% of U.S. business travelers think their company has a legal obligation to ensure their safety on international business trips; 46% say their company has no clear travel security policy; and 52% would consider legal action if they were not supported properly. Corporations should adopt travel security policies and procedures or review their current programs for three basic components: information, tracking and 24-hour support, says Control Risks.

IV. **E-COMMERCE AND TECHNOLOGY**

1. **Airlines Launch Joint Corporate Travel Web Site.**

SkyCorp Direct, an online corporate travel management tool, was launched jointly by Continental, Northwest and Delta. SkyCorp Direct provides access to airline, hotel and car rental content and can be customized to accommodate a company's specific travel policies. Employees can create individual travel profiles, including preferred airlines, hotels, and car rentals. Bonus miles are automatically credited to travelers. There is no fee for booking on the three sponsor carriers; there is a \$5 booking fee for other carriers.

2. **American Rolls Out Online Deal Finder.**

American Airlines is launching an Internet tool that alerts customers when it finds a match for their desired fare for a destination on specific travel dates. The system also sends targeted offers to users based on their set preferences. DealFinder is part of a newly designed Web site that allows customers to view and compare trip components such as air, hotel, car and activities, and then see how their choices affect the pricing.

3. **Carlyle to Buy ARINC.**

Annapolis-based ARINC, a major provider of communications technology to the aviation and other industries, will be acquired by the Carlyle Group, a private-equity firm based in Washington, DC. The transaction is expected to close in the third quarter, pending regulatory approval. Airlines own 90% of ARINC, which was founded in 1929 to coordinate radio communications for the commercial airline industry.

4. **Many Travelers Return to Agents.**

Forrester Research says 77 million American adults who use the Internet and take at least one trip a year will buy tickets online this year, up from 62.4 million in 2005. But many travelers want personal service, reports the *New York Times*, and are returning to traditional travel agents, which until the mid-1990s booked 75% of airline tickets. Forrester says 64 million people buy their travel offline, and bricks-and-mortar travel agents continue to outsell online travel agents for most airlines and hotels. Major travel companies like Atlas and the Travel Store have reported significant growth since 2005.

V. **NOISE AND ENVIRONMENT**

1. **Duluth Sky Harbor Seeks to Protect Old Growth Forest.**

FAA awarded a \$304,000 planning grant to Duluth Sky Harbor Airport, to help authorities find a way to protect old growth forest next to its runway. The airport is safe for landings in good visibility, but a wider approach vector is needed for instrument landings at night or in poor weather. Over 100 trees in the instrument landing zone may have to be cut down. Alternatives include a possible relocation of the runway.

2. **Birmingham Residents Want Buyouts.**

Birmingham (Alabama) International Airport acquired hundreds of nearby properties through FAA's Noise Compatibility Program, in preparation for a 2,000 ft. runway extension that rolled out in July. Now remaining residents say noise and other factors related to the 12,000 ft. runway makes it impossible for them to stay in their homes and have appealed to the city to buy their properties. Birmingham city leaders say the airport is responsible for such buyouts, using federal, not city money. Some \$15 million has been received from FAA for land acquisition since 2001, said Birmingham Airport Authority.

3. **Biofuel Research Underway.**

Boeing and Air New Zealand reportedly are working with New Zealand-based Aquaflow Bionomic Corporation to create eco-friendly aviation fuel from wild algae harvested from open-air environments, said the *Sydney Morning Herald*. Air New Zealand will make an aircraft available on the Tasman to test the biofuel on one engine, while standard aviation fuel would drive the other engine. Boeing believes algae is the airline fuel of the future, reportedly saying that algae ponds totaling 34,000 square kilometers could produce enough fuel to reduce the net CO₂ footprint for all of aviation to zero. Aquaflow's previous focus has been on biodiesel for cars, trucks, buses and boats.

4. **Branson Dreams Green.**

In an interview with *Newsweek*, Virgin CEO Richard Branson said chances of coming up with an alternative, clean jet fuel in the next five years are "pretty good." Virgin invests all airline profits into developing alternative fuels and is working with General Electric and Boeing to develop a clean fuel capable of flying 747s sometime next year. "There is enough sugar in this world to replace all of Europe and America's conventional fuel with sugar-based ethanol," said Branson, who personally has pledged \$3 billion to fight global warming. As for criticism of ethanol because producing it requires fossil fuels, Branson said, "It's absolute bollocks for people to say that. Even corn-based

ethanol, which is about six times less efficient than sugar-based, still saves 50% CO₂ compared to conventional dirty fuels. Cellulosic butanol—which uses switch grass and rubbish—will be the next step.” And can space tourism, another Branson passion, be eco-friendly? “One day, space travel may even be able to help stop global warming,” Sir Richard said. “Within my lifetime, I hope Virgin will develop airplanes that will be able to send you from London to Australia in half an hour by pushing you out of the Earth's atmosphere and then back down again—with almost no pollution. And if we could bring a spaceship full of helium 3 back from the moon's surface, we could power America for a year. It sounds like pie in the sky, but it's worth dreaming about.”

VI. U.S. CONGRESS

1. FAA Funding Bill Advances.

The House Transportation Committee cleared a \$65 billion FAA reauthorization bill, which provides \$16 billion for the Airport Improvement Program, \$13 billion for facilities and equipment and \$37 billion for FAA operations. An amendment would force FAA and air traffic controllers to negotiate on pay and benefits. The bill does not include a user fee, unlike its Senate Commerce Committee counterpart, which in May introduced a \$25-per-flight user fee to fund FAA modernization. As part of its aggressive Smart Skies campaign to shift some user fee burden to corporate and general aviation, the Air Transport Association (ATA) proposed an FAA funding plan to Congress that would separately pay for air traffic control and the Airport Improvement Program. ATA suggests an equal split between a flat departure charge and a fee based on passenger distance traveled. The proposal would charge airlines for services actually used; the airline share would be calculated from FAA's comprehensive cost-allocation study.

2. Bill to Ease Passport Backlog Passed.

The House and Senate approved bills that streamline the process for the State Department to rehire retired foreign service employees to handle a backlog of passport applications and waives rules that deny pension payments to retirees returning to work when they exceed strict wage and hour caps. Applications were expected to approach 18 million this year due to a new law requiring passports for travelers returning by air from Canada, Mexico, the Caribbean and Bermuda. By summer, more than 2 million citizens were waiting for passports for such travel; half a million had waited more than three months; the wait, historically, has been six weeks. Assistant Secretary of State Maura Harty has stepped forward to accept blame for the situation.

3. Passenger Rights Addressed in Bills.

FAA funding bills from both House and Senate committees include protective measures for passengers. The House bill requires airlines to develop flexible gate-sharing policies, as well as contingency plans for how food, water, restroom facilities, cabin ventilation and access to medical treatment would be provided to passengers stranded on airplanes for extended periods. Senate legislation would give passengers the right to leave a sitting plane after three hours unless the airline has filed its own plan for deplaning procedures with FAA. The Coalition for Airline Passengers' Bill of Rights (CAPBOR) applauded Senate approval of a \$2.5 million budget increase for DOT's Airline Customer Service Regulatory Office starting fiscal year 2008. Meanwhile, most airlines

have filed flight delay contingency plans with DOT, since a number of incidents triggered the latest move toward a passenger bill of rights.

4. Fred Smith Defends FedEx Classification Before Senate Panel.

FedEx CEO Fred Smith testified before a Senate subcommittee regarding an effort to remove FedEx Express truck drivers from the jurisdiction of the Railway Labor Act, which regulates collective bargaining for air and rail workers on a nationwide basis. A House version of the FAA reauthorization bill would allow drivers to vote locally to join unions, rather than having to hold a national election. This would be "terrible public policy . . . We object very much for the insertion of language that affects only one company, and that's FedEx Express," Smith said. "FedEx Express has been under the Railway Labor Act since its inception when I formed the company in 1971." Separately, Smith was inducted into the National Aviation Hall of Fame in Dayton, Ohio.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. EU-U.S. Open Skies Threatened.

European Transport Commissioner Jacques Barrot wrote to DOT Secretary Mary Peters and Congressman James Oberstar, Chairman of the House Transportation Committee, to protest a House proposal to preserve airline ownership and foreign control rules. Barrot warned the move could have a serious impact on the EU-U.S. open skies agreement reached in April and on upcoming second stage negotiations regarding limits on foreign investment in U.S. airlines. U.S. Deputy Assistant Secretary of State John Byerly, seeking to lessen the tension, said the proposed legislation was unlikely to limit future agreements between U.S. airlines and foreign companies; Byerly was the lead U.S. negotiator of the open skies accord. In related news, the UK warned that without further liberalization of U.S. ownership and foreign control rules, it would withdraw from the open skies negotiations.

2. Iceland, Canada Sign Open Skies Agreement.

Iceland and Canada signed an open skies agreement to permit scheduled air services for passenger and all-cargo traffic between the two countries, effective immediately. The new agreement replaces a Memorandum of Understanding on Air Services that has allowed operations to Canada by Icelandair since 1995. Icelandair will initiate five to seven weekly Toronto-Reykjavik flights next spring. Additional Canadian gateways are under consideration. Icelandair operates 160 flights per week to 25 cities in North America and Europe via its hub in Reykjavik.

VIII. EUROPE/AFRICA

1. EU Airlines Lose Block Exemptions.

The European Commission (EC) did not renew block exemptions for IATA passenger tariff conferences for routes between EU and non-EU countries. Tariff conferences allow airlines to agree on prices for multi-leg flights on the same ticket that use more than one carrier. The antitrust exemption expired on June 30 for routes between the EU and the U.S. or Australia and will end October 31 for routes to other countries; it ended in January for flights within Europe. "IATA has not supplied data that would allow the Commission to conclude that an exemption would continue to benefit passengers," said the EC. IATA is developing a new interlining system to replace passenger tariff conferences that will not be covered by a block exemption. "It will be for IATA and individual carriers to ensure that their agreements are compatible with the competition rules," said the EC.

2. Alitalia Bidding Collapses.

Italy shut down the seven-month auction for Alitalia after all bidders dropped out, and said liquidation of the airline was a possibility. The government was said to be working on a contingency plan and considering opening direct talks with former bidders, which included Aeroflot, Italian carrier Air One, and a consortium of U.S. private equity groups TPG and MatlinPatterson. The EC has vetoed further state aid to Alitalia.

3. Air France KLM Considers Iberia Bid.

Air France KLM expressed interest in Iberia, which is the object of a bid by a consortium led by private equity company TPG. British Airways, which owns 10% of Iberia, is in that consortium.

4. Enders Named Airbus CEO.

In a management restructuring that dispenses with Franco-German co-leadership positions, Thomas Enders, former German co-CEO of European Aeronautic Defense and Space (EADS), was named sole CEO of Airbus. French co-CEO of EADS Louis Gallois becomes the sole CEO of EADS. Arnaud Lagardère, EADS French Co-Chairman, ceded his post to German counterpart, Rüdiger Grube, in a five-year national rotation scheme. In his new position, said Airbus, Tom Enders will continue a restructuring program aimed at turning around the company and ensuring the future competitive position of Airbus. In other news, Dubai International Capital (DIC) took a 3.12% stake in EADS. The investment arm of the Emirate's ruling family, DIC said it will not seek a Board seat or take an active operating role.

5. Lloyd Paxton Named Malev CEO.

Lloyd Paxton was named Malev CEO, effective immediately, replacing Janos Gonci. A British citizen, Paxton worked at British Airways for 35 years and later founded Kazakhstan's Air Astana. Gonci saw Malev through its privatization process and attaining oneworld membership and remains a member of the Malev Board of Directors.

6. American to Shift Some Flights to Heathrow.

American will begin New York Kennedy-London Stansted flights in October, and add additional service next spring. The carrier will move some Gatwick flights to Heathrow next March, i.e., one of two daily Dallas-Fort Worth roundtrips and its daily Raleigh-Durham service.

7. United, Croatia Sign Code Share Agreement.

A new agreement allows United to offer code share flights to the Croatian cities of Zagreb, Split and Dubrovnik, and Croatia Airlines to Washington Dulles, San Francisco, Los Angeles and Chicago. It is the first intercontinental agreement signed by Croatia Airlines, a regional member of Star Alliance.

8. Airline-Style European Rail Alliance Underway.

European rail companies and their high speed subsidiaries are forming an airline-style alliance, Railteam, which will link reservations systems to create a seamless network by 2009. Railteam will offer improved schedule coordination and a rewards program. Company promotion forecasts 25 million international travelers by 2010.

9. DOT Grants British Airways Authority to Serve Any U.S. City.

See Section I, item 4.

10. Austrian, Air China Partnership.

See Section IX, item 2.

11. Air France-KLM, China Southern Discuss Cargo Joint Venture.

See Section IX, item 3.

12. TAP Launches Lisbon-Brasilia Service.

See Section X, item 10.

IX. ASIA/PACIFIC / MIDDLE EAST

1. Air China, Air New Zealand Offer Multi-Country Code Share.

A new pact will allow Air China to code share on Air New Zealand flights between Shanghai and Auckland and on some flights between Australia and New Zealand, as of July 1. Star Alliance partner Air New Zealand will code share on Air China's flights from Beijing and Shanghai to Sydney and Melbourne. The carriers last year agreed to reciprocal frequent flyer programs. Air China will become a full Star Alliance member later this year.

2. Austrian, Air China Partnership.

A new Austrian Airlines-Air China partnership allows Austrian to offer 42 new weekly flights via Beijing to Shanghai, Wuhan and Guangzhou. Austrian recently shuttered its Shanghai route as part of a major restructuring.

3. Air France-KLM, China Southern Discuss Cargo Joint Venture.

Air France-KLM and China Southern agreed to have exclusive discussions on the creation of a cargo joint venture in China. The carriers already cooperate in both passenger and cargo services, connecting their major hubs in Europe (via Paris and Amsterdam) and China (via Beijing, Shanghai, Chengdu and Guangzhou). Separately, China Southern signed an agreement with SkyTeam to begin the process of gaining membership.

4. Gulf Air CEO Andre Dose Resigns.

Gulf Air Chairman Mahmood Hashim Al Kooheji announced the departure of President and CEO Andre Dose, a former CEO of both Crossair and Swiss, who joined Gulf Air in April and initiated a major restructuring program. Meanwhile, ownership of Gulf Air, which was formerly held by several emirates, is being transferred to Bahrain solely, with oversight by government-controlled Bahrain Mumtalakat Holding Co. The company earlier announced it was cooperating with a Bahraini criminal investigation into unnamed irregularities.

5. Qatar, United Propose Code Share.

Qatar Airways filed a joint application with United to code share on United flights to more than 50 U.S. cities from United's Washington hub, and on United transatlantic flights from London Heathrow, Paris, Zurich, Rome and Munich to Washington, Los Angeles, San Francisco and Chicago. Qatar began Airbus A340-600 service from Doha to Washington Dulles, the first daily nonstop service to Washington by a Middle Eastern carrier, and in June began flights to New York Newark via Geneva.

6. Britain Bars Iranian Airline Operations.

Iranian airline Mahan Air was barred from operating in Britain by the UK Department of Transport, due to safety concerns. The carrier flies five weekly services between Tehran and Manchester. British authorities said recent incidents suggest a poor level of operational control, planning and safety management at Mahan Air. The Department for Transport said it will work with EU and other partners to help Air Mahan correct deficiencies.

7. Air India Increases U.S. Service.

Air India will introduce direct nonstops between Mumbai and New York from August 1, between New Delhi and New York in February and between Bangalore and San Francisco by mid-2008. The Boeing 777-200LR Worldliner services will offer improved inflight amenities for business travelers.

8. Continental, Kingfisher Announce Partnership.

Continental and Kingfisher Airlines have entered into a comprehensive partnership for frequent flyer and airport lounge access reciprocity and code sharing between the U.S. and India. Continental has operated daily nonstops between New York Newark and Delhi since 2005 and will launch daily New York-Mumbai nonstops on October 1. By yearend, Continental will begin placing its code on Kingfisher flights connecting to Continental's daily flights to India, with single check-in, electronic ticketing, boarding passes and checked baggage to final destination. Two-year old Kingfisher operates 187 domestic flights a day; Chairman and CEO is Vijay Mallya.

9. U.S. Carriers Apply for China Routes.

See Section I, item 1.

10. Virgin Blue Files for Australia-U.S. Route Authority.

See Section I, item 5.

X. AMERICAS

1. Airline Costs Rise 10.6% in First Quarter.

U.S. passenger airline costs rose 10.6% in first quarter 2007, over first quarter 2006, principally due to a 12.6% cost surge in fuel, reports ATA. "Fortunately, airlines were able to compensate with a 16.7% improvement in fuel efficiency and continued vigilance on other controllable items," said ATA. The three largest cost components were labor (24.5%), fuel (23.4%) and transport-related expenses (13.9%).

2. Virgin America Opens Ticket Sales.

San Francisco-based Virgin America began selling tickets for travel from August 8 through February 12, 2008, to New York Kennedy, Los Angeles International, Washington Dulles and Las Vegas, with one-way fares as low \$44. A cyber attack prevented early Web site sales, but the feisty carrier had restored service by afternoon. Separately, in deference to U.S. concerns about his involvement in Virgin America, UK entrepreneur and Virgin founder Richard Branson reportedly will not attend "star-studded" launch festivities.

3. Delta Reports \$1.77 Billion Q2 Profit; Grinstein Ready to Step Down.

Delta, which emerged from bankruptcy in April, reported a second-quarter net profit of \$1.77 billion, compared with a loss of \$2.2 billion a year before. CEO Gerald Grinstein said his successor will be named by the end of the summer.

4. Continental to Reduce Capacity Growth.

Excluding a special charge of \$7 million for pilot pension plan settlement charges, Continental posted second quarter 2007 net income of \$235 million, up 13% over same period last year, helped by strong international revenue growth. Domestic profits were weak due to low-fare competition, said the carrier, which will reduce 2008 capacity growth.

5. Kelleher, Barrett to Exit Southwest Next Year.

Southwest founder Herb Kelleher will step down from his Executive Chairman post next May, as will President Colleen Barrett. Gary Kelly's CEO contract expires February 1, 2011. Southwest reported record second quarter revenues of \$2.6 billion, up 5.5%, while net income was down 28.6%. Among initiatives underway "to adapt to higher jet fuel cost levels," said Kelly, are a fleet acquisition adjustment and a voluntary early-out program for 8,700 flight attendants, baggage handlers and other employees, which includes \$25,000 in cash and health and dental benefits. The company has about 33,000 employees; more than 1,000 took buyouts in 2004.

6. American, United Upgrade Long-Haul Premium Cabins.

American is upgrading B-777 business-class cabins with highly-adjustable seats that almost recline and other amenities. First class cabins without "Flagship Suites" will receive them; the suite includes a seat that transforms into a fully flat six-foot, six-inch bed, privacy dividers and satellite phones. United is installing fully lie-flat beds in first and business class cabins of the carrier's fleet of 97 B-767, 747 and 777 aircraft; the new suites will be introduced this fall with completion of the entire modification expected in late 2009. Long-haul competitors that already offer similar amenities include Virgin Atlantic, British Airways and the newer, all-business class Eos and MaxJet.

7. Regionals Go for Gold.

Airlines are offering first-class seats, roomier cabins and amenities like hot food in some regional service, believing that business travelers will pay a premium for an improved flight experience, especially since new regional jets cover longer distances. An Associated Press report finds that Northwest 76-seat Bombardier CRJ900s and Embraer 175s, to be operated by Mesaba and Compass, sport 12 first-class seats and roomy cabins. The CRJ900 has 6 feet 2 inches from floor to ceiling in the aisle and large windows. Delta will fly 77 dual-class regional jets by the end of 2008, and United regionals now fly about 115 70-seat jets with coach, first-class and an Economy Plus seat with extra legroom. During bankruptcy proceedings, Northwest, Delta and United won concessions from pilots expanding the number of jets they can fly in the 70-seat range. American Eagle operates only 25 jets with 70 seats, none first class but could fly up to 50. Continental is prevented from operating regional jets with more than 50 seats, unless flown by higher-paid mainline pilots.

8. Beddoe Steps Down as WestJet CEO.

Clive Beddoe will step down as WestJet CEO on September 4, as Sean Durfy becomes President and CEO. Beddoe, founder of the Canadian discount airline, will become Executive Chairman.

9. Latin American Passenger Traffic Climbs 9.1% in May.

Latin American Air Transport Association said its member airlines carried 8.5 million passengers in May, up 9.1% from last year. Traffic and capacity increased 5% and 5.4%, respectively, reducing load factor to 67%, 0.3% less than in the previous year. Excluding Varig, passengers carried, traffic and capacity increases during May were 15.7%, 20.2% and 20.5%, respectively, while load factor was reduced by 0.2%. Number of passengers reached 41.8 million in the January-May period, up 8% over same period 2006. Freight ton kilometers grew 7.5% in May, but were down 0.5% year-to-date.

10. TAP Launches Lisbon-Brasilia Service.

TAP Portugal began Lisbon-Brasilia service, the first direct flight to Brazil's capital from Europe. The five weekly Airbus A330 flights had over 25,000 initial reservations said TAP, a Star Alliance member.

11. GOL, Aerolineas Argentinas Enter Interline Agreement.

A new interline agreement allows passengers traveling on Aerolineas Argentinas to purchase tickets through the airline or participating travel agencies for all 58 destinations served by GOL in Brazil and South America. GOL has similar agreements with Continental and Delta, but does not sell tickets for partner airlines' flights. In other news, BRA and OceanAir asked the government to limit the number of routes that can be flown by VRG, which was acquired by GOL in March and still holds Varig rights to many lucrative routes.

12. Brazil's Airlines Suffer Massive Disruptions.

Hundreds of flights scheduled for Sao Paulo Congonhas were cancelled or seriously delayed after the deadly TAM crash, leading GOL to advise its customers to postpone flying. Ultimately, the government froze ticket sales for the airport. Even before the accident, Brazil's airlines had sued the government for compensation for losses suffered as a result of an air traffic controllers' slowdown during the last 10 months, leading to massive flight delays and cancellations. Airlines estimate related losses of at least \$70 million, due to loss of passengers who find other means of travel, and increased operating expenses, such as extra fuel as planes wait in holding patterns and extra catering expenses for passengers who are delayed.

13. American to Shift Some Flights to Heathrow.

See Section VIII, item 6.

14. United, Croatia Sign Code Share Agreement.

See Section VIII, item 7.

15. Qatar, United Propose Code Share.

See Section IX, item 5.

16. Air India Increases U.S. Service.

See Section IX, item 7.

17. Continental, Kingfisher Announce Partnership.

See Section IX, item 8.