



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. DOT Proposes Rules to Protect Passengers.

The U.S. Department of Transportation (DOT) proposed regulations to protect airline passengers, which President Bush said would be in effect by the 2008 summer travel season. The proposals seek to: Double the amount of compensation passengers receive when they are involuntarily bumped from overbooked flights; e.g., a passenger forced to wait more than two hours for another flight would receive a minimum of \$800, instead of the current \$400. Require airlines to collect and provide DOT with better data on sources of flight delays. Require airlines to create legally binding contingency plans for extended tarmac delays, respond to all consumer complaints within 30 days, publish complaint information online, and provide on-time performance information for international and domestic flights. The Federal Aviation Administration (FAA) also will provide consumers with real-time updates online on flight delays. Passenger rights language is included in pending House and Senate FAA reauthorization bills.

2. Military Airspace Eases Holiday Congestion.

To ease congestion during the Thanksgiving holiday period, the Administration opened some military airspace along parts of the East Coast to commercial flights. In addition, FAA made operational adjustments, such as new procedures that increasing the number of planes that can land at New York Kennedy and Newark airports in bad weather and implementing a moratorium on non-essential maintenance. Airlines made more staff available to expedite check-in and boarding and set aside extra seats and planes to help accommodate passengers affected by cancellations and delays caused by weather and holiday congestion.

3. Carriers Fined for Failing to Disclose On-Time Performance.

DOT assessed a civil penalty against Delta for failing to provide information requested by consumers on on-time arrival performance; the order covers violations by Delta Connection units Comair, Atlantic Southeast and SkyWest. Delta was ordered to cease and desist from further violations and assessed a civil penalty of \$115,000. Similar actions were taken in October against Hawaiian (\$50,000) and JetBlue (\$30,000). "As we take new steps to reduce delays and improve air travel for passengers," said DOT Secretary Mary Peters, "we will make sure airlines comply with existing consumer rules."

4. **American Applies for Code Share With Jet Airways (India).**

American Airlines applied to DOT for authorization to begin code share cooperation with Jet Airways (India) on January 16, 2008. American would place its code on Jet Airways flights to cities in India beyond Delhi. American flies nonstop to Delhi from Chicago. Jet Airways would place its code on American domestic flights from New York Kennedy. The two carriers would also code share and cooperate on U.S.-India traffic connecting at Brussels.

5. **FAA Rules on Wiring Maintenance and Inspection.**

FAA finalized a new rule that requires manufacturers to complete FAA-approved instructions for new wiring-related maintenance and inspection tasks within the next two years for existing aircraft carrying more than 30 passengers or having a payload of 7,500 pounds or more. U.S. scheduled carriers and foreign airlines operating U.S.-registered aircraft have three years to develop maintenance and inspection programs for wiring. Estimated cost is \$416 million over 25 years. Wiring was implicated in the 1996 crash of TWA Flight 800, in which a Boeing 747 exploded over the Atlantic near New York, killing all 230 people on board, and in the 1998 crash of Swissair Flight 111 near Nova Scotia, in which all 229 people on board died. The National Transportation Safety Board (NTSB) found that electrical wiring malfunctions were involved in numerous accidents between 1983 and 1999.

6. **NTSB "Most Wanted List" Highlights Runway Collision Risk.**

NTSB highlighted runway safety on its latest "Most Wanted List" of issues to be addressed by FAA and expanded the area of runway incursions to include runway excursions—incidents when aircraft on the ground depart the runway environment. Near runway collisions at San Francisco, New York, Ft. Lauderdale and other airports were narrowly averted in the last six months, said NTSB, which recommended that FAA prohibit aircraft from crossing any runway without specific authorization from air traffic controllers and require pilots to incorporate a 15% safety margin into landing distance calculations. New technologies that warn air traffic controllers about an impending incursion should also send a direct warning to the cockpit, said NTSB. Recommendations on air traffic controller fatigue were added to existing human fatigue issues. NTSB wants FAA to develop a program to educate controllers and schedulers about causes, effects and safety implications of fatigue, and to work with National Air Traffic Controllers Union (NATCA) to revise work-scheduling policies.

7. **Airline Employment Rose 3% in September.**

U.S. scheduled passenger airlines employed 416,000 people in September 2007, a 3% increase over September 2006, and more than in any month since August 2005. The seven network carriers employed 269,000 in September

(64.6% of the total), while low-cost carriers employed 74,500 (17.9%) and regional carriers employed 60,400 (14.5%).

8. DOT Air Travel Consumer Report for September.

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

	Sept. '07 / '06	Aug. '07	Full Year			
			2006	2005	2004	2003
On-time arrivals %	81.7 / 76.2	71.7	75.4	77.4	78.1	82
Cancellations %	1.1 / 1.7	1.9	n/a	1.87	1.56	1.79
Mishandled baggage*	5.45 / 8.26	7.55	6.73	6.64	4.91	4.19
Consumer complaints:						
Airline service	895 / 627	1,634	8,321	8,741	7,452	5,983
Disability-related	46 / 30	59	427	511	521	375
Discrimination**	10 / 8	8	114	129	118	85

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. Port Authority Assumes Control of New York Stewart Airport.

Stewart International in Newburgh, NY, officially was taken over by the Port Authority of New York and New Jersey, which purchased the lease, to run through 2099, for \$78.5 million. The Port Authority has the resources and expertise to help Stewart realize its potential as a major transportation hub, said New York Governor Eliot Spitzer, who announced \$500,000 in state grants to local communities to plan for increased growth and development. Stewart will help ease congestion “currently afflicting our increasingly stressed metropolitan airports as we near their capacity and plan for future population and passenger growth,” he said. Stewart covers 2,400 acres and has two parallel runways that can handle major jet service outside of the crowded airspace over New York Kennedy and LaGuardia and Newark Liberty and Teterboro in New Jersey. In 2006, Stewart handled 300,000 passengers, compared to 26 million at LaGuardia, which sits on only 680 acres on land.

2. Costs for Atlanta Terminal Project to Reach \$1.5 Billion.

Costs for Atlanta Hartsfield-Jackson's new 16-gate international terminal will double to \$1.5 billion by scheduled completion date of 2011, reports the *Atlanta Journal-Constitution*. Airport officials attributed the increase to delays, design changes, rising construction costs and a \$60 million lawsuit lodged by the original design team, which was fired.

3. Lifting of O'Hare Caps in Question.

An FAA official told the *Chicago Tribune* that a cap on flights at Chicago O'Hare set in 2004 would not be lifted as planned after the November 2008 opening of a new runway, but later said it may consider a phased approach to ending flight restrictions. The city projects that O'Hare will be able to handle an additional 50,000 flights annually when the new runway opens and an existing runway is extended. FAA said the changes will relieve some congestion, “but not all delays are going to go away.” The extension of flight caps would hinder Chicago's effort to pay for the O'Hare expansion, due to lower landing-fee revenue and passenger ticket taxes.

4. Southwest Backs Midway Privatization.

Chicago and Southwest reached a preliminary understanding on terms for leasing Midway Airport to a private operator. Southwest accounts for 70% of Midway traffic. Approvals are needed from four of the airport's six other carriers, as well. The terms extend pricing and use agreements until 2033 and transfer risk of operations and maintenance costs from airlines to the private

airport operator. Airlines would continue to retain control over which capital projects they will fund and could enforce all service quality and operating standards on the private operator. They would be able to approve the initial lease, subsequent lease changes, a change in the operator and other material events; and would have the right to approve all operators who submit qualifications to participate in the lease bidding process.

5. Mexico City Opens New Terminal.

Mexico City International opened a new \$800 million terminal, which will increase annual capacity to 32 million passengers; 2006 traffic totaled 24.7 million passengers.

6. Brazil Extends Congonhas Flight Range.

The range limit on planes to and from Sao Paulo Congonhas was raised from 1,000 to 1,500 kilometers amid pressure from airlines and regional governments. One of numerous safety measures imposed following a fatal crash in July, the shorter range was meant to limit the use of large aircraft.

7. EU Addresses Efficient Use of Slot Allocations.

The European Commission (EC) will study potential improvements in rules introduced in 2004 aimed at enabling new entrants to get a foothold at congested European Union (EU) airports. The rules “have had only a limited effect on competition and on the best use of scarce capacity,” said the EC, which is also concerned about neutrality of coordinators who allocate slots.

8. Heathrow Expansion Plan Proposed.

The UK proposed an expansion plan for London Heathrow that would include a third runway and a sixth passenger terminal. Prime Minister Gordon Brown backed the plan, estimated to cost up to \$18.5 billion, saying British prosperity depends on improving transportation. Environmentalists called the proposal a contradiction to Britain's pledge to be a world leader in combating climate change. Heathrow was designed to serve about 45 million passengers a year, but now serves around 68 million; only 67% of flights arrived on schedule in 2006.

9. CAA Issues Price Control Proposals for Heathrow, Gatwick.

The UK Civil Aviation Authority (CAA) proposed price controls for Heathrow and Gatwick for the period from April 1, 2008 to March 31, 2013, raising caps by 15.6% for Heathrow and 8.2% for Gatwick. The hefty increases reflect costs of security operations and capital projects. CAA also proposed financial incentives to airport operator BAA to raise service standards and bring investment programs in on time; for example, the maximum level of rebates for poor service would rise from 3% to 7% of total airport charge revenue, while

performance above target would result in bonuses. CAA based its proposals on recommendations of the Competition Commission, agreements with airports and airlines and two years of consultation, and will make its final price control decisions in March 2008.

10. Management of Jordan Airport Transferred to AIG PSC.

Jordan officially transferred management of Queen Alia International to AIG PSC for a period of 25 years. AIG PSC—comprised of ADIC (Abu Dhabi), Aeroports de Paris Management SA, EDGO (Jordan), J&P Avax SA (Greece), J&P Ltd (Cyprus) and Noor Financial Investment Company (Kuwait)—will construct and operate a new terminal with annual capacity of 9 million passengers. Aeroports de Paris Management will manage airport operations for the length of the concession, while construction will be handled by J&P. To finance the \$675 million project, AIG PSC will borrow \$370 million from the International Finance Corporation, Islamic Development Bank, French commercial banks Calyon and Natixis, and Europe Arab Bank, with the balance coming from shareholders and airport revenues.

11. Beijing International Airport Expansion.

Beijing Capital International (BCIA) opened its third runway, capable of handling the Airbus A380 and part of an expansion that includes a new terminal, 100 new aprons, a cargo zone and auxiliary facilities. General Administration of Civil Aviation of China (CAAC) has proposed a second international airport for Beijing, with construction to begin by 2010; a possible site would be south of the city near the Yongding River, which divides Beijing and bordering Hebei Province.

III. SECURITY

1. TSA Controls Thanksgiving Travel Wait Times.

More than 17 million people traveled through the top 40 U.S. airports over the 10-day Thanksgiving travel period. The Transportation Security Administration (TSA) said the average peak wait time in security lines at those airports was 14 minutes.

2. Arabic-Speaking Passengers Sue American.

American Airlines was sued for racial discrimination by six men of Iraqi descent who say airline employees grounded their flight from San Diego to Chicago and detained and publicly humiliated them after another passenger voiced suspicions that they were security risks. The men, some of whom are U.S. citizens, were returning from training Marines on Iraqi customs at California's Camp Pendleton.

3. 10-Fingerprint Scanners Deployed at Airports.

DHS will replace two-fingerprint scanners with new 10-fingerprint scanners at all U.S. ports of entry over the next year, under an expanded US-VISIT migrant-tracking system. The system has been deployed at Washington Dulles and in early 2008 will extend to Boston, Chicago, Detroit, Atlanta, Houston, Miami, New York Kennedy, Orlando and San Francisco airports.

4. DHS Fails to Disclose Requested Documents.

The Department of Homeland Security (DHS) missed a November 1 deadline to disclose documents sought by the Electronic Frontier Foundation (EFF), regarding the handling of passenger name records (PNRs) from flights between the EU and the United States. At a hearing, DHS told a federal judge that many of the documents likely would be classified and withheld. The judge said EFF would have little chance of obtaining records classified by the government, but extended the deadline to April for DHS to identify what is being withheld and why. EFF filed its suit November 2006, after DHS failed to respond to a Freedom of Information Act (FOIA) request for records about the handling of PNRs under the U.S.-EU agreement, including how they are maintained, used, disclosed and secured.

5. Canada Opposes TSA Rule on Overflights.

The Canadian government filed objections to proposed TSA rules on the Secure Flight program that would collect PNRs for flights over U.S. airspace between Canada and third countries, citing privacy concerns. At issue are long-distance flights, such as those to Mexico; flights between Canadian cities

that briefly cross U.S. airspace are exempt. The Air Transport Association of Canada earlier opposed the TSA plan, saying it contravenes Canada's Foreign Extraterritorial Measures Act, which limits the ability of Canadians to comply with measures enacted by foreign governments that infringe on Canadian sovereignty.

6. EU PNR Plan Proposed.

EU Justice and Security Commissioner Franco Frattini proposed anti-terror measures that include collecting PNRs on travelers flying to or from the EU. The 19 pieces of personal data would be provided by airlines at least 24 hours before departure, transmitted to national law enforcement agents for risk assessment, retained for five years, then held in a dormant database another eight years before deletion. Privacy advocates oppose the proposals, which require unanimous approval by EU governments.

7. Anti-Hijack Pilot ID System Launched by Israel.

An anti-hijack identification system is being introduced for use by pilots flying into Israel. The Security Code System (SCS) will be tested in cooperation with five airlines from the United States, Europe and Africa. About 10,000 of the credit card-sized keypads will ultimately be issued, with Israel bearing the cost. Pilots who fail the authentication test when they approach Israeli airspace will be denied entry. Should a plane proceed, ignoring further warnings, Israel will consider it hostile and scramble fighter planes for an interception. In the worst case, that could mean an aircraft is shot down. "You can't bluff this system," Dani Shenar, Chief of Security for Israel's Transportation Ministry, told Reuters. He said the system can differentiate between "a classic hostage-taking hijacking and a 9/11-style hijacking."

8. Carry-On Luggage a Security Risk, Reports GAO.

See Section VI, item 2.

IV. E-COMMERCE AND TECHNOLOGY

1. American to Proceed With Lawsuit Against Google.

A federal judge ruled that American can proceed with a lawsuit against Google. The airline charged the Internet site with allowing rivals to pay to have links to their sites appear when users search Google for American trademark terms, such as AAdvantage. American claims that Google infringed on its trademarks and deceived consumers. Google had asked for dismissal of the lawsuit and maintains it is without merit.

2. EU Probes Airline Ticket Web Sites.

An EU-wide investigation of Europe's airlines and other Web sites selling airline tickets showed that most used misleading advertising and unfair practices. The EU Consumer Commission gave companies four months to correct their sites or clarify their position. The investigation is the first ever EU joint enforcement action on consumer rights. Authorities in Austria, Belgium, Bulgaria, Cyprus, Denmark, Estonia, Finland, France, Greece, Italy, Lithuania, Malta, Portugal, Spain, Sweden and Norway scrutinized over 400 Web sites to check compliance with EU consumer law.

3. EC Adopts Revised CRS Code of Conduct.

The EC adopted a new computer reservation system (CRS) code of conduct that allows airlines and global distribution systems more freedom to negotiate content and fee structures. Commission transport officials said the revised code maintains safeguards to protect against competitive abuse by airlines that own or control CRSs and contains provisions to ensure an unbiased presentation of travel options in CRS displays as well as the display of all-inclusive air fares. The Business Travel Coalition and other critics said the new code would give Europe's largest CRS, Amadeus, and its airline stakeholders (Air France KLM, Lufthansa and Iberia) a preferred position in some European markets. The code will next be reviewed by the European Parliament.

4. JetBlue Signs on With Travel Web Sites.

JetBlue began selling tickets through online travel agencies Travelocity, Orbitz Worldwide (which includes CheapTickets and Orbitz for Business) and Priceline, and has also agreed to sell its tickets through Expedia. JetBlue sold most tickets through its own Web site until last year, when it began to list fares on Global Distribution Systems (GDSs).

5. Mexicana, Amadeus Sign New CRS Pact.

Mexicana signed an agreement with Amadeus to adopt the full Altea Customer Management Solution. The \$50 million project will allow the carrier to integrate its electronic reservations, inventory and departure systems. Mexicana plans to invest \$100 million in technology over five years.

6. easyJet Signs with Amadeus, Galileo for Corporate Travel Market.

easyJet signed distribution pacts with Amadeus and Travelport unit Galileo. The low-fare airline aims to increase business passenger traffic, currently around 20% through the managed business travel segment, which is largely booked by travel agencies through GDSs. easyJet will apply a point-of-sale fee, as it does with all non-internet sales, to the cost of the airfare.

7. IATA Launches E-Freight Pilots.

The International Air Transport Association (IATA) launched six e-freight pilot projects, working with cargo airlines, Air Canada, British Airways, Cathay Pacific, KLM, Martinair, SAS and Singapore, and several freight forwarders and ground handling agents. The move to a paper-free air cargo environment began on trade routes connecting Canada, Hong Kong, the Netherlands, Singapore, Sweden and the U.K. IATA said e-freight “will eliminate the paper that costs this industry \$1.2 billion every year. Combined, these documents could fill 39 B747 cargo freighters each year.”

V. NOISE AND ENVIRONMENT

1. Communities Challenge Northeast Flight Path Redesign.

Local communities and organizations continue to file lawsuits challenging FAA's plan to reroute flight paths over the Northeast to ease congestion and may consolidate their cases. The redesign begins in December and will be phased in over the next five years; initial changes are expected to affect Newark and Philadelphia airports, followed by New York Kennedy. While FAA says additional noise will be minimal and far below a disruptive level, affected communities in New Jersey, New York and Connecticut say benefits from reducing delays are outweighed by negative effects of increased noise pollution. The New Jersey Coalition Against Aircraft Noise estimated that in Elizabeth alone, 85,000 residents in the "noise band" are likely to feel the difference, reported the *New York Times*. The Government Accountability Office (GAO), at the request of Congress, is examining FAA's method for the redesign and how it assessed the impact on the environment; a second GAO study will weigh using market-based solutions to congestion, such as charging airlines more for landing in peak periods and expanding underused airports in the region.

2. EU Parliament Votes to Include Aviation in Emissions Trading Scheme.

The European Parliament voted to include aviation in the EU emissions trading scheme from 2011, with all airlines flying within and into the EU participating; the EC earlier had proposed that intra-EU flights join the scheme in 2011 and intercontinental flights from 2012. The Parliament set a cap on airplane carbon dioxide (CO₂) emissions at 90% of average emissions from the period 2004-2006, compared to 100% in earlier proposals, and increases emissions allowances to be auctioned to 25%. It also voted to include government flights in the scheme while excluding all military flights. The Association of European Airlines said the plan is a blow to the viability and competitiveness of European airlines and does little for the environment, while environmentalists said it does not go far enough to battle climate change. The plan will be revised by EU governments, then returned to Parliament; the unilateral action likely will be challenged by the U.S. and other nations.

3. Virgin Atlantic Launches First Onboard Carbon Offset Program.

Virgin Atlantic is making a carbon offset program available to passengers onboard and online, which will benefit projects in India and Indonesia. The airline has partnered with myclimate, a Swiss based charity which finds climate change solutions, particularly in developing countries. The amount of carbon produced for each flight was verified through greenhouse gas

verification company, CICS. The airline did further calculations for each passenger on the basis of weight of equipment and seats in each class of travel and the amount of cargo on each route.

4. ACTE Opposes Green Taxes.

The Association of Corporate Travel Executives (ACTE) announced opposition to new green taxes not used for investing in infrastructure improvements or reducing airline fuel burn. "History shows us green taxes will not minimize demand," said ACTE President Richard Crum. "Forecasts show that travel will increase. Taxes deplete resources individuals or companies might put into other corporate social responsibility initiatives and create other industry cost pressures. If governments want to make a dent in what the United Nations has estimated is 2% of the world's carbon emissions that are generated from air travel, the real opportunity is to fund air traffic management improvements." Crum cited estimates that an efficient worldwide air traffic control system would reduce fuel burn by 10% to 15%.

5. Study Ties Aircraft Noise to High Blood Pressure.

People who live near airports may have an elevated risk of high blood pressure due to airplane noise, reports the Karolinska Institute, where researchers surveyed more than 2,000 men residing near Stockholm Arlanda airport who did not have high blood pressure at the study's outset. Exposure to aircraft noise above 55 dBA is a source of chronic stress for some individuals, interfering with the ability to think, relax or sleep, say researchers. Factors such as age, weight, income and exercise habits did not change the link between aircraft noise and blood pressure. A European study involving multiple airports is underway.

VI. U.S. CONGRESS

1. House Approves Transportation Spending Bill.

The House approved a transportation spending bill for fiscal 2008, which exceeds White House requests and is under threat of a presidential veto. The final bill includes \$1.1 billion in FAA operations funding. The Senate is expected to consider the bill after the two-week Thanksgiving recess.

2. Carry-On Luggage a Security Risk, Reports GAO.

The House Committee on Oversight and Government Reform held a hearing to determine whether the Transportation Security Administration (TSA) has improved airport security checkpoints over the past year. A Government Accountability Office (GAO) report found that during 19 tests this year, undercover agents successfully passed through security several times with liquids and other materials that could be combined to make an explosive device; in 2006, GAO investigators slipped bomb parts past screeners in each of their 21 attempts. TSA Administrator Kip Hawley testified that some findings are of concern, but said the GAO tests are not statistically significant compared with the 2,500 covert tests run daily by his agency. Hawley denied that bomb components that made it onto airplanes could do catastrophic damage and rejected a call for more stringent “pat-downs,” saying they are not acceptable to the public. Allowing substantial carry-on luggage presents an increased security risk, said GAO.

3. Committee Presses NASA for Results of Airline Pilot Survey.

The Committee on Science and Technology urged NASA to speed release of data it compiled on U.S. aviation safety between 2001 and 2004. The Committee earlier held a hearing on the matter, after the Associated Press reported that NASA refused a Freedom of Information Act (FOIA) request to release the National Aviation Operations Monitoring Service (NAOMS) survey data. NASA said the data “could materially affect the public confidence in, and the commercial welfare of the air carriers.” NASA Administrator Michael Griffin had agreed to release the survey results, but later said it may take up to a year to sift through the 24,000 interviews and remove data that could potentially identify pilots who were interviewed anonymously. The NAOMS survey tracked the number of near-collisions, runway incursions, equipment failures and other incidents.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. Boeing-Airbus Dispute Could Extend to 2009.

European Trade Commissioner Peter Mandelson warned that it may be impossible to settle the Boeing-Airbus subsidies dispute for another two years, or even longer, saying that despite several good faith attempts, the differences between the two sides are too large. Boeing said the failure of Airbus and the EU to put forth an offer to eliminate below-market loans, or launch aid, is preventing a settlement. World Trade Organization (WTO) rulings in the case are expected in 2008 and would be subject to appeals. Both sides maintain they prefer a negotiated settlement.

2. Canada, Singapore Conclude Air Transport Agreement.

Singapore and Canada signed a new air transport agreement in Ottawa, under which their carriers may operate unlimited flights between the two nations, via selected intermediate points, and code share with each other and with third country airlines. The pact applies to passenger and cargo airlines.

3. ASEAN to Liberalize Services Between Capital Cities in 2008.

Association of Southeast Asian Nations (ASEAN) transport ministers agreed to remove all restrictions on air passenger and cargo services between capital cities by December 2008 and to work toward full liberalization by 2015. ASEAN marked 12 priority sectors, including air travel and tourism, for the elimination of tariffs and non-tariff barriers by 2010, and plans to harmonize customs procedures.

VIII. EUROPE/AFRICA

1. Alitalia Bid Deadline Extended to December.

The deadline for non-binding offers to acquire a 49.9% stake in Alitalia was extended to December 5 from November 30. Leading candidates were said to be Air France-KLM, Lufthansa, and Italy's Air One, backed by Italian bank Intesa Sanpaolo. Aeroflot has pulled out of the process and a consortium led by Italian business lawyer Antonio Baldassarre was ruled out by the Alitalia board, which said the group failed to meet financial requirements.

2. Iberia Bidding Update.

Iberia shareholder Caja Madrid agreed to exercise its right to buy shares held by BBVA and Logista, leaving it with a 24% holding. British Airways, which holds a 10% share in Iberia, elected not to exercise pre-emption rights to acquire the shares, saying its "position as Iberia's key industrial partner remains important and is not dependent on an increase in shareholding. We will enter into discussions with Caja Madrid in order to maximize the value of our relationship with Iberia." A Spanish consortium led by investment firm Gala Capital stepped in with a €3.7 billion offer, and a consortium comprised of U.S. equity group TPG, British Airways and Spanish investors withdrew its €3.41 billion bid. Air France-KLM reportedly will bid after Spain's general elections in March.

3. US Airways Announces Philadelphia-London Heathrow Service.

US Airways will begin Airbus A330 service between Philadelphia and London Heathrow on March 29, bringing to 20 the number of European destinations it serves from Philadelphia.

4. Continental to Offer Heathrow Service from New York, Houston.

Continental will begin twice-daily nonstops to London Heathrow from both New York Newark Liberty and Houston on March 29. The flights will operate at Heathrow Terminal 4, the future base for all SkyTeam carriers operating at the airport.

5. bmi, United Broaden Code Share.

United will launch nonstop passenger and cargo service between Denver and London Heathrow on March 30, marking Denver's entry as a gateway to Europe. Star Alliance partner bmi and United broadened their code share agreement, under which bmi can sell direct flights from Heathrow to Chicago, Los Angeles, Washington, San Francisco and Denver on flights operated by United.

6. **SAS to Offer Copenhagen-San Francisco Service.**

SAS will introduce service to San Francisco next fall, offering three weekly Airbus A340 nonstops from Copenhagen. The carrier will also begin Copenhagen-New Delhi flights next year and recently launched services from Stockholm to Bangkok and Beijing and from Copenhagen to Dubai.

7. **EU Lifts Ban on Pakistani and Surinam Airlines.**

The EU removed Pakistan International Airlines and Blue Wing Airlines of Surinam from its list of banned carriers. "When airlines take rapid and sound corrective action to comply with safety standards, they can be withdrawn from the list quickly," said Transport Commissioner Jacques Barrot. Created last year, the blacklist contains more than 150 airlines, most from Africa.

8. **Eurostar Cleared of Predatory Pricing.**

The French competition council cleared Eurostar and French National Railway Company (SNCF) of charges of a predatory strategy aimed at eliminating competition on the Paris-London route. British Airways brought the complaint in 2004, claiming SNCF provided subsidies to its partner Eurostar to fund below-cost pricing. In other news, Eurostar hopes to add high-speed services from London to Amsterdam, Cologne and other destinations.

9. **WestJet Seeks Cooperation With Air France.**

See Section X, item 9.

IX. ASIA/PACIFIC / MIDDLE EAST

1. Alliance News.

China Southern became the 11th full member of SkyTeam, making the alliance the first to include a carrier from mainland China. Hong Kong-based Dragonair became a oneworld affiliate; the Cathay Pacific unit flies to 19 mainland destinations and brings such new routes to oneworld as Kota Kinabalu (Malaysia), Phnom Penh (Cambodia), Phuket (Thailand) and Khatmandu (Nepal).

2. United to Launch San Francisco-Guangzhou Service.

United began selling tickets for San Francisco–Guangzhou service, to launch June 18, 2008. United is the first U.S. carrier to offer daily nonstops on the route, which was awarded by DOT in October.

3. Cathay Pacific Adds New York, Toronto Service.

Cathay Pacific added a second daily Hong Kong-New York nonstop, using new Boeing 777-300ERs, and in January will introduce a daily nonstop to Toronto.

4. DHL Express to Build \$175 Million Shanghai Hub.

DHL Express will build a \$175 million, 55,000 square meter facility at Shanghai Pudong International Airport, with operations to begin in the second half of 2010. The Deutsche Post unit is also investing \$110 million to double the size of its Hong Kong facility.

5. Korean Budget Carrier Boom.

Korean Air plans to invest \$22 million to establish a new budget carrier, to begin operations in May 2008. Air Korea initially will fly to China, Japan, Thailand and Malaysia. Other South Korean low-cost carriers include Jeju and Hansung. Low-fare Tiger Airways, partly-owned by Singapore Airlines, also announced plans to start a Korean budget airline in a joint venture with the city of Incheon.

6. Tiger Enters Australian Domestic Market.

Tiger Airways entered the Australian domestic market with numerous flights from Melbourne, but ran into opposition from Qantas, which denied ground handling services at Alice Springs. That service has been delayed until March.

7. Lion Air Plans \$600 Million Asian Expansion.

Jakarta-based Lion Air plans to raise up to \$600 million to invest in or launch joint venture airlines in numerous Asian markets, including Thailand, Malaysia, Vietnam, Bangladesh and the Philippines. Indonesia's largest private airline, Lion Air currently has a fleet of 40 jets and has 122 Boeing aircraft on order.

8. Cambodia to Form New Flag Carrier With Indonesian Firms.

The Cambodian government will form a new national airline, in a joint venture with Indonesia-based Rajawali Group and PT Ancora International. Cambodia will hold a 51% share in the airline, expected to begin flying in six months. Former flag carrier Royal Air Cambodge ceased operating in 2001. The Cambodia Tourism Ministry recorded 1.4 million visitors between January and September this year, up nearly 19% from the same period 2006, and forecasts total tourist arrivals this year will exceed 1.7 million.

9. QA, United Implement Code Share.

Qatar Airways and United implemented their code share agreement, with Qatar's code on United-operated flights from Washington DC to U.S. cities and United's code on Qatar flights from Doha to Washington DC and Newark.

10. El Al Seeks Latin American Growth.

El Al is seeking bilateral partnerships to serve Latin America via European gateways, reports *Air Transport World*; some 150,000 Israelis visit the region each year. Separately, Boeing forecasts that Israeli airlines will invest between \$6 billion and \$10 billion in the next 20 years; half of the 60-80 aircraft will be widebodies, such as the B-787 Dreamliner and B-777. El Al's currently has an all-Boeing fleet of 37 aircraft.

11. Dubai Civil Aviation Authority Established.

Dubai restructured its civil aviation sector, establishing the Dubai Civil Aviation Authority (DCAA) to replace the Department of Civil Aviation. DCAA will oversee conventions and the signing of agreements on the use of Dubai's air space for commercial air transport, in addition to issuing licenses to new national and foreign air travel operators of regular and charter flights, said the government. A separate entity, the Dubai City of Aviation, will comprise Dubai Airports, Dubai World Central, Dubai Air Traffic Navigation and other aviation-related assets of Dubai. Dubai Airports will manage the new Jebel Ali International Airport, which has been renamed Al Maktoum International Airport, and the existing Dubai International Airport.

12. Air Arabia Acquires Morocco's Regional Air Lines.

Sharjah-based Air Arabia agreed to control Morocco-based, privately held Regional Air Lines and will establish a second hub in Rabat with flights to Europe, North Africa and the Middle East. Bahrain investment bank Ithmaar is financing the transaction. Air Arabia, the largest low-cost carrier in the Middle East, carried 1.7 million passengers in 2006. CEO Adel Ali said leased aircraft will double to 22 by 2010 and up to 50 planes will be purchased, financed partly by proceeds from an April sale of a 55% stake in the airline.

13. Dubai Airshow Orders Exceed \$100 Billion.

Aircraft sales at the Dubai Airshow exceeded \$100 billion. Some 45,000 industry-linked visitors from 131 countries attended the five-day show, which featured 850 exhibitors from 50 countries, 11 national pavilions and over 140 aircraft and is now on a par with the Paris and Farnborough (England) shows. Airbus claimed more than \$50 billion in commitments, among which was an A380 superjumbo purchased for private use by Prince Alwaleed bin Talal of Saudi Arabia at a cost expected to exceed \$320 million.

14. EU Lifts Ban on Pakistani and Surinam Airlines.

See Section VIII, item 7.

X. AMERICAS

1. AMR to Divest American Eagle.

American parent AMR Corp. plans to divest wholly-owned regional American Eagle to enable American to focus on its mainline business. It is expected that American Eagle “will continue to provide American with regional flying of a scope and quality comparable to that provided prior to the separation and on terms that reflect today’s market for those services,” said AMR.

2. Delta, United Deny Merger Talks.

Delta and United denied speculation that they are in merger talks, after hedge fund Pardus Capital Management, which holds stakes in both airlines, proposed the union. If there is to be industry consolidation, Delta is in a position to participate as an acquirer, said Delta CEO Richard Anderson. “In short, we are not for sale.”

3. Cush to Replace Reid as Virgin America CEO.

American Airlines executive David Cush will become CEO of Virgin America on December 10, replacing Fred Reid, who is required to leave the startup under terms of DOT certification. Virgin America Chairman Don Carty, a former American CEO, commended Reid, whose “experience and unique vision have shaped this airline's success.” Reid’s decades of airline management included positions with Delta, Pan Am, American and Lufthansa, where he was the first U.S. national to lead a major non-U.S. airline.

4. Southwest Offers Priority Boarding, Enhances Rewards Program.

Targeting business travelers, Southwest enhanced its rewards program and announced “Business Select,” a new fare that offers priority boarding, extra mileage points and a free cocktail.

5. AirTran Names Fornaro CEO.

AirTran promoted President and Chief Financial Officer Robert Fornaro to CEO. He replaces Joe Leonard, who will continue as Chairman. In other news, Air Tran will exit the cargo business because of high fuel and security costs.

6. Frontier Adjusts Routes; Prepares for Lynx Launch.

Frontier will cancel unprofitable routes and add capacity to 17 top performing domestic markets from Denver in January; all mainline additions will use new Airbus A319s and A318s. “We have a tremendous asset in our Denver hub,” said new CEO Sean Menke, who plans to “extract the maximum profitability

from every aircraft in our fleet.” Frontier regional Lynx Aviation is expected to begin Bombardier Q400 service in December.

7. Hawaiian Awarded \$80 Million in Damages Against Mesa.

The U.S. bankruptcy court in Hawaii found that Mesa violated terms of a confidentiality agreement with Hawaiian and awarded Hawaiian \$80 million for damages plus costs. Mesa will seek to overturn the ruling. Mesa kept confidential information obtained from Hawaiian's bankruptcy proceedings and used it when deciding to enter the Hawaii market, said Hawaiian CEO Mark Dunkerley. The court rejected Hawaiian's bid to prohibit Mesa's low-cost inter-island airline go! from selling tickets. “Hawaiian's true motive in filing suit was to stifle competition and maintain the high fares and reduced capacity fostered by the inter-island duopoly led by Hawaiian Airlines,” said Jonathan Ornstein, Mesa Chairman and CEO. Since the 2006 launch of go!, inter-island fares have dropped by as much as half to an average of \$40.

8. MAXjet Launches Cargo Operations.

MAXjet launched cargo operations between London Stansted and New York, Las Vegas and Los Angeles. MAXjet's all-business-class Boeing 767-200ERs are configured with up to 102 seats; “this limited number of seats and baggage allows MAXjet Cargo to offer highly competitive rates to existing and new freight customers,” said CEO Bill Stockbridge.

9. Skybus Brings \$10 Fares to New York Stewart.

Skybus will launch two daily Airbus A319 nonstops to New York Stewart from Columbus, Ohio, in January and from Greensboro, North Carolina, in February. Skybus fares include at least 10 seats at \$10 on every flight, but its no-frills policy means that passengers pay extra for everything from bag checking to priority boarding and food. “Our strategy is to ‘decomplexify’ airline operations in ways that keep costs down,” says CEO Bill Diffenderffer.

10. WestJet Seeks Cooperation With Air France.

Calgary-based WestJet is negotiating an interline pact with Air France to take effect in 2008, reports *Globe & Mail*, and is expected to cooperate with other foreign carriers. In other news from Canada, former WestJet executives applied for a license for a Calgary-based airline, NewAir, which would offer scheduled and non-scheduled services in the U.S. and Canada. JetBlue is applying to launch charter and scheduled U.S.-Canada service; Chairman David Neeleman was an early WestJet director, prior to founding JetBlue. Toronto-based Porter Airlines plans a U.S. expansion next year. And Air Canada parent ACE Aviation plans to dissolve next year, after divesting remaining stakes in Air Canada, Jazz Air, Aeroplan and maintenance firm

ACTS, all worth about USD\$2.6 billion, said ACE, which was created as part of Air Canada's emergence from bankruptcy protection in 2004.

11. New CEO for TAM.

Captain David Barioni Neto was named CEO of TAM. Formerly Vice-President of Operations, he replaces Marco Antonio Bologna, who will be a special advisor for the Brazilian company.

12. IATA calls for Transparency in Latin America.

Greater transparency in the Latin American airline industry is needed for a sounder basis for key policy decisions, said IATA CEO Giovanni Bisignani, at the Latin American Air Transport Association annual meeting. He urged more work in the areas of: Safety—Latin America's accident rate is higher than the global average with one accident for every 550,000 flights. IATA's Operational Safety Audit should be incorporated into national safety oversight programs. Infrastructure—Airlines pay \$2.5 billion to airport and air traffic providers in Latin America. Airport concession fees guarantee profit without incentive to invest in efficiency or facilities. Infrastructure monopolies are not cash cows. Liberalization—Latin America's 5% of global traffic is divided into 39 markets. Governments must move forward with liberalization.

13. US Airways Announces Philadelphia-London Heathrow Service.

See Section VIII, item 3.

14. Continental to Offer Heathrow Service from New York, Houston.

See Section VIII, item 4.

15. bmi, United Broaden Code Share.

See Section VIII, item 5.

16. SAS to Offer Copenhagen-San Francisco Service.

See Section VIII, item 6.

17. United to Launch San Francisco-Guangzhou Service.

See Section IX, item 2.

18. QA, United Implement Code Share.

See Section IX, item 9.