



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. ATA Projects \$4 Billion Industry Net Profit for 2007.

The Air Transport Association of America (ATA) projects a \$4 billion net profit for U.S. passenger and cargo airlines this year and estimates 2006 earnings ranging from \$2 billion to \$3 billion. A profitable 2006-2007 would be the first such back-to-back period since 1999-2000. The International Air Transport Association (IATA) said November traffic results showed year-on-year international passenger traffic growth recovered to 6.7%, while freight remained sluggish at 3.1%. Year-to-date, passenger traffic was up by 5.8% and freight by 4.8%. The average passenger load factor remained strong at 73.9% in November and was at 76.1% year-to-date. The Middle East region posted an increase of 18.3% in passenger traffic in November, followed by Africa (7.5%), North America (7%), Europe (6.1%), Asia Pacific (5.6%) and Latin America (-2.4%). International freight traffic in the Middle East rose sharply (17.3%), followed by Africa (3.9%), Asia Pacific (3.2%) and Europe (1.4%).

2. DOT Awards New Daily U.S.-China Flight to United.

The U.S. Department of Transportation (DOT) proposed to award United the right to operate new daily nonstops between Washington Dulles and Beijing's China Peking Capital Airport, beginning March 25. In its tentative decision, DOT said United's proposal had the potential to benefit the greatest number of passengers. More people travel to China from the Washington area than from any other U.S. city that currently does not have nonstop U.S.-China service. Also, United's service would provide the greatest capacity, offering over 253,000 seats annually in the U.S.-China market. United plans to operate the route on a three-class, 347-seat Boeing 747-400. The carrier code shares with US Airways and with Air China and Shanghai Airlines. Other airlines applying for authority to operate daily U.S.-China service were American (Dallas/Fort Worth-Beijing), Continental (New York Newark-Shanghai) and Northwest (Detroit-Shanghai). DOT denied a late change in American's proposal that would have added a stop in Chicago, noting it would have significantly delayed the start of new service.

3. Delta Files for New Atlanta-Shanghai Nonstops.

Delta filed an application with the U.S. Department of Transportation to offer the first and only nonstop flights between Atlanta, the world's largest airline hub, and Shanghai, China's commercial and financial capital. The daily, year-round Boeing 777 service would begin March 25, 2008.

4. **Virgin America Amends Proposal to Remove Doubt of U.S. Citizenship.**

Virgin America provided substantive changes in its application to DOT, in response to a December tentative negative show-cause order that questions the startup's citizenship. Among key changes, the UK's Virgin Group now holds two rather than three of eight Board of Directors voting seats; has given up veto or consent rights on aspects of operations or decision making; amended terms in the Virgin trademark license so Virgin America can fly with or without the Virgin brand name; agreed to put all of its voting shares in a voting trust with a DOT-approved U.S. trustee, despite holding the 25% voting control allowed under U.S. law by a foreign investor. In response to concerns about ties to Virgin Group founder and Chairman Richard Branson, the company said it would remove CEO Fred Reid, a U.S. citizen, should DOT find that necessary. U.S. investment funds, Cyrus Capital and Black Canyon, will limit investors to only U.S. citizens, and the U.S. investors have agreed to make an additional \$20 million investment in Virgin America. The airline said a study shows that if it had been flying last year it would have saved U.S. consumers more than \$786 million dollars annually, or an average of \$88 per roundtrip. Virgin America's entry into the market would generate more than 3 million new one-way trips and have a significant discounting effect on air fares in most, if not all, new markets.

5. **FAA Changes Rules for Long-Range Flights.**

The Federal Aviation Administration (FAA) published a final rule for long-range regularly scheduled commercial flights over remote areas. The rule changes current limitations and opens up routes for twin-engine passenger and cargo planes, and sets uniformly high standards for all commercial passenger planes when they fly routes more than three hours from an airport. The new rule takes into account the extraordinary reliability of today's aircraft engines, said FAA, and covers design, maintenance and operation of airplanes and engines for extended operations flights (ETOPS) that go beyond certain distances from the nearest airport.

6. **FAA Certifies Child Safety Restraint.**

A new child aviation safety restraint was certified by FAA for use on all U.S. registered airlines. CARES (Child Aviation Restraint System), a belt-and-buckle harness device that attaches to the airplane seat belt, is for children who weigh between 22 and 44 pounds and can sit in their own seat. The device is easy to bring on board, weighing one pound, and installs quickly. For more information, see www.kidsflysafe.com.

7. **November Airline Employment Down in November.**

U.S. scheduled passenger airlines employed about 7,000 fewer workers overall in November 2006 than in November 2005, reports DOT, the smallest

drop since February 2005. The seven network carriers employed 263,000 in November (65.1% of the passenger airline total), low-cost carriers (LCC) 71,000 (17.6%) and regionals 58,000 (14.4%). Only the network carrier group reported fewer employees, with a 3.4% decrease, while other carriers combined employed 2% more. LCC employment rose 0.9% in November 2006 compared to November 2005. Regional carrier employment rose 2.8%.

8. **DOT Air Travel Consumer Report for November.**

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

	November 2006 / 2005	October 2006	Full Year 2005 / 2004 / 2003
On-time arrival rate %	76.5 / 80	72.9	77.4 / 78.1 / 82
Cancellations %	1.6 / 1.0	1.9	1.87 / 1.56 / 1.79
Mishandled baggage*	6.32 / 5.04	7.51	6.04 / 4.91 / 4.19
Consumer complaints:			
Airline service	588 / 525	628	8,735 / 7,452 / 5,983
Disability-related	33 / 28	29	525 / 521 / 375
Discrimination**	5 / 5	10	128 / 118 / 85

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. EC Proposes Regulatory Package For Airports.

The European Commission (EC) adopted a regulatory package for airports that would require transparency, consultation and non-discrimination when calculating charges levied on users, and creation by every EU state of an independent national authority to arbitrate and settle disputes between airports and airlines in a speedy manner. "Until now European airports have been faced with diverse regulatory, commercial and external challenges regarding issues such as capacity, financing and the environment," said Transport Vice-President Jacques Barrot. "The aim of these new measures is to offer a common set of rules to be applied and enforced uniformly throughout Europe." ACI (Airports Council International) Europe said the "strategy fails to recognize that better use of existing capacity alone will not be enough and new airport infrastructure will have to be provided. . . . the directive undermines normal commercial relationships between airlines and airports and perversely acts as a disincentive to airport competition." ACI Europe is working with other organizations on "a common approach to the impending legislative process."

2. Port Authority to Operate Stewart Airport.

Stewart International Airport will become the New York area's fourth major hub. The Port Authority of New York and New Jersey was authorized to purchase the operating lease from National Express Corporation for \$78.5 million, in an effort to ease congestion at New York's LaGuardia and Kennedy and New Jersey's Newark Liberty, among the worst in the nation. Stewart is in Newburgh, about 60 miles north of New York City. The Port Authority expects to take over operations by October, pending approval by FAA and the New York DOT and subject to a vote by New Jersey legislators; the New York Legislature already has approved. Objections from some area residents also must be overcome. Stewart was used by about 300,000 passengers last year, but Port Authority officials say it could easily handle 1.5 million.

3. Airlines Sue Over LAX Fee Increases.

The Los Angeles City Council authorized Los Angeles International Airport (LAX) to raise rates for carriers in Terminals 1 and 3, requiring them to pay full costs of maintaining and operating facilities, including security costs. The Air Transport Association questioned "the legality of this unjustified action." American, United and Continental sued the city, charging unfair business practices and unwillingness to negotiate, with other airlines expected to do the same. The airlines say the new charges, effective February 1 and retroactive, will result in \$15 million more in 2006 maintenance costs and another \$500 million over the remainder of their 40-year leases. Low-cost carriers in

Terminals 1 and 3 are expected to file a complaint with DOT, saying a move to quadruple their rents is discriminatory. In other news, the Los Angeles Airport Commission voted to spend up to \$154 million to take control of LAX Terminals 2 and 5, which it says are underused. Continental, Northwest, United, American, Delta and other airlines control most LAX gates through long-term leases, which, says LAX, limit its ability to honor requests from international and low-fare carriers to start or add flights. LAX Two Corporation, the leaseholder entity for airlines serving Terminal 2, said the terminal has one of the highest utilization rates at LAX and the buy-out attempt would not create additional capacity.

4. **Chicago Seeks Passenger Fees for O'Hare Expansion.**

The city of Chicago plans to seek FAA approval to use \$270 million in passenger facility charges (PFCs), collected over the past two years, to fund land acquisition and building demolition needed for new O'Hare runways. The \$15 billion O'Hare expansion project to date is \$400 million over budget. Airlines agreed to underwrite \$1.87 billion for the first phase, but refused a city request to sell an additional \$500 million in general airport revenue bonds and are urging the city to keep costs down and bring the project within budget.

5. **McCoomb Named Toronto Authority CEO.**

Greater Toronto Airports Authority (GTAA) named Dr. Lloyd McCoomb as President and CEO, effective February 1. He has been with GTAA since the transfer of Toronto Pearson to the Authority in 1996 and most recently was Vice President, Planning and Development. In other news from Canada, Mirabel International near Montreal relinquished 11,000 acres for use by people driven out in 1969 by the government of Pierre Trudeau, who hoped to make it the world's largest airport. At its peak, reports the *National Post*, Mirabel handled three million travelers annually, compared to Toronto Pearson's 19 million, and was never able to attract airlines away from Montreal Dorval (Trudeau) Airport, which is closer to downtown.

6. **Kjeld Binger Leaves Copenhagen Airports for Dubai.**

Kjeld Binger, a former Copenhagen Airports executive, left his position as Acting CEO of Mexican airport operator ASUR to become CEO of DAE Airports, a division of Dubai Aerospace Enterprise. ASUR Chairman Fernando Chico Pardo is now Interim CEO. ASUR and Copenhagen Airports are associated companies.

7. **Wuhan Planned as China's Fourth Hub.**

The General Administration of Civil Aviation (CAAC) intends to support development of Wuhan as an international aviation hub, reports *China Daily*, and will earmark funds to transform Wuhan into an alternative airport for the

Airbus A380 superjumbo. By 2010, Wuhan, the capital of central China's Hubei Province, is expected to serve at least five international and 100 domestic routes. Wuhan Tianhe Airport currently has one runway and one terminal and in 2004 ranked 16th among China's domestic airports. It expects to serve more than 6 million passengers this year. The airport is building a second terminal, expected to be complete by the end of next year, that will handle 13 million passengers and 320,000 tons of cargo a year. Construction of a high-speed passenger rail link and subway system to connect to the airport will start by 2010. Beijing, Shanghai and Guangzhou handle 40% of the country's passenger and cargo transport.

8. Changi Extends Abu Dhabi Involvement.

Changi Airports International (CAI) was appointed to advise on the planning of the new Abu Dhabi International Airport Midfield Terminal Complex, part a US\$6.8 billion expansion program. This is the largest airport planning assignment undertaken outside Singapore by CAI, which in December signed on to operate and manage Abu Dhabi. The new terminal complex will accommodate up to 40 million passengers per year.

9. Kurdistan Airport Development.

The Kurdistan Regional Government in northern Iraq is spending \$300 million to upgrade Erbil International Airport, reports *Air Transport World*. A new terminal capable of handling 2.7 million passengers annually is scheduled to be operational next year, along with a 4,800 meter runway. Used by the United Nations for receiving humanitarian aid, Erbil is 60 miles from the Turkish and Iranian borders and officials hope to make it a Middle East hub. The region is served by charter operators and Royal Jordanian and Austrian Airlines.

III. SECURITY

1. FAA Seeks Security Upgrades for New Planes.

An FAA Notice of Proposed Rulemaking (NPRM) calls for designs of new transport category airplanes carrying 60 or more passengers to incorporate security-related elements that would provide greater protection of the cabin, flight deck and cargo compartments from detonation of explosive or incendiary devices, penetration by projectiles, and intrusion by unauthorized persons. The proposal requires operators to establish a "least risk bomb location," a reinforced compartment where a discovered bomb could be placed during flight. The new designs ultimately would cost manufacturers and airlines more than \$450 million and incorporate International Civil Aviation Organization (ICAO) standards and recommendations from FAA safety committees and other reviews.

2. Air France, British Airways Sign on for Registered Traveler.

Verified Identity Pass expanded its Clear Registered Traveler program to include New York Kennedy, San Jose, Indianapolis and Cincinnati airports, and has an agreement with Toronto Pearson to operate a Canadian program, working with Canadian authorities. British Airways opened a lane at New York Kennedy and an Air France lane will open there in February. A Clear pilot program began at Orlando International in July 2005 and now has 35,000 members who pay an annual fee, undergo a federal background check, receive a biometrically encoded identity card and then are entitled to use dedicated security lanes that will employ new technology to speed passage, including shoe scanners.

3. Israel Plans Mandatory Pilot ID System.

All commercial airlines that fly into Israeli territory will be issued a pilot identification system designed to prevent 9/11-style attacks, reports Reuters. The "Code Positive" system will be distributed free of charge by the Israeli government as of May and is expected to be operational by yearend. Planes without the system will be turned back from Israeli airspace under threat of being shot down. Code Positive, a credit card-size device, is exclusively assigned to each pilot and carried aboard their flights; it enables authorities to verify that the person flying the aircraft is the one qualified to fly it.

4. Jury Awards \$400,000 in Airline Racial Profiling Case.

A federal jury awarded \$400,000 to a naturalized U.S. citizen of Portuguese descent who sued American Airlines, claiming racial profiling, after being removed from a flight departing Logan International in December 2003. The

suit claimed that flight personnel cited him as a security risk because he looked similar to two Israelis in his row. Massachusetts State Police determined the three were not a security threat, but American staff refused to let them re-board.

5. **Supreme Court Challenge of ID Requirement Fails.**

The Supreme Court rebuffed a challenge to the Transportation Security Administration (TSA) policy that requires airline passengers to show identification before they board flights. The suit charged that the unpublished policy would lead to more secret laws. The question before the justices was whether travelers have sufficient notice of the policy to satisfy constitutional due process of law, which typically requires a law to be published so people know how to comply with it.

6. **Security Measures Cause Drop in Visitors to U.S.**

A study released by the Travel Industry Association said U.S. market share of the \$6 trillion worldwide travel market dropped to 6.1% in 2006, from 7.5% in 2000. Since 9/11, overseas travel to the United States has dropped by 17%, costing the country 194,000 lost jobs, \$25.9 billion in lost payroll and \$15.6 billion in lost federal, state and local taxes. Travelers from 16 nations ranked the U.S. as the most unfriendly country to visitors, due to post-9/11 tightened security measures and entry requirements.

7. **MANPAD-Equipped Freighters in Test.**

A FedEx MD-10 equipped with an anti-missile system took off from Los Angeles International, marking the start of operational testing and evaluation in the U.S. Department of Homeland Security's Man-Portable Air Defense Systems (MANPAD) program. The Northrop Grumman Guardian laser system is designed to defend against shoulder-fired anti-aircraft missiles during takeoffs and landings. During the current test phase, which concludes in March 2008, nine MD-10 freighters equipped with the Guardian system will be in commercial service. BAE Systems has successfully tested a similar system.

IV. E-COMMERCE AND TECHNOLOGY

1. Farecast Launches Fare Guard Service.

Airfare prediction website Farecast released Fare Guard, which for a fee guarantees an airfare listed on the site will remain valid for a week or Farecast will make up the difference. The customer finds the lowest fare available and purchases a Fare Guard to protect it for one week, receives daily email updates to help decide when to buy, and books tickets within seven days. The difference between the “guarded price” and the lowest fare on the day booked is then redeemed. Tickets can be booked from any airline at any price. “Consumers are protected when they decide to buy later and we are putting our money where our mouth is by backing up our predictions,” said Hugh Crean, Farecast President and CEO.

2. Travelport May Spin Off Orbitz.

Travelport is exploring an initial public offering for its Orbitz unit, reports the New York Times. Formed by several airlines on the cusp of the online travel revolution, Orbitz was sold to Cendant in 2004, which then split into several companies. Travelport also owns CheapTickets, GDSs Galileo and Worldspan and wholesaler Gullivers Travel.

3. EU Distribution Changes “Would Imperil Travel Management.”

Some airlines in Europe are planning to unveil proposals to shift distribution costs to end customers and fragment content in the near term, says the Business Travel Coalition (BTC), and marginalize trusted players in business travel distribution in the longer term. Long-term CRS agreements in the United States were fought by customers last year, resulting in “reasonably balanced changes that protected their corporations’ interests and built upon advances to professional travel management made over the last 25 years.” BTC is urging the European travel management industry to demand a seat at the table before unilateral reforms “become a dangerous reality,” and avoid accepting a “Faustian Pact” with airlines, “wherein they would be made whole financially with respect to anticipated content fees in return for their implicit acquiesce in this distribution scheme.” Full content secured at reasonable costs should be the goal, says BTC.

V. NOISE AND ENVIRONMENT

1. Noise Jury Still Out on New Logan Runway.

Massport officials announced that Logan International's newest runway is cutting flight delays and has brought about only five noise complaints. But, reports the *Boston Globe*, nearby residents who fought the project for 30 years are still concerned about exhaust odors and long-term health effects, including higher-than-normal asthma and cancer rates that may be attributable to jet pollution. The 5,000-foot runway, opened in November, serves primarily small regional jets, turboprop and private planes and additional traffic when northwest winds prevent the use of other runways. Large jet engine noise lasts three or four seconds, while smaller planes take longer to clear the area and often fly at lower altitudes.

2. MAC Told to Honor Noise Mitigation Promises.

Minneapolis Mayor R.T. Rybak told the Metropolitan Airports Commission (MAC) to meet promises made to residents about noise mitigation. MAC has offered \$240 million in subsidies to Northwest in an effort to keep the carrier's hub and headquarters at Minneapolis-St. Paul International Airport. The agreement stipulates that Northwest will not oppose MAC efforts to settle local noise lawsuits or the use of passenger facility charges to fund a noise-mitigation program. MAC faces a class-action lawsuit by area homeowners and a separate suit brought by the cities of Minneapolis, Richfield, Eagan and Bloomington. Both suits claim the MAC hasn't fully delivered on promises to insulate residents from airport noise.

3. Noise Guide for FedEx Hub at Piedmont Approved.

A guidebook designed to protect residents from noise generated by the new FedEx hub at Piedmont Triad International was sent to FAA for final approval. The airport authority unanimously approved the 200-page document after a two-year, \$1.3 million process that involved airport businesses, community members and local government officials. The hub is expected to open in 2009, with more than 60 planes landing and taking off each night by 2014.

VI. U.S. CONGRESS

1. Senate Panel Examines US Airways-Delta Merger Impact.

In testimony before a Senate Commerce Committee hearing on the anti-competition impact of airline mergers, US Airways Group Chairman Doug Parker defended his company's proposed takeover of bankrupt Delta, saying lower costs and operational efficiencies would cut fares in dozens of markets. Delta CEO Gerald Grinstein said the Justice Department should block the merger because it would reduce competition and raise fares in many markets. He also said 10,000 jobs would have to be cut for US Airways to achieve the gains it anticipates. Parker said there would be no layoffs or furloughs of front-line employees at either airline, and airports currently served by the two carriers would be served by the combined carrier. DOT Assistant Secretary for Aviation, Andrew Steinberg, said fewer carriers would not necessarily be bad for consumers, and that the U.S. regulatory regime should not stand in the way of marketplace forces. The Consumer Federation of America criticized the takeover proposal, saying it would eliminate competition and restrict flights on thousands of routes. Senator Ted Stevens (R-Alaska) said very conservative people in his state are asking for re-regulation of the airlines because of lack of service. Olympia Snowe (R-Maine) and Jay Rockefeller (D-W.Va.) said smaller communities have been hurt by airline consolidation and a merger would result in higher fares for travelers in their states. Rockefeller said a US Airways-Delta merger would prompt two more mergers—American and Northwest and United and Continental, with each of the resulting three carriers having 24% or more of the market. Grinstein denied rumors of Delta-Northwest merger talks.

2. Senator Urges Justice Dept. Vigor in Airline Merger Reviews.

Herb Kohl (D-Wisc.), Chairman of the Senate Judiciary Antitrust Subcommittee, expressed concern about the US Airways takeover offer for Delta in a letter to U.S. Attorney General Alberto Gonzales. Kohl urged the Justice Department to closely examine mergers among airlines of all sizes with due care and vigor. The letter, also signed by the Subcommittee's ranking Republican, Orrin Hatch of Utah, said any airline merger review by the Justice Department antitrust division would set a precedent for future airline mergers.

3. House Passes Bill to Implement More of 9/11 Panel's Suggestions.

The House approved legislation that would require airlines over the next three years to physically inspect all cargo on passenger aircraft. Industry and the Administration do not support the mandate. Existing technology would not allow for physical inspection of all air cargo at the level of screening passenger-checked baggage, they say, without impeding commerce and as a

result, cargo shipping could be shifted away from passenger airlines. ATA intends to work with the Senate on its cargo screening bill, advocating a mixed approach that would be funded more by the federal government than by airlines.

4. **Congress Asked to Revisit Passenger Bill Of Rights.**

Members of Congress were urged to consider a Passenger Bill of Rights by a group of Texas travelers who last year were stranded onboard an American flight at Austin-Bergstrom for over eight hours without food or access to working bathroom facilities. Their flight from San Francisco to Dallas was diverted to Austin due to heavy storms in Dallas. The coalition asked House and Senate members to urge DOT and the Department of Justice to condition a US Airways-Delta merger on the adoption of a Bill of Rights; similar measures have been enacted in other major mergers. The bill would establish procedures to respond to all passenger complaints within 24 hours, with appropriate resolution within two weeks; notify passengers within 10 minutes of a delay; establish procedures for returning passengers to terminal gates when delays occur, so that no plane sits on the tarmac for longer than three hours; publish and update monthly on the company's public website a list of flights delayed 30 minutes or more at least 40% of the time in a single month; compensate bumped passengers or passengers delayed due to flight cancellations or postponements of over 12 hours with refunds of 150% of ticket price; and ensure that baggage is handled without delay or injury and notify customers of lost baggage status within 12 hours and provide compensation equal to current market value of baggage and its contents. Similar legislation brought in 1999 failed to be enacted, with airlines vowing to improve conditions on their own.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. U.S.-EU Talks Continue.

U.S.-EU talks held in Brussels in January addressed moving forward on a stalled transatlantic open skies accord. The two sides reaffirmed their commitment to the goal of concluding the agreement and agreed to identify areas where improvements might be made before a follow-up meeting in Washington in early February. The EU expressed regret and disappointment over the DOT decision to withdraw its proposal to ease foreign control restrictions over U.S. airlines. John Byerly, U.S. Deputy Assistant Secretary of State for Transportation Affairs, said termination of the DOT rulemaking also disappointed many in the United States. "However," he said, "it's necessary now, on both sides of the Atlantic, to accept the reality that a major change in U.S. rules governing control of U.S. airlines is simply not in the cards, certainly not in the near term. We favor signing the November 2005 agreement . . . If Europe, however, continues to have reservations about moving ahead, we are prepared to consider their proposals in a spirit of joint endeavor and shared purpose." A draft air services accord reached in November 2005 was put on hold by European member states that linked the deal to changes in U.S. airline ownership rules.

2. Commission Proposes to Open Aviation Negotiations With Canada.

The European Commission proposed opening negotiations with Canada on a comprehensive aviation agreement and establishment of an open aviation area between the EU and Canada. Air traffic between the EU and Canada doubled between 2000 and 2005 and the number of passengers is expected to increase from a current 8 million to 14 million by 2011. Canada has bilateral air services agreements with 17 Member States.

VIII. EUROPE/AFRICA

1. Fernando Conte Appointed AEA Chairman for 2007.

The Association of European Airlines (AEA) confirmed Iberia Chairman and CEO Fernando Conte will head the group for 2007. He succeeds Lufthansa CEO Wolfgang Mayrhuber. AEA represents 31 major European airlines. Conte was named Chairman of Iberia in 2003 and CEO in 2006.

2. Interest in Alitalia Grows; New Board to be Named.

Air France-KLM CEO Jean Cyril Spinetta and Alitalia CEO Giancarlo Cimoli resigned from each other's Boards, as Air France-KLM was widely speculated to be near a bid for the Italian airline. Gabriele Checchia also resigned from the Alitalia Board after being named Italy's ambassador to Lebanon, and, with only two remaining members, the Board was dissolved. Alitalia called for shareholders to name a new Board by the end of February. The Italian government wants to sell at least 30.1% of its 49.9% stake in Alitalia and by a January 29 deadline, a large number of bidders had expressed interest.

3. bmi to Suspend Heathrow-Paris Charles de Gaulle Flights.

bmi will suspend service to Paris Charles de Gaulle from London Heathrow as of February 6 and from Leeds Bradford on March 25, due to a decline in demand. "There are now eight airlines operating 72 flights a day between London and Paris," said CEO Nigel Turner, with additional competition from high speed rail links, and "there simply aren't enough passengers" to fill the seats. "We are determined to get best value from our Heathrow slots and to operate and develop services that will derive the best return on that valuable asset," Nigel said. "We have a clear strategy of bringing much needed competition to new destinations and improving our overall yields." Low-cost services operated by bmibaby between East Midland and Paris Charles de Gaulle are unaffected.

4. Silverjet Begins All-Business Class Transatlantic Service.

British all-business class Silverjet began daily flights to New York Newark, featuring 30-minute check-in at its exclusive private terminal at London Luton and 6'3" long flat beds. CEO Lawrence Hunt said initial seat sales were "comfortably ahead of management's expectations . . . By the end of the year, we hope to be operating a three times per day service to New York." The world's first carbon neutral airline includes a mandatory carbon offset contribution in its ticket prices, "giving customers the opportunity to reinvest 'Carbon Points' into a number of climate friendly projects around the world."

Silverjet joins Eos, Maxjet and L'Avion in the new all-business-class transatlantic genre.

5. American, Malev to Code Share.

American Airlines applied for DOT authorization to begin code share cooperation with Malev, beginning March 25. American would place its code on Malev's daily Budapest-New York Kennedy flights, on flights between Budapest and London Gatwick, Frankfurt, Paris de Gaulle, Brussels, Rome and Zurich, and flights beyond Budapest to destinations in Central and Eastern Europe, the Middle East and North Africa. Malev would place its code on American's transatlantic flights between Malev's European gateways and the United States, and flights between New York and Toronto and other points in the United States, Canada, the Caribbean and South America. Malev will soon become a member of oneworld; American is a founding member. They have signed a reciprocal frequent flyer agreement.

6. Lithuanian FlyLAL to Expand in Eastern Europe.

Private Lithuanian carrier FlyLAL is seeking acquisitions or partners in Russia, Ukraine and the Balkans. Owners of the Vilnius-based carrier hope to complete a network serving Eastern Europe within three to seven years. They are among bidders for Malev, and former American Airlines Chairman Robert Crandall is serving in an advisory role. The company estimates that air traffic in Eastern Europe is growing three times as fast as in the West. FlyLAL had sales of €71 million in 2005, with 542,000 passengers.

7. Continental to Offer Daily New York Newark-Athens Nonstops.

Continental will launch daily Boeing 767-200ER nonstops between New York Newark and Athens in June. Frequency will be reduced to five weekly flights during September/October and April/May and to three from November-March due to seasonal reduction in demand.

8. China Southern Beijing-Lagos Service First Africa/Sino Route.

See Section IX, item 5.

IX. ASIA/PACIFIC / MIDDLE EAST

1. JAL Overhaul to Shift Routes, Cut 3,000 Jobs.

Japan Airlines (JAL) plans a major offensive this year to increase profits, said President Haruka Nishimatsu. International service will be streamlined, with Tokyo-Zurich summer service suspended and services to Paris, Moscow, New Delhi and New York increased. Fuel-efficient Boeing 737-800s will be used on flights to China and Vietnam. First-class seats will be offered on some domestic services to win back business travelers. JAL plans to cut about 3,000 jobs (5% of its workforce) through March 2010.

2. ANA Plans Major Domestic Route Realignment.

All Nippon Airways (ANA) reportedly is considering a route realignment this year that would affect more than 20% of its domestic routes.

3. American Moves to Tokyo Narita Terminal 2 With oneworld Partners.

American relocated its Tokyo Narita service to Terminal 2, near oneworld partners Cathay Pacific, Qantas, Finnair and JAL. Their passengers will have minimum connection times of 70 minutes, compared to a former 110 minutes. From Tokyo, American serves Chicago and Los Angeles and is the only U.S. airline to offer direct service to Dallas/Fort Worth and New York Kennedy.

4. Air China, Asiana Broaden Code Share Service.

Asiana and Air China agreed to expand their code share agreement to cover nine cities in China—Beijing, Qingdao, Weihai, Tianjin, Dalian, Yanji, Chengdu, Chongqing and Hangzhou. On the Korean side, the agreement will cover Seoul/Incheon and Busan. Current cooperation between the two carriers is on just two routes, Hangzhou-Seoul/Incheon and Beijing-Busan. The additional routes will be operated with 151 total weekly frequencies. Asiana is a member of the Star Alliance, which Air China will join next year.

5. China Southern Beijing-Lagos Service First Africa/Sino Route.

China Southern launched the first ever air service between mainland China and Africa. The three weekly Beijing-Lagos Airbus A330 flights will stop in Dubai and offer mini-pod, flat bed seating in premium business class. China-Africa has an average growth rate of 23.6%; more than 30 Chinese enterprises have been established in Nigeria, with an accumulated investment of over \$100 million, reports China Southern.

6. **Qantas to Buy Stake in Pacific Airlines of Vietnam.**

Qantas plans to buy a stake in state-controlled Pacific Airlines of Vietnam as part of a plan to have traffic in the region account for 15% to 20% of its total in the next decade. Qantas low-cost unit Jetstar will shift its focus from short-haul flights to long-haul services this year, said its CEO, Alan Joyce. Jetstar broke even in December 2006, after one month of operations, said Joyce.

7. **Fernandes to Launch AirAsia X.**

AirAsia founder Tony Fernandes is launching a long-haul, low-cost carrier in July with flights to Britain from Kuala Lumpur International. AirAsia X will be operated by Malaysian carrier Fly Asian Express (FAX), also founded by Fernandes, which currently operates rural Borneo services. AirAsia X will serve other destinations in Europe, as well as Australia, China and India, and reportedly will link with other low-cost carriers, such as Virgin Group and EasyJet, to launch, said Fernandes "the world's first low-cost global network."

8. **Thai Nok Air to Launch International Flights.**

Thai low-cost airline Nok Air will launch its first international flights, from Bangkok to Bangalore, in April. The carrier will continue to expand domestically, said CEO Patee Sarasin.

9. **Air India, Indian Airlines to Merge.**

The Indian Government announced that state-owned Air India and Indian Airlines will merge in April, in an effort to be more competitive with such privately owned carriers as Jet Airways and Kingfisher Airlines. Air India serves 40 destinations worldwide, while Indian Airlines concentrates on the domestic market.

X. AMERICAS

1. US Airways Withdraws Offer for Delta

US Airways Group withdrew its nearly \$10 billion offer for Delta on January 31, 2007 after being informed by Delta's Official Unsecured Creditors' Committee that it would not meet US Airways February 1 deadline. Industry analysts believe the collapse of the US Airways proposal will take pressure off other legacy carriers to pursue mergers.

2. Northwest Files Bankruptcy Exit Plan, Acquires Mesaba.

Northwest filed a plan to exit bankruptcy and asked the court to reject more than \$1 billion in claims made by its flight attendants union. The union said the airline broke a collective bargaining agreement when it imposed cuts in pay and benefits. Northwest said it would not have survived without the cuts and employees would have lost their jobs. Northwest agreed to buy its regional feeder Mesaba, which intends to exit from Chapter 11 bankruptcy protection this year. The federal Pension Benefit Guaranty Corp. (PBGC) said Northwest agreed to pay \$14 million to settle overdue insurance premiums for its pilot retirement plan, in exchange for which the PBGC agreed to release Northwest from liens related to a waiver for late payments to its pension plans.

3. AirTran Raises Bid for Midwest.

AirTran sweetened its unsolicited takeover bid for Midwest Air, offering \$345 million in cash and stock, almost 18% higher than a rejected bid made in December. Meanwhile, Midwest released a plan to increase revenue and capacity this year.

4. JetBlue Announces New Service to San Francisco.

JetBlue will introduce San Francisco International service in May with flights from New York Kennedy and Boston. JetBlue also offers Bay area service to those cities from Oakland, and San Jose.

5. Frontier Selects Republic as Regional Partner.

Frontier Airlines selected Indianapolis-based Republic Airlines to replace its current regional jet operator, Horizon Air, a unit of Alaska Air Group. Republic will deliver 17 Embraer 170s between March 2007 and December 2008. Frontier will control routing, scheduling and ticketing. The agreement has a term of 11 years from the date of the last aircraft delivery. Frontier has the option to extend the agreement for up to six more years.

6. **Spirit Buys Another 30 Airbus A319s.**

Spirit Airlines purchased 30 additional Airbus A319 aircraft, with new deliveries beginning in 2009, bringing its fleet to 70 aircraft by 2013. Fort Lauderdale-based Spirit, with hubs in Fort Lauderdale and Detroit, provides low fare service to 32 cities in the United States, the Bahamas, and the Caribbean.

7. **ExpressJet, Allegiant Serving Smaller Cities.**

Continental feeder ExpressJet plans to start a service in April that will connect 24 smaller cities in the West, Midwest and Southeast with larger airports. Using 44 regional jets equipped with XM Satellite Radio, the Houston-based service will offer advance seat assignments and snacks and meals on longer flights. Continental reduced its contract with ExpressJet, selecting Chautauqua to fly 44 regional jets. Las Vegas-based Allegiant, which raised more than \$90 million in a December initial public offering, is focusing on linking travelers in small cities to leisure destinations such as Las Vegas, Orlando and Tampa/St. Petersburg.

8. **Brazil News.**

Brazil's civil aviation authority (ANAC) withdrew Varig's authority to operate 119 of 270 domestic routes, reports Reuters, saying the carrier operated only 151 routes by a January 14 deadline after re-launching operations on December 15. GOL reports it has won authority to operate 14 weekly Boeing 737-800 NG flights to Lima; this is the low-fare airline's eighth international destination. TAM achieved a 49.1% domestic and 60.6% international market share at the end of December 2006.

9. **Silverjet Begins All-Business Class Transatlantic Service.**

See Section VIII, item 4.

10. **American, Malev to Code Share.**

See Section VIII, item 5.

11. **Continental to Offer Daily New York Newark-Athens Nonstops.**

See Section VIII, item 7.

12. **American Moves to Tokyo Narita Terminal 2 With oneworld Partners.**

See Section IX, item 3.