



WASHINGTON AVIATION SUMMARY

JANUARY 2007 EDITION

CONTENTS

I.	REGULATORY NEWS.....	1
II.	AIRPORTS.....	3
III.	SECURITY.....	5
IV.	E-COMMERCE AND TECHNOLOGY.....	7
V.	NOISE AND ENVIRONMENT.....	8
VI.	U.S. CONGRESS.....	9
VII.	BILATERAL AND STATE DEPARTMENT NEWS.....	10
VIII.	EUROPE/AFRICA.....	11
IX.	ASIA/PACIFIC/MIDDLE EAST.....	13
X.	AMERICAS.....	16

For further information, including documents referenced, contact:

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

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

©2006 Kirstein & Young PLLC.

I. REGULATORY NEWS

1. DOT Withdraws Foreign Investment Rule.

The U.S. Department of Transportation (DOT) withdrew its proposal to change rules governing international investment in U.S. airlines, after reviewing public comments and amid Congressional and labor opposition. The proposal would have allowed foreign investors more input in the marketing, routing and fleet structures of U.S. airlines, while retaining current domestic ownership and labor protections, said DOT. Transportation Secretary Mary Peters re-affirmed a U.S. commitment to completing an open skies agreement with the European Union (EU), which has been aligned with the investment proposal.

2. DOT Rejects Virgin America Application.

Virgin America successfully completed the last formal step in the Federal Aviation Administration's (FAA) airline certification review, that of flight proving runs. DOT tentatively denied the company's application for an operating certificate, however, after an extensive review of Virgin's heavily contested submissions and public comments, determining the startup would have to demonstrate that it is independent of UK-based Virgin Group and other non-U.S. citizens and that at least 75% of its voting equity is held by U.S. citizens. Virgin America said it will use the DOT show-cause order as a roadmap to address the issues raised and to demonstrate that it will meet all ownership and control requirements. Planning to begin service this spring from its home base at San Francisco International to New York Kennedy, Virgin America has 169 employees and has taken delivery of nine aircraft, with firm orders for 34 A319s and A320s.

3. Tentative Antitrust Immunity Approved for Expanded Star Alliance.

DOT tentatively proposed to allow United and some of its international Star Alliance partners to add Swiss International, LOT Polish Airlines and TAP Air Portugal to their immunized alliance and to permit expanded cooperation between United and alliance member Air Canada. The action would provide immunity from U.S. antitrust laws to the extent necessary to enable them to plan and coordinate services over their entire international route systems, as well as pave the way for implementation of a U.S.-Canada open skies agreement that was reached in 2005. European members of the alliance with immunity are Austrian, Lufthansa and SAS.

4. FAA Certifies Airbus A380.

FAA issued a Type Certificate for the Airbus A380, clearing the 555-seat, double-decker to fly passengers and cargo. The European Aviation Safety

Agency and FAA gave their approval in a joint ceremony at Airbus French headquarters in Toulouse. Airbus applied to FAA for A380 certification in 1998, but its size and complexity required FAA to extend its normal five-year certification period for a large airliner to seven years to ensure required standards of safety. Flight tests needed for FAA approval of A380 operations on 150-foot-wide runways are to be completed in this quarter. The International Civil Aviation Organization (ICAO) is considering the minimum separation criteria for airplanes operating behind an A380 in all phases of flight to minimize wake vortex effects.

5. **DOT Air Travel Consumer Report for October.**

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

	October 2006 / 2005	September 2006	Full Year 2005 / 2004 / 2003
On-time arrival rate %	72.9 / 81.3	76.2	77.4 / 78.1 / 82
Cancellations %	1.9 / 1.8	1.7	1.87 / 1.56 / 1.79
Mishandled baggage*	7.51 / 4.96	8.25	6.04 / 4.91 / 4.19
Consumer complaints:			
Airline service	628 / 658	626	8,735 / 7,452 / 5,983
Disability-related	29 / 48	28	525 / 521 / 375
Discrimination**	10 / 8	8	128 / 118 / 85

* Reports per 1,000 passengers.

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

6. **October Airline Employment Down 2.2%.**

U.S. scheduled passenger airlines employed 2.2% fewer workers in October 2006 than in October 2005, reports DOT, the smallest drop since March 2005. The seven network carriers employed 263,000 in October (65.2% of the passenger airline total), while low-cost carriers (LCC) employed 69,000 (17.6%) and regionals 56,000 (13.9%). Network carriers have reduced headcount by 28.3% from 367,000 in October 2002. LCC employment rose 0.8% in October 2006 compared to October 2005, the first increase after 18 consecutive decreases, and increased 7.9% from 2002 to 2006. Regional carrier employment was down 0.4% in October, the 10th consecutive month of decreases, but has increased by 9.9% since October 2002.

II. AIRPORTS

1. FAA Continues Flight Limits at LaGuardia.

FAA released a temporary plan, effective January 1 to September 2007, to optimize LaGuardia use. The plan requires airlines to use their slots at least 80% of the time or lose them in a lottery. FAA will maintain the hourly limit of 75 take offs and landings per hour for scheduled weekday flights between 6 a.m. and 9:59 p.m. EST, established in 2000 when LaGuardia ranked as the worst U.S. airport for delays and congestion.

2. LAX to Increase Terminal Fees.

The Los Angeles Board of Airport Commissioners unanimously approved an increase that will quadruple rents and other fees for low-cost carriers in Terminals 1 and 3 and double maintenance fees for all airlines. Effective February 1, the increases will raise the cost per boarded passenger by about \$4.19 for carriers in Terminal 1 to \$9.89. For airlines in Terminal 3, costs would rise about \$5.45 to \$11.60, reports the *Los Angeles Times*. Airlines are lobbying the city and those with long-term leases have threatened to sue, saying the new fees violate the terms of existing leases. Airport officials and carriers say they are willing to negotiate a compromise.

3. Minneapolis Cuts Cost for Airlines.

Metropolitan Airports Commission (MAC) proposed financial incentives for its largest tenant, Northwest, that it says would protect travelers in the carrier's bankruptcy proceedings and encourage air service growth at Minneapolis-St. Paul International Airport (MSP). The plan reduces airline rates and charges through new capital cost recovery methods and sharing of certain concession revenues, while earning cash for maintenance and capital projects. Potential financial and operational risks associated with Northwest's bankruptcy, such as rejection of airport leases and failure to pay \$290 million in general obligation debt to the MAC, would be minimized. MSP says the plan would save scheduled airlines an estimated \$279 million between 2006 and 2020, including projected savings of \$239 million to Northwest.

4. Denver Expansion Planned.

Denver International (DIA) will build at least eight new gates to accommodate increasing schedules of Southwest and other carriers. The \$160 million, three-year project is the first major concourse expansion since DIA opened in 1995.

5. **Second Las Vegas Airport Proposed.**

A proposed \$7 billion airport in the Ivanpah Valley, about 40 miles southwest of Las Vegas, is on the drawing board as McCarran nears capacity. If approved the new airport would be built by 2017 and handle about 35 million passengers annually. Environmentalists worry about the effect on nearby Mojave National Preserve in California and noise and air pollution in parts of California and southern Nevada; an environmental impact study is expected in 2010. Deutsche Bank and other research says airport congestion could lead Las Vegas resorts to face a shortfall of up to 7 million visitors annually by 2017, the soonest a new airport could be operating; developers should be cautious when planning new rooms, says the research, and tourism boosters should promote travel to Las Vegas by automobile.

6. **Pearson Raises Landing Fees.**

The \$11,000 cost to land a Boeing 747 at Toronto Pearson increases 1.45%, or \$170, in January, announced Greater Toronto Airports Authority. Landing fees at Pearson, the most costly in the world, increased 7% last January. Officials said 34% of the fee goes toward the \$144 million annual rent paid to the government; the authority is seeking a rent reduction and said savings would be passed on to airlines.

7. **ADP Commits €2.4 Billion to Paris de Gaulle S4 Satellite.**

Aéroports de Paris (ADP) plans to invest €2.4 billion on construction of the S4 satellite at Paris de Gaulle, scheduled to open in 2012. ADP will begin operating new facilities that can handle an annual 19.4 million additional passengers by the end of 2008.

8. **Ben-Gurion to Build Islamic Prayer Room.**

Israel's Ben-Gurion Airport will construct its first Islamic prayer room to accommodate the needs of Muslim travelers. Israeli Arabs constitute 20% of the country's population of 7 million.

9. **Changi Airports International to Manage Abu Dhabi.**

Changi Airports International signed on to manage operations at Abu Dhabi International for an 18-month term, its first such contract in the Middle East. Abu Dhabi has a current capacity of 7 million passengers annually. Changi earlier secured a joint venture contract with Moscow Sheremetyevo Airport for Terminal 1 management.

III. SECURITY

1. DHS Automated Targeting System Under Fire.

The Electronic Frontier Foundation (EFF) filed suit against the Department of Homeland Security (DHS) in federal court, demanding immediate answers about the Automated Targeting System (ATS), which it termed “an invasive and unprecedented data-mining system deployed on American travelers.” ATS creates and assigns risk assessments on air cargo and passengers entering and leaving the country and allows authorities to retain the data for 40 years. DHS announced that the program would launch on December 4, but Secretary Michael Chertoff later revealed it had already been in operation for several years. Under ATS, said EFF “individuals have no way to access information about their ‘risk assessment’ scores or to correct any false information about them. But while you cannot see your score, it will be made readily available to untold numbers of federal, state, local, and foreign agencies.” EFF is seeking all Privacy Impact Assessments for the ATS, all records that describe redress for individuals who believe the system includes inaccurate information and all records that discuss potential consequences for travelers as a result of the system. The EU requested confirmation that ATS does not violate European privacy rights and that air passenger data shared with the United States is being handled in accordance with the U.S.-EU agreement signed in October.

2. Secure Flight Violated Privacy Law.

A report by the DHS privacy office found that Secure Flight, a passenger screening program developed by the Transportation Security Administration (TSA), in 2004 violated the 1974 Privacy Act when it gathered passenger data from commercial brokers without notifying the passengers. Congress has Secure Flight on hold, except for testing, until privacy and security concerns are resolved.

3. TSA Approves Shoe Scanning Technology.

Members of the Clear version of the Registered Traveler program will be the first travelers to benefit from new technology, developed by General Electric, that scans shoes for signs of explosive material. TSA has approved the technology, but the \$100,000 machines will not be widely available for some time. Clear Registered Traveler, operated by Verified Identity Pass, features a checkpoint kiosk where members have fingerprints and irises scanned for identity verification; shoe scanning becomes available in January and additional technology soon will allow members to pass through without removing coats or outer garments.

4. Tom Ridge to Evaluate U.S. Entry Process.

Tom Ridge, the first Secretary of Homeland Security and a former Pennsylvania governor, has teamed with the newly launched Discover America Partnership to evaluate the U.S. entry process and propose strategies for striking a better balance between secure borders and open doors. According to a recent Discover America Partnership survey of more than 2,000 international travelers, the U.S. visa process and the perception of how visitors are treated at points of entry are deterring travelers from visiting the United States, which has experienced a 17% decline in overseas travel since 9/11, and a 10% decline in business travel in the 2004-2005 period.

5. Backscatter Trial at Phoenix Delayed.

TSA delayed plans to introduce backscatter technology at Phoenix Sky Harbor to avoid potential glitches during the busy holiday travel season. The controversial equipment finds explosives and other weapons via X-ray technology that can see through clothing and capture clear pictures of the human body. The American Civil Liberties Union has called backscatter a virtual strip search and others fear the X-ray technology could expose passengers to potentially harmful radiation. Sky Harbor will be the first U.S. airport to test the equipment, with others following during 2007 as part of a nationwide pilot program.

6. Heathrow Testing Biometric Security Checks

London Heathrow has been testing biometric fingerprint and iris scans in screening passengers on Emirates and Cathay Pacific flights to and from Dubai and Hong Kong. The trial ends January 31, 2007, and is voluntary. Passport and biometric data are stored by the United Kingdom Immigration Service in accordance with the UK Data Protection Act of 1998. Airport operator BAA said the system provides passengers with an "electronic key" that allows them to pass easily through each stage of the airport's processes. All European nationals flying out of Heathrow's Terminal 3 will be able to join the program in its second phase.

IV. E-COMMERCE AND TECHNOLOGY

1. Travelport to Acquire Worldspan.

Travelport, owner of the Galileo global distribution system (GDS), plans to purchase rival GDS Worldspan for \$1.4 billion. Travelport also operates online travel agent Orbitz, among its 20 brands, and Gulliver's Travel Associates, a wholesaler of travel content. Travelport CEO Jeff Clarke will lead the combined company, while Rakesh Gangwal, Worldspan Chairman, President and CEO, will leave following completion of the merger. Travelport said 750 travel suppliers, 63,000 travel agencies and millions of end consumers globally benefit from services provided by the two organizations. The initial integration focus will be on consolidating technology and administrative operations resulting in near-term cost savings of \$50 million. Management also sees opportunity to cross-sell Worldspan's technology products to Travelport's global customer base. Travelport, privately owned by Blackstone Group of New York and Technology Crossover Ventures of Palo Alto, had 2005 revenues of \$2.4 billion, has 8,000 employees and operates in 130 countries.

2. Sabre Holdings to be Acquired by Texas Pacific, Silver Lake Partners.

Silver Lake Partners and Texas Pacific Group plan to acquire Sabre Holdings in a transaction valued at \$5 billion. The closing is expected by early second quarter 2007. Sabre Holdings' brands include Travelocity, Sabre Travel Network and Sabre Airline Solutions. Headquartered in Southlake, Texas, the company has 9,000 employees in 45 countries; 2005 revenues totaled \$2.5 billion. Silver Lake Partners invests exclusively in technology-related industries. America West, Continental and Hotwire have been among Texas Pacific Group's extensive investments.

V. NOISE AND ENVIRONMENT

1. Europe Approves Aviation Emissions Scheme.

The European Commission approved plans to include aviation in its emissions trading scheme. Intra-EU flights will be required to join the scheme in 2011, and flights into and out of the EU in 2012. Quotas allowed for carriers will be equal to average 2004-2006 emissions data. The scheme limits the amount of carbon dioxide (CO₂) emissions some industries can release, allowing them to buy rights if they exceed their targets or sell them if they are below their allotment. The EC estimated that fares would increase by €1.8 to €9 by 2020. The scheme will be a heavy burden, said the Association of European Airlines (AEA), and carriers will not be able to pass all costs to passengers because the industry is so competitive. The Air Transport Association of America (ATA) called the EC's unilateral approach a violation of "international laws and bilateral air service agreements . . . ICAO is working on appropriate multilateral solutions to address greenhouse gas emissions of international aviation, including emissions trading guidance. The EU is alone in its efforts to bypass that ongoing work. We urge the EU to join with the rest of the world in working through ICAO to find constructive solutions to this issue."

2. Airline Industry Urged to Reduce Environmental Footprint.

"U.S. airlines throw away enough aluminum cans every year to build 58 new 747s," says New York-based Natural Resources Defense Council (NRDC), but some airports and carriers "are finding creative solutions that pay significant financial dividends while reducing their environmental footprint." A new NRDC report says airlines and airports send 80% of their waste to dumps or incinerators. While 75% of this waste is recyclable or compostable, the industry-wide recycling rate is 20% or less, one-third less than the U.S. average. Airports that have serious recycling programs are reaping financial benefits, found the study. Seattle-Tacoma saves \$180,000 annually and Baltimore-Washington has cut costs by \$15,000 a month. Oakland has negotiated lower waste management fees, decreasing costs for one airline from \$7,700 per month to \$2,500, and for another from \$2,300 to \$1,000.

VI. U.S. CONGRESS

1. Hearings Expected on Airline Mergers.

When the new Congress convenes in January, it is expected that hearings will be held to examine the economic impact of airline consolidation, reports Cox News Service. Amid US Airways' bid for Delta and other possible mergers, lawmakers from cities with major airline operations that would be affected by consolidation are worried about the loss of jobs and air service and higher ticket prices. Incoming House Transportation Committee Chairman James Oberstar (D-Minn.) said he wants his committee to stem mergers and encourage the Justice Department to prevent a loss in competition.

2. Aerospace Workforce Bill Clears Congress.

Congress approved legislation that directs 11 federal agencies, led by the Labor Department, to form a task force to address a decline in U.S. aviation manufacturing workers. The Interagency Aerospace Revitalization Task Force will report to Congress each year on the status of federal policies and partnerships designed to advance training programs in the areas of science, engineering, technology, mathematics and skilled vocational trades. Aerospace Industries Association (AIA) said the bill's approval came as the result of close collaboration among Commerce Committee Chairman Ted Stevens (R-Alaska) and Ranking Minority Member Daniel Inouye (D-Hawaii) and panel members Kay Bailey Hutchison (R-Texas) and Jay Rockefeller (D-W.Va.). The average age of the American aerospace manufacturing employee now exceeds 50, and in 2008, 27% of aerospace workers will become eligible for retirement, said AIA.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. China, U.S. Talks Cover Travel Restrictions.

China's Vice-Premier Wu Yi and U.S. Treasury Secretary Henry Paulson presided over the inaugural round of a strategic economic dialogue meant to air trade and currency grievances and explore long-term cooperation. Both sides pledged to find ways to ease restrictions on personal and business travel. U.S.-China open skies talks are expected to resume in January.

2. EC to Open Aviation Negotiations With Ukraine.

The EC is opening negotiations with Ukraine to develop a common aviation area; both entities recently signed a horizontal air services agreement and an agreement on Ukraine's participation in GALILEO and Ukraine has bilateral air services agreements with all 25 EU Member States. In 2005, 1.8 million passengers traveled between the EU and Ukraine by air transport, 300% more than five years ago.

3. Historic First Spanish Flight Lands in Gibraltar.

Daily Iberia service between Madrid and Gibraltar began following an agreement between Spain and Britain, which have disputed ownership of British-ruled Gibraltar for three centuries. Flights to Gibraltar from Madrid previously were via London. Gibraltar's airport, which Spain says is on land not ceded to Britain under the Treaty of Utrecht in 1713, will have a new terminal by 2008 with entrances on both sides of the border, reports Reuters, so passengers and cargo traveling to and from Spain can bypass Gibraltar controls and taxes. Britain and Spain have considered sharing sovereignty of Gibraltar, but in a referendum four years ago 99% of the 28,000 Gibraltarians voted to remain part of Britain.

4. ASEAN Open Skies Agreements Underway.

Association of Southeast Asian Nations (ASEAN) economic ministers agreed to accelerate integration of air travel and tourism sectors and develop an action plan for progressive implementation of regional open skies arrangements. Indonesia, the Philippines, Malaysia and Brunei signed a limited open skies pact, effective immediately, which allows selected airlines unrestricted flights to destinations in each of those countries.

VIII. EUROPE/AFRICA

1. Loyola de Palacio Dies.

Loyola de Palacio, the former EU Commissioner of Transport and Energy, died of lung cancer in Madrid; she was 56.

2. Italian Consortia to Bid for Alitalia.

Italy plans to offer 30.1% of its 49.9% stake in Alitalia in a tender that would favor Italian investors, requiring commitments to provide services throughout Italy and to maintain the national identity and branding of the airline. Talk of an alliance with Air France-KLM has quieted. Investors said to be interested include the heads of Air One and Piaggio. Alitalia continues to struggle financially, with a pre-tax loss of €276 million in the first nine months of 2006, compared to €168 million in the same period 2005; a restructuring plan underway is meant to avert bankruptcy.

3. Ryanair Puts Aer Lingus Bid on Hold After EU Probe.

Ryanair withdrew its hostile takeover bid for Aer Lingus, after the EC launched an investigation into the offer because of competition concerns.

4. France Investigates easyJet for Labor Violations.

British low-cost airline easyJet was placed under French judicial investigation for possible violations of that country's labor laws at its Orly base. Under a government decree adopted in November, low-cost airlines with bases in France must comply with French labor laws. EasyJet said it complies fully with UK, French and EU law, adding that EU regulations say workers employed in international transport should be subject to regulation of the state in which their employer has its registered office.

5. American to Operate Chicago Nonstops to Dublin, Shannon.

American will introduce daily passenger/cargo nonstop summer service from Chicago to both Shannon and Dublin in May. Existing Shannon-Chicago service is operated in conjunction with its Dublin-Chicago flight.

6. FL Group Increases Stake in AMR, Sells Sterling Airlines.

FL Group increased its stake in American Airlines parent AMR Corp. to 5.98%, becoming the third largest shareholder in the company. FL Group sold Danish low cost carrier Sterling Airlines to newly established Northern Travel Holding, which is comprised of Icelandic investment companies Fons (44%), FL Group (34%) and Sund (22%). Northern Travel also acquired Iceland Express and Danish travel agent Hekla Travel, as well as 51% of UK-based charter

Astraeus and 29.26% of Swedish travel agent Ticket. Northern Travel said the companies will be operated in current form and no change in staff is planned.

7. L'Avion Begins Paris-New York Service.

French all-business-class L'Avion won DOT approval to operate flights between the U.S. and France and launched six weekly Paris Orly South to New York Newark roundtrips, using a single leased 90-seat Boeing 757-200. L'Avion offers low fares and frills, said Marc Rochet, CEO of operating company Elysair, and the former head of AOM-Air Liberte.

8. Virgin Atlantic to Begin Daily London-Chicago Service.

Virgin Atlantic will resume service to Chicago O'Hare from London Heathrow, suspended post-9/11. The daily Airbus A340-300 service begins April 23. London Heathrow is the #1 international destination out of Chicago, with flights between Chicago and the UK carrying nearly two million passengers each year, said the carrier. O'Hare to Heathrow is the second busiest route between the two countries, making it one of the most traveled routes in the world. Virgin Atlantic also announced a second daily Heathrow-Washington flight for the summer season from April 24.

9. Star Alliance News.

Varig will leave the Star Alliance, as of January 31, because its new flight schedule is greatly reduced. Other Alliance members "together provide more than 270 weekly flights to Africa, Europe and North America from six destinations in Brazil," said Star, which is "exploring various options to secure a wider presence in the region." Star Alliance accepted the membership application of Turkish Airlines, whose CEO Temel Kotil says showed the greatest growth in Europe during the first nine months of 2006, increasing its global aviation market share from 0.59% to 1.1%. The integration of Turkish should be completed within the next 16 months. Meanwhile, Star Alliance partner Lufthansa and Turkish signed a cooperation agreement for summer service, beginning March 25, which includes code sharing on selected flights between the two countries and harmonized flight schedules. Star Alliance appointed Austrian Airlines executive Peter Malanik as Chairman; he replaces Graham Atkinson of United.

10. DOT Rejects Virgin America Application.

See Section I, item 2.

IX. ASIA/PACIFIC / MIDDLE EAST

1. Qantas Accepts US\$8.7 Billion Buyout Offer.

The Qantas Board accepted a US\$8.7 billion buyout offer for 100% of the company from Airline Partners Australia (APA), a consortium including Australia's Macquarie Bank and U.S.-based Texas Pacific. Qantas Chairman Margaret Jackson and CEO Geoff Dixon, who will continue in their current positions, stressed that "Qantas will remain a majority Australian-owned, Australia-based airline." Piqued by massive press speculation, Dixon said "the suggestion that Qantas might get favorable treatment from Sydney Airport due to the less than 15% equity stake Macquarie would hold in Qantas under APA's proposal was wrong." Macquarie has a 55.8% stake in Sydney Airport.

2. Virgin Blue to Launch International Widebody Operations, U.S. Flights.

Virgin Blue won approval from the Australian government to begin serving the U.S. market and hopes to launch widebody operations by late 2008, subject to regulatory approvals, the granting of adequate bilateral access and the conclusion of aircraft negotiations. The carrier estimates a 40% increase in after tax profit for 2006-07 over the previous corresponding period.

3. Mesa, Shenzhen to Create Regional Airline in China.

Phoenix-based Mesa Air Group signed a joint venture agreement with Shenzhen Airlines to create a Chinese regional airline that is expected to begin scheduled domestic service from Beijing in 2007. Mesa initially will provide pilot, maintenance and operations support and training, as well as the sourcing of aircraft. Mesa is the first U.S. passenger airline to form a strategic alliance to create a new airline to operate in China. Shenzhen is headquartered in southern China's Guangdong Province.

4. Air China Launches Beijing-Madrid-Sao Paulo Service.

Air China began twice weekly service from Beijing to Sao Paulo via Madrid, the only direct, same-plane air service between China and Brazil. The carrier will increase its current Beijing-San Francisco frequency to daily on April 1.

5. JAL, Mexicana Expand Code Share.

Japan Airlines (JAL) and Mexicana expanded their code share partnership to cover JAL-operated twice-weekly Tokyo-Mexico City via Vancouver roundtrips and five weekly Tokyo-Vancouver flights, and five weekly Mexicana-operated Vancouver-Mexico City nonstops. Other flights will be added in March. Separately, JAL reached an agreement to launch cooperative projects with the Civil Aviation Safety Institute of China. Established in Beijing in May 2006, the

Institute studies operational standards, airport safety management, air traffic safety management, aircraft airworthiness certification, accident investigation and safety information and safety theory, and provides air safety specialist education to Chinese commercial airlines.

6. **Asiana, ANA to Expand Strategic Partnership.**

Asiana and All Nippon Airways (ANA) will expand their code sharing agreement to cover 154 weekly services over 18 routes operated by both airlines between Korea and Japan, by February 2007, and will strengthen strategic collaboration in related fields, such as sales, transportation, purchasing and the exchange of personnel. The Star Alliance partners have been code sharing since 2000 and in 2006 began offering joint cargo operations on all Korea–Japan routes.

7. **Northwest, Korean Air Expand Code Share.**

Northwest and Korean Air expanded their code share service to include Korean Air-operated flights between Seoul and Seattle, Chicago, Tokyo and Osaka; between Tokyo and Los Angeles; and between Busan, South Korea and Tokyo and Busan and Osaka. Routes operated by Northwest include Chicago to Detroit, Memphis and Minneapolis/St. Paul; Los Angeles to Las Vegas; and Seattle to Detroit and Seattle to Minneapolis/St. Paul.

8. **Australian Travel Agents Sue Six International Carriers.**

Australian travel agents lodged an A\$80 million class action against six international carriers—Qantas, Air New Zealand, British Airways, Cathay Pacific, Singapore and Malaysian. The 1,450 agents say the airlines deprived them of commissions and breached the Trade Practices Act by claiming fuel surcharges as a separate tax rather than part of the airfare. Travel agents sold 85% of the \$16.9 billion worth of international tickets bought in Australia between 2004 and 2006.

9. **Royal Jordanian to Privatize in 2007.**

Royal Jordanian will be privatized by the end of 2007, announced President/CEO Samer Majali, with the government planning to sell 74% of its stake. Shares to be sold to non-Jordanian investors should not exceed 49%. The carrier will initiate service to Montreal and Budapest in June, and intends to incorporate Airbus A319s in 2008 and 2009 and will modernize its long-haul fleet by replacing its A340s and A310s with new Airbus A350s or Boeing 787s in 2010.

10. **American in Pacts with Gulf Air, Royal Jordanian.**

American and Gulf Air added reciprocal frequent flyer privileges to their code share relationship. American also applied to DOT for authorization to begin

code share cooperation with Royal Jordanian. Beginning March 25, Royal Jordanian would place its code on 15 of American's key domestic routes out of both New York Kennedy and Chicago O'Hare; and American would place its code on Royal Jordanian flights to Amman from Chicago, New York, London, Paris and Frankfurt and from Amman to Aqaba and Dubai. In 2007, Royal Jordanian will become a member of oneworld; American is a founding member of oneworld.

11. ASEAN Open Skies Agreements Underway.

See Section VII, item 4.

X. AMERICAS

1. Delta, US Airways Debate Takeover Bid.

Delta rejected the \$8.4 billion unsolicited bid made by US Airways in November and in its reorganization plan maintained it would emerge from bankruptcy this year as a standalone carrier with a value of \$9.4 billion to \$12.0 billion. The two carriers duelled over whether antitrust clearance could be achieved and labor issues overcome in a merger and Delta said its suitor's predictions on synergies "are premised on faulty economic assumptions." US Airways Chairman/CEO Doug Parker said the reorganization plan "will provide Delta creditors with a benchmark against which to evaluate the competing proposals and we welcome that comparison. This is an important step in a process that we believe will result in the merger of US Airways and Delta."

2. Northwest Considers Merger, Seeks to Take Over Mesaba.

Northwest asked a U.S. bankruptcy court for permission to hire financial advisor Evercore Partners to evaluate and possibly implement strategic alternatives, including a merger. The carrier also entered into negotiations to acquire its regional feeder, Minneapolis-based Mesaba. Northwest already owns 28% of Mesaba parent MAIR Inc., which also owns Billings, Montana-based Big Sky Airlines. Mesaba, which operates an all Saab 340, 30-34 seat, turboprop fleet under the Northwest Airlink banner, filed for Chapter 11 in 2005, a move it attributed to the bankruptcy of Northwest. Northwest extended its agreement with regional feeder Pinnacle through at least 2017, in exchange for an unsecured claim of \$377.5 million in Northwest's bankruptcy proceedings. The pact removes restrictions preventing Pinnacle from using its wholly owned subsidiary, Pinnacle Airlines, to provide regional service to other major airlines, with the exception of flights into or out of Northwest's hub cities of Minneapolis-St. Paul, Detroit and Memphis. Pinnacle may also operate aircraft with up to 76 seats, compared to a previous 56-seat limit. Memphis-based Pinnacle operates 124 Canadair Regional Jets.

3. JetBlue Adds Caribbean Service.

JetBlue began service between Boston and San Juan, Puerto Rico and will expand its Caribbean network in March with three new weekly Boston Logan-Cancun nonstops and a second daily nonstop from New York Kennedy to Cancun. In other news, A Boston area woman has filed a wrongful death suit against JetBlue, charging the carrier failed to assist her husband as he was suffering a fatal heart attack during a flight in February 2005.

4. **Brazil's Air Force Called in to Calm Air Chaos.**

President Luiz Inacio Lula da Silva called in Brazil's air force to help transport airline passengers on an emergency basis during the holiday period, as cancelled flights by TAM Linhas Aereas and tropical storms led to long delays, overcrowded planes and snarled traffic. TAM unexpectedly grounded six planes for maintenance, then was unsuccessful in rebooking passengers on other airlines. Brazil's Air Force Command, which is in charge of air traffic, said its expenses would be fully repaid by the airlines. Earlier in the month, a two-day air traffic control malfunction led to flight cancellations across the country; Brazil's Civil Aviation Agency banned most takeoffs at three major airports in Brasilia, Belo Horizonte and Sao Paulo, then announced the situation had normalized and dismissed rumors that disgruntled controllers had caused the problem. Authorities are investigating whether controller actions played a role in the September 29 mid-air collision above the Amazon jungle between a Gol airlines Boeing 737 and an Embraer Legacy 600 executive jet flown by U.S. citizens. All 154 people on the Gol flight died, but the executive jet landed with no injuries to the seven on board. It was Brazil's worst-ever air accident and controllers since have followed regulations to the letter, refusing to handle more than the number of flights recommended under international standards and strictly observing times between landings and takeoffs. Controllers say they are overworked, underpaid and understaffed.

5. **DOT Rejects Virgin America Application.**

See Section I, item 2.

6. **L'Avion Begins Paris-New York Service.**

See Section VIII, item 6.

7. **American to Operate Chicago Nonstops to Dublin, Shannon.**

See Section VIII, item 7.

8. **Virgin Atlantic to Begin Daily London-Chicago Service.**

See Section VIII, item 8.

9. **Star Alliance News.**

See Section VIII, item 9.

10. **Virgin Blue to Launch International Widebody Operations, U.S. Flights.**

See Section IX, item 2.

11. **Mesa, Shenzhen to Create Regional Airline in China.**

See Section IX, item 3.

12. **Air China Launches Beijing-Madrid-Sao Paulo Service.**

See Section IX, item 4.

13. **JAL, Mexicana Expand Code Share.**

See Section IX, item 5.

14. **Northwest, Korean Air Expand Code Share.**

See Section IX, item 7.

15. **American in Pacts with Gulf Air, Royal Jordanian.**

See Section IX, item 10.