



## WASHINGTON AVIATION SUMMARY

### JUNE 2007 EDITION

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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. U.S.-China Talks Yield New Agreement.**

A new bilateral increases daily passenger flights between the United States and China through 2012 and expands air cargo rights by 2011. Signed in Washington by U.S. Secretary of Transportation Mary Peters and Chinese Minister of Civil Aviation Yang Yuanyuan, the pact will allow for 13 new daily passenger flights operated by U.S. carriers and for 13 new daily flights by Chinese carriers to and from China within five years: one in 2007 and 2008, four in 2009, three in 2010, and two in 2011 and 2012, taking the total to 23 per day; currently, U.S. airlines can operate 10 daily flights into Beijing, Shanghai, and Guangzhou. The agreement will allow the U.S. to designate three additional U.S. carriers to operate to China: one in 2007 and two in 2009. It also lifts all government-set limits on the number of cargo flights and cargo carriers serving the two countries by 2011, providing U.S. cargo carriers with “virtually unfettered” access to Chinese markets, Secretary Peters added. Any Chinese cargo carrier may serve the U.S. beginning August 1, 2007. Negotiations resume in 2010 to establish a timetable to achieve the mutual objective of full liberalization.

### **2. African Safety Agencies Formed.**

The African Civil Aviation Authority (AFRO-CAA) will have its inauguration ceremonies June 28. Modeled on the European Union’s Aviation Safety Agency (EASA) and the U.S. Federal Aviation Administration (FAA), AFRO-CAA is based in Windhoek, Namibia, with regional offices in Ethiopia, Cameroon, Libya, Nigeria and South Africa. Principal goals include development of uniform technical standards and harmonization of pilot licensing and airworthiness certification. The Director of AFRO-CAA is Harry Eggerschwiler, who has worked in African aircraft accident investigations since 1994. In related news, Kenya, Uganda and Tanzania established the East African Community (EAC) Civil Aviation Safety and Security Oversight Agency (CASSOA), responsible for securing the region's airspace and ensuring uniform adoption of regulations of existing aviation bodies of member states. Rwanda and Burundi are expected to soon become members of CASSOA, whose first Executive Director is Mtesigwa Maugo, Director General of the Tanzania Civil Aviation Authority.

### **3. FAA Expands Program to Minimize Summer Delays.**

FAA is expanding its Airspace Flow Program to 18 locations this summer. Launched last year in the Northeast, the strategy resulted in a 9% drop in

weather-related delays. The program gives airlines the option to accept delays or fly longer routes to avoid stormy weather, and this year will expand to the South and Midwest and transcontinental flights. "Dynamic" programs will be introduced in other areas to precisely target storms, said FAA. Airspace Flow Programs will also be used in conditions such as severe congestion near major cities. Additionally, new software, Adaptive Compression, automatically fills slots freed by delayed or canceled flights with the next available flight, ensuring airports affected by bad weather receive maximal flights. The Air Transport Association (ATA) is forecasting 209 million passengers will travel globally on U.S. airlines this summer, 3% more than last summer.

**4. DOT Clears Virgin America for Launch.**

The Department of Transportation (DOT) authorized Virgin America to begin operations, saying the company fully complied with all requirements regarding fitness, U.S. citizenship requirements and control. The carrier accepted several conditions since tentative approval in March of its application, one of which requires CEO Fred Reid to step down due to his ties with Virgin Group Chairman Richard Branson. Reid will remain for six months following launch. The company also agreed to remove Virgin Group veto power over certain contracts and expenditures, amend its loan agreements with Virgin Group, restructure its Board of Directors to reduce the number of foreign representatives, and revise its trademark license to ensure it can operate independently of UK-based Virgin Atlantic. Virgin America plans a mid-summer launch from its San Francisco base to New York Kennedy, and hopes to serve up to 10 cities within the year, including Los Angeles, Washington, San Diego and Las Vegas, and up to 30 cities within five years of service. Virgin America has announced firm orders for 18 purchased and 15 leased new Airbus A320s.

**5. FAA Approves Skybus for Takeoff.**

FAA approved final certification for Skybus, which began service out of Ohio's Port Columbus International Airport to numerous markets, including Kansas City, Los Angeles Burbank and Fort Lauderdale. Skybus calls itself the lowest-fare U.S. carrier; President and CEO is Ken Gile.

**6. AirTran Awarded Washington National Slots.**

DOT awarded AirTran exemptions to slot limits governing Reagan Washington National Airport, authorizing the carrier to begin flights from Atlanta by August 1. The slots were made available when Spirit Airlines ceased service to Detroit in January. Other applicants were ATA (Chicago Midway), Comair (Little Rock), Midwest (Milwaukee) and US Airways (Pensacola).

**7. Pilots to Support FAA's Age 60 Rule Change.**

The Air Line Pilots Association, International (ALPA) decided to support the move by FAA and Congress to lift the retirement age for pilots from 60 to 65. But, said the union, its resources will be committed to ensuring that legislative or regulatory changes address ALPA's priorities in such areas as safety, medical standards, benefit and retirement issues and liability protection. ALPA opposes the International Civil Aviation Organization (ICAO) standard that allows pilots to fly until age 65 so long as one pilot in the cockpit is under age 60, saying, "Once sufficient data on pilots over age 60 becomes available, unless the necessity for this mitigation for the long term is clearly shown, ALPA advocates removal of the ICAO over/under mitigation for all operations."

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

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

	March '07 / '06	Feb. '07	Full Year			
			2006	2005	2004	2003
On-time arrivals %	73.3 / 76.1	67.3	75.4	77.4	78.1	82
Cancellations %	2.6 / 1.2	4.5	n/a	1.87	1.56	1.79
Mishandled baggage*	7.71 / 5.81	8.23	6.73	6.64	4.91	4.19
Consumer complaints:						
Airline service	1,310 / 707	823	8,321	8,741	7,452	5,983
Disability-related	36 / 31	19	427	511	521	375
Discrimination**	8 / 11	6	114	129	118	85

\* Reports per 1,000 passengers.

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

## II. AIRPORTS

### 1. New Atlanta Airports Considered.

Atlanta should consider having multiple commercial airports, said DOT Secretary Mary Peters, as she announced a \$1 million grant to study capacity expansion in the city. FAA Administrator Marion Blakey presented results of a study that found major U.S. cities must expand their airports or build new ones in the next 20 years to keep pace with increasing demand for air travel. In the FAA report, "Capacity Needs in the National Airspace System," Blakey cites a possible need for up to four more major U.S. commercial airports during the next 30 years, with Atlanta, Chicago, Las Vegas and San Diego among the likely candidates. Atlanta Hartsfield-Jackson is the world's busiest airport, with some 86 million passengers annually; it is the only commercial airport in the region.

### 2. DOT Rules in Favor of Airlines in LAX Fees Dispute.

A DOT judge ruled that Los Angeles International Airport unjustly charged airlines millions of dollars in fees and other costs and called for refunds. DOT will issue a final ruling by June 15. Carriers had charged the higher fees could cost them more than \$1 billion over 20 years.

### 3. Heathrow Slots Transferred by bmi to British Airways.

bmi transferred 51 slots at London Heathrow to British Airways for nearly \$60 million in March. Chairman Michael Bishop told *Air Transport World* the transaction was a condition of bmi's February acquisition of British Mediterranean (BMED). Bishop said bmi does not intend to part with any of its own Heathrow slots, although the proceeds would be significant.

### 4. BAA to End Management Contract With Indianapolis Airport.

Airport operator BAA will end its management contract with Indianapolis International Airport at the end of this year, rather than as planned in 2008. Airport officials said the change would provide a smooth transition in advance of opening a new \$1.07 billion midfield terminal in late 2008, and save the airport \$2.3 million. Indianapolis became the first major U.S. airport to be privately managed, when UK-based BAA took over operations in 1995. BAA, acquired last year by Spanish construction group Ferrovial, plans to focus on its seven UK airports in the future.

5. **BAA Sells Budapest Airport to Hochtief.**

BAA sold its majority stake in Budapest Ferihegy to a consortium led by German construction concern Hochtief for €1.9 billion.

6. **Canada, Australia Funds Bid for Stake in UK's Birmingham Airport.**

Canada's Ontario Teachers' Pension Plan and Australia's Victorian Funds Management Corp. are partners in a bid to buy a minority stake in Birmingham (UK) International Airport from Macquarie Airports Group Ltd. of Australia and a subsidiary of the Dublin Airport Authority in Ireland.

7. **Mexico's Asur to Build \$56 Million Runway in Cancun.**

Mexican airport operator Asur opened Terminal 3 at Cancun Airport and said it will invest \$56 million to build a second runway there. ASUR also is promoting construction of a convention and exhibition center and a light rail system that would connect destinations in the Mayan Rivera to Cancun Airport.

8. **Iraqi Airport Development.**

The Kurdish Regional Government (KRG) is building a \$300 million airport in Iraq's northern city of Erbil, which will have a 4,800-meter runway, one of the longest in the world. The KRG is planning a free zone near the Iraqi-Turkish border, in order to draw international investments. A Kuwaiti investor will invest \$3 billion in the development of an airport in Karbala, said Iraqi officials; Karbala International Airport will also require support from the Iraqi government.

### **III. SECURITY**

#### **1. DHS Calls for Airline Oversight of Biometric Screening.**

ATA has formally objected to a plan by the Department of Homeland Security (DHS) that calls for airlines, rather than government employees, to obtain biometric information on departing foreign passengers under the US-VISIT program. ATA said the proposal would “wrongly delegate an inherently governmental, immigration and security-related function to the private sector.” About 30% of passengers check in online and that number is increasing, said ATA; the most logical and least disruptive location for finger scanning is during or before airport screening.

#### **2. Screeners Sue TSA Over Payroll Data Loss.**

Following the loss of a Transportation Security Administration (TSA) computer containing Social Security numbers and other payroll data from January 2002 to August 2005 for 100,000 employees, airport security screeners sued the agency and demanded it adequately secure personnel information. American Federation of Government Employees, representing the screeners, called TSA “reckless” and said if the data were to fall into the wrong hands, false identity badges easily could be created in order to gain access to secure areas. TSA found no evidence that the data has been used for unauthorized purposes and is giving employees a year of free credit monitoring, free ID theft insurance up to \$25,000 and assistance from identity restoration experts should theft occur. The FBI and Secret Service are investigating the theft.

#### **3. GAO Report Finds DHS Programs Unlawful.**

A Government Accountability Office (GAO) report finds that Customs and Border Protection, a DHS unit, has failed to inform international travelers about how personal information collected from them in prescreening procedures will be used and protected, as required by law. DHS says it is in compliance with privacy laws and called the GAO findings incorrect and without merit.

#### **4. Anti-Terrorism Center Planned for New York City.**

TSA plans to open a New York City site for training airline crews in hand-to-hand combat, in a move to bolster the 2004 voluntary Crew Member Self-Defense Program. There are 11 sites in cities including Los Angeles, Chicago and Washington.

**5. U.S.-EU Talks Held on Transatlantic Passenger Data Sharing.**

Secretary of Homeland Security Michael Chertoff urged the EU to drop objections to sharing transatlantic Passenger Name Records (PNRs) with U.S. intelligence agencies. An interim agreement expires July 31 and the EU Parliament wants any new agreement to better guarantee EU data protection standards and privacy, and specify length of time U.S. authorities can use data, when it should be destroyed, and which authorities should have access. Chertoff said an inadequate PNR system was a critical deficiency that led to the 9/11 attacks on the United States.

**6. EU Nations Want U.S. Visa Requirements Eliminated.**

Newer EU countries are lobbying Congress to eliminate U.S. visa entry requirements. Americans may travel to all EU member states without visas, but citizens from 12 of the 27 EU nations cannot enter the United States without a visa, because, say U.S. officials, they fail to meet criteria for joining the U.S. visa-waiver program.

**7. U.S. Airport Directors Study Israeli Security System.**

U.S. airport directors traveled to Israel to study passenger screening procedures at Ben Gurion International Airport, reports the Associated Press. There has not been a successful hijacking on a plane departing Ben Gurion, nor has an attack taken place inside the terminal, since the 1970s. Israel attributes this to its use of profiling, banned in the U.S., which selects passengers for stricter screening on the basis of appearance or ethnicity; screening departing international passengers takes about three hours.

**8. TSA Tests Liquid Explosive Devices.**

TSA has been testing devices that detect liquid explosives inside sealed bottles and plans to deploy up to 200 of the machines in major airports by October. Officials said the ban on carry-on liquids will not be affected by deployment of the technology. Successful tests have been completed at Miami and Newark, with others planned for Boston, Los Angeles and Las Vegas.

## **IV. E-COMMERCE AND TECHNOLOGY**

### **1. EU Probes Travelport-Worldspan Merger.**

The European Commission is investigating whether the proposed acquisition of global distribution system (GDS) Worldspan by Travelport would have a significant effect on competition within the European Economic Area. A final decision will be reached by September 13. Travelport is a unit of U.S.-based Blackstone Group, which also operates Orbitz, Gulliver's Travel Associates and GDS Galileo. In related news, Orbitz announced an initial public offering to raise up to \$750 million; the company last year lost \$146 million, but saw bookings rise 38% to \$10.03 billion.

### **2. Southwest Signs 10-Year Pact With Galileo.**

Southwest signed a 10-year agreement with Galileo. All of Southwest published fares and inventory, except exclusive Web fares, will be available late this year to Galileo-connected travel agencies in North America. The airline said today's GDS environment has become a cost effective distribution opportunity that will help it reach new business customers, including those that rely upon corporate travel managers.

### **3. Yapta Launches Airfare Refund Alert Service.**

A new Web site, yapta.com, tracks fares on specific flights and alerts consumers via email when fares fall on leading domestic airline or online travel sites. The service helps travelers obtain vouchers or cash refunds on tickets already purchased when prices decrease. "Airline ticket prices are highly volatile, making it very difficult for most consumers to be assured that they are getting the best deal possible," said President and CEO Tom Romary. "By enabling travelers to tag the exact flights they want from leading travel sites and receive email alerts when prices drop, we're providing complete price transparency."

## **V. NOISE AND ENVIRONMENT**

### **1. FAA Approves Boston Taxiway Despite Objections.**

Opponents of a 9,300-foot Boston Logan taxiway just approved by FAA say it will increase airport noise, but FAA and the Massachusetts Port Authority (Massport) say it will reduce ground noise, delays and the danger of plane collisions. Logan recorded the most near-collisions and other incidents of any U.S. airport in 2004 and 2005. Boston Mayor Thomas Menino, opposed to construction of a center-field taxiway, said FAA should immediately stop the process and allow public health agencies to review potential health issues. Massport will conduct a \$1.5 million study to analyze air quality before and after construction. The federal government is expected to pay for 80% of the \$55 million taxiway project.

### **2. Residents Object to FAA Rerouting Plan for Philadelphia.**

FAA has spent 10 years and \$50 million to study ways to ease traffic in the Philadelphia and New York air corridor, but a plan to redirect Philadelphia International traffic is opposed by nearby residents who are concerned about aircraft noise and safety hazards, such as two recent incidents in which frozen toilet waste from airplanes fell on homes. A final decision will be made this summer; new takeoff paths could be operational by August.

### **3. Wilderness Area Near Planned Major Airport.**

Officials hope to turn the Florida Panhandle into an international tourist destination, but environmental groups want to protect the piney wilderness area near Panama City and have sued to stop plans to build a \$330 million airport there that would be capable of handling the Airbus A380 superjumbo.

### **4. Star Alliance Partners With Environmental Groups.**

Star Alliance announced cooperation with leading environmental groups UNESCO-MAB (MAB), the World Conservation Union and Ramsar Convention on Wetlands. Star will assist environmental field workers with transport and promote conservation and sustainable use through its communications distribution systems.

## **VI. U.S. CONGRESS**

### **1. Senate Commerce Committee Approves FAA Reauthorization.**

The Senate Commerce Committee approved the Aviation Investment and Modernization Act of 2007, which would authorize \$43.5 billion for FAA programs over the next three years. The bill dedicates \$400 million annually for modernizing the air traffic control system and establishes the Air Traffic Modernization Fund, to be supported through a surcharge of \$25 per flight on commercial and high-end general aviation (GA) jet flights; 90% of GA aircraft would be exempt from the surcharge. The bill would provide \$16 billion for airport infrastructure grants and \$133 million annually for the Essential Air Service program; guarantee \$300 million annually to address noise and other environmental issues; and require mediation and arbitration when air traffic controller labor disputes reach an impasse. The bill establishes the Aviation Security Capital Fund, which is authorized with \$500 million annually in security service fees already collected by TSA. Administered by TSA, the fund will make grants to airports to assist with capital security costs. The fund will allocate 40% to hub, 20% to medium hub and 15% to small hub airports; 25% is to be distributed at the discretion of the Secretary of Homeland Security to address security risks. "The bill protects [Airport Improvement Program] funding from continued raids on what was created for capital improvement funding, but which in recent years has been used for security funding," said Committee member John McCain (R-AZ). The bill also directs the Secretary of Homeland Security to study the effectiveness of the aviation security system, and within six months submit findings, conclusions and recommendations to the Senate Commerce and House Transportation Committees.

### **2. Senate Commerce Approves Passenger Bill of Rights.**

A passenger bill of rights approved by the Senate Commerce Committee requires carriers to provide food, water and access to restrooms on ground-delayed aircraft. It exempts airlines from having to release passengers from aircraft that have been held for longer than three hours, mandating instead that airlines file plans with DOT that address how they will handle lengthy ground delays; many airlines have already done so. Passenger advocates are lobbying for more stringent legislation. In related news, a passenger bill of rights unanimously approved by the New York State Senate includes a provision to create an Office of Airline Consumer Advocate within the New York State Consumer Protection Board to facilitate passenger complaint filings against airlines.

3. **Airline Pension Relief Included in War Spending Bill.**

The Iraq War spending bill includes an amendment that provides pension relief for Continental, American and other airlines that still fund defined benefit plans. Last year's pension reform bill extended a special break to Delta, Northwest and other bankrupt airlines that claimed they could no longer fund their pension plans.

## VII. **BILATERAL AND STATE DEPARTMENT NEWS**

### 1. **U.S.-China Talks Yield New Agreement.**

See Section I, item 1.

### 2. **U.S., EU Sign Open Skies Pact.**

The United States and the European Union signed a first-stage open skies agreement, which takes effect next March and will allow U.S. and EU airlines to fly between every U.S. and EU city, set fares freely in accordance with market demand and operate without restrictions on the number of flights, aircraft used or routes chosen. Negotiations for a second-stage pact will address foreign ownership of U.S. airlines.

### 3. **Inaugural U.S.-India Aviation Summit.**

FAA Administrator Marion Blakey, addressing the first U.S.-India Aviation Summit, held in New Delhi, said the U.S. is committed to working with India's Department of Civil Aviation and the aviation industry to move toward a Bilateral Aviation Safety Agreement (BASA), needed "to ensure the safety of products flowing between our markets. It's inefficient when we delay products awaiting safety certifications that currently must occur in the United States . . . While negotiating and signing an agreement of this magnitude takes several years, the process of building mutual confidence in our respective certification processes and technical expertise can and should start today." She also promoted a more harmonized global aviation system and cooperation in environmental protection, stressing concern about Europe's "unilateral imposition of an emissions trading solution on the rest of the world."

### 4. **Korean Air Seeks Asian Open Skies.**

Korean Air Chairman and CEO Cho Yang-ho told the *Financial Times* he is pressing the South Korean government to forge open skies agreements with Japan and China. In related news, Japan is planning to ease access for international carriers to its regional airports, said the *Times*, in the hope of precipitating an Asian open skies agreement and stimulating trade in the region. China recently agreed to allow flights between Shanghai Hongqiao and Gimpo, Seoul's domestic airport, and Tokyo Haneda, but other routes remain heavily regulated.

## VIII. EUROPE/AFRICA

### 1. British Airways Considers TPG Offer for Iberia.

British Airways has joined with a consortium led by Texas Pacific Group (TPG Capital) to investigate a possible consortium offer for Iberia, a process expected to take two to three months. With its 10% stake in Iberia and right of first refusal on offers for over 30% of the Spanish airline, British Airways has ruled out further capital investment or an independent bid. TPG made a €3.41 billion preliminary offer for Iberia in March; Spanish partners would contribute more than 50% of the equity, reports Dow Jones.

### 2. British Airways Provides for Anti-Competition Claims.

British Airways admitted to breaches of competition compliance policy in relation to discussions about fuel surcharges with competitors and set aside almost \$700 million to pay potential fines resulting from continuing investigations by the U.S. Department of Justice, the European Commission, the UK Office of Fair Trading and others. Several international carriers have been under investigation for alleged illegal price fixing of longhaul fuel surcharges on air cargo; British Airways is the subject of an additional probe into fuel surcharge price fixing on passenger fares.

### 3. British Airways Considers All-Premium Transatlantic Flights.

British Airways filed with U.S. regulators for authority to fly from the U.S. to EU destinations, such as Paris, Amsterdam, Frankfurt, Brussels and Milan, once the U.S.-EU open skies agreement takes effect next March, said CEO Willie Walsh. The carrier may adapt its Boeing 757s and 767s to provide all-premium flights on some of those routes, to compete with airlines such as Eos, Silverjet and France's Elysair. In an interview with *Business Travel World*, Silverjet CEO Lawrence Hunt said British Airways will not be able to compete on cost or price "due to its massive overheads, larger fleet and need to protect its premium revenue."

### 4. Eos Expands Fleet.

Eos increased its fleet to four Boeing 757-200ERs in preparation for future new routes and additional frequencies. A fifth aircraft is scheduled for December delivery, with negotiations for a sixth underway. Configured with individual "suites" for each passenger, with 21 sq. ft. of personal space and a seat that converts to a 6'6" horizontally flat bed, Eos offers 32 flights per week between New York Kennedy and London Stansted; CEO is Jack Williams.

**5. Zoom to Begin London-New York Service.**

Zoom Airlines, which has been operating UK-Canada flights for three years, will begin daily London Gatwick-New York Kennedy service on June 21. Zoom says it "will operate an easyJet-style booking service with flexible year-round, one-way fares and economy and premium economy services with designated seating, meals and plenty of frills." Owners Hugh and John Boyle say their fares are up to 70% less than those of British Airways and Virgin Atlantic.

**6. Air France KLM Completes Merger, Overhauls Management.**

AF KLM completed its three-year phased-in merger and posted a 32.5% rise in operating profit for the year ending March 31; operating income reached €1.24 billion, revenues rose 7.6% to €23 billion. The company announced "Challenge 10," a program that should reduce unit costs by 3% over three years. Air France announced a \$7 billion aircraft order, split between Airbus and Boeing, which includes two more A380s, bringing to 12 its firm order for the superjumbos.

**7. Alitalia Bidding to be Completed in June.**

Companies expected to submit binding offers by July 2 for a controlling stake in Alitalia are U.S. private-equity group Texas Pacific, with Matlin Patterson and Mediobanca; Air One parent, AP Holding, with Intesa Sanpaolo; and Aeroflot, with UniCredit. Aeroflot is seeking up to €900 million euros in loans to finance its bid, in its first merger or acquisition effort outside the former Soviet Union. The Italian government said it may sell its entire 49.9% stake in Alitalia to the winning bidder, rather than 39.9%, as originally planned.

**8. Icelandair to Acquire Czech Airline Operator.**

Icelandair will buy Travel Service, the largest privately-owned Czech airline, taking an initial 50% stake in June and the remainder next year. Travel Service operates low cost Smart Wings and charters from Prague and Budapest.

**9. China Southern, Air France KLM in Cargo Joint Venture Talks.**

See Section IX, item 3.

**10. TAM to Code Share With United, Lufthansa.**

See Section X, item 9.

## **IX. ASIA/PACIFIC / MIDDLE EAST**

### **1. IATA Identifies Challenges for China's Aviation Sector.**

At the China Civil Aviation Development Forum in Beijing, the International Air Transport Association (IATA) presented five challenges China faces in building a cost-efficient, safe and competitive industry: efficient air traffic management, environmental sustainability, cost-efficient airport infrastructure, internal cost control and commercial freedoms. "A market that can achieve a perfect safety record, implement electronic ticketing in a year and a half and grow business by 14% certainly has the ability to lead and manage change in Asia and globally," said Giovanni Bisignani, IATA Director General.

### **2. Singapore Airlines to Invest in China Eastern.**

Singapore Airlines (SIA) is expected to acquire a 25% stake in state-run China Eastern (CEA) for \$1 billion. SIA is controlled by Singaporean government investment fund Temasek.

### **3. China Southern, Air France KLM in Cargo Joint Venture Talks.**

China Southern, expected to become a member of SkyTeam this year, is in talks with members Air France-KLM about setting up a cargo joint venture in China. The maximum allowable foreign investment is 49%. Separately, China Southern plans "a major tourism push to Nepal" with its twice weekly Guangzhou- Kathmandu service; the route has had more than 1,100 Chinese passengers since a February launch.

### **4. China's Private Carriers Looking for Investors.**

Privately operated Juneyao Airlines, based in Shanghai, is seeking a strategic investor, reports *Air Transport World*, as are other low-cost carriers in China, including Spring Airlines and Okay Airways.

### **5. Korean Air Partners With Hawaiian, Expands Delta Code Share.**

Korean Air and Hawaiian Airlines entered a code share agreement that allows Korean Air passengers to travel on Hawaiian inter-island flights on a single ticket, or transfer to Hawaiian flights to the U.S. West Coast. Korean Air and Delta are increasing their seven weekly Atlanta-Seoul code shared flights to 11, effective June 4.

### **6. Qantas Bid Fails, Management Shakeup Follows.**

The Macquarie-led bid for Qantas collapsed when it failed to receive acceptances from 50% of shareholders. Qantas Chair Margaret Jackson then

resigned, effective November 2007, as did board member James Packer. CEO Geoff Dixon said he other senior management will stay with Qantas until at least July 2009.

**7. Air India, Indian Merger Solidified.**

The merged Air India and Indian will be called Air India. Its low-cost unit, created from Air India Express and Alliance Air, will be called Air India Express. India's Civil Aviation Minister Praful Patel said the new Air India will have 227 aircraft, once 111 new Boeing and Airbus aircraft are delivered, and will begin Mumbai-New York flights from August 1, with Delhi-New York service anticipated.

**8. India's Jet Airways to Launch Service to New York Newark.**

Jet Airways established its international hub in Brussels and will launch Mumbai-New York Newark via Brussels service August 5. Chairman Naresh Goyal said flights to other U.S. cities from Delhi, Bangalore, Ahmedabad and Chennai are ahead. CEO Wolfgang Prock-Schauer has said the Indian airline is acquiring Boeing 777-300 ERs and Airbus 300-200s.

**9. Bangladesh Approves Biman Privatization.**

Biman Bangladesh Airlines will be privatized, said interim government officials, who are planning a phased approach. An operator will be appointed to run the airline, with the government initially retaining a 100% stake. With severe debt and losses, Biman has grounded aircraft and stopped service to many major destinations; staff will be reduced by about 7,000.

**10. Bahrain Takes Full Ownership of Gulf Air.**

Oman withdrew from Gulf Air ownership, leaving Bahrain, where the carrier is based, as the sole owner. Gulf Air, originally jointly owned by Abu Dhabi, Bahrain, Oman and Qatar, will retain its name. With losses of more than \$1 million a day, Gulf Air is cutting about 1,500 jobs and launched a two-year restructuring plan.

## **X. AMERICAS**

### **1. Northwest Exits Bankruptcy.**

Northwest received approval to emerge from bankruptcy protection on May 31. CEO Douglas Steenland said since entering Chapter 11 in September 2005, the company cut annual operating costs by \$2.4 billion, 58% of that from labor, and reduced debt and lease expenses by \$4.2 billion a year. Unions are objecting to a plan that could give company executives stock in the reorganized company worth \$297 million over four years; Steenland's share is estimated at \$26.6 million. Northwest has projected 2007 revenue of \$12.77 billion and profit of \$794 million.

### **2. Barger Succeeds Neeleman as JetBlue CEO.**

JetBlue President Dave Barger added the duties of CEO, replacing founder David Neeleman, who will serve as non-executive Chairman of the Board. Barger joined JetBlue in 1998 as President and Chief Operating Officer, prior to the low-fare airline's 2000 launch. Calling the move "a natural evolution" in the company's growth, Neeleman said he "will focus on developing JetBlue's long-term vision and strategy, and how we can continue to be a preferred product in a commodity business." The carrier has posted annual losses for the last two years and a first quarter loss this year of \$22 million, related to cancellation of more than 1,000 flights from its New York Kennedy base due to bad weather. Neeleman said JetBlue may expand its California service and plans to test more flexible refundable fare rules as a way to attract new corporate business and create new revenue.

### **3. Spirit Applies for Unused Colombia Frequencies.**

Spirit Airlines applied to the DOT for 14 unused U.S. frequencies held by American Airlines to operate daily low-fare service between Ft. Lauderdale and Bogota and between Ft. Lauderdale and Barranquilla. Following Spirit's filing and a request for the frequencies by Delta, American announced plans to increase Miami-Colombia service in December, with new daily Boeing 737-800 flights to Barranquilla, three additional weekly B-737-800 flights to Medellin, and four additional weekly B-757 flights to Bogota. The matter is now pending before the DOT.

### **4. American to Increase Service to Montevideo.**

American also offers daily B-737-800 service to Cali. American will upgrade its three times weekly Miami-Montevideo nonstop Boeing 767-300 service from seasonal to year-round in July. Separately, the Allied Pilots Association (APA)

is seeking a 30.5% pay increase for American's pilots, effective May 1, 2008, 5% annual increases thereafter, and signing bonuses equaling 15% of total pay during negotiations. "By accepting large bonuses during each of the past two years," said APA, "management signaled to employees that it was time for financial recovery." A 2003 airline restructuring led to 3,000 pilot layoffs and 20% to 50% pay cuts. In response, American CEO Gerard Arpey said the company contributed more than \$1.5 billion to its employees' defined-benefit pension plans since 2002, a period when other airlines sought bankruptcy protection.

**5. United Reduces Domestic Capacity, Buys Aloha Stake.**

United reduced 2007 mainline domestic capacity growth by about 2% from previously planned levels, while increasing international capacity by 0.5%. In the fall, United will add daily Los Angeles-Hong Kong and daily, seasonal Washington D.C.-Rio De Janeiro service. A new agreement expands United's code sharing alliance with Aloha and gives United a minority equity stake in Aloha that could expand over time and a seat on Aloha's Board of Directors.

**6. Delta Adds LAX Flights; Plans Global Expansion.**

Delta will accelerate expansion at Los Angeles International Airport with 21 new daily flights to nine U.S. cities, effective July 1. But over the next several years the carrier will focus on international expansion, mostly in Asia, Africa and the Middle East, redeploying domestic capacity. News reports that Delta will spend \$1 billion to overhaul or rebuild its New York Kennedy terminals were denied by Chief Financial Officer Ed Bastian. The carrier formed a partnership with US Helicopter, which offers eight-minute shuttle services to Kennedy and Newark from two New York City heliports.

**7. AirTran Extends Bid for Midwest, Which Allies With Northwest.**

Midwest's Board unanimously rejected AirTran's unsolicited exchange offer to Midwest shareholders. Milwaukee-based Midwest said hostile takeovers are prevented by Wisconsin law. With 57% of outstanding Midwest shares, Orlando-based AirTran extended its offer to June 8. A Midwest-Northwest code share pact was then announced, effective this summer, subject to final agreement; the alliance will open 250 city pairs and more than 1,000 new flight options.

**8. ALPA, CCCA Merger Approved.**

The Air Line Pilots Association, International (ALPA) and Capital Cargo Crewmembers Association (CCCA) completed their merger process, effective June 1, 2007.

**9. TAM to Code Share With United, Lufthansa.**

TAM signed agreements with Star Alliance members United and Lufthansa. A Memorandum of Understanding (MOU) with United, if executed, would allow code shared flights between Brazil and the United States and linked mileage programs. An MOU with Lufthansa calls for the two companies to examine various forms of cooperation. The first step will be implementation of code sharing on domestic and international routes. Other possibilities include optimization of flight schedules, linking frequent flyer programs and VIP lounge reciprocity in a number of airports.

**10. LAN, TAM Alliance Formalized.**

An agreement was formalized by TAM, TAM Mercosur and the LAN Alliance, comprised of LAN Chile, LAN Peru, LAN Argentina and LAN Ecuador, which allows passengers to connect to several South American destinations on flights of each airline using a single ticket; frequent flyer programs will be united. The agreement is an important step in regional integration and will foment tourism and bilateral cooperation, said officials.

**11. Korean Air Partners With Hawaiian, Expands Delta Code Share.**

See Section IX, item 5.