



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. \$14.1 Billion for FAA in 2008 Budget Request.

The Department of Transportation (DOT)'s \$67 billion budget request for 2008 includes \$14.1 billion for the Federal Aviation Administration (FAA), with \$175 million for a 21st Century satellite navigation system (NextGen) to replace older air traffic control equipment and \$900 million in additional air traffic control system upgrades.

2. DOT Proposes Cost-Based Funding Program.

DOT proposed legislation that would replace the current system of collecting ticket taxes with a cost-based funding program that relies on a combination of user-fees, taxes and a federal contribution to support development of NextGen. The Next Generation Air Transportation System Financing Reform Act of 2007 would eliminate the domestic passenger ticket tax and reduce the international arrival and departure tax by 50%. It provides limited new borrowing authority that FAA can use to support construction of new runways, airport terminals and air traffic control facilities and equipment. It calls for establishment of a new advisory board that will give members of the aviation community a stronger say in how federal funds are invested in aviation, while maintaining strong congressional and public oversight. It proposes to reform the Passenger Facility Charge Program to enable large and medium sized airports to raise local funds for vital construction projects and restructure the Airport Improvement Program. And the bill funds research into new engine and airframe technology that will reduce aircraft noise and engine emissions. FAA Administrator Marion Blakey said she would work closely with Congress to encourage swift action on the proposal. Funding authorization for current FAA programs expires September 30, 2007.

3. FAA to Propose Pilot Retirement Age Change.

FAA will propose later this year to raise the mandatory retirement age for U.S. commercial pilots from 60 to 65, adopting the new International Civil Aviation Organization (ICAO) standard that allows one pilot to be up to age 65 provided the other pilot is under age 60.

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

DOT finalized its tentative decision to award United Airlines the right to operate daily nonstop flights between Washington Dulles and Beijing Capital International Airport. Also seeking new China authority were Continental (New York Newark-Shanghai) and Northwest (Detroit-Shanghai); American had applied (Dallas), but withdrew its application. The Washington, D.C. metro

area was the largest city in the proceeding lacking nonstop service to China, said DOT, and United's proposal would fill that critical service gap and address increasing demands in the U.S.-China market by providing the greatest increase in capacity. United will introduce the B747-400 Washington- Beijing service on March 28, with connections to cities within China through its code shares with Air China and Shanghai Airlines. United also operates Chicago-Beijing, San Francisco-Beijing, Chicago-Shanghai and San Francisco-Shanghai services. A U.S.-China aviation agreement signed in July 2004 called for a total of 195 new weekly flights phased in over a six-year period; talks will resume this spring about increasing flight frequencies for passenger and cargo service.

5. US Airways to Apply for China Service.

US Airways notified DOT of its intention to file an application to fly nonstop U.S.-China service. The carrier asked DOT to defer consideration of Delta's application for Atlanta-Shanghai authority, filed in January, and launch a full competitive proceeding for a route that will become available in 2008.

6. December 2006 Airline Employment Down Slightly.

U.S. scheduled passenger airlines employed 1.1% fewer workers in December 2006 from December 2005. Only the network carrier group number was down (-2.9%); low-cost carrier (LCC) employment increased by 1.4% and regional by 3.4%. The seven network carriers employed 263,000 in December (65.1% of the passenger airline total), while LCCs employed 72,000 (17.7%) and regionals 58,000 (14.4%).

7. Passengers' Rights: Déjà Vu All Over Again.

In December, American Airlines' passengers on several diverted flights sat on tarmacs for hours after severe weather shut down Dallas/Fort Worth. In February, winter storms caused JetBlue to cancel or delay more than 1,000 flights, stranding hundreds of passengers. Both carriers made extensive public apologies, adjusted policies and procedures to prevent such future occurrences and issued vouchers to affected fliers. Nevertheless, momentum grew for passage of a passenger bill of rights and members of Congress quickly took up the cause. The Business Travel Coalition called for "extreme caution," warning that "such legislation would increase business travel costs, stifle innovation and raise safety issues." Air Transport Association (ATA) President and CEO James May, writing in *USA Today*, said airlines hate flight delays and cancellations, know that severe flight delays are unacceptable, and are working to ensure that these types of delays do not recur. But, he said, "We never will expose our customers or our employees to unsafe conditions, no matter how frustrating a delay may be." A similar clamor for a passenger bill of rights occurred in 1999, after a Northwest plane kept its passengers

stuck on the tarmac in Detroit during a severe snow storm. Then, as now, overall airline service—flight delays, cancellations, mishandled baggage, bumping and customer complaints—had suffered serious declines.

8. DOT Air Travel Consumer Report for December and Year 2006.

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

	December 2006 / 2005	November 2006	Full Year 2006 / 2005 / 2004 / 2003
On-time arrival rate %	70.8 / 71.0	76.5	75.4 / 77.4 / 78.1 / 82
Cancellations %	3 / 1.9	1.6	1.87 / 1.56 / 1.79
Mishandled baggage*	8.93 / 7.80	6.32	6.73 / 6.64 / 4.91 / 4.19
Consumer complaints:			
Airline service	604 / 644	588	8,321 / 8,741 / 7,452 / 5,983
Disability-related	27 / 32	33	427 / 511 / 521 / 375
Discrimination**	9 / 13	9	114 / 129 / 118 / 85

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. Airlines File DOT Complaint Opposing New LAX Charges.

Airlines filed a joint complaint with DOT in opposition to new terminal charges at Los Angeles International Airport (LAX), imposed February 1 on carriers operating out of Terminals 1 and 3. The new fees “dramatically increase the airlines’ costs and could lead to higher airfares and reduced options for Los Angeles air travelers,” charged AirTran, Alaska Airlines, ATA, Frontier, Midwest, Southwest and US Airways. The airlines estimate the collective financial impact over the next 15 to 20 years at more than \$1 billion, with a near-tripling of charges from \$20 million to \$56 million in the first year alone. They argue that the rent increase, imposed by LAX operator Los Angeles World Airports (LAWA), violates federal law because it discriminates against airlines with expired leases, while competing airlines with leases expiring in 15 to 20 years are charged less for comparable terminal space. “An airport that receives federal funds is required to remain open to all airlines wishing to serve that airport on reasonable terms and without unjust discrimination,” they said. DOT is expected to issue a final decision in 120 days. Meanwhile, LAWA said the action by the airlines “signifies their ongoing refusal to pay their full and fair shares of LAWA’s costs of operating those terminals for their benefit.” Each had leases, says LAWA, which expired between May 2001 and August 2004, leading LAWA to subsidize their LAX operations. LAWA says “LAX has been one of the least costly U.S. airports for the airlines and will still be more affordable than other large, metropolitan airports, even when the carriers pay their full and fair share of costs.”

2. LAX Breaks Ground on International Terminal Project.

The \$575.6 million renovation of the Tom Bradley International Terminal (TBIT) at LAX has begun, with completion expected by March 2010. The first major LAX terminal upgrade since 1984, when the one-million-sq. ft. TBIT was originally built, the 45,000 sq. ft. addition will house a \$140 million, inline baggage security screening facility with latest generation explosive detection technology. A second gate will accommodate Airbus 380s and Boeing 747-800s. Green building measures include: 75% of construction and demolition waste will be recycled or salvaged; design features local and sustainable building materials and finishes; new heating, ventilation, air conditioning and more efficient electrical and lighting systems will reduce energy consumption; and new plumbing systems will conserve water.

3. MAC Aid Package in Question.

Metropolitan Airports Commission (MAC), which oversees Minneapolis-St. Paul Airport, approved a plan giving Northwest and other carriers a \$240

million financial package over the 2006-2020 period, in return for which Northwest would agree to uphold lease agreements, continue paying off about \$290 million of bonds sold on its behalf by the MAC, and maintain a hub at the airport and its Minneapolis headquarters. Minnesota legislators introduced bills that would require legislative approval of the proposal, due to concerns about issues such as noise mitigation, flyover patterns and potential airline mergers.

4. FAA Seeks to Auction LaGuardia Slots.

FAA asked for authority to auction landing rights at New York La Guardia, in its NextGen funding proposal. Large airlines said such a move would constitute “expropriation of their property and will lead to higher ticket prices,” reports the *New York Times*, and probably will contest the proposal. Small carriers, with only 20 slots at La Guardia, could benefit as slots open.

5. Phoenix 2.9 Billion Airport Expansion Approved.

A \$2.9 billion Sky Harbor expansion has been authorized by the Phoenix City Council. The project includes construction of a \$1.1 billion automated train system and a 33-gate terminal to replace Terminal 2. Airlines oppose the proposal, which would raise their cost per enplaned passenger from \$4.65 to \$7 or \$8 by 2016.

6. Stansted Development Plan Tapered.

UK airport operator BAA, a unit of Spain's Grupo Ferrovial, revised a development proposal for a second Stansted runway, which will have an initial capacity of 10 million passengers a year and open in 2015. Costs for the project have been reduced by 17.5% to \$2.74 billion, and the land take required is 22% less than a previous estimate.

7. BAA, Airlines React to CAA's Heathrow Proposals.

The UK Civil Aviation Authority (CAA) proposed to allow BAA to increase Heathrow charges by inflation plus 4%-8% from 2008 to 2013. CAA also said Heathrow operating cost allowances should be based on an assumption that BAA would be able to achieve efficiencies of 1% a year from 2005/06 until 2012/13. CAA said BAA's permitted return on capital invested should be cut from a current 7.75% to 6.2% in the next five-year period. In response, British Airways said CAA should challenge BAA to run its business more efficiently by permitting Heathrow charges to rise by no more than inflation between 2008 and 2013, and safeguards should be put in place to ensure BAA Ferrovial is unable to divert money for improved services elsewhere. British Airways wants BAA's cost of capital reduced to 5.5% and a 3% per year operating efficiency improvement. BAA said the proposed reduction did not adequately account for aviation industry risks or construction risks of its plans for Heathrow, i.e. demolishing and rebuilding a terminal while maintaining full operations and

facilities for 70m+ annual passengers. The CAA will publish final proposals in November for consultation until January 2008, and announce its final price cap decision in March 2008.

8. Changi Airport to Buy China, India Airport Stakes.

Singapore's Changi Airport said it will acquire a 29% stake in Nanjing Lukou International Airport in eastern China, its first direct investment in China's aviation sector. Changi Airports International Pte., a wholly owned unit of Singapore's Civil Aviation Authority, plans to collaborate with local partners in developing the Nanjing facility into a model airport. One of China's top five cargo hubs, Nanjing handled 6.27 million passengers in 2006, 16.4% over the previous year. Changi also agreed to jointly bid to invest in and manage India's Kolkata and Chennai airports, after they are privatized, with India's Tata Group, which will hold a 51% stake.

9. Problems at Thailand's New Airport.

Thailand is reopening Don Muang Airport for domestic and international operations, while Bangkok's new \$3 billion Suvarnabhumi Airport undergoes repairs of cracks in taxiways and runways and other problems. The government said it will maintain two international airports because of the setbacks at Suvarnabhumi. But airlines prefer to keep international flights at Suvarnabhumi because of the cost and complications of returning to Don Muang, as well as confusion for travelers making connections. Star Alliance endorsed a decision by member Thai Airways to keep its international flights at the new airport, which has been deemed safe for operations.

III. SECURITY

1. Controversial X-Ray Scanner Debuts at Phoenix.

The Transportation Security Administration (TSA) began voluntary testing at one checkpoint at Phoenix Sky Harbor of an X-ray machine that uses “backscatter” technology to search for hidden explosives and weapons under passengers’ clothes. Made by Boston-based American Science and Engineering, the machine utilizes a tiny laser beam that scans the passenger from head to toe; images are seen on a computer screen in a room about 50 feet away and a green or red light—for pass or fail—is pressed and conveyed to the screening location. Officials say images of body parts are blurred, but privacy groups and the American Civil Liberties Union liken the technology to a virtual strip search that could be abused. TSA will test the machine for 60-90 days before deployment in Los Angeles and New York Kennedy.

2. DHS Launches Traveler Redress Inquiry Program.

The Department of Homeland Security (DHS) launched a Web site (www.dhs.gov/trip), which allows individuals to inquire about or seek resolution for difficulties experienced during screening. The Traveler Redress Inquiry Program (DHS TRIP) has links to address watch list misidentification issues; screening problems at ports of entry; and situations where travelers believe they have been unfairly or incorrectly delayed, denied boarding or identified for additional screening. DHS says the privacy of personal information provided in the inquiries is safeguarded.

3. Secure Flight Deployment Expected in 2010.

TSA Administrator Kip Hawley said the Secure Flight system is a year-and-a-half and another \$80 million away from deployment. DHS has already invested \$140 million and four years on several versions of the program, but concerns about privacy violations have thwarted success. TSA now believes it can reduce mistakes, protect privacy rights and achieve screening reliability by 2010. The new system will not use commercial data but will determine if a passenger is on the no-fly list, which authorities say has been cleansed of erroneous, redundant or incorrect entries.

IV. E-COMMERCE AND TECHNOLOGY

1. The Future Traveler: An Amadeus Report.

A report commissioned by Amadeus cites social, geopolitical, economic, consumer and technology trends that will determine who will be traveling in the future, which groups could be most dominant and what their individual needs will be. "Future Traveler Tribes 2020" says key groups to emerge are: Global Executives, elite business travelers who want a private jet type experience, predominantly from emerging economic markets; Active Seniors, wealthy, healthy travelers, aged 50 to 75, who travel for cultural and leisure pursuits; Cosmopolitan Commuters, live in one city but work in another and use air travel to commute; and Global Clans, use air travel to visit increasingly dispersed family members. Technologies must respond intuitively to individual needs throughout their journey, says the report. The 'humanization of technology' will emerge in areas such as trusted digital identities, integrated information systems, real-time/geo-relevant information and communications. Developments that support the concept of humanization include: in the near term, SIM card identification, personalized destination information, mobile travel updates, digital concierges; and, in the longer term, digital memories, 3-D glasses, RFID for both people and baggage and humanoid check-in kiosks.

2. Delta to Offer HBO Movies, Programming.

Starting in May, Delta planes fitted with video-on-demand seatbacks will have a dedicated HBO channel offering movies and other programming; parental controls will be available. The service will be free for first-class and international BusinessElite customers; economy-class customers will be charged \$5 for a feature film and \$2 an episode for TV shows.

3. Thomas Cook Acquires MyTravel.

Thomas Cook owner KarstadtQuelle AG will acquire MyTravel and combine it with Thomas Cook to create Europe's second largest travel group behind TUI, by sales. MyTravel is a full-service travel Web site, established in 2000, which made its millionth sale in 2005. Europe's package holiday market is undergoing consolidation, as travelers increasingly elect to book their own travel online, and is expected to shrink by 3% a year over the next four years.

V. NOISE AND ENVIRONMENT

1. ICAO Issues Guidelines on Emissions Trading.

ICAO's Committee on Aviation Environmental Protection released proposed guidance to member states for incorporating aviation emissions into national emission trading schemes (ETS). The proposal calls for aircraft operators to be the accountable entity and for obligations to be based upon total aggregated emissions from all covered flights conducted by each operator included in the ETS. States should consider aggregate carbon dioxide emissions and/or aircraft weight as the basis for application of an inclusion threshold, ensure that aviation emissions are counted separately and not against specific reduction targets identified by the Kyoto Protocol, and address the integration of foreign operators under a mutually agreed upon basis. Initial ETS should include only CO₂, but a framework to begin investigating nitrogen oxide emissions is needed. The International Air Transport Association (IATA) welcomed the proposal, saying "Climate change is a global issue . . . Unilateral action by states is not the answer," referring to a move by the European Union (EU) to include airlines, including non-EU carriers, in its ETS.

2. Calculator Helps Travelers Go Green.

Carlson Wagonlit is the latest travel company to offer a carbon-dioxide emission calculator. Developed with launch client, the UK Department for the Environment, Food and Rural Affairs, the calculator displays CO₂ emissions of a planned trip and prompts travelers to choose a low-carbon alternative; i.e., between air and rail and between different airlines on long-haul trips. The calculator also displays the cost of an offset contribution for the trip.

VI. U.S. CONGRESS

1. Senate Commerce Committee Approves Cargo Screening Bill.

The Senate Commerce Committee approved the Aviation Security Improvement Act, which would require the screening of all cargo on passenger airplanes within three years; it does not mandate that all cargo be physically inspected. The bill also addresses passenger prescreening, ensures a system is in place to redress mistaken identity issues, and requires TSA to move rapidly to develop a strategic plan to test and implement an advanced passenger prescreening system. The proposed bill requires passage by the full Senate and House and the President's signature. A House proposal would require air cargo loaded onto passenger planes to be screened at the same level as checked baggage, a proposal strongly opposed by airlines, which fear huge delays and subsequent loss of freight business.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. EU-US Open Skies Talks Resume.

While in Washington during EU-U.S. open skies talks, EU Transport Vice President Jacques Barrot said "no stone must be left unturned" in the quest for a far-reaching agreement. Europe is ready to allow U.S. airlines to operate within the EU's internal market, he said, if there are equivalent opportunities in the U.S. market for European airlines. Europe wants restrictions eased on beyond flights within the U.S. and an end to the rule that prevents foreign investors from holding a controlling interest in a U.S. airline. As another round of talks, in Brussels, drew closer, Barrot called for the U.S. to offer alternative proposals. In related news, Irish Transport Minister Martin Cullen said his government would negotiate its own open skies agreement with the U.S. if an EU-U.S. pact is not reached soon, so that Aer Lingus can be competitive with the more than 10 EU countries that have such agreements. Aer Lingus CEO Dermot Mannion is seeking implementation of a transition Ireland-U.S. agreement that would reduce the number of stopovers at Shannon Airport and open up three new U.S. destinations; Aer Lingus now flies to New York, Los Angeles, Chicago and Boston.

2. EU Files Defense With WTO on Airbus Subsidies.

The EU filed a written defense with the World Trade Organization (WTO) against U.S. claims that subsidies to Airbus damaged Boeing, saying 9/11, poor management and the SARS flu epidemic in Asia were responsible for Boeing's poor 2001-2005 financial results, and that subsidies to Airbus were allowed under a bilateral 1992 trade agreement. The WTO will hear both sides discuss U.S. claims in March; a final WTO report on the U.S. case against Airbus is due October 31 and the EU case against Boeing in April 2008.

3. EU, Paraguay Seal Aviation Agreement.

An EU-Paraguay accord was signed in Brussels by EU Transport Vice President Jacques Barrot and Paraguayan Foreign Minister Ruben Ramirez Lezcano. The pact does not replace bilateral agreements in place between EU Member States and Paraguay, but brings them in line with EU law. "The agreement recognizes the integration and cross border investment taking place in Latin America by removing the nationality requirements for Paraguayan airlines flying to Europe," said Barrot.

VIII. EUROPE/AFRICA

1. Air France Opens New U.S. Gateway in Seattle

Air France will begin daily nonstops from Paris to Seattle, its 13th U.S. gateway, on June 11. The A330-200 service will feature Air France's more comfortable "New Travel Concept" in a two-class configuration: 40 business and 179 economy class seats.

2. Aer Lingus, JetBlue to Form Booking Alliance.

Aer Lingus and JetBlue will form a ticket-booking alliance this summer, the first between foreign budget carriers. The agreement does not include code sharing, but links their Web sites. Aer Lingus CEO Dermot Mannion said the partnership will make the Irish carrier's Web site the premier way to book flights to Ireland from North America.

3. Alitalia Bidder List Narrows to Five.

A list of 11 suitors for Alitalia was narrowed to five by the Italian government, and includes Air One Chairman Carlo Toto, Italian finance groups and U.S. asset management group Matlin Patterson Global Advisers. Non-binding offers for a minimum 30.1% stake in the carrier are expected by the first half of April. Air France-KLM continued to deny interest, as did Lufthansa. The Italian government said it does not rule out maintaining a small portion of its current 49.9%. Alitalia Chairman and CEO Giancarlo Cimoli was replaced by Bernardino Libonati, who currently is Chairman of Banca di Roma and has served as Chairman of Telecom Italia.

4. bmi Acquires British Mediterranean.

bmi parent British Midland acquired Heathrow-based British Mediterranean (BMED), a British Airways franchise. David Richardson will retain his position as CEO, reporting to bmi CEO Nigel Turner. The acquisition enables bmi group to accelerate its expansion into medium-haul markets. BMED operates to 17 destinations in 16 countries with no overlap with any bmi route. Many of these destinations have restricted market access due to existing bilateral agreements. Like bmi, BMED operates IAE engined Airbus A320 and 321 aircraft in a two-class configuration.

5. Iberia to Offer Madrid-Boston Service.

Iberia will launch five weekly Airbus A340-300 Madrid-Boston flights, as of May 6, the only service on the route.

6. **clickair Makes London Heathrow Debut.**

Barcelona-based clickair launched London Heathrow operations with daily scheduled flights to Seville and Valencia, from €20 one-way, using Iberia's Heathrow facilities. The low-fare carrier code shares with Iberia and its passengers can earn points in Iberia's loyalty program, but it is operationally independent. clickair entered service last year and now flies 12 routes. Its fleet of eight Airbus A320s will grow to 30 by mid-2008. CEO Alex Cruz began his airline career with American. Shareholders are Iberia; Nefinsa (parent of Spanish regional Air Nostrum); Spanish construction group Cobra; hotel and resort company Iberostar; and Quercus Equity, a private equity fund in the Agrolimen group.

7. **Russia's First Budget Airline, SkyExpress, Launches.**

Russia's first budget airline, SkyExpress, entered service with flights from Moscow Vnukovo to Russia's Black Sea city of Sochi, with plans to offer regular service to 11 Russian cities by yearend; initial fares started at \$18.82 one-way. CEO Marina Bukalova said SkyExpress is working to obtain international safety certification (IOSA). In other news, Defense Minister Sergei Ivanov said state-owned United Aircraft Corporation would control 5-7% of the world's commercial aircraft market by 2012 and 10-12% by 2015.

8. **Alliance News.**

SkyTeam signed agreements with candidates Air Europa, Copa and Kenya Airways that call for the carriers to meet predetermined requirements in areas such as operations, information technology and products before they can receive formal approval to enter the alliance. oneworld announced that Japan Airlines, Malev and Royal Jordanian will become members April 1, when, as previously announced, Aer Lingus will withdraw because a change in its focus to low-fare, point-to-point passengers differs from oneworld's "strategy of providing services for premium, multi-sector, frequent, international travelers." Affiliate members Dragonair, LAN Argentina and LAN Ecuador will join oneworld later this year.

IX. ASIA/PACIFIC / MIDDLE EAST

1. China Southern Begins Service to Nepal.

China Southern began twice weekly, direct, Boeing 757-200 service between Guangzhou and Tribhuvan International Airport in Katmandu, Nepal.

2. Qantas, Air New Zealand End Strategic Alliances.

Air New Zealand and Qantas terminated their strategic alliance agreements, due to rejection in late 2006 by Australia's Competition and Consumer Commission (ACCC) of their application to code share on flights between New Zealand and Australia. Separately, ACCC should complete its review by March 1 of a proposal by a private equity consortium led by Macquarie and Texas Pacific to acquire Qantas.

3. Air New Zealand Simplifies Fare Structure for Canada.

Air New Zealand implemented a revised fare structure for Canada, in conjunction with new nonstop Boeing 777-200ER Auckland-Vancouver service, to begin in November. Based on an updated pricing system introduced for the U.S. in 2005, the changes offer more flexibility and simplified language. Travelers can combine classes, i.e., travel in a different class each way. Customers flying from Vancouver to New Zealand via Los Angeles have the option to stop over in the Pacific Islands (Fiji, Cook Islands, Tonga or Western Samoa) for a minimal fee.

4. Indonesia to Privatize Garuda.

Indonesia submitted to Parliament a list of 15 state firms to be privatized this year, including Garuda Indonesia; PT Rajawali Corp. has expressed interest.

5. Asian Low-Fare News.

Vietnam's Pacific Airlines became a low-cost carrier, with Hanoi-Ho Chi Minh City no-frills roundtrips selling for as low as \$1, plus fees and taxes. Singapore low-fare unit Tiger Airways will launch service to Perth in March, subject to Australian government approvals. Hong Kong startup Oasis is offering daily flights to London for as low as \$147 one way and has applied to DOT to launch Boeing 747-400 service to Oakland and Chicago. AirAsiaX, an associate of Malaysia's AirAsia, the largest budget airline in Asia, will begin operations in July from the Kuala Lumpur low-cost terminal, offering daily point-to-point frequencies to popular destination in China, India and Europe.

6. Emirates to Offer Houston-Dubai Nonstops.

Emirates will launch three weekly Boeing 777-200LR nonstops between Houston and Dubai on December 3, increasing to daily by February 2008. The direct route will shorten flight times to 15 hours and 10 minutes, compared to the current total of 18 hours and 25 minutes on a flight via London. Emirates code shares with Continental on selected flights from Dubai to Newark and to Houston via London, and between London and Dubai.

7. Royal Jordanian Privatization Underway.

Privatization of Royal Jordanian, to be completed this year, will be conducted in two phases, said the airline. An evaluation of the company, advising the government on the best options for selling up to 74% of shares to financial/strategic partners and to Jordanians in an initial public offering (IPO), will be followed by implementation. Shares sold to foreign investors will not exceed 49%; the government will retain 26% initially. Royal Jordanian is the first Arab carrier to join a global airline alliance, with membership in oneworld to begin in April. In related news, Jordan will modernize and expand Queen Alia International Airport to provide capacity for up to nine million annual passengers by 2010, and, in a second phase, to provide capacity for 12 million passengers annually. Jordan hopes to make Amman a hub for the region.

8. Iran Air to Begin Direct Flights to Venezuela.

Iran Air will begin a weekly, commercial flight from Tehran to Caracas, via Damascus, in March, and has opened an office at the headquarters of Venezuela's state airline Conviasa. United against the U.S. government, the two countries have intensified their trade relations and are cooperating in the development of Venezuela's oil fields.

9. Alliance News.

See Section VIII, item 8.

X. AMERICAS

1. American to Increase New York Flights.

American will increase New York service, launching nonstop flights from Kennedy to Las Vegas in September and adding a sixth daily flight to San Francisco in August. A fourth flight from LaGuardia to Atlanta will be added in April, along with new American Eagle service to Cincinnati and Louisville. The carrier is spending \$1.1 billion on a new terminal at Kennedy and \$20 million on amenities, such as lie-flat seats and flat-screen televisions in first class, on its Boeing 767 fleet, which will be used heavily on New York services. Rumors of a British Airways/Goldman Sachs bid for American parent AMR were discounted by analysts, because of anti-trust concerns and foreign ownership restrictions. Iceland's FL Group raised its stake in AMR to 8.63%.

2. US Airways Selects Pittsburgh for Flight Ops Control Center.

US Airways selected a 10-acre site at Pittsburgh International Airport for its new \$25 million, 60,000 sq. ft. flight operations control center. Approximately 600 employees who plan, track and handle US Airways' 1,400 daily mainline flights will be housed at the new nerve center. Groundbreaking is slated for later this year, with full operations scheduled for early 2009. After it merged with America West in 2005, US Airways sought proposals from Pittsburgh, Phoenix and Charlotte for a new combined operations center. Currently, US Airways operates an operations center in Pittsburgh (for US Airways) and Phoenix (for America West).

3. Court Approves Delta's Proposed Reorganization Plan.

The U.S. Bankruptcy Court for the Southern District of New York approved Delta's proposed Reorganization Plan and authorized the company to solicit approval from its creditors. Delta posted a 2006 net loss of \$6.21 billion, compared to a \$3.84 billion loss in 2005, and a fourth-quarter loss of \$1.98 billion, compared to the \$1.24 billion loss in the 2005 period. Noting an operating profit of \$58 million for the full year, the company still plans to emerge from bankruptcy this spring.

4. Northwest Projects Post-Bankruptcy Value of \$7 Billion.

Northwest projected an equity value of between \$6.5 billion and \$7.6 billion when it emerges from bankruptcy protection by the end of the second quarter. The carrier's reorganization plan needs approval of unsecured creditors and will be considered by a bankruptcy judge on March 26; a confirmation hearing is set for May 16.

5. **Lamar Muse Dies, First President of Southwest.**

Lamar Muse, Southwest's first President and a deregulation pioneer, died in Dallas at age 86. His innovations helped launch the maverick nature of Southwest, which was to become the most successful carrier in the U.S.

6. **Comair Sues FAA, Reaches Deal With Pilots.**

Delta subsidiary Comair filed a lawsuit charging FAA was negligent in having only one air traffic controller on duty on August 27 when a plane took off from the wrong runway at Lexington airport and crashed, killing 49 people. Comair says FAA should have had two controllers working in the tower. The controller on duty at the time of the crash had turned away before the flight took off. FAA denied any negligence. Comair reached a tentative agreement with its pilots, after a bankruptcy court judge ruled that the airline could impose \$15.8 million in pay cuts if the two sides failed to reach an agreement; the judge also granted Comair's request to block a threatened strike and any other job actions that would disrupt operations.

7. **Virgin America Update.**

Virgin America announced \$30 million in additional equity and debt investment from U.S. investors. Samuel Skinner, former Secretary of Transportation and White House Chief of Staff under President George H.W. Bush, joined the Board of Directors as Vice Chairman. The company filed supporting documentation with DOT for earlier announced extensive changes to its structure and agreements. Referring to efforts of American, Delta, US Airways, Continental and the Air Line Pilots Association, Virgin America urged DOT "to be wary of further airline delay tactics or 'control' complaints [which] are a concerted effort by legacy carriers now representing over 40% of the domestic market share in this country to thwart competition and prevent the entry of a dynamic, innovative, well-financed, well-known brand name into the domestic U.S. aviation market." Pending DOT certification, San Francisco-based Virgin America intends to serve New York Kennedy, Washington Dulles, Los Angeles, San Diego and Las Vegas within nine months of launch. Meanwhile, said CEO Fred Reid, the company is negotiating short-term leases for its Airbus A320s.

8. **LAN Stake in LAN Argentina Rises to 70%.**

Chile's LAN increased its stake in LAN Argentina to 70% from 49%, and provided \$17.1 million in financing to New Varig, which may be converted into shares and a subsequent minority stake in the remade Brazilian airline. LAN reported net income of \$93.6 million for fourth quarter 2006, compared to \$49.9 million in the 2005 period. Net income for full year 2006 reached \$241.3 million, compared to \$146.6 million for 2005. LAN took delivery of 13 passenger and cargo aircraft in 2006 and expects passenger ASK growth of

19-21% in 2007 and 18-20% in 2008, and cargo ATK growth of 4-6% in 2007 and 4-6% in 2008.

9. News From Brazil.

Brazil's Civil Aviation Authority (ANAC) said foreign investors should be allowed to own up to 49% of domestic airlines, from a current cap of 20%. In other news, an injunction banning use of Boeing 737-700s, B-737-800s and Fokker 100s at Sao Paulo Congonhas, Brazil's busiest airport, was lifted when ANAC argued that sufficient safety measures were being taken to counteract drainage problems that caused three planes to slide off the runway over the past year. Concerns about safety have intensified since last September when 154 people were killed in Brazil's worst air crash. Low-cost airline Gol began flights to Peru and awaits permits this year to operate flights to Mexico from Lima on a Sao Paulo-Lima-Mexico route; Gol plans to increase its fleet from a current 65 planes to 80 by the end of this year and to 101 by 2012.

10. Air France Opens New U.S. Gateway in Seattle

See Section VIII, item 1.

11. Aer Lingus, JetBlue to Form Booking Alliance.

See Section VIII, item 2.

12. Iberia to Offer Madrid-Boston Service.

See Section VIII, item 5.

13. Alliance News.

See Section VIII, item 8.

14. Air New Zealand Simplifies Fare Structure for Canada.

See Section IX, item 3.

15. Emirates to Offer Houston-Dubai Nonstops.

See Section IX, item 6.