



WASHINGTON AVIATION SUMMARY

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I. REGULATORY NEWS

1. Sturgell Nominated as FAA Administrator.

The Bush Administration nominated Robert (Bobby) Sturgell to head the Federal Aviation Administration (FAA). Sturgell has been Acting Administrator since Marion Blakey's September departure, previously served as Deputy Administrator and senior counsel at FAA and senior policy advisor at the National Transportation Safety Board, and has been both a commercial and military pilot. Secretary of Transportation Mary Peters urged the Senate to "swiftly consider the nomination and confirm him to a full five-year term."

2. DOT Sets Flight Reduction Targets for New York's JFK Airport.

With a goal to increase on-time performance at New York's John F. Kennedy (JFK) International Airport, which slipped to 59% in July, the U.S. Department of Transportation (DOT) set targets that included a cap of 80 flights per hour (81 from 3 p.m. to 8 p.m.). The plan was debated at a meeting conducted by FAA with U.S. air carriers and Port Authority of New York & New Jersey, which operates JFK, Newark, LaGuardia and Stewart airports. Many carriers agreed to review their schedules and make voluntary reductions, said DOT. However, the Port Authority and a coalition of airline, passenger, business and tourism groups strongly opposed the plan, stating it would bring flights to pre-1969 levels, limit travelers' options and turn away nearly 3.4 million passengers from JFK each year. The Port Authority made 17 delay-reduction recommendations it said FAA and 14 of the largest carriers at its airports agreed would be effective and could be implemented quickly. They include immediate technology improvements, adding a westbound departure route and adding taxiways. FAA said it is working with all parties "to craft measures to avoid the type of schedule reductions all of us agree could limit competition, inflate ticket prices and stifle consumer choice."

3. DOT to Proceed with SkyTeam Antitrust Immunity Application.

DOT issued a scheduling order establishing a timeline for consideration of an application for expanded antitrust immunity (ATI) filed by SkyTeam partners France, KLM, Delta, Northwest, Alitalia and CSA Czech Airlines. Northwest said an expanded SkyTeam ATI would enable more transatlantic service from key hubs including Detroit, Minneapolis/St. Paul and Memphis. Delta said separately that such immunity would enable Air France, KLM, Delta and Northwest to set up a joint venture and ultimately integrate their transatlantic operations (see also Section VIII). Meanwhile, in cooperation with a European Commission (EC) antitrust probe, all SkyTeam airlines have offered to make slots available at appropriate European Union (EU) airports to allow

competitors to operate new or additional services, share their frequent flyer programs, conclude interlining agreements with new entrants, enter into special agreements for behind and beyond traffic on intra-EU routes and facilitate intermodal services. The commitments were offered for five years on long-haul city-pairs to/from U.S. destinations and six years on other city-pairs.

4. NASA Study Finds Aviation Problems.

The National Aeronautics and Space Administration (NASA) refused to release to the Associated Press (AP) survey data that includes 24,000 interviews conducted over four years with commercial and private pilots, because, said Associate Administrator Thomas Luedtke, the results could affect public confidence and the commercial welfare of airlines and general aviation companies. The AP had sought to obtain the data under the Freedom of Information Act. U.S. House and Senate Committees promised investigations into NASA's withholding of the data, prompting a statement from NASA Administrator Michael Griffin: "This rationale was based on case law, but I do not agree with the way it was written. I regret the impression that NASA was trying to put commercial interests ahead of public safety. That was not and will never be the case." The \$8.5 million study was conducted at NASA Ames Research Center by Battelle Memorial Institute. The House Science and Technology Committee directed Battelle to retain all original documents and copies, after learning that NASA had ordered those documents returned and copies deleted from Battelle's computers. AP learned from private sources that the data reported at least twice as many bird strikes, near mid-air collisions and runway incursions as other government monitoring systems show, among other findings.

5. DOT Air Fare Report Shows 4.5% Drop in Second Quarter.

The average price of a domestic roundtrip ticket, \$326, fell 4.5% in the second quarter from year-ago levels, reported DOT, and remained below the pre-9/11 high of \$346 in 2Q 2000. DOT attributed the lower fares to trends such as the rise of low-cost carriers, which now carry more than 27% of all domestic enplaned passengers, up from about 14% in 1995; competitive practices by leading network carriers; and Internet price shopping. Among major airports, the highest average fares were in Cincinnati, followed by Anchorage, Greenville-Spartanburg, Knoxville and Charleston, S.C. The lowest fares were at three Hawaii airports, Dallas Love Field and Chicago Midway. Most major carriers have raised domestic fares multiple times this year to offset rising fuel costs, which in October rose to over \$90 per barrel.

6. 9/11 Families Settle Negligence Suit.

Litigation was settled on behalf of survivors of four individuals working in the Pentagon on 9/11 and one in the World Trade Center. Settlement details were

not disclosed, but compensation was sought primarily from American, United, Argenbright Security and the Metropolitan Washington Airport Authority. Attorneys said the lawsuits “yielded tangible results that have changed the way airlines, airports, aircraft manufacturers and security contractors view their responsibility for protecting the public [and] proved without question that airlines and security contractors were responsible for profound failures in security that could have prevented the attacks.” Of the original 94 claims filed in federal court, fewer than 20 are still open, with the first scheduled for trial in November. In order to sue, families had to forgo a settlement from the federal September 11th Victim Compensation Fund of 2001. Created by Congress to protect airlines from litigation, the fund awarded an average of \$2 million to the families of 2,880 people killed in the attacks.

7. DOT Air Travel Consumer Report for August.

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

	August	July	Full Year			
	‘07 / ‘06	‘07	2006	2005	2004	2003
On-time arrivals %	71.7 / 75.8	69.8	75.4	77.4	78.1	82
Cancellations %	1.9 / 1.6	2.1	n/a	1.87	1.56	1.79
Mishandled baggage*	7.55 / 8.10	7.93	6.73	6.64	4.91	4.19
Consumer complaints:						
Airline service	1,634 / 864	1,717	8,321	8,741	7,452	5,983
Disability-related	59 / 38	45	427	511	521	375
Discrimination**	10 / 9	15	114	129	118	85

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. US Airways to Reduce Pittsburgh Service.

US Airways will reduce Pittsburgh service, effective January 6, 2008, due to continued losses there. Daily mainline flights will be reduced from 31 to 22, and regional service to smaller cities from 77 to 46. The airline's flight crew base will close and about 500 pilots and flight attendants will bid for other services in the US Airways system. Mainline airport agents and ramp employees will take over customer service and ground-handling duties for 350 US Airways Express employees at wholly owned unit PSA Airlines. Those employees, and about 100 US Airways mainline airport employees, will be offered other jobs. The airline will continue to employ 730 mechanics at its heavy maintenance base at Pittsburgh and still plans to build a new 600-employee Operations Control Center there.

2. Future Customer Check-In Facility at Sea-Tac.

Alaska Airlines launched the first phase of its "Airport of the Future" check-in facility at Seattle-Tacoma International (Sea-Tac), which replaces traditional ticket counters with islands of check-in kiosks and bag-check stations designed to reduce wait times. The first island features 11 kiosks and 16 bag check stations. When completed, the facility's three islands will offer 50 check-in kiosks and 56 bag-check points. The system will serve Horizon customers as of February 2008. Alaska first introduced the concept in 2004 in Anchorage and has implemented smaller versions in Los Angeles, Boise, Puerto Vallarta and several other Alaskan locations. Meanwhile, Sea-Tac's new baggage conveyor belt system is \$92 million over budget and two years behind schedule, reports the *Post-Intelligencer*, attributed by the Port of Seattle to the project's complexity and contractor mistakes. The contractor, G&T Conveyor, blames poor design and management and continuous changes.

3. Toronto Pearson Fees Cut.

The Greater Toronto Airports Authority (GTAA) will reduce landing fees at Pearson International Airport by 3.1% and terminal charges by 4.7%, effective January 1, 2008. Airlines have long complained about the high fees at Pearson, most of which, says the GTAA, feed federal coffers. A \$4.6 billion redevelopment project was recently completed at Pearson.

4. Mexican Airport Tariffs Questioned.

Mexico's Competition Commission (CFC) found regulatory inefficiencies in the operation of airports, resulting in high tariffs and subsequently higher airline ticket costs, reports Dow Jones. The Communications and Transport Ministry

(SCT) said it will review the findings and implement proposals that will benefit users of the country's 84 airports, but rejected the CFC's suggestion that there could be competition among smaller airports surrounding the Mexico City International Airport, making up the Metropolitan Airport System. The SCT also rejected a CFC proposal that an independent regulator be set up to monitor airport tariffs. The CFC also called for a more efficient system to guarantee airline access to slots at saturated airports, and greater competition among providers of other services, including ground transport. In other news, Mexico will begin the bidding process to build a new airport in the Maya Riviera region, south of Cancun, in early 2008. Land has been purchased and airport operator Asur has expressed interest. Asur runs nine airports in southern Mexico, including Cancun.

5. UK CC Report on Heathrow, Gatwick Published.

The UK Competition Commission (CC) found that London Heathrow and Gatwick, both owned and operated by BAA, "acted against the public interest by failing to manage security queuing and queue times so as to avoid unacceptable delays to passengers, crew and flights." The CC recommended that the Civil Aviation Authority (CAA) extend conditions imposed in 2003 relating to service standards, and introduce new conditions for service processes and procedures. The CC's recommended increase in the maximum level of airport charges at Heathrow and Gatwick were called "unacceptably low" by BAA, whose parent, Grupo Ferrovial, said plans to refinance as much as \$20.4 billion of debt would be at risk with the planned price controls. British Airways argued for reduced charges at both airports. The CAA will make its final determination on the maximum level of airport charges in early 2008.

6. Jordan Airport Signs With Changi Airports International.

The Aqaba Development Corporation engaged Singapore-based Changi Airports International to prepare a master plan for developing King Hussein International Airport. Aqaba affords access to Petra, a wonder of the ancient world, as well as the Red Sea coral reefs. The Aqaba Special Economic Zone, established in 2001, is expected to draw \$6 billion in investments and create 70,000 jobs.

7. Sharjah Airport to Raise \$500M For Expansion.

Sharjah International Airport plans to raise \$500 million to expand its terminal or develop a second terminal and runway. Ghanem Al Hajri, Director General of the Department of Civil Aviation and Sharjah Airport Authority said a current master plan for expansion is not sufficient due to rising passenger traffic brought by Air Arabia. Sharjah is a low-cost carrier hub serving migrant workers from the subcontinent. Air Arabia, launched in 2003, is the Persian Gulf's first and largest low-cost carrier; passenger traffic rose 58% to 1.23

million in the first half of 2007 from a year earlier, as revenue rose 67% to \$140 million. A 20% rise in passenger traffic is expected in 2008, said Al Hajri.

8. Sydney International Terminal Expansion.

Construction began on a \$500 million upgrade and expansion of the International Terminal at Sydney Airport and will be completed in 2009. The project will add 7,300 square meters to the departures level, a new outbound baggage handling system, and additional and upgraded aerobridges and taxiways to accommodate a wider range of aircraft. The arrivals baggage system will also be upgraded to meet peak passengers flows associated with the progressive introduction of the Airbus A380 into airline fleets. International passenger traffic grew by 25% from 2001 to 2006 at Sydney and is expected to double by 2024 to 20 million.

III. SECURITY

1. DHS/TSA News.

Paul Schneider was named Acting Deputy Secretary at the Department of Homeland Security (DHS), replacing Michael Jackson, who returned to the private sector. Schneider has been Undersecretary for Management since December 2006. The Transportation Security Administration (TSA) created an Office of Global Strategies to work with “foreign partners and overseas operations affecting the U.S.” Intelligence veteran Bill Gaches will head the mission. The Homeland Security Inspector General found that security screeners at San Francisco and Jackson, Miss. airports were warned in advance of undercover tests in 2003 and 2004, and is investigating whether screeners at other airports received advance notice of covert testing aimed at determining how well airport workers find weapons. A TSA directive that ordered passengers to remove bulky headwear, such as turbans, was revised after an outcry from the U.S. Sikh community and others; now screeners will ask passengers to remove bulky clothing in a private screening area, including bulky headwear, only if a mix of screening, such as pat-downs and devices that check for explosives, discover a potential threat.

2. Airports Object to New Security Clearance Requirement.

U.S. airports are protesting a new federal policy that bars issuing employee ID cards until TSA verifies that a potential worker, including sales clerks, waiters and custodians, is in the country legally and does not have terrorist ties. The card allows access to secure areas. Previous policy required a background check after employment began. Airports Council International-North America (ACI-NA) said the new policy has led to hiring delays because of the length of time it takes to obtain TSA clearances, *USA Today* reported. “Businesses are contemplating shutting down because of the inability to bring on new employees,” wrote ACI-NA President Greg Principato to TSA, which said it does not plan to relax the policy but is working with ACI and the American Association of Airport Executives to end the delays.

3. TSA Tests Second Passenger Imaging Technology at Phoenix.

The American Civil Liberties Union (ACLU) objects to a new body scanner being tested at Phoenix Sky Harbor, saying the Active Millimeter Wave technology raises “troubling questions about passenger privacy.” TSA is testing the system as a voluntary alternative to a pat-down during secondary screening, and plans further tests at New York Kennedy and Los Angeles International. “In a matter of seconds, this technology can detect weapons, explosives and other threat items concealed under layers of clothing without

physical contact,” said TSA. “Privacy is ensured through the anonymity of the image: it will never be stored, transmitted or printed, and it will be deleted immediately once viewed.” Another passenger imaging technology, backscatter, has been tested at Phoenix since February; 79% of the public has opted to try backscatter over the traditional pat-down in secondary screening, said TSA.

4. Israel Advises Denver, Beefs Up Ben Gurion Perimeter Safety.

The latest U.S. airport to consult with Israel on security policies and procedures is Denver, which is conducting a comprehensive operations review in anticipation of rapid growth; Denver has issued more than \$1 billion in bonds to fund expansion projects through 2013, reports *Rocky Mountain News*, including the addition and reconfiguration of security lanes. In Israel, unmanned ground vehicles (UGVs) equipped with weapons and cameras have begun to assist jeep-mounted security personnel in their patrols of the perimeter fence at Ben-Gurion, reported *Haaretz*.

5. Senate Commerce Oversight Hearing on TSA.

See Section VI, item 1.

6. Senate Homeland Security Addresses GAO Report.

See Section VI, item 2.

IV. E-COMMERCE AND TECHNOLOGY

1. Southwest Lawsuit Shuttles BoardFirst.com.

Southwest won its court battle against BoardFirst.com, a home-operated Web business that, for a \$5 fee, secured "A" boarding passes online for Southwest customers. The court held that users of an airline's Web site are bound by the site terms of use; a hyperlink on the Southwest home page links to a statement prohibiting third-party commercial uses of the site. BoardFirst did not intend to appeal the ruling and ceased operations. Rather than pre-assign seats, Southwest boards in groups based on check-in time and allows passengers to check in online up to 24 hours in advance. Southwest sued boardfirst.com for fraud and trademark infringement over a year ago.

2. IATA Standard Paves Way for Global Mobile Phone Check-in.

The International Air Transport Association (IATA) announced a global standard that paves the way for global mobile phone check-in using two-dimensional (2D) bar codes. Passengers register their mobile number with an airline at the time of booking to receive a text message with a 2D bar code, or instructions to download it. The bar code becomes the boarding pass and is read directly from the screen of the mobile device, eliminating paper from the check-in process. Historically, airline global applications for mobile phone technology have been restricted due to different regional formats. The IATA standard uses existing codes: Aztec and Datamatrix which are used extensively in Europe and North America; and QR which is widely used in Japan. All three technologies can be read by a single scanner type that is readily available globally. IATA will work with airlines to develop standardized processes and guidelines that facilitate global implementation. The industry has set a deadline of the end of 2010 to implement 100% bar coded boarding passes (BCBP). Upon full implementation, BCBP will save the industry over \$500 million annually. A 2D standard for paper bar coded passes was established in 2005 and is the basis for Web check-in.

3. Mobile Phone Services Proposed for UK Carriers.

UK telecommunications regulator Ofcom issued proposals that would enable airlines to offer mobile communication services on UK-registered aircraft. An Ofcom objective is to create opportunities for companies to develop innovative technologies and the most efficient use of the radio spectrum for consumers. The proposals were developed jointly with other EU countries and are intended to cover all European airspace. The proposed system includes an on-board base station which connects to passengers' mobile phone handsets. Both must be switched off during take-off and landing to eliminate interference

with other terrestrial mobile networks. Once the aircraft reaches a minimum height of 3,000 meters, the system may be switched on by the cabin crew. Mobile handsets will then be able to use the aircraft's network service to make and receive calls which will be routed via a satellite link to the network on the ground. Calls will be billed through passengers' service providers.

4. MIT Launches Global Airline Data Project.

The Massachusetts Institute of Technology and the International Center for Air Transportation have created the Airline Data Project (ADP), an online databank that provides details and analysis of airline data since 1995. The resource allows users to compare 15 U.S. airlines on such measures as fleet utilization, labor costs, cash flow and profitability. All of the data is based on company filings with DOT and the Securities and Exchange Commission and will be updated regularly with additional charts and analysis.

5. EU Cracks Down on Web Site Non-Compliance.

A coordinated investigation by 17 EU countries found that hundreds of Web sites selling airline tickets failed to comply with consumer laws on pricing. Hidden charges and unclear terms and conditions were among the findings. National authorities will address the problems and, where needed, take corrective action, said the EC.

6. SITA to Develop New Passenger Reservations System.

SITA is developing a new passenger reservations system for the 138 airlines that use the airline IT provider's SITA reservations services. The \$100 million, phased-in suite of reservations, inventory, ticketing and departure control systems will be the final installment of SITA's Horizon passenger management solutions based on open systems technology, and, said the company, ultimately will result in the retirement of current mainframe technology. Functionalities of the program will include "flexible customer journey management, with a next generation PNR for customer-centric searching and reporting [and] actionable business intelligence."

V. NOISE AND ENVIRONMENT

1. U.S. Clarifies Views on Aviation and Climate Change.

Clarifying the U.S. position on ways to reduce the carbon footprint of international aviation, Jeffrey Shane, DOT Under Secretary for Policy, said the United States agrees that more concerted and effective action is required and that emissions trading systems are important. In a speech at the American Bar Association Forum on Air & Space Law, Shane said the U.S. supports a new ICAO plan to form a “Group on International Aviation and Climate Change” composed of senior government officials. The group would develop an “implementation framework” for states to use in achieving emissions reductions, including voluntary measures, technology improvements, more efficient operational measures, improvements in traffic management, positive economic incentives and market-based measures. The program will also include specific ways of measuring progress, the identification of “global aspirational goals in the form of fuel efficiency for international aviation,” and progress reports from member countries.

2. Alliance for Sensible Airspace Planning to Sue FAA.

The Alliance for Sensible Airspace Planning, a coalition of 10 towns in Connecticut and New York, is preparing to fight FAA’s Northeast airspace redesign plan in court. The case may be bundled with similar lawsuits raised by New York, New Jersey and Philadelphia groups, which also believe noise created by redirected jets will have a negative impact on their quality of life.

3. Dutch Ticket Tax Proposal Condemned as Ineffective, Inappropriate.

A plan by the Dutch government to impose an environmental tax on passengers departing Dutch airports was condemned by the International Air Transport Association (IATA) and 31 major carriers represented by the Association of European Airlines (AEA). The proposed tax—€11.25 for intra-European and €45 for intercontinental flights—“is ineffective, inappropriate and it breaches international obligations,” IATA said, and “is counterproductive as it limits airlines’ ability to buy newer, more fuel-efficient aircraft. We are seeing a worrying trend across Europe with governments cynically taxing air passengers for environmental reasons then failing to use the revenues for environmental purposes. These taxes are blunt instruments that just damage tourism and impact the competitiveness of European businesses.” AEA said the measure is expected to raise €350 million annually for the Dutch treasury and will hit Dutch flag carrier KLM hardest.

4. Schiphol Plans Eco-Friendly Growth.

A new plan for Amsterdam Schiphol, developed by KLM, Delft University and others, allows for a 20% growth in air traffic without damaging the environment or compromising accessibility. Use of hybrid engines and bio-fuel would cut carbon dioxide emissions from ground vehicles by 20% to 50%. Railway stations would have lounges with check-in kiosks for air passengers and their baggage; a trial facility is being developed by KLM and Dutch Rail. Airport noise would be contained by pyramids made of sound absorbent material. Delft University is also developing a 125-seat ultra-green airplane. Separately, Schiphol signed on for a baggage management system developed by IBM and Vanderlande Industries that will reduce the amount of lost baggage, increase handling capacity and offer ergonomic benefits to workers. A new baggage hall, set to open in 2011, will have six robots to manage baggage and handle 60% of loading. It will be capable of transferring 70 million pieces of baggage a year by 2018.

5. Biofuel News.

Boeing, Air New Zealand and Rolls-Royce announced a Memorandum of Understanding to conduct a biofuel demonstration flight next year designed to help accelerate the development of viable and sustainable alternative fuels for commercial aviation uses. Boeing is exploring second-generation biofuel feed stocks and processes that have the potential to reduce greenhouse gases throughout their entire lifecycle. In related news, Richard Branson said Virgin Group hopes to produce clean biofuels by the start of the next decade and early next year will test a Boeing 747 without passengers with one of those fuels; Virgin is developing biofuels for aircraft with Boeing and GE Aviation.

6. House Subcommittee Hearing on Effects of Airport Noise.

See Section VI, item 3.

VI. U.S. CONGRESS

1. Senate Commerce Oversight Hearing on TSA.

During a Senate Commerce Committee hearing on whether TSA is implementing recommendations of the 9/11 Commission, Administrator Kip Hawley said security inspections of aircraft repair stations based overseas had not begun yet. He said the agency is developing rules that repair facilities will have to meet by early 2009. Claire McCaskill (D-Mo.) said the requirement to inspect foreign repair stations was part of a 2003 law that required a rule by 2004, with completion of the audits by February 2006. McCaskill said at least five foreign repair stations are in countries identified by the State Department as terrorist safe havens. Hawley said the agency will meet a new deadline to have the rules written by August.

2. Senate Homeland Security Addresses GAO Report.

The Senate Homeland Security Committee held a hearing on a Government Accountability Office (GAO) report, which finds that the federal government's terrorist watch list has more than 755,000 names, a growth of 200,000 names a year since 2004. The exact number of people on the list, compiled after 9/11, is unclear, says the report. GAO found instances in which people named on the watch list were able to enter the country and some named on the TSA no-fly list were able to board international flights to this country. The federal government lacks a current strategy and implementation plan, said GAO. Committee Chairman Joe Lieberman (ID-Conn.) and Ranking Member Susan Collins (R-Me.) called on the government "to continue to strengthen the nation's terrorist watch list to prevent entry into the country of people who are known threats and to allow those wrongly stopped at the border a reasonable and timely system of redress."

3. House Subcommittee Hearing on Effects of Airport Noise.

The House Subcommittee on Aviation held a hearing to examine effects of airport noise, as part of its continuing study of the impact of aviation on the environment. FAA predicts that noise and emissions could increase 140% to 200% over the next 20 years, becoming a significant constraint on planned capacity increases. "Accordingly," said Transportation Committee Chairman James Oberstar (Minn.), "as the U.S. increases infrastructure investment, it must balance airport capacity expansion with environmental protection." The House FAA Reauthorization Act of 2007 provides record funding levels for airport programs—\$15.8 billion for four years—and includes provisions related to noise mitigation and land use initiatives, such as the phase out of stage 2 aircraft less than 75,000 pounds; research for development of continuous

lower energy, emissions and noise engine and airframe technology; allowing airport operators to reinvest proceeds from sale of land acquired for a noise compatibility purpose into other noise/environmental projects; and providing new tools to encourage airport compatible redevelopment of noise impacted properties adjacent to airports to ensure joint comprehensive land use planning. (The Senate FAA reauthorization bill has not yet come to a vote.) The hearing covered FAA's voluntary part 150 program, which enables an airport operator to be eligible to receive Airport Improvement Program (AIP) grants from funds set aside for noise projects, often referred to as the "noise-set aside." Testifying on behalf of airports, Deborah McElroy of Airports Council International-North America (ACI-NA) urged Congress to consider that development of new flight procedures and the attendant environmental study be eligible for AIP funding, even when the procedures are not detailed in an airport's Part 150 noise mitigation plan. ACI-NA also supported more stringent International Civil Aviation Organization (ICAO) noise standards for newly certificated aircraft and better use of noise programs tailored to unique airport noise mitigation problems to more effectively address community concerns.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. U.S., Australia to Conclude Open Skies Agreement.

Australia's Deputy Prime Minister Mark Vaile and U.S. Secretary of Transportation Mary Peters announced their intention to initiate bilateral discussions this year and conclude a comprehensive open skies agreement in early 2008. An existing pact is limited to cargo services. Qantas and code share partner American now fly the route, as does United. In July, Virgin Blue announced that its new long-haul unit, V Australia, had won approval from Australia's International Air Services Commission to operate Boeing B777-300ER nonstops between the east coast of Australia and the west coast of the United States as of November 2008.

2. EU-Canada Open Skies Talks to Begin.

EU transport ministers approved an EC proposal to begin open skies talks with Canada. The number of passengers traveling between the EU and Canada will grow to 14 million by 2011 from 8 million now, says the EC. Canada has bilateral air services agreements with 17 EU countries. Negotiations may begin in November.

3. Caribbean Ministers Sign New Accord.

Caribbean transport and tourism ministers meeting in Puerto Rico signed the San Juan Accord, a memorandum on the regional air transport sector identifying the need for harmonization of policies and safety and navigation procedures. Ministers plan to update the CARICOM multilateral air services agreement, in effect since 1998, as they move toward the establishment of a single market.

4. Singapore, Britain Conclude Open Skies Agreement.

The UK and Singapore concluded an open skies agreement, which removes all restrictions on air services provided by their airlines. Effective March 2008, Singapore Airlines can pick up passengers from UK airports and fly them to a third destination, including the United States. UK carriers will have similar privileges in Singapore. The pact allows both nations' carriers to base their aircraft in each other's countries and to operate services to any other country without restriction on destination, frequency or capacity.

VIII. EUROPE/AFRICA

1. Air France, Delta Sign Transatlantic Joint Venture Agreement.

SkyTeam partners Delta and Air France formed a joint venture, with plans to offer transatlantic flights on new routes to become available in March 2008 when the U.S.-EU open skies agreement takes effect. The carriers will share revenues and costs on the new routes, and expect combined revenues of \$1.5 billion annually during the first phase of the operation, which will include all nonstops operated by Air France and Delta between Air France's Paris de Gaulle, Orly and Lyon hubs, and Delta's Atlanta, New York Kennedy, Cincinnati and Salt Lake City hubs. It will also include London Heathrow-U.S. flights operated by both carriers, including a new Air France direct route to Los Angeles. A combined 19 daily flights and more than 4,500 seats per day, a 45% increase, are expected to be part of the first phase of implementation. The carriers anticipate combined revenues of \$8 billion annually for the second phase; by 2010, the agreement will be extended to all of their transatlantic flights between Europe and the Mediterranean on one side and North America on the other side, and all flights between Los Angeles and Tahiti. Delta announced service from Atlanta to London Heathrow (once daily, effective March 29); New York Kennedy to Heathrow (twice daily, March 29); Kennedy to Paris Orly (four times weekly, June 2); and Kennedy to Lyon (once daily, effective July 15). Many 2008 summer schedule transatlantic flights operated by Air France and Delta between Europe and the U.S. will be sold on a code share basis. The joint venture will not lead to the creation of a subsidiary. It will be managed by a steering committee formed by Air France and Delta, which will oversee nine working groups responsible for network, revenue management, sales and distribution, products and services, frequent flyer program, operations, IT, finance and cargo. The joint venture has an initial term through March 31, 2016 and will renew for subsequent periods of three years.

2. Alitalia Sale Update.

Air France-KLM, Lufthansa, Aeroflot, Italian airline Air One and U.S. private equity firm TPG were named as potential suitors in a second attempt to sell the Italian government's 49.9% stake in Alitalia. Also named was a consortium advised by attorney Antonio Baldassarre that includes Tel Aviv-based Mivtach Shamir group and several Italian entities. Aeroflot said it may seek up to €1 billion to finance its bid. Alitalia Chairman Maurizio Prato said the preferred partner would be named in November.

3. easyJet to acquire GB Airways.

easyJet agreed to acquire GB Airways, excluding its London Heathrow slots, from the Bland Group, for \$212 million. Gatwick-based GB operates 15 Airbus aircraft to destinations in southern Europe and North Africa under a franchise agreement with British Airways. easyJet CEO Andy Harrison said the acquisition would be “earnings positive in our current financial year and in the longer-term we will transition the GB Airways operation to easyJet’s cost base and operating margin levels. We expect to achieve both cost and revenue synergies as we expand our business at Gatwick.” GB Airways will continue to operate all routes under the British Airways brand until March 29, 2008, after which flights will operate under the easyJet brand. British Airways, which rejected an option to buy GB, plans to start services on some of the routes operated under the franchise.

4. KLM to Serve Dallas-Ft. Worth, Code Share With Copa.

Effective March 30, 2008, KLM will offer daily Airbus 330-200 service from Amsterdam Schiphol to Dallas-Fort Worth, in cooperation with SkyTeam partner Northwest, and will begin code share services with SkyTeam Associate, Copa, from Schiphol to Panama City Tocumen Airport.

5. American to Fly From Chicago to Moscow.

American Airlines will begin six weekly nonstop Boeing 767-300 flights from Chicago O'Hare to Moscow Domodedovo on June 2, 2008.

6. Spanair Chairman Quits, Presents Offer For Airline.

Gonzalo Pascual, Chairman of SAS unit Spanair, resigned and launched a takeover bid for the airline. SAS announced in June it planned to divest Spanair as part of a major restructuring and cost overhaul.

7. DOT to Proceed with SkyTeam Antitrust Immunity Application.

See Section I, item 3.

8. Alliance News.

See Section IX, item 6.

IX. ASIA/PACIFIC / MIDDLE EAST

1. China to Develop Regional Aviation.

China will spend \$133 million to develop regional aviation starting this year, said Yang Yuanyuan, President of the General Administration of Civil Aviation of China (CAAC). The funding will be distributed to small and medium-sized airports and to airlines flying shorter routes. Regarding flight delays, Yang said, "We aim for limiting average delay time to within 30 minutes, and for news of delays to reach passengers quickly and accurately, reported *People's Daily*. Amid speculation about consolidation, Yang told Dow Jones that CAAC will not interfere in corporate activity in the domestic airline sector.

2. Kunpeng, First U.S.-China Joint Venture Airline, Takes Off.

Kunpeng Airlines, a joint venture between Shenzhen and Mesa signed last December, won certification and began regional jet service from Xian with two 50-seat Bombardier CRJ-200s. The airline expects to have 20 aircraft in service by summer 2008, in time for the Beijing Olympic Games, and more than 100 within five years, comprising 50-, 70- and 90-seat regional jets. Kunpeng is the first U.S.-China joint venture airline.

3. China Needs "Super-Carriers."

China's airline industry needs one or two super-carriers capable of competing with international airlines, said Air China Chairman Li Jiaxiang in an interview. Air China parent China National Aviation Holding and Cathay Pacific in September abandoned a plan to acquire China Eastern. Li said too many foreign stakes in China's airlines would complicate consolidation of domestic carriers, which he views as essential to competition.

4. Qantas Announces Major Investment in Domestic New Zealand.

Qantas announced a multi-million dollar investment in its New Zealand domestic product from November 2007. Enhancements introduced initially will be targeted at the business traveler, particularly with the carrier's Cityflyer unit. Qantas plans also to invest \$3 million to upgrade domestic Qantas Club lounges and refresh B737 cabins. Online check-in will be introduced in November and self-service kiosks will be installed in February.

5. Barrak Al-Sabeeh Named Chairman of Kuwait Airways.

Barrak Al-Sabeeh was appointed Chairman and Managing Director of Kuwait Airways, along with a new Board of Directors. An executive with mobile operator Zain, Al-Sabeeh earlier had been with Kuwait Airways for more than 20 years and had served as Deputy Director General for Commercial Affairs.

The previous Board was said to resign because Parliament refused to fund a fleet renewal.

6. Alliance News.

Cambodia and Nepal will join oneworld when Dragonair joins the alliance as an affiliate in November; Dragonair flies to Phnom Penh and will launch flights to Khatmandu in December. Twelve of Dragonair's 19 Mainland China destinations will also be new to the oneworld map, along with Kota Kinabalu (Malaysia) and Phuket (Thailand). EgyptAir was accepted as a future member of Star Alliance and is expected to become a full member within the next 18 months. Star carriers flying to Cairo will move to the new Terminal 3 once it opens in 2008, creating a hub and a gateway for the Middle East and North Africa. Air China, Shanghai Airlines and Turkish Airlines are also being integrated into the Star Alliance.

X. AMERICAS

1. United to Spend \$4 Billion in Five-Year Plan.

CEO Glenn Tilton said United will invest \$4 billion in the next five years on improvements in revenue and efficiency. Among 250 initiatives, United is considering sale of its maintenance operations and frequent-flier program, introducing à la carte services for economy passengers and exploring mergers. United labor groups questioned why the company did not sell assets during its three-year stay in bankruptcy and use proceeds to fund pension plans, reported the *Chicago Tribune*. "We're giving notice that we're laying claim to a portion of that money," said the Association of Flight Attendants.

2. Scott Davis to Succeed Mike Eskew as UPS CEO.

UPS Chairman and CEO Mike Eskew will step down at yearend and will be replaced by Scott Davis, who is currently the company's Vice Chairman and Chief Financial Officer.

3. Delta Names Selvaggio to Head Comair.

Delta named John Selvaggio President of Comair. Selvaggio, who formerly ran Song, Delta's defunct low-fare division, replaces Don Bornhorst, who was named Senior Vice President of Delta Connection.

4. JetBlue Files for Florida Service to Colombia.

JetBlue filed for authority to fly 14 weekly flights between Florida and Bogota, seven each from Orlando, as of April 2008, and Fort Lauderdale, beginning in October 2008. If granted, JetBlue would be the first low-cost U.S. carrier to fly the route. JetBlue will expand its Caribbean service in January, with flights from New York Kennedy to St. Maarten and Puerto Plata, and announced several route cuts, including JFK-Nashville, Columbus, Ohio from New York and Boston, and Fort Lauderdale-Oakland.

5. DayJet Begins On-Demand Service in Florida.

DayJet, a per-seat, on-demand jet service, launched with flights to "DayPorts" at smaller Florida airports in Boca Raton, Gainesville, Lakeland, Pensacola and Tallahassee. A fleet of 12 three-passenger Eclipse 500 very light jets (VLJs) will grow to 30 by yearend and 300 within the next two years, to coincide with service expansions across the Southeast. Boca Raton-based DayJet said "Time-Value Pricing" software enables its 1,500 business traveler members to customize unique time and budget requirements. "We are embarking on a new era in regional transportation," said President and CEO Ed Iacobucci. In related news, POGO Jet hopes to receive Part 135

certification in time for an early 2009 launch. Founded by former American Airlines CEO Bob Crandall, POGO plans to offer Eclipse 500 on-demand service to general aviation airports in the Northeast, Mid-Atlantic, Ohio Valley and Carolinas.

6. Aeromexico Sold to Citigroup Unit Banamex.

The Mexican government sold its 62% stake in Aeromexico to a consortium led by Citigroup unit Banamex for about \$249 million. The highly competitive bidding included down-to-the-wire counter-offers from the Saba family. Newly appointed Aeromexico Chairman Jose Luis Barraza said a \$240 million capital injection will finance an expansion of routes, frequencies and fleet.

7. TAM, United Sign Code Share Agreement

TAM and United agreed to code share, subject to government approvals, on United-operated flights from Rio de Janeiro and Sao Paulo to Chicago and Washington, D.C. and beyond to 35 points in the U.S., and on TAM-operated flights from Miami and New York to Sao Paulo and Manaus and beyond to several points in Brazil. The agreement includes reciprocal frequent flyer miles on all TAM and TAM Mercosur operated flights, and on United, Ted and United Express operated flights.

8. VRG Forges Interline Pacts with International Airlines.

GOL unit VRG, a.k.a. Varig, became a member of IATA's MITA (Multilateral Interline Traffic Agreement) and has formed interline agreements with Hahn Air, Malev, El Al, Air One, Mexicana and Qatar. The pacts offer an expanded network providing services to cities where VRG does not currently operate, allow passengers to have luggage checked through to final destination, and simplify ticket purchases through global travel agents or VRG call centers.

9. Bolivian Protesters Halt Santa Cruz Air Traffic.

Bolivian troops wrested control of the country's busiest airport, Santa Cruz's Viru Viru, from some 7,000 protesters who wanted landing fees paid to local officials rather than the national airport authority. Santa Cruz, the nation's largest and wealthiest province, has resisted President Evo Morales' efforts to nationalize industries and redistribute land and wealth to Bolivia's poor majority. American Airlines and other carriers cancelled flights during the skirmish. Separately, Bolivia announced plans to launch a state-run airline, Boliviana de Aviacion, or BoA, with domestic service to begin early next year. Lloyd Aereo Boliviano was privatized in the 1990s and now is near bankruptcy.

10. Air Jamaica CEO Michael Conway Resigns.

Air Jamaica President and CEO Michael Conway resigned, as the state-owned carrier appointed a new Board with Shirley Williams as its Chairwoman.

Conway, an American who co-founded America West and National Airlines, had one year remaining on his contract. Williams said selection of a new CEO may be left to a private entity, unnamed, expected to partner with the airline. Since the government took over Air Jamaica in 2004, a restructuring has eliminated routes and workers. A sale of the London-Kingston route to Virgin Atlantic and a code share agreement were put on hold, reported the *Jamaica Observer*, although Virgin planned to begin Gatwick-Kingston service on October 28; Air Jamaica's Heathrow slots were to be sold to Virgin Atlantic in the \$10 million transaction.

11. **2008 Business Travel Demand to Drive Fare Increases.**
The American Express annual Global Business Travel Forecast reports that demand for business travel services will again outweigh supply in 2008, driving continued cost increases worldwide. A domestic trip inclusive of airfare, car rental and hotel will increase 6% (\$63), with average trip cost at \$1,110. For an international trip, a 7% (\$205) increase will bring the total average cost to \$3,171. Corporations are likely to: lower use of refundable airfares, optimize use of advance purchase fares, define more narrowly when first/business class fares can be used and improve use of preferred suppliers. Online bookings are expected to increase; 51% of American Express Business Travel clients in the U.S. book transactions online.
12. **DOT to Proceed with SkyTeam Antitrust Immunity Application.**
See Section I, item 3.
13. **Air France, Delta Sign Transatlantic Joint Venture Agreement.**
See Section VIII, item 1.
14. **KLM to Serve Dallas-Ft. Worth, Code Share With Copa.**
See Section VIII, item 4.
15. **American to Fly From Chicago to Moscow.**
See Section VIII, item 5.
16. **Kunpeng, First U.S.-China Joint Venture Airline, Takes Off.**
See Section IX, item 2.
17. **Alliance News.**
See Section IX, item 6.