



## WASHINGTON AVIATION SUMMARY

### SEPTEMBER 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. Departing FAA Administrator Named AIA President and CEO.**

Marion Blakey's term as head of the Federal Aviation Administration (FAA) expires September 13. She will become President and CEO of Aerospace Industries Association (AIA) on November 12, succeeding retiring John Douglass who has headed AIA since 1998. Among many government appointments, Blakey chaired the National Transportation Safety Board (NTSB) and was National Highway Transportation Safety Administrator.

### **2. British Airways, Korean Air Agree to Cartel Resolution.**

British Airways and Korean Air agreed to plead guilty and pay separate \$300 million fines to the U.S. Department of Justice for conspiring to fix air cargo and passenger rates from 2000 to 2006. Their cooperation led to reduced fines, which could have ranged from \$450 million to \$900 million. British Airways agreed to pay a separate \$245 million fine to the UK Office of Fair Trading for discussing fuel surcharges with Virgin Atlantic. Virgin Atlantic and Lufthansa earlier agreed to disclose antitrust participation and avoid conviction and fines.

### **3. FAA, Airlines Agree on Rapid Runway Safety Improvements.**

"Recent close calls at some of our nation's busiest airports show that action must be taken to reduce the risk of runway incursions and wrong runway departures," said FAA, which with 40 industry partners agreed to quickly implement short-term improvements. Within 60 days, FAA will launch safety reviews at airports where wrong runway departures and runway incursions are the greatest concern; disseminate information and training across the industry; accelerate deployment of improved airport signage and markings at the top 75 airports, ahead of a June 2008 mandated deadline; and review cockpit and air traffic control (ATC) clearance procedures. FAA will also implement a voluntary self-reporting system for ATC personnel. By mid-August this year, 21 serious runway incursions were reported, eight involving commercial carriers, and in August 2006 a Comair jet crashed after taking off from a wrong runway that was too short for commercial flights, killing all but one of the 50 people onboard.

### **4. FAA Orders B-737 Inspections After China Airlines Fire.**

FAA ordered inspections of the wing slats on newer Boeing 737s, after investigators in Japan found that a bolt from a right wing slat had pierced the fuel tank of a China Airlines 737, causing a fire. All 165 people aboard evacuated safely seconds before the jet exploded. Taiwan's Civil Aeronautics

Administration ordered China Airlines to ground its 737-800 fleet for safety checks following the incident and similar action is expected worldwide.

**5. Kingfisher Applies for U.S.-India Nonstops.**

India's Kingfisher Airlines applied to the U.S. Department of Transportation (DOT) for approval to offer nonstop services between India and New York and San Francisco. India's UB Group owns an 83% share in two-year-old Kingfisher and a 26% share of Indian budget carrier Air Deccan that will increase to 51%. UB Chairman Vijay Mallya plans Kingfisher and Deccan co-branded flights to the U.S. UB Group controls India's largest brewer, producer of Kingfisher beer. In July, Continental and Kingfisher announced a partnership in which frequent flyer and airport lounge reciprocity will start in October and code sharing by yearend.

**6. Rule to Ban Non-Rechargeable Lithium Batteries Finalized.**

Cargo shipments of primary, non-rechargeable lithium batteries, such as those found in cameras, laptop computers and mobile phones, will remain banned from passenger aircraft under a final rule that amends Hazardous Materials Regulations. The ban aims to reduce the risk of fire caused by electrical short circuit. This final rule also tightens standards for testing, handling and packaging lithium batteries to reduce likelihood of a fire during shipment. Testing conducted by FAA found that aircraft cargo fire suppression systems are not capable of suppressing a fire if a shipment of primary lithium batteries is ignited in flight. The rule bans shipments of the batteries on passenger flights, but passengers may carry or use personal devices containing lithium batteries on aircraft.

**7. RegionsAir Files \$10 Million Suit Against FAA.**

RegionsAir filed suit against FAA claiming the agency entered an agreement with the carrier in bad faith, eventually forcing it to cease operations. The Smyrna-based airline resolved issues over pilot training and certification in March, reports *The Tennessean*, and signed a consent agreement with the government agreeing to meet other regulatory requirements within 120 days. But in July FAA canceled its air carrier certificate, saying the airline no longer employs pilots or other personnel required to operate an airline. RegionsAir seeks \$10 million in damages, plus interest and attorney's fees.

**8. Labor Board Dismisses NATCA Unfair Labor Practice Charges.**

The Federal Labor Relations Authority (FLRA) dismissed all National Air Traffic Controllers Association (NATCA) charges of unfair labor practices related to negotiation and implementation of the 2006 air traffic controller contract. FLRA concluded there was no merit to NATCA's claims, determining that FAA bargained in good faith and its implementation of the contract was

lawful. NATCA is appealing. In other news, FLRA dismissed an FAA unfair labor practice complaint against the Professional Airways Systems Specialists (PASS) union.

**9. Flight Delays at 13-Year High.**

On-time performance of U.S. airlines in the first six months of 2007 was the worst since DOT began gathering comparable data in 1995, with nearly 25% of flights on the 20 largest carriers arriving late. Airlines' reliance on regional jets contributes to crowded skies; regionals served 155.7 million passengers in 2006, up 38% from 2003, says Regional Airline Association.

**10. DOT Air Travel Consumer Report for June.**

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

	June '07 / '06	May '07	Full Year			
			2006	2005	2004	2003
On-time arrivals %	68.1 / 72.8	77.9	75.4	77.4	78.1	82
Cancellations %	2.7 / 1.7	1.1	n/a	1.87	1.56	1.79
Mishandled baggage*	7.92 / 6.30	5.93	6.73	6.64	4.91	4.19
Consumer complaints:						
Airline service	1,094 / 763	929	8,321	8,741	7,452	5,983
Disability-related	45 / 48	34	427	511	521	375
Discrimination**	6 / 16	4	114	129	118	85

\* Reports per 1,000 passengers.

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

**11. June Airline Employment Up 2.3%.**

U.S. scheduled passenger airlines employed 2.3% more workers in June 2007 than June 2006, reports DOT. The seven network carriers employed 268,600 (65% of the aggregate), up 1.3% over June 2006; low-cost carriers employed 73,100 (17.7%), up 5.3%; and regionals employed 59,900 (14.5%), up 5.1%.

## **II. AIRPORTS**

### **1. Slight Growth in North American Airport Passenger Traffic in 2006.**

More than 1.53 billion passengers traveled through North American airports in 2006, a 0.8% increase, according to Airports Council International-North America (ACI-NA). Cargo increased by 0.6%, while total operations declined by 2.3%. Hartsfield-Jackson Atlanta retained the number one worldwide ranking with 84.8 million passengers, down 1.2% from 2005, followed by Chicago O'Hare (77 million) and Los Angeles International (61 million). Memphis remained the busiest cargo airport in the world, handling nearly 3.7 million metric tons, up 2.6% over 2005. In Canada, Toronto Pearson ranked 17th for passengers (30.97 million), 15th in cargo (505,000 metric tons) and 15th in total movements (417,921).

### **2. American Previews New JFK Terminal.**

American unveiled its \$1.3 billion Terminal 9 at New York Kennedy (JFK). The 1.5-million-sq.-ft. facility can handle up to 13 million passengers a year, compared to eight million at Terminal 8, which will be demolished. Eight of 36 gates can handle jumbo jets. American flies to 38 cities from JFK, including 23 international destinations. Coinciding with the opening, New York Mayor Michael Bloomberg launched an advertising campaign to attract 50 million visitors to the city each year by 2015.

### **3. New Gates Approved for LAX.**

The Los Angeles City Council approved building 10 new gates at Los Angeles International Airport (LAX) to handle international flights. The project will be financed by user fees and should be completed by 2012.

### **4. Denver Airport to Upgrade Snow-Removal System.**

Denver International will spend about \$31 million over the next 10 years on snow-removal equipment that can clear a runway in 15 minutes, compared to the 90-minute clearing time of currently used snow-removal trucks. The airport will spend another \$5 million to lease snow-melters to prevent snow from clogging ramp areas between concourses; each unit can melt 600 tons of snow an hour, equivalent to up to 60 dump trucks. A severe snowstorm last December shut down the airport for two days.

### **5. Mexico to Award Riviera Maya Airport Project in 2008.**

Mexico early next year will open a tender to build and operate an airport in the Riviera Maya tourist region. Among those showing interest, reports Reuters, are airport operators Asur, which runs neighboring Cancun airport, and GAP,

and Mexican entrepreneur Carlos Slim. In other news, expansion and remodeling of Terminal 2 at Guadalajara International was completed, with capacity for 800,000 passengers a year, said GAP, which operates 12 airports in Mexico's Pacific region.

**6. BAA Probed by UK Competition Commission.**

The UK Competition Commission (CC) is examining the market dominance of Ferrovial unit BAA, which operates seven UK airports. Heathrow, Gatwick and Stansted accounted for about 90% of passenger traffic in southeast England last year. More than half of that was at Heathrow, which airlines say performs poorly due to lack of investment by the operator. BAA CEO Stephen Nelson said congestion and delays are rooted in lack of terminal and runway capacity. The International Air Transport Association (IATA) called Heathrow "an out-of-control monopoly that gets away with pocketing a 42% margin at the expense of the 68 million beleaguered passengers using its poor facilities each year."

**7. Fraport Acquires Majority Stake in Lima Airport.**

Fraport increased its stake in Jorge Chavez International Airport from 42.75% to 100%. Up to 40% will be sold to Peruvian investors and the World Bank investment fund (IFC), with Fraport retaining at least 60%. Lima Airport Partners (LAP) invested €150 million on terminal and airside improvements. The management contract runs for 30 years with an option to extend, and covers operations, security, planning and maintenance responsibilities. The airport recorded 6 million passengers in 2006, with 25% growth in the first half of 2007. A magnitude 8 earthquake about 90 miles southeast of Lima in August did not damage the airport, but caused cancellation of domestic flights.

**8. Fraport Pursues Compensation for Manila Terminal Expropriation.**

The World Bank's International Centre for Settlement of Investment Disputes (ICSID) declared it does not have jurisdiction regarding Fraport's claim for compensation against the Philippines "for the expropriation of its investment in the Manila terminal project," said Fraport, which has received only partial compensation and has other legal proceedings pending in the case. The total amount of compensation is still undetermined; Fraport wrote off the investment in 2001 and 2002.

**9. Macquarie Acquires Stake in JAT.**

A consortium led by Australian investment fund Macquarie Airports (MAp) acquired a 9.56% stake in Japan Airport Terminal (JAT) for USD\$165 million. JAT owns and operates Tokyo Haneda passenger terminals and Narita and Kansai concessions. MAp CEO Kerrie Mather said JAT handles about 60% of Japan's domestic traffic. MAp has interests in airports in Sydney, Brussels and Copenhagen and Birmingham and Bristol in the UK.

**10. UPS Begins Construction on Shanghai Hub.**

Construction began on the UPS International Air Hub on a 1 million sq. ft. parcel at Shanghai Pudong. UPS has invested about \$600 million in China over the past five years and became the first wholly-owned foreign express carrier in the country.

**11. Malaysia to Build Second Budget Terminal.**

Malaysia will build a new low-cost carrier terminal (LCCT) by 2010 near Kuala Lumpur International Airport, with capacity for 30 million passengers a year. The LCCT opened in 2006 handled about half its capacity of 10 million in its first year. In related news, IATA called for a level playing field for all airlines operating in Malaysia, responding to a government move to cut departure taxes for international passengers at the LCCTs in Kuala Lumpur and in Kota Kinabalu; the tax was dropped by up to 51%, compared to a 33% cut for domestic flights, and was unchanged for all other airports nationwide. "The lower charges discriminate against IATA member airlines [and] are against the charges policies of the International Civil Aviation Organisation (ICAO), to which Malaysia is a signatory," said IATA. "All airlines and their passengers should be offered the same level of charges and incentives in order to maximize growth."

**12. New Vietnam Airport Terminal Opens.**

Vietnam's Southern Airports Authority staged a preliminary opening of a newly built international terminal near Ho Chi Minh City, which brings annual passenger capacity for Tan Son Nhat International Airport to 15 million. Funded by Japanese loans and developed by a Japanese consortium, the \$200 million, four-story terminal has eight gates, 80 check-in counters and total floor space of 92,900 square meters, and can accommodate Airbus A340 and Boeing 747-400 jumbo jets and provide ground services for 20 flights at a time. An official opening is planned for September. The existing terminal will be used for domestic flights only.

### III. **SECURITY**

#### 1. **TSA to Take Over Passenger Screening.**

The Department of Homeland Security (DHS) issued a Notice of Proposed Rule Making (NPRM) on Secure Flight, the prescreening program for domestic and international flights that matches passenger information against federal government watch lists. The NPRM calls for the Transportation Security Administration (TSA) to assume watch list matching, which currently is the responsibility of air carriers. Secure Flight is expected to occur in late 2008, said DHS, and will identify known and suspected terrorists; prevent individuals on the No Fly List from boarding an aircraft; identify individuals for enhanced screening; and provide a consistent matching process across all aircraft operators. DHS also issued the Advanced Passenger Information System (APIS) Pre-Departure final rule, which enables collection of manifest information for international flights departing from or arriving in the U.S. prior to boarding. Legislation requires commercial air and sea carriers to electronically transmit APIS data to U.S. Customs and Border Protection.

#### 2. **DHS and Privacy.**

The Secure Flight NPRM addresses privacy concerns, said DHS Secretary Michael Chertoff, in that it will not collect commercial data about passengers, assign risk scores or attempt to predict behaviors. It requires passengers to give full names when making reservations, but asks if they are willing to provide date of birth and sex to reduce the chance of false-positive matches with names on watch lists. Passenger name records (PNRs) will be kept for seven days if they produce no match and seven years for false-positives; confirmed matches would be kept for 99 years. However, reports *National Journal*, DHS plans to regularly share with U.S. intelligence agencies data from the arrival-and-departure information system, which contains information collected at U.S. ports of entry and departure on all foreigners who enter, travel within or leave the United States. The database is part of the US-VISIT foreigner-tracking program and does not contain information on U.S. citizens. DHS also will exempt portions of the database from the Privacy Act to protect information on investigatory and enforcement activities from disclosure to subjects or others related to the activities.

#### 3. **Congress Agrees on Final Security Bill.**

See Section VI, item 1.



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

### 1. **Virgin America Offers Text Messaging, Music Downloads.**

Passengers on startup Virgin America can send text messages and download music from a 3,000-song library and pay for the service through a real-time system developed by ARINC (Aeronautical Radio, Inc.) and Abanco. Virgin America began service between New York and Los Angeles and San Francisco in August.

### 2. **American Sues Google.**

American sued Google in the U.S. District Court in Fort Worth, accusing the Internet search leader of violating trademark law by selling the right to use American Airlines' marks, such as "American Airlines" or "Aadvantage," to competitors who then divert searchers to their own Web sites. Companies worldwide similarly have sued Google.

### 3. **Amadeus, Sabre Form Joint Venture For Non-Air Travel Transactions.**

Texas-based Sabre and Madrid-based Amadeus filed with the European Commission for antitrust approval to create a joint venture to establish an industry standard solution to provide non-air segments of the travel industry with "payment efficiencies, increased automation, and improved interoperability." The joint venture would integrate financial instruments already used into a multi-channel, multi-GDS platform.

### 4. **Galileo to Launch New Platform for Air Canada.**

Galileo and Air Canada signed a multiyear agreement under which Galileo-connected Canadian travel agents can access the airline's optional fares and flight passes on a new platform developed by Galileo. The platform is powered by Air Canada's direct-connect application programming interface (API) platform, "AC2U," and integrates the carrier's Web-only content with content from the Galileo global distribution system. Galileo intends to make the system available to Canadian travel agents in the fourth quarter. *Business Travel News* said Amadeus, Sabre and Worldspan are in the midst of enabling airfare unbundling and other travel-merchandising options through their systems, as more carriers explore such fare offerings.

## **V. NOISE AND ENVIRONMENT**

### **1. Environmental Protest at Heathrow**

Hundreds of activists staged a Camp for Climate Action near the site of a proposed third runway at London Heathrow to protest airport expansion and aviation's contribution to carbon dioxide emissions. The Prime Minister's office warned demonstrators not to interfere with the running of the airport and airport operator BAA won an injunction barring the group Plane Stupid from the airport; other groups were allowed to demonstrate. Regarding the injunction, Mark Bullock, Managing Director, BAA Heathrow, said it "has never been about stopping lawful and peaceful protests . . . there is an important debate to be had regarding climate change. The motivation behind the injunction was to protect our passengers and staff from being harassed or obstructed by any unlawful direct action . . . Plane Stupid spokespeople have repeatedly stated that they are planning mass direct action to disrupt the operations of the airport. BAA therefore had no choice but to explore every legal avenue available to minimize any disruption to the airport's operations." Members of Plane Stupid staged a sit-in on a barge carrying the newly built wing of an Airbus A380 from a factory in north Wales and some were arrested.

### **2. Panama City-Bay County Relocation Enters Construction Phase.**

The Panama City-Bay County International Airport relocation project completed the permitting process and is entering the construction phase. The new airport will be located in western Bay County on 4,000 acres being donated by The St. Joe Company, which is also "providing a conservation easement on 9,609 acres for the mitigation of airport construction impacts" that will become part of the West Bay Preservation Area. Local environmental groups and the State of Florida opposed expansion of the current airport in the mid-1990s because of the threat it presented to the St. Andrews Bay system. The West Bay Area Sector Plan, one of the largest land plans of its kind in the United States, ultimately evolved with participation by the Florida Audubon, The Nature Conservancy, Florida Wildlife Federation and other environmental groups. The Airport Authority has received bids for the first phase of airport construction and is working to complete negotiations for the sale of the existing northwest Florida airport.

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

### **1. Congress Agrees on Final Security Bill.**

Before adjourning for the August recess, the House and Senate agreed on a \$40.6 billion homeland security bill, which then was signed into law by President Bush. The legislation completes implementation of 9/11 Commission recommendations. Aviation-related provisions include \$250 million annually for airport checkpoint screening, \$450 million annually for baggage screening and \$50 million annually for the next four years for aviation security R&D; screening of all cargo carried on passenger airplanes within three years; and protection from lawsuits for people who report what they believe is terrorist activity in and around airplanes, trains and buses. The bill tightens security measures for the Visa Waiver Program, which allows travelers from 27 countries to visit the U.S. without a visa, through improved reporting of lost and stolen passports; an Electronic Travel Authorization system will require travelers from countries participating in the U.S. Visa Waiver Program to register online and fill out a questionnaire prior to departure.

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

### **1. Nations Agree on Airplane Export Credits.**

The U.S., Brazil, Canada, France, Germany and the UK reached an understanding on terms for government financing of civil aircraft exports. Australia, Japan, Korea, New Zealand, Norway, Switzerland, and the European Community also signed the understanding, which was reached after two years of negotiations in the Organization for Economic Cooperation and Development. For large Boeing and Airbus aircraft, the understanding governs official financing for new contracts signed after April 30, 2007. Firm purchase contracts signed before then remain eligible for existing terms for deliveries through December 31, 2010, after which the new understanding will apply. The nations agreed to work cooperatively on financing issues rather than engage in international litigation.

### **2. U.S.-EU Aircraft Subsidy Dispute Update.**

The European Union (EU) made its final argument before the World Trade Organization (WTO) in the U.S.-EU aircraft subsidy case, saying funds provided to Airbus were legitimate loans in accordance with trade rules and that all Airbus aircraft launched in the last 15 years could have been launched without member state financing. Both sides have said they are ready to negotiate in the dispute, which was launched with the WTO in 2004.

### **3. U.S.-Mexico Open Skies Unlikely in the Near Future.**

A U.S.-proposed open skies agreement has been ruled out for the near term, reported Dow Jones. "There will be pressures, but we are a sovereign country that makes our own decisions," Transport Minister Luis Tellez told a pilots' union. Mexico's airlines are concerned about dominance of U.S. carriers in the event of full competition between the countries.

### **4. PAL Calls for Fair Competition in ASEAN Open Skies.**

Philippine Airlines (PAL) called for fair competition and elimination of government airline subsidies as a prerequisite for the regional open skies policy planned by ten member nations of the Association of South East Asian Nations (ASEAN), to take effect by December 2008. PAL CEO Jaime Bautista said Philippine carriers are private citizens that operate as business enterprises for profit, but major airlines of other ASEAN countries are state-owned and enjoy strong governmental backing.

## VIII. EUROPE/AFRICA

### 1. Delta to Launch Salt Lake City-Paris Nonstops

Delta will offer Paris-Salt Lake City nonstops beginning next June 2, in cooperation with SkyTeam partner Air France. The daily Boeing 767-300ER flights will be the first transatlantic service ever offered from Salt Lake City and the only nonstop service operated by a U.S. carrier between the western U.S. and Paris. The new route would offer up to five tons of cargo lift in each direction. From Paris, top shipments will include cosmetics, garments and wine, while Salt Lake City's chief exports will be machine parts, computers and information technology equipment.

### 2. MAXjet Begins LAX- London Stansted Flights.

MAXjet launched nonstop all business class service from Los Angeles International to London Stansted.

### 3. Russian Update.

Aeroflot ordered 22 Boeing 787 Dreamliners and 22 Airbus A350 XWBs, at a total cost of about \$5.81 billion, with deliveries to begin in 2014. In an interview with *Airlines International*, Aeroflot CEO Valery Okulov said challenges ahead for the SkyTeam partner include weak airport infrastructure throughout Russia, which is unsuitable for modern fleets and services, and the training of pilots and ground personnel to keep up with market growth. Russian aviation grew 10% during the first quarter of this year and annually over the last several years. In other news, the biannual Moscow International Air Show closed with manufacturers claiming some \$3 billion in contracts. Nearly 800 companies from about 100 countries participated. President Vladimir Putin said Russian manufacturers must more actively enter the world aircraft market with competitive production. Alexei Fyodorov, President of state-controlled United Aircraft Corporation, said Russian aircraft manufacturers will build about 4,500 planes by 2025 at a cost of \$250 billion. Russia's civil air sector now has some 2,500 aircraft, about 100 of which are Western-made. Civilian aircraft under development include the medium-range Superjet, developed by Sukhoi in cooperation with Boeing, Snecma and other western companies.

### 4. SAS Executive Changes.

SAS CEO Mats Jansson said Deputy CEO John Dueholm will add the duties of Lars Mydland, Accountable Manager for Scandinavian Airlines and head of Scandinavian Operations Management, who has resigned. SAS reportedly may raise its holdings in Estonian Air and Latvian carrier airBaltic to majority positions.

**5. Alitalia Suitors.**

A consortium of mostly Italian financiers and entrepreneurs has expressed interest in buying Alitalia and the carrier's newly appointed Chairman Maurizio Prato was said to be meeting with Lufthansa and Air France-KLM to discuss their interest. A former bidder, U.S. private equity firm TPG, may still be interested; TPG is leading a group of potential Iberia bidders, which include British Airways.

**6. Ryanair Warns Charleroi on Strikes; Expands Other Services.**

After a June wildcat strike stranded 22,500 passengers, Ryanair warned Brussels' Charleroi it would suspend flights. The dispute was resolved when public service unions agreed to give 48-hour notice in future strikes. Ryanair announced new service from Dublin in November to Basel, Budapest, Nice and Prague and points in Poland, and an expansion of other Dublin services. Expecting to carry a record 10 million passengers through Dublin Airport in 2008, the carrier touted €10 Internet fares on one million seats for flights from Dublin from September to December. Ryanair announced 11 new routes from Valencia, bringing the total from the Spanish city to 21, and sued Italy's aviation authority (ENAC), saying a 30% cut in Rome Ciampino traffic is meant to limit low-cost carrier growth and protect Alitalia; Ryanair has invested €350 million there, said CEO Michael O'Leary, and does not want to move its flights to Fiumicino. And finally, to encourage Internet check-in and discourage checked bags, Ryanair will charge €3 for airport check-in.

**7. Vatican Offering Charters to Worldwide Religious Sites.**

The Vatican launched low-cost charter flights to transport pilgrims from Rome to Lourdes in France and other holy sites worldwide. Mistral Air provides the planes, with interiors decorated with sacred inscriptions. Some 200 million Christian pilgrims are expected to visit holy sites around the world this year, said the BBC.

**8. British Airways, Korean Air Agree to Cartel Resolution.**

See Section I, item 2.

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

### **1. China Slows Aviation Expansion.**

Citing a shortage of professionals, under-capacity of airports and limited airspace amid rapid expansion, the General Administration of Civil Aviation of China (CAAC) is reducing operations and cooling down the growth rate. CAAC will not approve applications for new airlines until 2010 and has banned pilot overtime and ordered airlines not to expand fleets unless they have enough pilots. Domestic passenger flights at Beijing Capital International will be reduced to 1,050 a day by the end of October and to 1,000 by March 2008. Beijing Capital is China's busiest airport and the world's ninth busiest, with 48.7 million passenger movements last year against original design capacity for 35 million. The airport has spent \$2.2 billion on a third terminal and runway, expected to open before next summer's Olympic Games, bringing capacity to 60 million passengers annually. China has seen 20% growth in air traffic this year and passenger traffic on Chinese airlines has grown annually by an average 16% in the past decade. New measures do not affect foreign airlines, cargo airlines that mainly use foreign pilots and operate at night, or new passenger airlines that use domestically made aircraft and register to fly in China's western and northeastern areas.

### **2. Chinese Airlines Apply for U.S. Routes.**

Four Chinese airlines filed applications to CAAC for U.S. routes under the recently signed U.S.-China bilateral. Hainan, China's fourth-largest airline, applied to operate Beijing-Seattle nonstops starting next June, and Beijing-Mexico City from March 30. Backed by George Soros, Hainan reportedly plans to expand internationally under the name Grand China Air and move primary operations to Beijing. Shanghai Airlines Cargo International requested routes from Shanghai Pudong to Los Angeles and Dallas/Fort Worth, both via Anchorage, reports *Air Transport World*. Jade Airways International, a cargo joint venture of Lufthansa and Shenzhen Airlines, applied for Shanghai-Portland. Great Wall Airlines applied to operate cargo flights to Los Angeles and Chicago via Pudong, Seoul and Alaska.

### **3. Singapore to Acquire Stake in China Eastern.**

Singapore Airlines (SIA) and parent Temasek Holdings are expected to acquire a 25% stake in China Eastern Airlines Corp. for about \$1 billion. In other news, SIA is scheduled to take delivery of the first Airbus A380 on October 15 in Toulouse. The superjumbo will be configured with 471 seats in three classes—economy, business and first class suites.

**4. Air China Introduces Beijing-Shanghai Shuttle Service.**

Air China introduced "Air Express," a Beijing-Shanghai shuttle that features a harmonized schedule and dedicated check-in counters, baggage service and security inspection for the 20 scheduled daily flights. The flag carrier will become a full Star Alliance member later this year and is host carrier for the Beijing 2008 Olympics and the Shanghai World Expo in 2010.

**5. US Airways, ANZ to Code Share.**

Star Alliance members US Airways and Air New Zealand (ANZ) entered a code share pact to provide new services between the U.S., New Zealand, Australia and the Pacific Islands, starting in October and subject to government approvals. US Airways customers will be able to connect on ANZ nonstops from Los Angeles and San Francisco into Auckland, or from Los Angeles to Rarotonga, Fiji or Saflying. ANZ customers can travel to Phoenix, Las Vegas, Charlotte, Philadelphia and Pittsburgh via US Airways flights departing Los Angeles or San Francisco.

**6. Hawaiian to Launch Manila Flights.**

Hawaiian Airlines expects to begin service between Honolulu and the Philippines in March 2008, pending DOT approval. Hawaiian plans four or more flights per week to Manila, using Boeing 767-300ERs.

**7. Qantas Names Leigh Clifford Chairman.**

Leigh Clifford becomes Qantas Chairman in November, replacing Margaret Jackson. Clifford was CEO of mining conglomerate Rio Tinto, where he led the company "through important acquisitions and the consolidation of Rio Tinto's position in Asia," said Jackson. CEO Geoff Dixon said he will leave Qantas when his contract expires in 2009. Qantas announced record profits for first half 2007. "The transfer of 15% of marginal domestic and trans-Tasman flying from Qantas to Jetstar, the transfer of Qantas capacity to better performing domestic routes and increased investment has improved the Group's bottom line over the past three years by \$250 million," Dixon said. Qantas will separate its freight and logistics operations, which will focus on growth in Australia and Asia; may create a separate vehicle to finance its fleet; and is evaluating partnership or consolidation opportunities with other airlines. Provision has been made of US\$40 million "against liabilities Qantas may incur in the United States for involvement in an alleged freight cartel."

**8. Pacific Blue to Begin New Zealand Domestic Ops.**

Pacific Blue, the New Zealand-based unit of Australia's Virgin Blue, will launch domestic operations in November, with one-way Auckland-Wellington fares



starting from NZD\$39 on the Internet. Pacific Blue is adding two Boeing 737-800s and plans to double staff over the next three years.

**9. Virgin Group Takes 20% Stake in AirAsia X.**

Virgin Group acquired a 20% stake in AirAsia X, a Malaysian startup expected to begin Asia Pacific service by yearend. AirAsia X founder Tony Fernandes said the carrier will dramatically expand the market for long-haul, value-based travel without sacrificing core passenger comforts essential over longer flight times. The Kuala Lumpur-based carrier has leased an Airbus 330 and confirmed orders for 15 new A330-300s.

**10. Kang Pacific to Offer UAE-Asia Routes.**

Indian businessman Paul Kang is launching Kang Pacific Airlines in the United Arab Emirates (UAE) in October, with initial service from Fujairah to the Philippines, Bangladesh, India and Sri Lanka and eventually to the UK. Kang told *Gulf News* he is self-financing the airline's launch with \$10 million, primarily to procure leased aircraft. The venture is the result of a two-year feasibility study conducted by a Cranfield University professor, who will also be a partner. Kang Pacific will fly under an AOC issued by the Philippine government, with UAE certification expected in six to eight months.

**11. British Airways, Korean Air Agree to Cartel Resolution.**

See Section I, item 2.

**12. FAA Orders B-737 Inspections After China Airlines Fire.**

See Section I, item 4.

**13. Kingfisher Applies for U.S.-India Nonstops.**

See Section I, item 5.

## **X. AMERICAS**

### **1. Delta Names Richard Anderson to Succeed Grinstein.**

Richard Anderson will succeed retiring Delta CEO Gerald Grinstein, effective September 1. A former Northwest CEO and Continental executive, Anderson most recently was Executive Vice President of UnitedHealth Group. Grinstein said Anderson is “a ferocious competitor” who will be “a great addition to Delta's battle-tested leadership team.” Delta's Chief Financial Officer Edward Bastian adds President to his duties; Chief Operating Officer Jim Whitehurst resigned. Delta-Northwest merger speculation quickly clogged the blogosphere and was denied by Anderson.

### **2. American Recalls Additional Flight Attendants.**

American is sending recall notices to 460 furloughed flight attendants to address staffing needs and projected attrition through the balance of 2007. The recall is comprised of former TWA flight attendants and is in addition to the approximately 200 American and former TWA furloughed flight attendants contacted earlier this year. In other news, American will begin daily nonstops from Chicago O'Hare to Buenos Aires in December.

### **3. Northwest Recruits Pilots.**

A pilot recruitment effort by Northwest resulted in more than 1,400 applications; the company plans to hire 250-350 new pilots within the next 12 months. The Air Line Pilots Association ratified a pact with Northwest on contract issues and work rules, with the carrier agreeing to reinstate premium pay of 50% for all pilots flying more than 80 hours a month. A federal judge approved a settlement between Northwest and bondholders who helped finance expansion at Minneapolis-St. Paul International.

### **4. AirTran Bows to TPG, Northwest Win for Midwest.**

Spurning an aggressive takeover attempt by AirTran, Midwest accepted a \$450 million bid by TPG Capital and Northwest that preserves the Milwaukee-based airline's identity. The acquisition is expected to be completed by yearend, subject to shareholder and regulatory approvals. Northwest is a minority passive investor.

### **5. Menke Returns to Frontier as CEO.**

Airline veteran Sean Menke returns to Frontier Airlines on September 7 as CEO and President, replacing Jeff Potter who will become CEO of Denver-based Exclusive Resorts. Menke was Frontier's Senior Vice President and Chief Operating Officer until leaving to become Chief Commercial Officer at Air

Canada, where he later was named Executive Vice President of Commercial Strategy.

**6. Sabas Propose Offer for Aeromexico.**

As Mexico prepares for the fall sale of Aeromexico, the Saba family announced interest in adding the airline to its hotel, entertainment and other holdings. Alberto Saba Raffoul and son Moises Saba Masri made an official bid valued at about \$100 million for Aeromexico, which is controlled by state holding company Consorcio Aeromexico.

**7. Copa, Aeromexico Begin Code Share.**

Aeromexico and Copa began a code share, in which Copa places its code on Aeromexico-operated flights beyond Mexico City to 17 Mexican cities, while Aeromexico offers service on Copa-operated flights between the Hub of the Americas in Panama City to Mexico City, Cancun and Guadalajara. Copa Holdings, parent of Copa Airlines and Aero Republica, reported net earnings of \$30.9 million for 2Q07. Revenue passenger miles increased 18.3% from 1.14 billion in 2Q06 to 1.35 billion and available seat miles increased 15.3%, with average load factor increasing 1.8% to 71.6%.

**8. TAM, TAP Begin Brazil-Portugal Code Share.**

Star Alliance partners TAM and TAP Portugal signed a code share pact, which allows TAM passengers to purchase tickets for TAP direct flights from Rio de Janeiro, Brasilia and São Paulo to Lisbon and Porto, with connections to the Portuguese cities of Faro, Funchal and Porto Santo. In other news, TAM received authorization from the Brazilian Civil Aviation Authority (ANAC) to operate four additional weekly frequencies to Germany, totaling seven weekly flights, and will start daily operations to Frankfurt by the end of the year. TAM earlier signed a Memorandum of Understanding with Lufthansa to implement code sharing on national and international routes.

**9. Brazil Update.**

Brazilian airlines carried a record number of passengers on domestic flights in July, 9.3% higher than the previous July record set in 2006, reported Dow Jones, despite continuing chaos in the country's aviation system. TAM had a 50% domestic market share, while no-frills GOL logged 37%. Following the crash of a TAM Airbus A320 at Sao Paulo's Congonhas airport in July that killed 199 people, the government reduced traffic at the airport. GOL and TAM transferred many flights to Sao Paulo's Guarulhos international airport, but in August, airport authority Infraero closed Guarulhos' main runway until October 10 for needed repairs.

**10. Accused Pilots Refuse to Return to Brazil.**

Two U.S. pilots facing criminal charges in Brazil refuse to return to testify, said their attorneys, but will offer depositions according to an international treaty that would allow them to be interviewed by Brazilian authorities in the United States, or testify by video conference or other electronic means. A Brazilian judge has rejected their plan. The pilots were indicted in Brazil in June, accused of turning off the transponder on their Embraer Legacy 600 before it collided at 37,000 feet over the Amazon with a Gol Boeing 737 last September. All 154 people aboard the jetliner were killed; none of the seven people aboard the smaller jet, owned by ExcelAire of Ronkonkoma, was injured. Four Brazilian air traffic controllers also were indicted. The pilots deny turning off the transponder and say they were flying at an altitude designated by the controllers. If convicted, they could face up to three years in prison. They were detained in Brazil for more than two months following the crash.

**11. Delta to Launch Salt Lake City-Paris Nonstops**

See Section VIII, item 1.

**12. MAXjet Begins LAX- London Stansted Flights.**

See Section VIII, item 2.

**13. Chinese Airlines Apply for U.S. Routes.**

See Section IX, item 2.

**14. US Airways, ANZ to Code Share.**

See Section IX, item 5.

**15. Hawaiian to Launch Manila Flights.**

See Section IX, item 6.