



WASHINGTON AVIATION SUMMARY

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CONTENTS

I.	REGULATORY NEWS.....	1
II.	AIRPORTS.....	4
III.	SECURITY AND DATA PRIVACY	6
IV.	E-COMMERCE AND TECHNOLOGY.....	8
V.	NOISE AND ENVIRONMENT	10
VI.	U.S. CONGRESS.....	11
VII.	BILATERAL AND STATE DEPARTMENT NEWS	13
VIII.	EUROPE/AFRICA.....	14
IX.	ASIA/PACIFIC/MIDDLE EAST	15
X.	AMERICAS	17

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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. Point/Counterpoint: Re-regulation.

Amid the current environment of high oil prices and falling demand, airlines have introduced capacity cuts that have a severe impact on employees, passengers, airports and communities. Industry leaders are debating whether a return to some form of regulation is needed.

Former American Airlines Chairman Robert Crandall called for “a dollop of regulation, along with new government policies and appropriate investment,” to help struggling carriers. Among his proposals: relieve congestion by limiting airline schedules and using “the largest feasible aircraft in each slot,” tighten financial standards for new airlines, amend labor laws, revise bankruptcy laws to keep failed carriers from using lower costs to undercut rivals’ fares, and relax anti-trust laws. He would establish a minimum-fare threshold, and, turning “conventional wisdom about hubs on its head,” require passengers to pay for connecting flights. Speaking before the Wings Club in New York, Crandall called for “a sensible policy” for negotiating bilaterals that would favor U.S. rather than foreign airlines. He does not favor a change in the 25% equity rule for foreign investors.

“Congress must act promptly to prevent further industry deterioration and the corresponding deleterious effects on the nation,” said Hector Cuellar in a speech at Farnborough International Airshow. The President of RSM EquiCo Capital Markets, a global investment bank with airline ties, Cuellar noted that many international carriers benefit from regulation and are wholly owned or heavily subsidized by government. “It isn’t necessary to nationalize industry or subsidize companies, and market-based solutions should play a major role,” Cuellar said, “but government can take steps to support industry.”

“Re-regulation will not affect the price of oil or the fragility of the economy,” said Michael E. Levine, an airline deregulation pioneer, in remarks to the International Aviation Club in Washington. “The industry needs to adapt to these realities and will need innovation and flexibility that government regulation would impede.” Levine noted “if oil prices stay up, the system is likely to look very different than before simply because there won’t be enough business to sustain the old system. And we know that the transition to whatever is the new structure will cause a lot of pain to customers, airlines, labor, financiers and civic parties.” The former Continental, Northwest and New York Air senior executive recounted the many failings of airline regulation and proposed a prescription of government actions to help facilitate the

transition that would include: an efficient air traffic control system; revised bankruptcy laws that would allow competing reorganization plans; direct payment for essential air service that “would not hold industry hostage or require regulatory carve-outs”; assistance for communities seeking development alternatives for abandoned airline hubs and maintenance centers; linking unemployment insurance to job retraining; protecting pensions from underfunding and ultimate abandonment in bankruptcy; and moving to a health care system not tied to employment, so that “shrinking airlines are not burdened by legacy health costs.” Levine is a former Dean of the Yale School of Management and currently is a "Distinguished Research Scholar" at the New York University School of Law.

2. Star Alliance Seeks Antitrust Immunity Expansion.

Nine Star Alliance carriers filed an application with the U.S. Department of Transportation (DOT) to add Continental to their existing antitrust immunity. Continental announced in June that it plans to leave SkyTeam to join Star. In the U.S. domestic market, where antitrust immunity would not apply, Continental and United plan to begin broad code sharing and frequent flier, customer recognition and lounge reciprocity. Continental also reached an agreement in principle with Air Canada to pursue cooperation, including proposed code sharing. Additionally, Continental, United, Lufthansa and Air Canada requested DOT approval to establish a transatlantic joint venture, establishing a framework for similar joint ventures in other regions of the world.

3. New Rule Requires Technology to Reduce Center Fuel Tank Fires.

DOT issued a final rule requiring all new aircraft to include technology designed to significantly reduce the risk of center fuel tank fires. Passenger aircraft built after 1991 must be retrofitted with the technology; U.S. aircraft to include 2,730 A320s, 50 A330s, 965 Boeing 737s, 60 B-747s, 475 B-757s, 150 B-767s and 130 B-777s. Installation costs range from \$92,000 to \$311,000 per aircraft. The rule responds to a recommendation made by the National Transportation Safety Board following the 1996 explosion of TWA Flight 800; examination of the B-747 wreckage showed that a stray spark may have set off a flammable mixture of gases in the nearly empty center fuel tank.

4. FAA Announces Runway Safety Initiatives.

The Federal Aviation Administration (FAA) announced runway safety initiatives, including status lights to prevent incursions. FAA will provide up to \$5 million to test in-cockpit displays and electronic flight bags that show aircraft positions on the airfield and is soliciting proposals to acquire and install ground surveillance systems at airports not scheduled to receive Airport Surface Detection Equipment under current programs.

5. **Domestic Fares Rise 4.4% in Q2, Reports DOT.**

Average domestic airfares rose 4.4% in the second quarter, compared to same period 2007, reports DOT, in the largest year-to-year increase since Q2 2006, but remained 4.6% below the January-to-March high of 2001. The average fare was \$332, up 10.1% from the post-9/11, Q1 low of \$301 in 2005. The small sample of itineraries did not include travel to and from Alaska, Hawaii and Puerto Rico. Of the top 100 airports based on originating passengers, the highest Q1 average fares were at Cincinnati, the lowest at Atlantic City; the largest increase was at Boston.

6. **DOT Air Travel Consumer Report for May.**

Based on data filed by 19 of the largest U.S. airlines

	May '08/'07	April '08	Full Year				
			2007	2006	2005	2004	2003
On-time arrivals %	79 / 77.9	77.7	73.4	75.4	77.4	78.1	82
Mishandled baggage*	4.59 / 5.94	4.99	7.03	6.73	6.64	4.91	4.19
Consumer complaints:							
Airline service	885 / 930	1,113	13,168	8,325	8,741	7,452	5,983
Disability-related	39 / 34	36	480	430	511	521	375
Discrimination**	13 / 5	8	99	114	129	118	85

Note: Aloha Airlines ceased operations in April, reducing the number of reporting carriers from 20 to 19.

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. U.S. Airports to Base Charges on Market Incentives.

DOT issued a final rule that will permit congested U.S. airports to use market incentives to determine airline rates and charges. Under the ruling, which airlines opposed, congested airports can charge higher fees for planes to land during peak hours. The new rule gives local airport authorities more autonomy to manage traffic, said DOT.

2. Comments in for DOT's New York Slot Auction NPRM.

As the comment period closed for DOT's notice of proposed rulemaking (NPRM) regarding slot auctions at New York Kennedy and Newark airports, airlines, as expected, expressed heated opposition. The International Air Transport Association (IATA) and U.S. Air Transport Association said DOT will exceed its statutory authority in implementing the proposal. IATA said its Worldwide Scheduling Guidelines should be used to manage congestion at New York's international airports. Writing in the *New York Times*, Transportation Secretary Mary Peters said the groups "oppose a fundamental economic principle—letting airports charge prices that reflect demand. [Their argument] that 'we just need more capacity and technology, not pricing, incorrectly assumes that these are competing concepts. But the main reason we have failed to add capacity and modernize our air traffic control system is that our approach to paying for aviation infrastructure completely disconnects the price of using capacity from its true costs and thus promotes overuse at popular airports and during popular flying times.'" A proposed Senate bill would block DOT's proposal.

3. \$68 Million Approved for Kennedy, Newark to Stem Delays.

The Port Authority of New York and New Jersey Board of Commissioners approved \$68 million in improvement programs at Kennedy and Newark, in response to recommendations made by the Port Authority's Flight Delay Task Force. The plan for Kennedy includes a ground surveillance system to manage swifter movement of aircraft between terminals and runways, and the extension of certain taxiways and construction of a new taxiway to improve departure procedures. Newark improvements include widening of 32 taxiway intersections to increase available taxi routes for larger aircraft such as the Boeing 777 and the Airbus A340-600.

4. Denver to Receive \$28 Million for Expansion Projects.

Denver International will receive \$28 million for ground capacity enhancing projects, including ramp expansions and construction of additional commuter

aircraft parking. FAA said the total cost of the project is estimated to be \$59 million, to be paid from a combination of Airport Improvement Program and airport funds and general airport revenue bonds.

5. Reports of Fraud at Toronto Pearson Kiosks.

Visa Canada is investigating reports of a potential security breach involving credit card information at Pearson International at self-serve, check-in kiosks. Greater Toronto Airports Authority (GTAA) said kiosks were not taken out of service, but contacted the federal privacy commissioner about the investigation. WestJet planned to disable the credit-card readers at its airport kiosks across Canada, but Air Canada said it had no plans to do so.

6. Saudi Arabia to Privatize Airports.

Saudi Arabia plans to transform its international airports into corporations, Arab News has reported. As major airports in Saudi Arabia undergo improvements, the General Authority for Civil Aviation said the plans will be rolled out gradually, expecting inflow of investments.

III. SECURITY AND DATA PRIVACY

1. Expedited Screening Tested for Flight Deck Crew Members.

The Transportation Security Administration (TSA) launched crewPASS, a program to evaluate expedited access to secure areas of airports for properly credentialed commercial flight deck crew. The program, a mandate of the 9/11 bill, will be evaluated at Baltimore/Washington, Pittsburgh and Columbia (S.C.) airports. Eligible crew will enter a secure checkpoint area after presenting airline-issued and another form of identification to security officers, who will check credentials via a secure, real-time crew member database that includes a picture and other information to verify the individual's identity. They will be subject to random screening, observation by behavior detection officers and other layers of security. The test, conducted in cooperation with the Air Line Pilots Association, is scheduled to conclude after 60 days, at which time a full evaluation will be made.

2. TSA Lifts Cap, Eliminates Fee on Registered Traveler.

TSA cleared impediments to expansion of Registered Traveler business opportunities beyond the initial 20 airports and eliminated the \$28 fee for conducting enrollee threat assessments. "The private sector working with the airports and airline passengers can best determine the RT business structure," said TSA, "and the initiative needs very limited government involvement going forward."

3. Lawsuit Tests Access Rights for EU Citizens.

As the U.S. and the European Union (EU) work to finalize an agreement authorizing transatlantic data exchange, the Electronic Frontier Foundation (EFF) filed suit on behalf of a member of the European Parliament, demanding that the U.S. government release records about her "risk assessment" score and other information gathered about her during her international travels. The U.S. government claims that any person can obtain her records through a Freedom of Information Act (FOIA) request. To test those assurances, Dutch Minister Sophia In 't Veld filed FOIA requests for the information with the Homeland Security, Justice and State Departments. The agencies failed to comply with the requests as required by federal law. "The question of redress is the sticking point in the current discussions about data exchanges between the United States and the EU, said In 't Veld. "That dispute underscores the importance of this case; it shows that gaining access to personal data held by U.S. agencies is very difficult, if not impossible."

4. **U.S.-Germany Data Exchange Pact Underway.**

The United States is negotiating with European countries to exchange fingerprint and DNA data in criminal and terrorist cases, as a condition for granting citizens of newer EU member states the right to enter the U.S. without visas, and for maintaining that right for other EU members; data on race, ethnic origin, political and religious beliefs or sexual orientation could be transferred in some cases, reported the *Washington Post*. A preliminary U.S.-Germany pact reached in March is expected to be the model for other bilaterals; it requires safeguards and security measures to protect personal data. Privacy advocates are concerned about data storage, legal recourse for misuse of data and other issues.

5. **ACLU Says Terrorist Watch List Numbers One Million.**

The U.S. terrorist watch list has hit one million names, according to the American Civil Liberties Union (ACLU), based upon government-reported numbers. ACLU urged Congress to exercise vigorous oversight of Department of Homeland Security (DHS) programs, saying DHS's collection of personal data on millions of U.S. citizens and its ever-expanding surveillance infrastructure provides the illusion of security without the purported benefits. Controls on the watch lists called for by ACLU include due process, a right to access and challenge data upon which listing is based, tight criteria for adding names to the lists and rigorous procedures for updating and cleansing names from the lists. ACLU also called for an executive order requiring the lists to be reviewed and limited to only those for whom there is credible evidence of terrorist ties or activities; and that review be concluded within three months. ACLU is creating an online form where those on the watch list can tell their stories, which may be used to advance advocacy.

6. **Wiretap Bill Signed Into Law.**

The Senate gave final approval to and the White House signed off on revisions to the 1978 Foreign Intelligence Surveillance Act. The FISA Amendments Act of 2008 broadens the government's wiretapping program and provides legal immunity for participating telecommunications companies.

IV. E-COMMERCE AND TECHNOLOGY

1. American Drops Trademark Lawsuit Against Google.

American dropped its trademark infringement lawsuit against Google, saying the claims were resolved on mutually satisfactory terms. In a lawsuit filed a year ago, the airline claimed that when Google users entered search terms such as AAdvantage, the results included Web sites that had no connection to American. In October, the court denied a motion by Google to dismiss American's lawsuit.

2. MSN Travel Signs With Orbitz.

U.S.-based Orbitz and its UK affiliate ebookers began a multi-year contract with Microsoft to power the MSN Travel portal and integrate booking tools, service and content in the U.S. and UK. Services include Orbitz's "Price Assurance," which refunds the difference in airfare for travelers if another Orbitz customer books the same flight itinerary for a lower price. The MSN travel site formerly was handled by Expedia.

3. Amadeus Launches Airline Service Fees.

Amadeus launched the first module of Amadeus Airline Service Fees, which enables airlines to automatically collect ticketing, credit card and miscellaneous fees in their direct sales channels, in compliance with industry standards. The second module, to be rolled out with the Amadeus Retailing Platform, will allow airlines to collect credit card fees through travel agencies. An Amadeus-commissioned study finds that automation of service fees processing can increase fee revenue by up to 28% and productivity by 67%. In other news, Amadeus implemented Air China's e-commerce in 25 international markets, providing "a fully hosted and customized internet booking engine solution that will help them manage the intensified international online traffic due to the Olympic Games in Beijing this summer."

4. Airbus Wins Certification for On-Board Mobile Phone System.

The European Aviation Safety Agency (EASA) in June approved Airbus' inflight cell-phone system after tests carried out by Airbus confirmed compatibility in the aircraft environment. The EASA airworthiness certification moves Airbus closer to airline operation of the OnAir service that will enable passengers to use BlackBerry-type devices and mobile phones during flights in Europe to make and receive calls and send and receive emails and text messages. Cabin crew can manage the service by selecting a voice-off mode, which only allows text messaging and email. OnAir, a joint venture between Airbus and SITA, will act as the service provider for connectivity services.

Initially the service will be available on Airbus single-aisle short-haul flights in Western Europe.

5. Travelport Integrates Online Meeting Planning Services.

Global distribution system (GDS) Travelport, which operates Galileo and Worldspan, has integrated Worktopia's online group and meeting planning services into the desktops of Worldspan-connected travel agents and corporate customers in the U.S., enabling them to search, compare and book commissionable meeting space, audio visual equipment and catering for single-session meetings for up to 100 attendees in 65 countries.

V. NOISE AND ENVIRONMENT

1. EU Parliament Votes to Include Airlines in Emissions Trading Scheme.

The European Parliament voted to include all airlines operating in the EU in the EU emissions trading scheme from 2012. Airlines will be able to sell surplus allowances and will need to buy additional allowances if their emissions grow. They will receive 85% of their emission allowances for free in 2012. This percentage may be reduced from 2013 as part of the general review of the Emissions Trading Directive. Airlines with very low traffic levels on EU routes are exempt, and a special reserve of free allowances has been added for new entrants or very fast-growing airlines. Once EU governments clear the decision, they will have a year to develop national legislation. The move could have dire consequences for the sector, said the International Air Transport Association, and is “absolutely the wrong answer to the very serious issue of environment.” The Association of European Airlines estimated costs as high as €5.3 billion annually, leading to bankruptcies and liquidations, and said “communities will lose air service and regional economies will be devastated as tens of thousands of jobs are put at risk.” And the Air Transport Association of America called the legislation a “tax grab,” requiring “non-EU airlines to pay EU entities for the airlines’ emissions for the entire length of a flight to and from Europe, without the consent of the airlines’ home countries.” ATA said the unilateral decision violates the Chicago Convention and other international laws and threatened a legal challenge.

2. Sustainable Aviation Summit at Farnborough.

As manufacturers displayed a variety of green technologies at the Farnborough International Airshow, show sponsor, the Society of British Aerospace Companies (SBAC), hosted a Sustainable Aviation summit. Citing historical cuts in CO₂ (70% in past 50 years), noise (75% in past 30 years) and NO_x (50% in 50 years), SBAC said industry targets represent a real challenge because they are a doubling of historical progress. European targets for 2020, based on 2000 levels, include cuts in CO₂ and aircraft noise of 50% each, and in NO_x of 80%, to be achieved via an integrated approach that will cover new aircraft and engine technology, alternative fuels, more efficient air traffic management (continuous descent approach and reduced use of ‘stacks’ above airports) and carbon offsetting and trading.

VI. U.S. CONGRESS

1. House Passes FAA Safety Oversight Bill.

The House passed a bill meant to improve FAA safety inspection practices and curb close relations with airlines. The bill establishes an Aviation Safety Whistleblower Investigation Office within FAA, to be headed by a Director appointed by the Secretary of Transportation for a term of five years. The Director will: receive and assess complaints from FAA employees and make recommendations to the Administrator, with written response required; immediately report a violation of federal criminal law to the DOT Inspector General; report annually to Congress on complaints received, as well as corrective actions recommended and Administrator responses. References to air carriers as 'customers' in FAA's customer service initiative must be removed to clarify that FAA's only customers are traveling individuals. Carriers may not select which FAA employees inspect their operations, nor may they employ or contract with anyone to act as a representative before FAA if that individual was an FAA flight inspector in the preceding two years, or otherwise inspected or oversaw the carrier. The bill prohibits FAA principal maintenance inspectors from overseeing a single carrier for a continuous period of more than five years, and requires a process to review the air transportation oversight system database monthly for trends in regulatory compliance, and to ensure that corrective actions are taken in accordance with FAA regulations. Monthly reports must be submitted to the Administrator and quarterly reports to Congress. H.R. 6493 passed 392-0 and now moves to the Senate.

2. Airlines Push for Bills on Oil Speculation, Strategic Petroleum Reserve.

Among bills introduced that would increase oversight of oil speculation, the Stop Excessive Energy Speculation Act, filed by Senate Democrats, would authorize the Commodity Futures Trading Commission (CFTC) to add employees to detect, prevent and punish price manipulation and excessive speculation, and to rapidly implement the law. The definition of "legitimate hedge trading" would be changed to include only producers and purchasers of actual physical energy commodities. Some Republicans said blaming speculation for high fuel prices is an excuse not to expand offshore drilling. The Air Transport Association called the bill "a good first step toward ensuring that formerly 'dark' over-the-counter markets will now be required to do business in the sunshine." To support the bill, ATA formed the Stop Oil Speculation Now coalition, comprised of industries, businesses, labor groups and citizens. Separately, ATA testified before a House panel, calling for release of 10% of the Strategic Petroleum Reserve (SPR) to bring relief from high fuel prices. But the House failed to pass that legislation; the White House had threatened to veto the measure.

3. **Senate Panel Addresses Summer Congestion and Delays.**

At a Senate Commerce Aviation Subcommittee hearing on the summer outlook for air travel congestion and delays, there was agreement that implementation of the NextGen air traffic control system is important. In the near-term, FAA congestion reduction initiatives include increased routes over the Atlantic and some use of military airspace. ATA said DOT's effort to promote congestion pricing and slot auctions (*see also Section II*) represents "completely unproven textbook experiments [that] do nothing to reduce congestion and flight delays in New York or anywhere else." Chairman Jay Rockefeller (D-W.Va.) said states with smaller airports will suffer from recent airline service cuts. Ranking member Ted Stevens (R-Alaska) said the airline industry needs to restructure to get through the current energy crisis and voiced support for legislation criminalizing oil speculation.

4. **Airline-Run Exit Program Opposed in House.**

Members of a House Homeland Security subcommittee threatened to block a proposed DHS rule that would charge airlines with the responsibility for collecting biometric data from travelers exiting the United States. At a hearing of the Border, Maritime and Global Counterterrorism Subcommittee, Chairwoman Loretta Sanchez (D-Calif.) said the program would cost an already stressed industry over \$12 billion to implement, costs which ultimately would be passed on to passengers. Sanchez and Homeland Security Committee Chairman Bennie Thompson have suggested that DHS, through the use of a kiosk, collect travelers' biometrics at the TSA checkpoint and verify their departure with the airlines.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. Europe, U.S. Sign Agreement to Improve Aviation Safety, Cut Costs.

The EU and the United States signed an agreement that will result in better harmonized aviation safety systems and less cumbersome technical and administrative procedures for the recognition of certificates. The agreement provides for joint participation in the inspection of civil aviation authorities, for cooperation and assistance in any investigation or enforcement proceeding and on the exchange of safety data, including data on accidents and incidents. The agreement also foresees mutual recognition of aviation safety certificates obtained through shortened product approval procedures and mutual acceptance of products tests, which could mean significant savings for EU and U.S. manufacturers. For airlines, the agreement provides for the mutual use of approved repair and maintenance facilities.

VIII. EUROPE/AFRICA

1. EU Updates Blacklist, Finalizes Disability Rules.

The European Community removed Mahan Airlines from its list of airlines banned from flying into the EU due to safety concerns, saying significant progress accomplished by the Iranian carrier was verified during an on-site inspection. A ban is imposed on all carriers from Equatorial Guinea, Indonesia, the Kyrgyz Republic, Liberia, Sierra Leone, Swaziland and the Democratic Republic of Congo (DRC) and Gabon save for Gabon Airlines and Afrijet, whose operations are frozen to the current level; and eight individual carriers. In other news, EU rules came into effect that improve access to air transport for the disabled and elderly. EU airlines and tour operators are prohibited from refusing to book or carry passengers because of disability or reduced mobility. EU airports must provide service from airport entry to boarding gate, at departure and arrival. EU airlines are obliged to provide priority boarding and services, such as wheelchairs and guide dogs, free of charge. EU states have set up enforcement bodies to ensure that the regulation is applied.

2. British Airways Acquires L'Avion, Holds Merger Talks with Iberia.

British Airways acquired L'Avion and will integrate the French airline with its new premium subsidiary OpenSkies by early 2009. OpenSkies operates daily flights between Paris Orly and New York Kennedy and will begin New York-Amsterdam service in October. L'Avion launched flights between Paris Orly and New York Newark in January 2007. The combined airline will operate up to three daily Boeing 757 Paris-New York flights. British Airways announced it is holding merger talks with Iberia, in which it holds a 13.15% share and with which it holds EU approval for wide cooperation. British Airways will reduce capacity by 3%-5% this winter and suspend hiring, as fuel expenses exceed earlier forecasts, and said alliance talks with American Airlines are continuing.

3. Vueling, Clickair to Merge.

Iberia reportedly will control more than 45% of a new company formed from the merger of low-cost carriers Vueling and Clickair, each of which operates mid-size Airbus aircraft from Barcelona. Subject to antitrust clearance, the combined company will fly under the Vueling name. Iberia controls 20% of Clickair voting rights and about 80% of its capital, and Clickair operates many former Iberia routes.

IX. ASIA/PACIFIC / MIDDLE EAST

1. China's Aviation Industry Posts First-Half Losses.

China's aviation industry—airlines, airports and related companies—posted a 23% decline in first-half profit on rising fuel prices, slower demand and other factors, said the Civil Aviation Administration of China. Passenger numbers fell 8.1% for China Eastern and 11% for Air China in May, due to the Sichuan earthquake. In June, Chinese airlines' combined passenger numbers fell 3.8%. Chinese carriers buy fuel at subsidized prices for domestic services but pay international market prices for overseas flights; they are cutting flights, raising surcharges and taking other steps to cut costs; China Southern Chairman Liu Shaoyoung and other executives are taking 10% pay cuts.

2. Alaska, Horizon Partner With Korean Air.

A new code share pact between Korean Air and Alaska and Horizon allows passengers to connect from Korean Air's Seattle, Los Angeles and San Francisco gateways with flights from Pacific Northwest points. The carriers also expanded their frequent flier partnership.

3. Alan Joyce to Replace Retiring Geoff Dixon at Qantas.

Qantas CEO Geoff Dixon's planned retirement will take place in November and Alan Joyce, CEO of Qantas unit Jetstar, was named to replace him. Qantas said it will not implement its 2008-09 growth plan, including hiring 1,200 people. Instead, 1,500 jobs will be cut worldwide.

4. Virgin Blue Scales Back, V Australia to Add Brisbane-Los Angeles.

Virgin Blue announced a "second round response to record fuel prices," including capacity cuts and a new "pay for weight" baggage policy for domestic flights. Toll Holdings intends to distribute 98.3% of its 62.7% stake in Virgin Blue to shareholders through an in specie dividend, as it seeks to "reduce its exposure to cyclical nature of the passenger aviation sector." V Australia will launch three weekly direct flights between Brisbane and Los Angeles from early next year. The Virgin Blue unit previously announced its December 15 inaugural flight between Sydney and Los Angeles.

5. SpiceJet to Receive \$80 Million Investment From Ross.

New Delhi-based domestic budget airline SpiceJet will receive an \$80 million investment from Invesco unit WL Ross & Co., subject to approvals. "We believe in the long term validity of the low cost airline model in India and that fuel prices eventually will stabilize," said Wilbur Ross Jr., who, with Ranjeet Nabha, Managing Director of WL Ross India, is expected to join the SpiceJet

Board of Directors. India's domestic airline passenger numbers fell by 4% in June, compared with the same month a year earlier, the first drop in three years, reports the *New York Times*. The India market has had too many players, Ross told the *Times*, and further consolidation is coming. "That will be constructive for the industry and for SpiceJet." Three-year-old SpiceJet operates 94 flights daily with a fleet of 15 aircraft.

6. El Al, American Code Share Begins in September.

An El Al-American Airlines code share agreement signed last December will take effect in September, with El Al passengers able to fly via El Al North America destinations, New York, Los Angeles and Toronto, to American Airlines U.S. destinations. The agreement also enables El Al passengers to fly between North America and Israel via El Al European destinations, with the transatlantic sector flown on American Airlines.

7. Emirates Begins First A380 Commercial Service to U.S.

Emirates' August 1 launch of three weekly Airbus A380 Dubai-New York flights will be the first time any carrier will operate the superjumbo commercially in the United States. Familiarization flights will follow to San Francisco and Los Angeles. Emirates plans to serve San Francisco and Los Angeles with daily non-stop Boeing 777-200LR flights from Dubai this fall. In other news, the carrier reportedly plans to end inflight newspaper and magazine service on all flights, to cut costs and enhance fuel efficiency.

8. Saudi Arabian, Kuwait Privatizations Move Forward.

In preparation for privatization, Saudi Arabian Airlines has purchased more than 50 Airbus A320s, with plans to lease another 20, and has received the first of 15 Embraer E-170s; and Sabre Airline Solutions is working on Saudi's network management and operations systems. A 49% stake in Saudi's catering division has been sold, with plans to sell cargo operations next, followed by ground services, maintenance and the Prince Sultan Aviation Academy. Kuwait gave final approval for privatization plans of Kuwait Airways. Kuwait's parliament in January approved a government plan to sell 40% of the carrier to the public and 35% to a long-term investor.

X. AMERICAS

1. Airline Q1 Costs Rose Record 31%.

The Air Transport Association said U.S. passenger airlines saw first-quarter 2008 costs grow at the fastest pace since second quarter 1980. The composite cost index was up 31.3% from Q1 2007, compared to a 4.2% Consumer Price Index increase. The three largest components of the index were fuel (28.7%), labor (20.9%) and payments by mainline carriers to regional partners (14%). The average price paid for fuel increased 50%.

2. United to Cut Capacity, 7,000 Jobs.

United will retire 100 aircraft and reduce Q4 mainline domestic capacity by up to 16.5% year-over-year and international flying by 7%. Subsequent workforce reductions of about 7,000 will be completed by year-end 2009. CEO Glenn Tilton said new revenue streams will be “worth in excess of \$1 billion per year over the next few years.”

3. Delta-Northwest Merger Update.

A senior team was named to lead the new Delta after the merger with Northwest, with Delta CEO Richard Anderson at the helm. Ed Bastian, Delta's current President and CFO, will also become CEO and President of Northwest. Current Northwest President and CEO Doug Steenland will leave and assume a seat on the new Delta Board of Directors. Headquartered in Atlanta, the new Delta will “maintain a significant long-term presence in Minnesota that includes both operation and staff functions beyond the 12-24 month transition of Northwest operations into Delta.” A November 5 trial date has been set for a lawsuit by a group of 28 airline passengers seeking to block the merger, which, they say, would violate antitrust law and substantially reduce competition. The U.S. Department of Justice is reviewing antitrust issues, as is the European Commission, which has set an August 6 deadline for its inquiry into the proposed merger.

4. Northwest to Cut 2,500 Employees.

Northwest will reduce its frontline and management employees by 2,500 as it plans Q4 systemwide capacity reductions of up to 9.5% versus Q4 2007. Northwest also will introduce revenue enhancing measures, including fees for the first checked bag and frequent flier award tickets, which CEO Doug Steenland said could generate \$250 million to \$300 million a year.

5. **US Airways Does Not Need to Merge to be Viable: Parker.**

US Airways plans Q4 and full-year 2009 capacity reductions of 1%-2%, bringing the total to 4%-6% for both periods. An à la carte pricing strategy is performing well, said CEO Doug Parker, and, based on results thus far, will generate \$400 to \$500 million annually, up \$100 million from initial estimates. In an interview with the *Philadelphia Inquirer*, Parker said he is still interested in merging with another airline, "The industry would be better served if less fragmented. But we are fine on a stand-alone basis," he added. "US Airways does not need a merger to be a viable airline."

6. **Continental Faces Criminal Trial in Concorde Crash.**

Continental and two of its employees were ordered to stand trial on involuntary manslaughter charges related to the Air France Concorde crash in 2000 that killed all 109 aboard and four people on the ground. Two employees of the Concorde program and an employee of the French civil aviation authority also were charged. Continental called the French action outrageous and completely unjustified and said it would fight the charges. French investigators said a titanium strip that had fallen onto the runway at Paris de Gaulle from a Continental DC-10 that took off before the Concorde caused the chain of events that led to the fiery crash.

7. **Delta Dismissed From Comair Crash Lawsuits.**

A federal judge ruled that no Delta employee could be held liable for the 2006 crash of Comair Flight 5191. The plane went down shortly after taking off from the wrong runway at Blue Grass Airport, killing all on board but the first officer. Comair is a Delta subsidiary, but Delta had argued that each has separate management and policies and employs its own pilots.

8. **Delta, ExpressJet End Regional Pact.**

Delta and ExpressJet agreed to cease all ExpressJet Delta Connection operations as of September 1, primarily out of Los Angeles and Salt Lake City. Delta intends to award a portion of this flying to another Delta Connection carrier. "With the losses we were experiencing from our Delta pro-rate flying combined with our ability to return aircraft to the lessor, this termination of service is in the best interest of our company," said ExpressJet CEO Jim Ream. ExpressJet will also cease branded (XE) commercial passenger flight operations on September 2, but will continue its Continental Express and corporate aviation business. Delta had announced termination of its contract with Pinnacle, effective July 3, but the regional announced the existing contract is to remain in effect.

9. Southwest, WestJet to Code Share.

Southwest and Calgary-based WestJet agreed to form a code share partnership by late 2009 in which, subject to government approvals, Southwest passengers will be able to connect to WestJet's Canadian network. WestJet operates 75 Boeing Next-Generation 737s to 49 destinations in Canada, the U.S., Mexico and the Caribbean. The airlines also are considering integration of frequent flier, ground handling and cargo programs.

10. JetBlue Suspends Growth Plans.

JetBlue suspended near-term growth plans beginning in September, with capacity to be down about 10% year over year, and deferred 10 Embraer 190s originally scheduled for delivery between 2009 and 2011 to 2016. The carrier obtained a new \$110 million line of credit with Citigroup Global Markets to fund working capital, capital expenditures and other general corporate purposes.

11. Frontier Receives \$75 Million Commitment.

Bankrupt Frontier received a \$75 million debtor-in-possession financing commitment from Perseus, a Washington, DC-based investment firm. Perseus has agreed to purchase 79.9% of equity in reorganized Frontier for \$100 million, subject to bankruptcy court approval.

12. AirTran Announces Cuts, \$47 Million Government Award.

AirTran will eliminate 480 pilot and flight attendant jobs, as it reduces capacity by 5% after earlier predictions of 10% growth this year. Wage cuts were announced for all employees, including officers. The carrier won a U.S. General Services Administration contract for 119 city pair contracts for federal employee travel for the 2009 fiscal year, with an estimated value of more than \$47 million.

13. Midwest Expands Northwest Code Share, Cuts Workforce by 40%.

Midwest, owned by TPG Capital and Northwest, announced an expansion in its code share with Northwest of more than 100 new city pairs. Midwest will reduce its and Skyway unit's work force by 1,200, about 40%, by mid-September as it grounds its 12 MD-80s and makes numerous service cuts and changes. Midwest seeks concessions from unions and aircraft leasing companies and other vendors and earlier this year eliminated 400 jobs.

14. Spirit Revises Growth Forecast.

Spirit filed an application with DOT to serve Manaus, Brazil, and began service to Bogota, Cartagena and Trinidad. The carrier revised 10% growth plans for 2008 to year-over-year flat capacity. Spirit is cutting 15% of non-fuel costs, while continuing to increase non-ticket revenue. Spirit will retire five Airbus

A319s by September and said there will be no impact to over 300 markets served nonstop and through the Fort Lauderdale gateway.

15. Virgin America Adds “Main Cabin Select” Option.

Virgin America introduced “Main Cabin Select,” which offers more legroom, complimentary food and beverages, dedicated overhead storage, an all-access pass to inflight entertainment, and priority check-in, security screening and boarding. CEO David Cush said the seating class is “for the traveler who wants an upscale experience for far less than what they would pay for business class” on another airline. Separately, members of the airline’s loyalty program can compete to fly their way to a seat on a Virgin Galactic sub-orbital space flight. The two companies also plan a pilot exchange, under which select Virgin America pilots will enter the training program of Virgin Galactic, the first commercial space-line; Virgin Group founder Sir Richard Branson holds a minority share in Virgin America.

16. Government Says Air Canada Must Comply With Labor Rules.

The Canadian government ruled that Air Canada must meet Canada Labor Code obligations to laid-off workers in its plan, announced in June, to cut 2,000 jobs by November 1. Under the rules, employers cutting 50 or more jobs in a four-week period must establish a joint planning committee to develop an adjustment program for terminated staff. The carrier said it will comply with the decision and is available to begin mitigation discussions with unions immediately. In its view “the parties did not need to avail themselves of the process provided by the Canada Labor Code, which is intended for employees and employers who have no comparable existing structure to deal with layoffs and mitigation measures.”

17. Mexico Suspends Aerocalifornia Flights.

The Mexican Ministry of Communications and Transportation suspended flying by Baja-based Aero California within Mexican air space, due to alleged non-payment for rights to use national air space. The government withdrew an order to halt flights by Houston-based ExpressJet, a partner of Continental and Delta, after ExpressJet paid \$5.2 million in late charges and back fees to continue flying in Mexican airspace. Mexican airport group GAP said Aero California has operations in five of its 12 airports. In other news, Delta plans to cancel nonstops operated by Delta Connection partner Shuttle America from Atlanta to Queretaro and Leon/Guanajuato in Mexico.

18. Argentinean Government Acquires Aerolíneas Argentinas.

The Argentine government reached an agreement to take over Aerolíneas Argentinas from Spanish travel group Marsans, adding Marsans' 95% stake to

its own 5% share. Transport Secretary Ricardo Jaime said Aerolineas has more than \$800 million in debts, including aircraft leasing commitments.

19. Alaska, Horizon Partner With Korean Air.

See Section IX, item 2.

20. Virgin Blue Scales Back, V Australia to Add Brisbane-Los Angeles.

See Section IX, item 4.

21. El Al, American Code Share Begins in September.

See Section IX, item 6.

22. Emirates Begins First A380 Commercial Service to U.S.

See Section IX, item 7.