



WASHINGTON AVIATION SUMMARY

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For further information, including documents referenced, contact:

Joanne W. Young
Kirstein & Young PLLC
1750 K Street NW
Suite 200
Washington, D.C. 20006
Telephone: (202) 331-3348
Fax: (202) 331-3933
Email: jyoung@yklaw.com

<http://www.yklaw.com>

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. DOT, EC to Research Airline Alliances and Competition.

The U.S. Department of Transportation (DOT) and the European Commission (EC) announced a joint research project to determine how alliances have affected competition in transatlantic markets and the potential impact of the open skies agreement between the United States and the European Union (EU), set to take effect March 30, 2008. The entities will interview airlines, travel agents, industry analysts and consumer groups and perform quantitative analysis on air traffic data. A final report summarizing the main findings of the research will be published in mid-2009.

2. New York's Passenger Bill of Rights Overturned.

The U.S. Second Circuit Court of Appeals struck down New York's Passenger Bill of Rights law, ruling that state legislation of airline services is preempted by federal law, the 1978 Airline Deregulation Act. In *Air Transport Association v. Cuomo*, the court accepted ATA's argument that a patchwork of laws by states and localities would be impractical and harmful to consumer interests. "This clear and decisive ruling sends a strong message to other states that are considering similar legislation," said ATA.

3. FAA Proposes \$10.2 Million Civil Penalty Against Southwest.

The U.S. Federal Aviation Administration (FAA) proposed a \$10.2 million fine on Southwest Airlines, the largest civil penalty ever imposed on a carrier, for allegedly operating 46 Boeing 737s without performing required inspections for fuselage fatigue cracking. Southwest suspended three employees and hired outside experts to assess its maintenance operations. "We found cracks on roughly half a dozen of those aircraft. They were repaired properly," said CEO Gary Kelly. "The expert—the Boeing Company—said that at no time were those cracks unsafe [and] that Southwest acted responsibly." FAA acknowledged insufficient oversight on its part, then directed federal aviation inspectors to review maintenance records at all commercial carriers operating within the United States to ensure compliance with airworthiness directives; an initial review was to be completed by March 28 and a full audit is due by June 30. Service disruptions ensued when American and Delta grounded some MD-80/88 aircraft for wiring reinspections. Congressman James Oberstar (D-Minn.), House Transportation Committee Chairman, will hold a hearing on April 3 to examine FAA safety inspection oversight and airline noncompliance with regulations.

4. DOT Awards New U.S.-Colombia Flights.

DOT tentatively granted the right to operate one new daily flight between the United States and Bogota, Colombia to each of four airlines: Delta from New York Kennedy, effective immediately; JetBlue from Orlando, as of April 1; Spirit from Fort Lauderdale, as of April 1; and Continental from Houston, as of October 1. Three of the flights were made available by a 2007 U.S.-Colombia aviation agreement which increased, from 70 to 91, the total number of weekly flights that U.S. carriers may operate between the two countries; 21 new weekly flights will be phased-in by the end of 2008. DOT also proposed to reallocate one daily U.S.-Colombia flight currently held by American Airlines. U.S.-Colombia air travel increased by 200,000 passengers between 2002 and 2006; 750,000 passengers traveled between the two countries a year ago.

5. DOT Air Travel Consumer Report for January.

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

	Jan. '08/'07	Dec. '07	Full Year				
			2007	2006	2005	2004	2003
On-time arrivals %	72.4 / 73.1	64.3	73.4	75.4	77.4	78.1	82
Mishandled baggage*	7.37 / 8.19	9.01	7.03	6.73	6.64	4.91	4.19
Consumer complaints:							
Airline service	1,174 / 754	849	13,168	8,325	8,741	7,452	5,983
Disability-related	43 / 29	18	480	430	511	521	375
Discrimination**	11 / 10	2	99	114	129	118	85

* Reports per 1,000 passengers.

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

6. U.S. Airline Employment Rises 3.4% in January.

U.S. scheduled passenger airlines employed 418 million in January 2008, 3.4% more workers than in January 2007. The six network carriers employed 249.07 million, 2.7% over January 2007, and 59.6% of the passenger airline total. Low-cost carriers employed 95.5 million, 22.8% of the total. Regionals employed 61.1 million, 14.6% of the total.

7. U.S. Airlines Carry Record 769 Million Passengers in 2007.

U.S. carriers operated 10.7 million domestic and international flights in 2007, reports DOT, and carried a record 769.4 million passengers, up 25 million over the previous record set in 2006, Domestic passengers totaled 679 million, up

3.1% over 2006; international, 90 million, up 4.7%. Average load factors were 79.9%. Southwest led systemwide for the first time and domestically for the fourth consecutive year; American led internationally for the 18th consecutive year. More systemwide and domestic passengers boarded planes operated by U.S. carriers at Atlanta Hartsfield-Jackson than at any other U.S. airport for the 12th consecutive year; Miami International led with international passengers boarding U.S. carriers for the 13th consecutive year.

8. Record Travel to U.S in 2007.

A record 56.7 million international visitors traveled to the United States in 2007, reports the U.S. Department of Commerce, an 11% increase over 2006. Arrivals from Canada totaled 17.7 million, and Mexico, 15.1 million; 46% of overseas arrivals were from Western Europe. Visitors spent \$122.7 billion on travel to and tourism within the United States, 14% over 2006, outspending U.S. travelers abroad by \$17.8 billion. U.S. citizen international air travel increased almost 3% in 2007, with travel to Europe up 3% and to Asia up 8%.

9. FAA 2008-2025 Forecast.

FAA forecasts system capacity in available seat miles (ASMs) will increase 2.7% this year, following last year's 2.6% increase. International markets will see healthy growth in capacity, especially the Atlantic, spurred on by the new U.S.–EU open skies treaty. Passenger demand growth slows in 2008 with system revenue passenger miles (RPMs) forecast to increase 2.9% and enplanements 1.5%. In 2009, system RPMs and passengers will increase 4.7% and 3.8%, respectively, while capacity increases 4.6%. For the 2008-2025 period, system capacity increases an average of 4.1% a year and RPMs 4.2% a year. By 2025, U.S. commercial air carriers are projected to fly 2.1 trillion ASMs and transport 1.3 billion enplaned passengers 1.7 trillion passenger miles; load factor will increase to 81.7% and passenger trip length by more than 250 miles to 1,325.5 miles (up 14 miles annually).

II. AIRPORTS

1. DOT to Limit Flights at Newark.

Airlines serving Newark Liberty Airport agreed to temporarily cap and spread domestic and international flights for two years at a level that will allow 30 more flights per day than last summer. The cap will allow an average of 83 flights per hour during peak periods and will go into effect in early May. DOT will also auction slots at the airport. Limits on hourly flights at New York Kennedy went into effect in March.

2. Budget Approved for New Atlanta Terminal.

A \$1.2 billion construction budget was approved for a new international terminal at Atlanta Hartsfield-Jackson scheduled to open in November 2011. In related news, Atlanta officials are considering development of an abandoned Ford plant near the airport as an “aerotropolis,” similar to those near Dallas-Fort Worth and Washington Dulles.

3. BAA Opens Terminal 5 at Heathrow.

Queen Elizabeth presided over the official opening of Heathrow's £4.3 billion Terminal 5, which is to be used exclusively by British Airways and is expected to handle 30 million passengers a year; on the first business day, baggage system and other glitches caused cancellations of dozens of flights. Heathrow operator BAA also made application for a new full-length runway at Stansted. Responding to government calls to break up BAA's monopoly on London area airports, the Ferrovial unit said no other airport operator in the country has demonstrated willingness to deliver much-needed investment in “the overwhelming priority in the South East of England . . . the provision of extra runway and terminal capacity.” BAA named Colin Matthews to succeed Stephen Nelson as CEO.

4. UK Raises Airport Fees.

The UK Civil Aviation Authority (CAA) announced price controls for Heathrow and Gatwick airports for the five years from April 1, 2008 to March 31, 2013, to enable BAA to invest in improved facilities and service. In 2008/09 charges per passenger at Heathrow will rise by 23.5% and at Gatwick by 21%, with subsequent increases in each of the following four years. BAA said the increase was insufficient to meet the scale of tasks planned, but UK airlines said the move confirms that a complete overhaul of the regulatory system is needed. The International Air Transport Association (IATA) said CAA's decision represents failure; “Economic regulation must produce results that

are measured by improved efficiency and quality, not reward excessive monopoly profits and embarrassingly low service levels.”

5. Charles de Gaulle Terminal 2E Reopens.

The boarding area at Paris de Gaulle’s Terminal 2E reopened following a €150 million rebuilding project. A section of the original concrete roof collapsed in May 2004, just 11 months after 2E was opened; four people were killed and courts have not yet determined what caused the accident.

6. Beijing Opens New \$3.6 Billion Terminal.

In anticipation of millions of visitors to the 2008 Summer Olympics, Beijing opened its new \$3.6 billion airport terminal, more than doubling the total area of the other two terminals. The two-mile concourse, divided into three sections, is connected by a shuttle train, and a new baggage system can handle 19,800 bags per hour. Capacity is increased to 76 million; the airport handled 53 million passengers in 2007. China is also upgrading several airports near Beijing for the Olympics.

7. Canadian Pension Fund to Acquire Auckland Airport Stake.

The Canadian Pension Plan Investment Board acquired a 40% stake in New Zealand's Auckland International Airport, subject to government approval of the USD\$1.48 billion transaction.

III. **SECURITY AND DATA PRIVACY**

1. **DHS Reviewing Airport Screening Process.**

Secretary Michael Chertoff told *USA Today* the Department of Homeland Security (DHS) directed the Transportation Security Administration (TSA) to undertake a review of airport security screening, which may lead to easing the burden on passengers. Chertoff also plans to impose stricter rules on U.S.-bound private jets to prevent terrorists from sneaking in “a nuclear bomb or [radioactive] dirty bomb or biological weapons”; this would include requirements for crews and passengers to provide names, birthdates and other information before takeoff, to be checked against terrorist watch lists.

2. **Plan for Airlines to Fingerprint Outbound Foreign Fliers Opposed.**

DHS fingerprints foreigners coming into U.S. airports, but as a key part of an effort to track foreign visitors, including suspected terrorists, wants airlines to be responsible for taking fingerprints as these travelers leave. IATA said the plan would create massive backups at airport check-in counters and potential flight delays; in addition, buying and operating fingerprint equipment would cost airlines hundreds of millions of dollars. A Congressional mandate to fingerprint inbound and outbound foreigners does not specify who should take the prints. In related news, DHS is testing a 10-finger screening process at major U.S. airports for inbound foreign nationals; exemptions include those who are not required to carry visas.

3. **U.S. Terror Watch Lists Inaccurate, Audit Finds.**

The government's terrorism watch list includes inaccurate and outdated information, increasing the risk that innocent people will be misidentified as terrorists while actual terrorists are overlooked, says a report by the Department of Justice Inspector General (IG). Federal government databases hold more than 900,000 watch list names. The Terrorist Screening Center oversees the watch list, while the National Counterterrorism Center and the FBI recommend names for it. The audit found a lack of procedures regarding how names get on the list and that FBI field agents added names to the list without proper vetting or quality control. The IG suggested that FBI supervisors review nominations and that the Justice Department take the lead in improving coordination. The FBI said gaps identified in the system would be fixed within six months. The American Civil Liberties Union (ACLU) called the audit “more confirmation that the watch lists are growing out of control and without controls,” and said, “It is time to focus law enforcement efforts on suspected terrorists and not on innocent Americans.”

4. **Registered Traveler Update.**

Oakland and Washington Reagan and Dulles brings to 16 the number of airports to offer Clear[®] Registered Traveler security lanes. Clear members are pre-screened by TSA and, after approval, receive a card that allows access to designated security lanes for an annual cost of \$100 plus a \$28 TSA vetting fee. Operated by Verified Identity Pass, Clear has 118,000 enrollees nationwide; applications can begin at flyclear.com, with completion of the process at a location where fingerprints and iris images are captured and identification is validated.

5. **Continental, TSA Test Electronic Boarding Passes.**

Continental is working with TSA to test electronic boarding passes, via hand-held devices and mobile phones, that allow travelers to pass through security and board a plane without a paper boarding pass. Currently, some 80% of passengers use kiosk or Web check-in and most major U.S. airlines allow customers to check in using mobile devices, but a paper pass is required to pass through security and board the plane. The test conducted by Continental, which is limited to domestic nonstops out of Houston, uses a two-dimensional encrypted bar code, which is difficult to copy. Passengers still show photo identification when they pass through security that must match bar code information on the phone.

6. **FTC Announces Settlement of Consumer Data Security Actions Against Retailer TJX, and Data Brokers Reed Elsevier and Seisint.**

In two unrelated Federal Trade Commission (FTC) actions, discount retailer TJX and data brokers Reed Elsevier and Seisint agreed to settle charges that each engaged in practices that, taken together, failed to provide reasonable and appropriate security for sensitive consumer information. The FTC complaints allege lax data security practices by the companies enabled identity thieves to access credit card numbers and other personal data and use that data to conduct tens of millions of dollars in fraudulent transactions. The settlements, if made final, will require that the companies implement comprehensive information security programs, keep records for FTC compliance monitoring and obtain audits by independent third-party security professionals every other year for 20 years. In announcing the settlements FTC Chairman Deborah Platt Majoras said "By now, the message should be clear: companies that collect sensitive consumer information have a responsibility to keep it secure." Comments on the proposed consent agreements may be submitted through April 28, after which the Commission will decide whether to make them final.

7. **U.S. Business Travelers Identify Security as Chief Concern.**

An Expedia Corporate Travel survey found that 87% of over 1,000 U.S.-based business travelers rank safety and security "somewhat" or "extremely important" when traveling. Almost 65% named the Middle East as the largest safety and security risk, 14% named North America; Africa, South America, Asia and Europe followed in that order. More than 93% of those surveyed said companies should take proactive measures related to their travel safety; 54% were unaware of such policies at their companies.

8. **DHS Signs Visa Waiver Program Agreements with Five EU States.**

See Section VII, item 3.

IV. **E-COMMERCE AND TECHNOLOGY**

1. **Emirates Offers Inflight Mobile Phone Service.**

Emirates became the first airline to offer authorized inflight cell phone use. Installed on an Airbus A340-300, the AeroMobile system won approval from the European Aviation Safety Agency (EASA) and United Arab Emirates-based General Civil Aviation Authority (GCAA). Cabin crew controls the system and can prevent voice calls at certain times, such as during night flights. The number of calls are limited to five or six. Emirates and AeroMobile plan to add features, such as BlackBerry® email, later this year. The AeroMobile system also has been installed on an Emirates Boeing 777.

2. **American Links with Facebook.**

American launched Travel Bag, an application on Facebook Platform that allows users to share travel experiences and links to American's Web site. Facebook has 67 million active users; American is the first major airline to offer an application on the site.

3. **Alaska Airlines Customizes Online Ads.**

Alaska Airlines is creating ads customized for Web surfers on the basis of geographic location and purchase history with the airline, and experience with lost bags, delays and flight cancellations. Different fares are offered according to price-sensitivity of the customer. "It's a strategy that works best online," the airline told the *New York Times*, "since real-world stores cannot easily mark a T-shirt or a bag of flour with different prices for different shoppers." A data practice called retargeting lures former site visitors with special offers.

4. **Travelport to Offer Three-System Contracts.**

Global distribution system (GDS) Travelport said its new airline contracts will cover participation in Galileo, Apollo and Worldspan.

5. **Expedia Launches Indian Web Site.**

Expedia tapped into the burgeoning Indian aviation market with the launch of Expedia.co.in, offering payment in rupees and customer service agents who speak both Hindi and English.

6. **Online Tool for Finding and Booking Meeting Spaces.**

Business travelers using GetThere.com can book meeting space and price and track simple meeting expenditures, such as audio visual equipment and catering, for meetings of up to 100 participants. Through an agreement with Worktopia, Inc., live quotes are available in as little as three minutes. A 2007

PhoCusWright report projected the corporate meetings segment to reach \$75.8 billion this year, with 67% of meetings involving less than 50 participants. Sabre unit GetThere estimates that corporations using its system collectively saved more than \$600 million in airfare in 2007. GetThere technology works with all major GDSs and travel management companies.

7. New Site Assesses Flight Experience.

InsideTrip.com, a travel site now in beta form, will evaluate “pain points,” in addition to fares, reports the *New York Times*. The site rates legroom, punctuality, aircraft type, how full a specific flight typically is, security checkpoint wait times and accessibility to connections. Other online travel sites that rate overall flying experience include Travelocity and Orbitz.

8. Virgin Atlantic Launches Travel Trade Site.

Virgin Atlantic launched NewsagentLive, which allows travel trade agents to download images and documents and receive updated news. In other Virgin news, Sir Richard Branson launched Virgin Charter, a Virgin USA unit. Partnering with Travelocity Business, Virgin Charter offers access to about 100 operators, screened for safety and quality, with access to 1,000 private planes. CEO Scott Duffy said the service combines the best ideas on the Internet: user and seller reviews, enabling consumers to offer their own bids for flights, and the simplicity and low cost of direct booking.

V. NOISE AND ENVIRONMENT

1. Global Warming to Affect Transportation Infrastructure, Operations.

Aviation will feel the effects of global warming in myriad ways, says a new study from the National Research Council. Among threat areas: more heat waves, requiring load limits at hot-weather or high-altitude airports; rising sea levels and storm surges inundating airports; more rainstorms, delaying air and ground traffic; more frequent strong hurricanes, disrupting air service; and rising arctic temperatures thawing permafrost, resulting in airport runway subsidence. The nation's transportation system was built for local conditions based on historical weather data, the report warns, which may no longer be reliable in the face of new weather extremes. Transportation professionals are urged to confront challenges posed by climate change and incorporate current scientific knowledge into planning transportation systems. The report is available at www.national-academies.org

2. NextGen is “Unquestionably Green.”

FAA's Next Generation Air Transportation System includes environmental management as a core business element, Acting Administrator Robert Sturgell told the International Aviation Club in Washington, “and it is unquestionably green.” With fuel now representing over a third of U.S. airline costs, the motivation toward fuel efficiency has never been stronger. While technological advances in aircraft, engines and fuels are being explored, air traffic management improvements can provide significant near-term gains. Through NextGen, he said, we'll improve scientific understanding of effects of aviation on climate change and accelerate air traffic efficiency to save fuel and cut emissions. NextGen promotes continued improvements in the development of environmentally friendly aircraft and engines and steps up research on alternative fuels. “We will pursue appropriate policy and market-based measures on the basis of guidance developed through ICAO and mutual consent of governments,” he said, alluding to Europe's unilateral approach to emissions control. “NextGen is collaborative. It was conceived, designed and is being executed with input from government and industry.”

3. Continental Plans Sustainable Biofuels Flight Demo.

Continental, Boeing and GE Aviation plan to conduct a biofuels demonstration flight in the first half of 2009. The flight will use a Boeing Next-Generation 737 equipped with CFM56-7B engines (CFM is jointly owned by General Electric and Snecma). The partners are working to identify sustainable fuel sources that don't affect food and water resources or contribute to deforestation, and which can be produced in sufficient quantities to support a pre-flight test

schedule that includes laboratory and ground-based jet engine performance testing to ensure compliance with aviation fuel performance and safety requirements. Continental is the first major U.S. carrier to announce such a mission. In February, Virgin Atlantic used biofuels made from coconuts and Brazilian babassu nuts, along with regular jet fuel, on a Boeing 747 London-Brussels demo flight. Virgin founder Sir Richard Branson will invest \$3 billion in Virgin Fuels, which will develop alternative fuels.

4. Near-Empty B-777 Flight Riles Environmentalists.

British government officials and Greenpeace were among vociferous critics of American Airlines, when it was learned the carrier in February flew a Boeing 777 from Chicago O'Hare to London Heathrow with only five passengers aboard. Other booked passengers had been moved to other flights during an 11-hour delay attributed to mechanical failure. American defended the flight, saying passengers at Heathrow were due to fly back to the U.S. on the same aircraft. Friends of the Earth called the airline's decision obscene, saying each passenger's carbon footprint for the flight was 45 times what it would have been, had the plane been full.

VI. U.S. CONGRESS

1. FAA Funding Bill Unlikely This Year.

FAA reauthorization is unlikely this year, said Jay Rockefeller (D-W.Va.) at a Senate Commerce Committee hearing, due to the general aviation community's opposition to proposed user fees. Rockefeller supports replacing the current system of taxes with a \$25 user fee on all flights. DOT Secretary Mary Peters said a user-fee system would more fairly distribute the costs of operating the nation's aviation infrastructure. FAA Acting Administrator Robert Sturgell said general aviation accounts for 16% of the cost of air traffic control (ATC) and other systems, while only contributing about 3% of all revenue to the aviation trust fund. In reauthorizations proposed by the House of Representatives and the Senate Finance Committee last year, increased taxes on jet fuel won out over a user fee approach.

2. Commerce Committee Members Oppose DOT Funding Cuts.

Members of the Senate Commerce Committee criticized Bush Administration plans to cut funding for the essential air service program from \$110 million to \$50 million in the fiscal 2009 budget while increasing funding for modernizing ATC systems. Ranking member Ted Stevens (R-Alaska) told DOT Secretary Mary Peters, "You are going to have to play God and tell me which villages don't get their three flights a week that means milk, sugar, everything."

3. Legislation Introduced to Relax DCA Perimeter Rule.

Legislation to relax the 1,250 mile perimeter rule at Ronald Reagan Washington National Airport (DCA) was introduced in the Senate by John Ensign (R-Nev.), Barbara Boxer (D-Calif.) and John McCain (R-Ariz.), who claim the "arbitrary restriction limits competition and reduces choices for air travelers." The bill does not repeal the perimeter restriction and does not break up any hub-and-spoke operations. Perimeter restrictions were put in place to promote a new Washington Dulles International Airport. Today, said Senator Ensign, "advancements in technology and changes in the marketplace have eliminated the need to protect the now much larger Dulles Airport from competition with DCA."

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. U.S.-EU Open Skies Agreement Takes Effect.

The U.S.-EU open skies agreement took effect on March 30, raising hopes for competitive transatlantic fares and improved access to smaller markets. Aer Lingus, for instance, plans to start a low-cost airline that would fly from secondary European markets like Liverpool to U.S. cities like Baltimore. Flights between London Heathrow, a long-coveted plum, and the U.S. will increase about 20%. Signed on April 30, 2007, the open skies pact replaces 21 bilateral agreements between EU member states and the United States. Second-stage negotiations, to begin in May, should seek a single air transport market, said the EU, "with free flows of investment and no restrictions on air services, including access to the domestic markets of both parties."

2. U.S., Croatia Sign Open Skies Agreement.

A U.S.-Croatia open skies agreement lifts all restrictions on the number of U.S. or Croatian carriers that can fly between the two countries, the number of flights they can operate and on capacity and pricing. U.S. cargo carriers can operate between Croatia and third countries without a stop in the U.S.

3. DHS Signs Visa Waiver Program Agreements with Five EU States.

The U.S. signed Visa Waiver Program (VWP) Memoranda of Understanding (MOU) with Estonia, Latvia, Slovakia, Hungary and Lithuania, despite protests from the EC, which wants to negotiate travel accords on behalf of the entire EU. The agreements put the countries on track for visa-free travel to the U.S. and potential designation as VWP members later this year. "As we move forward with other aspiring allies toward visa free travel," said U.S. Homeland Security Secretary Michael Chertoff, "we will also continue to collaborate with the EU, especially in areas where it has unique legal authority."

4. India, China Reach Aviation Agreement.

India and China concluded a bilateral agreement that allows designated airlines of India to operate beyond China with full fifth freedom rights; private Indian carrier Jet Airways will be able to operate flights to San Francisco through Shanghai. India also unveiled a plan to develop aviation bilaterals with African nations.

VIII. EUROPE/AFRICA

1. EU Conducting New Price-Fixing Probe.

The EC conducted unannounced inspections at airlines operating passenger flights from Europe to Japan, saying they may have violated EC rules on restrictive business practices. The new probe addresses suspected anticompetitive price fixing and collusive behavior. Lufthansa, Air France and KLM confirmed their offices were among those raided.

2. Price-Fixing Suit Settled With Lufthansa for \$85 Million.

An \$85 million settlement was reached with Lufthansa for customers who purchased air freight services for transport of goods to, from and within the United States. In February, a \$200 million settlement was reached with British Airways and Virgin Atlantic for customers who flew their long-haul flights between Britain and the U.S. In other news, Lufthansa will pay €172 million to former Swiss International majority shareholders for their out-performance option; in the three years since the announced integration of Swiss, Lufthansa shares have outperformed shares of British Airways, Air France KLM and Iberia by 44.67%. Lufthansa's net profit more than doubled to €1.7 billion in 2007; revenue increased by 13% to €22.4 billion. Lufthansa expects 2008 fuel costs to rise to €4.9 billion from €3.9 billion in 2007, and has hedged more than 83% of 2008 fuel costs and 27% for 2009.

3. Alitalia Update.

Air France-KLM's proposal to acquire Alitalia was approved by Alitalia's Board of Directors and the outgoing Italian government. Silvio Berlusconi, who is expected to become Italy's Prime Minister again in April elections, said he would veto the offer and encouraged Air One to reenter the bidding. Air France said its offer would inject €1 billion to restructure and re-launch Alitalia and "calls for a network organized around the international and intercontinental hub of Rome-Fiumicino, the center for domestic Italian routes, and around European and selected inter-continental destinations operating from Milan." CEO Jean-Cyril Spinetta met with Alitalia unions and promised a revised labor plan; "No worker will be abandoned," said Air France.

4. Aer Lingus to Increase U.S. Service.

The Aer Lingus winter schedule will include increased daily nonstop service to New York, Boston, Washington, Los Angeles, Orlando and San Francisco from Dublin; and to Boston and New York from Shannon.

5. **United to Offer Denver-London Service.**

[ual] United will launch Denver-London Heathrow service on May 15.

6. **Thomas Cook Expands in India, Middle East.**

UK-based Thomas Cook Group is acquiring from Dubai Financial Group up to a 74.9% share in Thomas Cook India, 100% of Thomas Cook branded businesses in Egypt, and licenses for the Thomas Cook brand in 15 Middle East countries. Thomas Cook India has about 180 outlets across 40 cities. Thomas Cook was created last year through the merger of MyTravel Group of the UK and German-owned Thomas Cook AG. CEO Manny Fontenla-Novoa said Thomas Cook plans to expand into additional emerging markets, such as Russia and China.

7. **U.S. Court to Hear Sharm el-Sheikh Case.**

A civil suit against Boeing, Honeywell and other U.S. companies in the case of a 2004 plane crash off Egypt will take place in the U.S. A Paris appeals court ruled the suit wasn't within French jurisdiction, and hearing it in the U.S. would allow for discovery, a U.S. legal procedure that would force the companies to provide documents that could help explain the accident. Three years ago a U.S. judge referred the case back to France, saying that if French courts declared it was not within their jurisdiction, he would hear it. French courts will continue to hear criminal proceedings against charter company Flash Airlines and its insurance company. The Flash-operated Boeing 737 crashed into the Red Sea after taking off from Sharm el-Sheikh; 134 French tourists were among the 148 victims. A 2006 Egyptian investigation concluded that technical failures likely caused the crash, but a French team blamed the Egyptian crew.

IX. ASIA/PACIFIC / MIDDLE EAST

1. Record \$165 Million Settlement Reached in Philippines Crash.

A \$165 million settlement was reached in the 2000 crash of Air Philippines Flight 541, between AAR Parts Trading and Fleet, lessors of the Boeing 737, and families of 103 victims. The aircraft crashed into the side of a hill near Davao International Airport, as the pilot made a second attempt to land on the runway. All 124 passengers and seven crew members were killed. Attorneys said a decision to bury the aircraft before independent investigators could inspect the wreckage hindered the accident investigation. Four separate reports released by the Philippine government reached different conclusions; the exact cause of the accident, the worst in Philippine history, is still unknown. The 30-year-old aircraft had been operated for 20 years by Southwest and purchased in 1998 by AAR, which leased it to Air Philippines and then sold the plane and the lease to Fleet Business Credit Corp., now a Bank of America subsidiary. The agreement is a record settlement for an Asian airline accident.

2. Singapore to Launch All-Business Flights to U.S.

Singapore Airlines is reconfiguring five Airbus A340-500s for all-business class flights to New York and Los Angeles. The daily services will begin in May. The new configuration will feature 100 seats that convert to flat beds. Separately, the carrier flew 449 passengers from Changi to London Heathrow aboard the A380, the first commercial flight to Europe for the superjumbo.

3. Delta Begins Shanghai, Tel Aviv Flights.

Delta launched service to China with a daily Boeing 777 flight between Shanghai Pudong and Atlanta, and introduced daily Boeing 767-300ER nonstops between New York Kennedy and Tel Aviv.

4. Korean Air to Launch Los Angeles-Sao Paulo Nonstops.

Korean Air will offer the only nonstop service between Los Angeles and Brazil, when it begins three weekly Boeing 777-200 flights on June 2 from Los Angeles to Sao Paulo.

5. New Vietnam Carriers.

Three new airlines are set to compete with Vietnam Airlines and Pacific Airlines. Service from HCM City to Da Nang Hanoi will be offered by VietJet Air in December, and by Air Speed Up in October. Phu Quoc Air will offer southern flights from HCM City beginning next year.

6. Qantas Adds U.S., South American Service.

Qantas increased service to Los Angeles from both Brisbane and Sydney, and between Honolulu and Sydney, bringing its weekly U.S.-Australia flights to a record 47, and will operate its first A380 flight to Los Angeles in October. In a LAN code share, Qantas will begin Buenos Aires-Sydney service in November.

7. Robert Milton Invests in AirAsia X.

Robert Milton, Chairman of Air Canada parent ACE Aviation, became a shareholder in Aero Ventures, which holds a 48% stake in AirAsia X, the Kuala Lumpur-based low-cost, long-haul airline started by Tony Fernandes last year. AirAsia and Virgin Group each hold a 16% stake in AirAsia X; 10% stakes are held by Orix Group, a shareholder in Japan's Skymark, and Bahrain-based Manara Consortium. AirAsia X flies to Australia's Gold Coast and to Hangzhou and, said CEO Azran Osman-Rani, will expand to destinations in the Middle East and North Asia.

8. Emirates to Begin Los Angeles Service.

Emirates will begin daily nonstops to Los Angeles International from Dubai in September. The Boeing 777 service will feature eight private suites in first class, 42 lie-flat beds in business class, and 216 economy seats. Emirates also offers double daily service to New York Kennedy and daily service to Houston. In other news, Emirates President Tim Clark told Dow Jones the airline may seek cost savings of at least \$100 million and raise fares, as higher oil prices threaten profit growth. Clark said fuel now accounts for 30% of Emirates' costs, up from about 14% in 2004.

9. UAE to Launch Dubai Low Cost Carrier.

United Arab Emirates (UAE) will launch a low-cost carrier from Dubai's Al-Maktoum International to destinations within the Gulf area and surrounding countries. CEO will be Ghaith Al-Ghaith, an executive of Emirates, which will assist in formation of the new airline up to its first flight.

10. Thomas Cook Expands in India, Middle East.

See Section VIII, item 6.

X. AMERICAS

1. Aloha Files for Chapter 11 Bankruptcy Protection.

Aloha filed for Chapter 11 bankruptcy protection and received court approval to continue operating as usual. All or parts of the company may be offered for sale. Aloha said it was unable to “generate sufficient revenues from its inter-island passenger business due to predatory pricing by Mesa Air Group's go!” and high fuel costs. A lawsuit filed by Aloha charges go! with misusing confidential information and is expected to go to trial in October. In a similar lawsuit filed by Hawaiian Airlines, which resulted in an \$80 million judgment against Mesa, a Mesa executive was found to have said, “We definitely don't want to wait for [Aloha] to die, rather we should be the ones who give them the last push.” Founded in 1946, Aloha weekly operates 700 interisland flights and 120 to the mainland. The company filed for bankruptcy protection in December 2004 and emerged from reorganization in February 2006. Former Continental CEO Gordon Bethune is Aloha's Chairman; CEO is David Banmiller.

2. Delta Announces Employee, Capacity Cuts.

To offset fuel prices that surged 82% over the past year, Delta announced it will reduce domestic passenger capacity by 10% by August and cut 2,000 jobs through voluntary early retirement for non-pilot employees in the U.S. and attrition; about 1,300 of the cuts will be frontline employees, with the remainder coming from management. Delta will maintain its goal of expanding international capacity by 15% this year. Merger talks with Northwest stalled, as pilots on both sides failed to reach a seniority agreement; they did agree on pay and benefit issues and an equity stake in the merged company.

3. United Acts to Mitigate Record Fuel Costs.

United outlined actions to offset what could be more than a \$1 billion increase in fuel costs in 2008, while identifying new sources of revenue by unbundling services. United recently announced a \$25 second bag fee for non-elite customers that is expected to generate \$100 million in annual revenue. The company also expects to reduce its fleet size by 15-20 aircraft by year-end, removing older, less fuel efficient, narrowbody aircraft. Additionally, the company has 20% of its fuel hedged for this year.

4. US Airways Employees Receive \$49 Million in Profit-Sharing.

US Airways posted a 2007 net profit (excluding special items) of \$427 million, its second consecutive year of profitability since merging with America West in 2005, and distributed profit-sharing checks totaling \$49 million to employees. US Airways and its mechanics reached agreement on a new contract, which

includes 10% raises in the first year and a pension. The airline has not yet reached agreements with its other employee groups. Pilot contract negotiations are stalled over seniority issues.

5. **Delta, Hawaiian Partner on Frequent Flyer Benefits**

Delta and Hawaiian announced a reciprocal frequent flier partnership, which allows flyers to earn and redeem miles on all Delta flights systemwide and all Hawaiian-operated interisland flights, as well as on Hawaiian's nonstop Honolulu-Sydney and Honolulu-Manila service.

6. **Skybus CEO Resigns.**

Skybus CEO Bill Diffenderffer resigned and was replaced by CFO Mike Hodge, who joined the low-cost carrier a year ago. Skybus flies from Columbus, Ohio and Greensboro, North Carolina to cities throughout the U.S.

7. **Aer Lingus to Increase U.S. Service.**

See Section, VIII, item 4.

8. **United to Offer Denver-London Service.**

See Section, VIII, item 5.

9. **Singapore to Launch All-Business Flights to U.S.**

See Section, IX, item 2.

10. **Delta Begins Shanghai, Tel Aviv Flights.**

See Section, IX, item 3.

11. **Korean Air to Launch Los Angeles-Sao Paulo Nonstops.**

See Section, IX, item 4.

12. **Qantas Adds U.S., South American Service.**

See Section, IX, item 6.

13. **Robert Milton Invests in AirAsia X.**

See Section, IX, item 7.

14. **Emirates to Begin Los Angeles Service.**

See Section, IX, item 8.