



WASHINGTON AVIATION SUMMARY

May 2008 EDITION

CONTENTS

I.	REGULATORY NEWS.....	1
II.	AIRPORTS.....	4
III.	SECURITY AND DATA PRIVACY	7
IV.	E-COMMERCE AND TECHNOLOGY.....	9
V.	NOISE AND ENVIRONMENT	10
VI.	U.S. CONGRESS.....	12
VII.	BILATERAL AND STATE DEPARTMENT NEWS	15
VIII.	EUROPE/AFRICA.....	16
IX.	ASIA/PACIFIC/MIDDLE EAST	18
X.	AMERICAS	19

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.

©2008 Kirstein & Young PLLC.

I. REGULATORY NEWS

1. Four U.S. Airlines Cease Ops; Frontier Declares Bankruptcy.

Aloha, ATA, Skybus and Eos ceased operations in April, charter operator Champion Air announced it will end operations on May 31 and Frontier filed for bankruptcy protection but continued operating. With crude oil at around \$120 a barrel, U.S. carriers reported billions of dollars in combined first quarter losses; an exception was Southwest, which has long aggressively hedged fuel costs. Airlines announced cuts in capacity and costs, raised fares and fees, and promoted consolidation. (See also Section X.)

2. Delta, Northwest Propose Merger.

Delta and Northwest agreed to combine, subject to shareholder and regulatory approvals, forming a new airline called Delta, with world headquarters in Atlanta. Delta CEO Richard Anderson will be CEO, Delta President Ed Bastian will be President and Chief Financial Officer; Northwest CEO Doug Steenland will sit on the new Board of Directors. The combined airline offers direct competitive service on only 12 routes, will have \$35 billion in annual revenues, operate 800 mainline aircraft and employ 75,000 worldwide. With regional partners it will offer 390 destinations in 67 countries. All current hubs will be maintained. A combined Delta-Northwest pilot agreement, including resolution of seniority integration, must be reached prior to closing the merger. Other employees will be provided seniority protection and equity in the new airline.

3. FAA to Improve Inspection Program.

In the wake of revelations of lax supervision of Southwest, the Federal Aviation Administration (FAA) initiated an inspection tracking program and vowed to toughen ethical and performance standards for inspectors, improve clarity and coordination of airworthiness directives (ADs) and require that compliance deviation reports be submitted by senior airline officials “to ensure awareness and sensitivity at the highest level.” In what was seen by many as a massive over-reaction, FAA ordered American Airlines to ground its MD-80 fleet to inspect or redo wiring, resulting in the cancellation of 3,100 flights. Airlines were ordered to develop plans to accommodate passengers in the event of future mass groundings. Secretary of Transportation Mary Peters appointed a commission of aviation experts to produce a report in 120 days recommending improvements in FAA’s safety culture.

4. DOT Approves Expanded Delta, Northwest Transatlantic Alliance.

The U.S. Department of Transportation (DOT) granted antitrust immunity to Delta, Northwest and four SkyTeam partners—Air France, Alitalia, Czech and

KLM—allowing them to combine their existing transatlantic alliances and act as a single carrier for U.S.-Europe services. The alliance is in the public interest because it will likely produce efficiencies and provide consumers with lower fares and more nonstop and connecting flights, said DOT. The carriers must implement the immunized alliance within 18 months and will remain subject to antitrust laws for domestic service and for international flights that are not covered by the alliance agreement.

5. DOT Selects United for Los Angeles-Mexico Flights.

DOT named United to begin flights between Los Angeles and San Jose del Cabo, Mexico; Frontier elected to cease flying that route as of April 13. Delta and Virgin America also applied for the route, which is limited to three U.S. carriers; American and Alaska also serve the market. United will operate two daily summer flights; authority will be effective for two years.

6. New Price-Fixing Penalties Set.

Japan Airlines entered into a plea agreement with the U.S. Department of Justice, pleading guilty to price-fixing on transpacific cargo shipments and paying a \$110 million fine. An agreement by British Airways and Virgin Atlantic to pay a combined \$210 million to settle a class action lawsuit, brought on behalf of 5.1 million passengers who bought transatlantic tickets in the UK and the United States, was tentatively approved by a U.S. District Court Judge in San Francisco. British Airways, Korean Air Lines and Qantas earlier pleaded guilty to price-fixing. The European Union (EU) and Australia also are conducting price-fixing probes, and other class action lawsuits against carriers are pending.

7. DOT Appoints New York Aviation “Czar.”

Marie Kennington-Gardiner was named Director of the New York Integration Office, created by DOT last year in an effort to address chronic aviation delays in the New York-New Jersey region. She will coordinate regional airspace issues and initiatives addressing problems of congestion and delays in New York. She most recently directed the Lower Manhattan Recovery Office to coordinate federal emergency transit investments following the 9-11 terrorist attacks and earlier held senior management positions in FAA regions representing the entire East Coast.

8. Atlas Air Settles FAA Complaint From 2006.

Atlas Air agreed to pay \$95,000 in full and final compromise of an FAA complaint regarding a May 2006 maintenance issue. The incident involved a single weld to an engine exhaust nozzle on a Boeing 747-200 freighter.

9. DOT Doubles Compensation Limits for Bumping.

DOT doubled limits on compensation airlines must pay flyers bumped from oversold flights. Under the new rule, effective in May, involuntarily bumped fliers would receive up to \$400 if they are rescheduled to reach their destination within two hours of original arrival time, or four hours for international flights, and up to \$800 if they are not rerouted within that timeframe. The new rule covers flights operated with aircraft seating 30 people or more; the former rule covered flights with 60 seats or more. Payment amount is determined by ticket price and length of delay, and is in addition to value of the ticket, which the flyer can use for alternate transportation or have refunded if not used.

10. DOT Air Travel Consumer Report for February.

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

	Feb. '08/'07	Jan. '08	Full Year				
			2007	2006	2005	2004	2003
On-time arrivals %	68.6 / 67.3	72.4	73.4	75.4	77.4	78.1	82
Mishandled baggage*	6.39 / 8.23	7.37	7.03	6.73	6.64	4.91	4.19
Consumer complaints:							
Airline service	936 / 826	1,174	13,168	8,325	8,741	7,452	5,983
Disability-related	35 / 20	43	480	430	511	521	375
Discrimination**	9 / 6	11	99	114	129	118	85

* Reports per 1,000 passengers.

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

11. Controller Errors Intentionally Misclassified.

FAA managers in Dallas intentionally misclassified 62 air traffic events as pilot deviation or non-events, between November 2005 and July 2007, when in fact there were 52 operational errors and 10 operational deviations, according to a DOT IG report. The managers were removed from their positions and unannounced on-site audits were implemented. FAA will establish a nationwide, independent quality assurance position that will report directly to Air Force Reserve Brigadier General Robert Tarter, the newly-appointed Vice President of Safety Services for the Air Traffic Organization.

II. AIRPORTS

1. DOT Proposes LaGuardia Slot Auctions.

DOT proposed two slot-auction options at New York LaGuardia. In each, carriers could keep up to 20 of their daily slots for the 10-year life of the rule. The first option would include auctioning 8% of additional slots used by an airline for the first five years and retiring 2% to help cut delays. Proceeds would be invested in congestion reduction and capacity improvement in the New York region. The second option would include auctioning 20% of airlines' remaining slots, but carriers would retain net proceeds.

2. Midway Privatization Attracts Six Bids.

Six consortiums tendered bids to operate Chicago Midway, the first major U.S. airport to be privatized. They are: (1) Spain's Abertis Infraestructuras, Australia's Babcock & Brown Air and U.S.-based GE Commercial Aviation Services; (2) AirportsAmerica (U.S.-based Carlyle); (3) Chicago Crossroads Consortium (Australia's Macquarie and a U.S.-based Macquarie unit); (4) Chicago First Consortium (Germany's Hochtief and U.S.-based GS Global Infrastructure); (5) Midway Investment and Development, (Canada's YVR Airport Services and U.S.-based Citi Infrastructure and John Hancock Life Insurance); and (6) France's Aeroports de Paris and U.S.-based Morgan Stanley and HMSHost Corporation. A decision is subject to approval by federal regulators and 65% of the six airlines operating at the airport. The 50-year lease could generate revenues for the private operator that in 2006 topped \$130 million.

3. Skycaps Win Lawsuit Over Curbside Checking Fee.

A federal jury ordered American to pay nine Boston Logan skycaps \$325,000, plus interest and legal fees, for tips lost when the airline imposed a \$2 fee for curbside bag checking. Skycaps claim their compensation fell below U.S. minimum wage because customers thought the fee was a tip. Also in Boston, three skycaps sued US Airways and contractor Prime Flight Aviation Services in a similar case. Further suits are expected.

4. O'Hare Expansion Deadline Reset to 2014.

Hoping to host the 2016 Olympic Games, Chicago has set a new schedule to complete the O'Hare Modernization Program in 2014, and has asked FAA to approve use of \$200 million in passenger ticket taxes to help pay for proposed runways, taxiways and other facilities.

5. **Detroit City Airport to Expand.**

Detroit is considering a proposed agreement with Baltimore-based AvPorts for the management of Coleman Young International (City Airport). The city would own the airport, but AvPorts would manage operations, construct a 6,500-foot runway and make other improvements. The city will earmark \$6 million to buy out 500 area property owners to make room for the new runway, reports the *Detroit News*.

6. **NAV Canada Fined \$95,000 for Pilot Misinformation.**

NAV Canada was fined \$95,000 by Transport Canada for providing misinformation to pilots, air traffic controllers and others, over many years. NAV Canada, a private company responsible for providing air traffic control, weather and aeronautical information since 1996, told the *Globe and Mail* the violations did not affect safety.

7. **British Airways Delays Short-Haul Traffic at T5.**

Baggage-system failures and other startup problems at London Heathrow's new Terminal 5 caused British Airways to cancel hundreds of flights and misplace thousands of pieces of luggage, at a cost of at least \$32 million. As short-haul traffic stabilized, the carrier announced it would delay until June the phase-in of long-haul flights from Terminal 4 and fired two senior managers. Airport owner BAA said it is working to mitigate effects of the delay for airlines that had been scheduled to move into Terminal 4.

8. **UK Competition Commission May Propose Sale of BAA Airports.**

A report by the Competition Commission finds that BAA's ownership of seven UK airports may not be in the interests of airlines or passengers. If antitrust issues are identified in further study, the Commission said it may propose a sale of one or more of BAA's airports. "There is no competition between BAA's three London airports (Heathrow, Gatwick and Stansted) and only very limited competition from non-BAA airports (including London City and Luton)," said Christopher Clarke, Chairman of the inquiry. "Similarly, there is no competition between their two airports in lowland Scotland (Edinburgh and Glasgow) although Glasgow does face competition from one non-BAA airport (Prestwick)." Provisional findings will be published in August. BAA, a unit of Spain's Grupo Ferrovial, said it will address concerns expressed by airlines and reflected by the Commission.

9. **Canadian Offer for Auckland Airport Rejected.**

The New Zealand government rejected a USD\$1.4 billion offer by the Canada Pension Plan Investment Board (CPPIB) for a 40% stake in Auckland International Airport. Ministers said the proposed investment likely would not

benefit New Zealand in job creation, increased exports or other areas. CPPIB had offered to reduce its voting rights to 24.9%, to meet new stringent criteria for overseas investment in strategic assets, from a previous 30%. The offer was approved by nearly 60% of voting shareholders as required by New Zealand takeover rules. An earlier bid by Dubai Aerospace also failed to take hold. In related news, a planned expansion of the airport's international arrivals terminal has been postponed for a year.

10. St. Petersburg Opens \$1.5 Billion Airport Tender.

St. Petersburg opened a \$1.5 billion tender for a 30-year concession to operate Pulkovo Airport. The city owns the airport and plans to renovate one of its two runways and build a new terminal with an annual capacity of 22 million passengers. Pulkovo handled 6.1 million passengers last year.

III. SECURITY AND DATA PRIVACY

1. DHS Proposes Biometric Airport Exit Procedures.

The Department of Homeland Security (DHS) announced a notice of proposed rulemaking that will establish biometric exit procedures at all U.S airports of departure. The US-VISIT Exit proposal would require air carriers to collect and transmit international visitors' digital fingerprints to DHS within 24 hours of leaving the United States. The proposed rule does not apply to small carriers or to general aviation. DHS intends to implement the exit procedures by January 2009; if they are not implemented by June 30, 2009 DHS said it may not be able to extend Visa Waiver Program privileges to new countries. The International Air Transport Association (IATA) condemned the proposal, saying it would require airlines to invest billions in new equipment and staff. "Border protection and immigration are government responsibilities. Airline counter staff are not a substitute for trained border patrol officers. And outsourcing exit formalities to airlines is not a responsible approach," said Giovanni Bisignani, IATA Director General and CEO.

2. DHS Plan Addresses Watch List Misidentifications.

DHS introduced passenger screening measures that Homeland Security Secretary Michael Chertoff said will "calm the checkpoint and make it easier to spot individuals with hostile intent." The Checkpoint Evolution prototype, which began full operation at Baltimore-Washington International Airport (BWI), aims to clear up watch list misidentifications by allowing airlines "to create a system to verify and securely store a passenger's date of birth. By voluntarily providing this data to an airline and verifying that information once at the ticket counter, travelers that were previously [misidentified] will now be able to check in online or at remote kiosks." Federal or state-issued photo IDs will be accepted at U.S. checkpoints as of May 26, if they contain name, date of birth, gender, expiration date and are tamper-resistant. Security officers and managers at BWI completed training incorporating the latest intelligence analysis, advanced explosives detection skills, and ways to engage with passengers to promote a calmer environment.

3. TSA to Begin Off-Airport Air Cargo Screening Program.

The Transportation Security Administration (TSA) this summer will begin a program to screen all cargo that goes on passenger airplanes. before it arrives at an airport, reports *USA Today*. The effort begins in major cities and relies on freight forwarders and manufacturers to screen packages with X-ray and other equipment. Cargo airlines, which carried 93% of air freight in 2007, are

not part of the effort; nor is U.S. mail on passenger planes. Congress has mandated that all passenger-plane cargo be screened, starting in 2010.

4. EC to Negotiate VWP Agreement with U.S.

EU Ministers authorized the European Commission (EC) to open negotiations for an agreement with the United States on certain conditions for access to the U.S. Visa Waiver Program (VWP). Member states may negotiate bilaterally issues falling outside the scope of the EC mandate; they would be prohibited from allowing the U.S. access to EU databases or providing the U.S. with passenger data that exceeds terms of the 2007 EU-US agreement. Our common goal is to ensure that all member states are admitted in the Visa Waiver Program as soon as possible, said EC Vice President Jacques Barrot, stressing that any pact would be founded on reciprocity and respect for fundamental rights and individual freedoms, including protection of data and the right to privacy. Most of the 27 EU states have negotiated their own bilaterals for the VWP, which allows citizens of those countries to travel to the U.S. without visas. U.S. citizens may travel to Europe without a visa.

5. U.S. Watch List Error Snares Costa Rican Official.

Costa Rica suspended legal cooperation with the United States and filed a diplomatic protest due to “disrespectful” treatment of Attorney General Francisco Dall’Anese at Miami International Airport, reported the Associated Press. Traveling to meet the U.S. Attorney General and attend a court hearing, Dall’Anese was permitted entry to the U.S. on April 23, but because his name matched or was similar to a name on the U.S. watch list, he was then escorted by a security officer to an airline counter to arrange a return flight for the next day. U.S. officials apologized.

6. Australian Privacy Commission Drafts Security Breach Guide.

The Australian Privacy Commissioner requested comments from businesses, organizations, government agencies and the public on a draft Voluntary Information Security Breach Notification Guide. Deliberate or accidental data breaches are the current reality of the modern information handling environment, said the Commissioner, and the Guide will help minimize the possibility of breaches and prepare for and respond effectively if they occur. There are no specific requirements under the Australian Privacy Act for notifying individuals of an information security breach, although a proposal to make such notification mandatory is being considered by the Australian Law Reform Commission in its Review of Privacy. The draft Guide draws upon voluntary guidelines developed by the Privacy Commissioners of Canada and New Zealand. Comments are due by June 16, 2008.

IV. E-COMMERCE AND TECHNOLOGY

1. Europe Ends Inflight Cell Phone Ban.

The EC ended a ban on inflight cell phone use, harmonizing technical and licensing requirements and leaving individual EU airlines to decide whether to offer the satellite-based service. “We expect operators to be transparent and innovative in their price offerings,” said EU Telecoms Commissioner Viviane Reding, “and to ensure that those who want to use inflight communication services do not disturb other passengers.” Air France began allowing voice calls on flights after three months of a test that will be completed in June. The phones can be turned on only at cruising altitude and after the cabin crew announces permission.

2. V Australia to Offer Inflight Cell Phone, BlackBerry/PDA Services.

V Australia will offer inflight cell phone and BlackBerry/PDA services on board its new Boeing 777s, subject to regulatory approvals, via Panasonic’s eXPhone system incorporating AeroMobile technology. The system will be linked to the ground using Inmarsat’s latest satellite communications system, SwiftBroadband, as soon as that system is introduced in the Australian and Pacific regions in 2009. SwiftBroadband provides higher satellite communications capacity and bandwidth allowing all cellular and wireless data applications to be supported. V Australia will utilize AeroMobile’s capability to operate over Inmarsat’s current Swift64 satellite service until the new SwiftBroadband service is available.

3. Amadeus Unveils Airline Retailing Platform.

Amadeus will roll out its Airline Retailing Platform starting in May. Developed with major carriers, the platform brings a range of airline merchandising features to the travel agent’s desktop, including fares packaging, up-sell, display of product characteristics and advertising capabilities. “This enables airlines to maximize their selling opportunities beyond simple price and route differentiation,” said the company, “and provides passengers with more choice and transparency.”

V. NOISE AND ENVIRONMENT

1. Industry Commits to Global Approach on Climate Change.

Industry leaders signed a commitment to work toward carbon-neutral growth and reduce aviation's contribution to global warming, at the 3rd Aviation and Environment Summit, held in Geneva. A four-pillar strategy consists of investment in new technology, effective flight operations, efficient infrastructure and positive economic instruments. Signatories included Boeing, Airbus, GE and other aircraft and engine manufacturers, Airports Council International and IATA, representing airlines. They urged governments to develop a global emissions trading scheme for the aviation sector. Boeing and Airbus said they will cooperate to support the development of the next generation of air traffic systems in an effort to improve fuel efficiency and eliminate congestion.

2. Aviation Emissions to be Included in Kyoto Climate Talks.

Representatives from 163 countries met in Bangkok to negotiate an agenda for a climate change agreement that would succeed the first commitment period (2008 to 2012) of the Kyoto Protocol. They agreed to consider allowing industrialized countries that signed the treaty to use emissions cuts in aviation to reach their targets for reducing gases linked to global warming. Some nations opposed the inclusion on grounds it could hurt tourism-dependent economies. The Kyoto Protocol places responsibility for limiting or reducing greenhouse gas (GHG) emissions from aviation fuels with industrialized countries, working through the International Civil Aviation Organization (ICAO). The EU is requiring airlines, including U.S. carriers with service to Europe, to participate in a carbon cap and trade program by 2012, a unilateral approach opposed by airlines.

3. U.S. Airline GHG Emissions Show Significant Decline.

U.S. airline GHG emissions declined 3.7% since 2000, as passenger numbers rose 12%, said FAA, while EU aviation GHG emissions grew 32.8% over the same period. Presuming a 4% average annual growth rate in U.S. air traffic, FAA expects NextGen implementation, fleet replacement and improved operational procedures to contribute to a 3.5% reduction in GHG emissions each year, reported *Air Transport World*; the 1.5% gap could be covered as renewable biofuels come to market.

4. Synthetic Jet Fuel Sanctioned.

A 100% synthetic jet fuel met stringent performance standards and was sanctioned by global aviation fuel specification authorities for use in

commercial aviation, announced Sasol Ltd., a leading producer of synthetic fuels from coal and natural gas. Engine-out emissions of Sasol's jet fuel are lower than those from jet fuel derived from crude oil due to its limited sulfur content, said the Johannesburg-based company. Sasol's proprietary coal to liquids (CTL) process can also be used for domestic energy supply for countries with significant domestic coal and natural gas reserves. Sasol for nine years has supplied a fuel mixture comprised of a CTL component blended with crude oil derived kerosene to international airlines operating from Tambo International in Johannesburg. Based on the success of the alternative fuel blend and following a several-year period of testing and evaluation, international aviation fuel authorities, including the UK Ministry of Defence, approved Sasol's wholly synthetic jet fuel for commercial use in all types of turbine aircraft. The company said ASTM International (formerly American Society for Testing and Materials) has been involved with the testing. Manufacturers; airlines; aviation authorities, such as IATA; and oil companies have all participated in the approval process, Sasol said. The fuel is fully fungible and aligned with current aviation infrastructure through compatibility with existing engine requirements and can be used with conventional crude oil-derived jet fuelling systems.

5. EPA Proposes Aircraft Drinking Water Regulation.

The Environmental Protection Agency (EPA) issued a proposal that will protect drinking water on aircraft through monitoring, disinfection and public notification. The approach will build on existing aircraft operations and maintenance programs and better coordinate federal programs that regulate aircraft water systems. In 2004, EPA found that 15% of tested aircraft drinking water tested positive for total coliform bacteria, an indicator that other disease-causing organisms could be present and potentially affect public health. Carriers were non-compliant primarily because regulations were designed for stationary public water systems, said EPA, which began to tailor regulations for aircraft public water systems and placed 45 air carriers under administrative orders on consent that are in effect until aircraft drinking water regulations are final.

VI. U.S. CONGRESS

1. Senate Considers FAA Funding Bill.

The Senate is debating a bipartisan agreement on FAA financing that would provide \$750 million in additional funding for the Aviation Trust Fund over the next three years and create a \$400 million sub-account within the fund dedicated solely to air traffic control (ATC) modernization. The bill would increase authorization for Essential Air Services to \$175 million a year, up \$58 million, and ensure dedicated funding. It would not increase fees and taxes for commercial airline passengers, but would increase the excise tax on jet fuel used by private jet owners from the current 21.8 cents a gallon to 36 cents a gallon. The Air Transport Association (ATA) said “the modest increase in what corporate jets would pay is a step in the right direction, but falls short of costs they impose on the [ATC] system.” Provisions on passenger safety and rights and FAA oversight and operations are also being debated.

2. Committees Address FAA Safety Oversight of Airlines.

House and Senate committees held hearings on FAA’s oversight of airlines, with regard to conduct violating the Federal Aviation Regulations in the inspection and maintenance program. The hearings followed allegations that Southwest operated planes that had not undergone proper safety inspections; FAA has proposed a record \$10.2 million fine on the carrier. FAA employees told the House Transportation Committee their supervisors suppressed attempts to crack down on safety violations by Southwest and used intimidation to stop reports of unethical actions by inspectors in FAA’s Southwest Airlines certificate management office. A former FAA safety inspector performed oversight inspections after accepting a job offer from the airline. House Committee Chairman James Oberstar (D-Minn.) said he will hold a periodic review of FAA progress and draft a bill requiring a cooling-off period before an FAA employee can work for a carrier. Testifying before the Senate Commerce Aviation Subcommittee, Nicholas Sabatini, FAA Associate Administrator for Aviation Safety, said initial findings of a Special Emphasis Surveillance, initiated after the Southwest revelations, validate that “oversight is working as intended. We expect to complete the second phase by June 30 and will continue to analyze the incoming data to discover if and where other problems in the system exist and to immediately correct any problems identified.

3. House Panel Hears Report on Aviation Delays, Consumer Issues.

The House Subcommittee on Aviation held its fourth hearing on delays and consumer issues. In 2007, the worst year on record for flight disruptions, 29%

of flights were delayed or cancelled, affecting about 163 million passengers; and there was a 41% increase in on-board tarmac delays of five hours or more, compared with 2006. Last summer, delayed flights affected 20% more passengers than in summer 2006; the number of airports with arrival delay rates greater than 30% increased from nine to 26; and the average delay lasted 60 minutes, an increase of 7%. A DOT Inspector General (IG) report anticipates that 2008 summer schedules at New York LaGuardia and Kennedy, Newark and Chicago O'Hare may result in even greater delays, despite flight caps at those airports. At Minneapolis-St. Paul, which does not have flight caps, Northwest has 56 flight departures scheduled in one 15-minute time period, nearly three times the average departure capacity of the airport for that time. IG recommendations include using military airspace at specific chokepoints and FAA procedures to keep capacity benchmarks for major airports current. Also, delay and cancellation data should be analyzed to determine locations of initial delays, underlying causes of systemwide effects and the role of airports as generators or absorbers of delays.

4. Delta, Northwest CEOs Defend Merger Before House, Senate.

Northwest CEO Douglas Steenland and Delta CEO Richard Anderson testified before House and Senate committees that their proposed airline merger would not violate antitrust laws and could help U.S. airlines compete with foreign carriers. House Judiciary Chairman John Conyers (D-Mich.) expressed concern that a rush of mergers could lead to loss of jobs and poorer service, and noted a sprint to get approval during the Bush Administration, which has presented few merger challenges. At the Senate Judiciary hearing, Charles Schumer (D-N.Y.) and others said a merger of airlines that complement each other and would not result in hub closures or extensive service reductions may make sense. Amy Klobuchar (D-Minn.) said the Transportation and Justice departments should consider the impact of other potential airline mergers before approving the Delta-Northwest union. The merger should not be reviewed in a vacuum, she said, but considered amid broader implications for the aviation industry and consumers. Saying the merger could lead to having only two or three U.S. airlines, Senate Majority Leader Harry Reid (D-Nev.) urged Justice and other federal agencies to closely examine its impact on competition.

5. Committee Assessing Aviation's Impact on Global Warming.

The Select Committee on Energy Independence and Global Warming is assessing aviation's contribution to greenhouse gasses (GHG) and the potential to curb emissions. FAA said current aviation emissions generate 12% of U.S. transportation carbon dioxide emissions and 3% of total U.S. carbon dioxide emissions, with demand for U.S. passenger and cargo aviation expected to double or triple by 2025. ATA President James May said airlines

have committed to another 30% fuel efficiency improvement by 2025 and industry is dedicated to developing jet fuel alternatives. May expressed concern over proposed cap-and-trade legislation, the Lieberman-Warner Climate Security Act, saying it would result in annual costs to the airline industry of \$5 billion in 2012, which could rise to \$9 billion by 2020.

6. Bill Would Continue Cell Phone Ban on U.S. Flights.

A bill to continue banning cell phone use on U.S. commercial flights was introduced in the House Aviation Subcommittee by Peter DeFazio (D-Ore.), who said the ban would not include text-messaging or e-mail.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. EU-U.S. Stage Two Open Skies Talks Scheduled.

The first phase of the open skies agreement between the EU and the United States came into effect on March 30, removing market access restrictions for carriers of the two entities. Stage two negotiations will begin on May 15 in Ljubljana, under the Slovenian EU Presidency, with the EU hoping to remove barriers to foreign investment in U.S. companies. "A fully Open Aviation Area between the EU and the U.S. must remain our objective," said EU Transport Vice President Jacques Barrot.

2. U.S., Australia Sign Open Skies Pact

DOT Secretary Mary Peters and Australia's Ambassador to Washington Dennis Richardson signed an open skies agreement eliminating restrictions on air travel between the two countries. The accord breaks the monopoly on the direct route enjoyed by United and Qantas. Virgin unit V Australia will launch 10 roundtrips from Los Angeles to Australia and "pump almost \$1.5 billion into LA's economy with the stroke of a pen," said Peters.

VIII. EUROPE/AFRICA

1. EC Updates Blacklist.

The EC updated its airline blacklist, imposing a ban on all operations of Ukraine Cargo, the third Ukrainian airline on the list, and Congolese carrier Hewa Bora Airways. The blacklist currently includes all carriers from Equatorial Guinea, Indonesia, the Kyrgyz Republic, Liberia, Sierra Leone, Swaziland, Congo and nine individual carriers.

2. Air France-KLM Retracts Offer to Acquire Alitalia.

Air France-KLM withdrew its offer to buy Alitalia. Italian Premier-elect Silvio Berlusconi, who had vowed to veto the offer, searched for a plan to rescue Alitalia, which is losing more than €1 million a day and expected to run out of cash soon. The Italian government approved a €300 million bridge loan, which the EC is investigating as possible state aid.

3. Lufthansa Plans BMI Takeover.

Lufthansa said it would exercise its future option to take over majority control of bmi. Lufthansa holds a stake of 30% minus one share in bmi, SAS holds 20% and bmi Chairman Sir Michael Bishop holds 50% plus one share. bmi holds about 11% of slots at Heathrow. Lufthansa reported record first quarter operating profits of €188 million, up from €36 million a year ago, with Swiss operations contributing €52 million.

4. Delta-Air France Joint Venture Launches With U.S.-London Service.

Delta and Air France kicked off their joint venture agreement with daily nonstops connecting London Heathrow to Los Angeles International and Atlanta, and twice-daily flights to New York Kennedy. Air France will operate the Los Angeles flight while Delta operates the New York and Atlanta flights. According to the terms of their expanded joint venture agreement, the two airlines will share revenues and costs on flights operated by both carriers between London and the United States, as well as on flights between Air France's Paris de Gaulle and Lyon hubs, and Delta's Atlanta, New York, Cincinnati and Salt Lake City hubs. By 2010, the agreement will be extended to all transatlantic flights operated by Air France and Delta between Europe and the Mediterranean on one side and North America on the other, as well as all flights between Los Angeles and Tahiti.

5. US Airways Begins Heathrow Service and Code Share With Swiss.

US Airways launched Airbus A330 service to London Heathrow from Philadelphia, the carrier's first Heathrow service. Separately, US Airways'

Philadelphia-Zurich passengers can connect to 10 European destinations through a new code share pact with Star partner Swiss. Swiss travelers will be able to fly from Zurich to Philadelphia on US Airways-operated flights.

6. United, Aer Lingus to Code Share.

United and Aer Lingus announced a code sharing partnership, to begin in November, subject to approvals, and reciprocal frequent flyer benefits.

7. British Airways to Offer New York-Gatwick Service.

British Airways will introduce daily Boeing 777 service from London Gatwick to New York Kennedy in October and suspend Manchester-New York service. The Gatwick flights will operate in addition to 55 weekly Heathrow-New York flights.

8. Czech CSA to be Privatized.

The Czech government plans to sell its 91.51% stake in state-run airline CSA to a strategic investor. In 2007, CSA had a \$6.9 million net profit and carried 5.6 million passengers. The government also plans to privatize Prague's Ruzyně International Airport.

9. Alliance News.

Mexicana and subsidiary Click Mexicana accepted a formal invitation to join oneworld; Iberia will support Mexicana through the 12- to 18-month process, assisted by American Airlines. Mexicana is the largest non-U.S. airline operating at Los Angeles International and with the Click Mexicana network will add 26 destinations to the oneworld map. Turkish Airlines became the 20th Star Alliance member airline, bringing 31 additional destinations, mainly in Turkey, Central Asia and the Middle East, to the network.

IX. ASIA/PACIFIC / MIDDLE EAST

1. Oasis Hong Kong Shuts Down.

Oasis Hong Kong Airlines filed for bankruptcy and canceled all flights. Launched in October 2006, Oasis offered Boeing 747-400 flights to London Gatwick and Vancouver and specialized in low-cost premium service. CEO Stephen Miller said the company made a voluntary filing for liquidation after negotiations with a potential investor failed.

2. V Australia Names Sydney-Los Angeles as Launch Route.

Virgin Blue international unit V Australia will launch on December 15 with daily direct Sydney-Los Angeles service, subject to regulatory approval, and plans to add frequencies upon delivery of additional Boeing 777-300ERs. A ticketing agreement with Northwest will offer seamless connections from Los Angeles to other destinations in the U.S. and Canada.

3. Delta Begins Atlanta-Shanghai Service.

Delta launched Atlanta-Shanghai flights, the first nonstops on the route. Other new international destinations from Atlanta planned for this year, said Delta, are London Heathrow (April), Stockholm (June) and Dominican Republic (December).

4. United Delays Guangzhou Service.

United applied to DOT to defer the launch of San Francisco-Guangzhou nonstops by one year, citing high fuel prices. Service originally was to begin June 18. United reported a decline in Asia-Pacific passenger revenue and load factors despite a rise in capacity.

5. Air China Launches Flights To North Korea.

Air China launched three weekly Beijing-Pyongyang flights, making it the world's only foreign airline to fly regularly to the North Korean capital. In other news, China Eastern and China Aviation Industry Corporation I (AVIC I) launched Joy Air, a Xi'an-based regional that will offer passenger and cargo service in China's western regions.

6. Emirates to Serve San Francisco.

Emirates will offer nonstop Boeing 777-200LR service from Dubai to San Francisco, as of October 26.

7. U.S., Australia Sign Open Skies Pact

See Section VII, item 2.

X. AMERICAS

1. Aloha, ATA, Skybus, Eos Cease Operations.

Three U.S. airlines ceased operations suddenly, without providing advance notice to customers. Aloha had filed for bankruptcy protection 11 days earlier, citing fuel prices and competition. "We simply ran out of time to find a qualified buyer or secure continued financing for our passenger business," said Aloha CEO David Banmiller. ATA canceled flights shortly after filing for Chapter 11, due to the loss of a key military charter contract. Both Aloha and ATA had emerged from bankruptcy two years earlier. Skybus, which launched low-fare operations in 2007, said rising jet fuel costs and a slowing economic environment proved to be insurmountable. Premium transatlantic carrier Eos declared bankruptcy and ceased operations. Charter operator Champion Air announced it will end operations on May 31, saying "our business model is no longer viable in a world of \$110 oil, a struggling economy and rapidly changing demand for our services. Those factors also have impeded our efforts to attract new capital and new investors."

2. Frontier Files for Bankruptcy Protection.

Frontier filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code after its principal credit card processor substantially increased a 'holdback' of customer receipts. "We filed for very different reasons than those of other recent carriers, and our customers and employees can be confident that we intend to keep on flying," said President and CEO Sean Menke. "The automatic stay provision of the bankruptcy code prohibits the credit card processor from increasing its holdback, and we are prepared to litigate this issue if necessary." The Denver-based carrier then eliminated service to several cities and ended its regional alliance with Republic Airways, which filed a \$260 million early termination damage claim. In related news, Southwest expanded its Denver service with six new nonstops and two new destinations, bringing to 61 its daily nonstops there.

3. American Announces New Capacity Reductions.

American Airlines reported a net loss of \$328 million for first quarter 2008, compared to a net profit of \$81 million in the same period last year, paying \$2.74 per gallon for jet fuel compared to \$1.85 in first quarter 2007, a 48% increase. The carrier will decrease capacity by 1.4% in 2008, with a 3.6% domestic reduction and a 2.5% increase in international. American is accelerating replacement of its MD-80 fleet with more efficient Boeing 737-800s. Chairman and CEO Gerard Arpey said estimated costs for an FAA-ordered grounding of American's MD-80 fleet to inspect or redo wiring,

resulting in the cancellation of 3,100 flights, could amount to tens of millions of dollars.

4. **Northwest Plans Capacity Cuts, Revenue Enhancements.**

Prior to announcing its merger with Delta, Northwest said it would reduce expenses by \$100 million through cost reductions, productivity improvements and revenue enhancements. The carrier will increase fares, baggage fees and fuel surcharges, suspend hiring of pilots and flight attendants and reduce scheduled domestic system capacity by about 5%, removing 15 to 20 aircraft from service, while continuing to expand international service.

5. **US Airways Mechanics Ratify Contract, Pilots Replace ALPA.**

US Airways pilots named the US Airline Pilots Association (USAPA) as their new bargaining agent, replacing the Air Line Pilots Association (ALPA). USAPA said it will address the issue of how to join the two pilot seniority lists resulting from the merger of US Airways and America West. US Airways said it would work with the new union to negotiate a single contract with all 5,200 pilots represented, 4,300 of whom are active. US Airways mechanics represented by the International Association of Machinists (IAM) ratified a three-year agreement that moves all US Airways' maintenance-and-related employees to one labor contract. The new agreement provides annual wage increases, job security and new pension benefits for all members, and becomes amendable on December 31, 2011. The mechanics' agreement is the latest unified contract achieved at the new US Airways since its merger with America West in 2005.

6. **Passengers Sue Southwest for Breach of Contract.**

Four passengers filed a lawsuit against Southwest on claims that include breach of contract, unjust enrichment and negligent and reckless operation of an aircraft. Southwest broke its contract with travelers by not complying with FAA airworthiness directives, said the passengers. The class action conceivably could include hundreds of thousands of people who traveled on Southwest planes from January 2002 through March this year. The lawsuit primarily seeks reimbursement for tickets for those flights and punitive damages on one count that claims Southwest behaved negligently in not grounding planes that had not been deemed airworthy.

7. **Mesa Air Group Suing Delta in Contract Dispute.**

Mesa Air Group filed a federal lawsuit against Delta for terminating an agreement with Mesa subsidiary Freedom Airlines, with respect to ERJ-145 Delta Connection flights; Freedom's CRJ-900 Delta Connection service is not affected. Delta said Freedom had failed to maintain a specified completion rate during three months of the six-month period September 2007 through

February 2008. Mesa charges that Delta requested that Mesa remove flights to benefit Delta's overall operation and/or accommodate Delta mainline flights.

8. Neeleman to Leave JetBlue to Start Brazilian Airline.

JetBlue founder David Neeleman will not continue as Chairman, as of May, in order to devote full attention to starting a new airline in Brazil. The Sao Paulo-based venture has \$150 million in financing and counts George Soros and Brazilian partners among its investors. Neeleman, a Brazil native who holds dual U.S.-Brazil citizenship, said his low-fare carrier will launch in early 2009, subject to regulatory approval, using 118-seat Embraer aircraft. His target market is the 150 million people who travel annually by long-distance bus, or elect not to travel, due to high Brazilian airline fares. Neeleman founded Canada's WestJet and was President of Morris Air, which was acquired by Southwest, before founding JetBlue, also funded by Soros.

9. ExpressJet Rejects SkyWest's Unsolicited Bid.

Houston-based ExpressJet rejected as inadequate a \$3.50 per share cash offer from SkyWest and is reviewing other alternatives, including other merger discussions or a new capacity purchase agreement with Continental. ExpressJet operates regional service to 175 destinations in North America and the Caribbean for mainline carriers and branded flying in the West, Midwest and Southeast regions of the United States. ExpressJet Services is the North American partner to three major European original equipment manufacturers and provides composite, sheet metal, interior and thrust reverser repairs at five facilities in the United States.

10. Judge Denies Comair Request Vs FAA in Kentucky Crash Case.

A U.S. District judge overruled a Comair request to have its lawsuit against FAA heard two months before an August trial to determine liability for a 2006 plane crash in Kentucky. Families of the 49 crash victims have sued Comair, the Lexington airport board and contractors for a runway repaving project. The Comair lawsuit claims FAA was partly responsible for the crash because only one controller was on duty, and that controller had his back turned when the jet took off from a too-short runway.

11. Spirit to Double Ft. Lauderdale-Lima Flights.

Low-cost Spirit won approval from Peru to double its nonstop Ft. Lauderdale-Lima service to 20 weekly flights. Tourist entries at Lima's Jorge Chavez International Airport increased to 1.8 million last year from 998,000 in 2002.

12. Major Canadian Carriers Quit ATAC to Form New Association.

Air Canada, Jazz Air, WestJet and Air Transat have withdrawn from Air Transport Association of Canada (ATAC), a 200-member organization that

represents a broad slate of commercial aviation interests. The country's four largest airlines intend to form a new association to lobby the Canadian government on airport charges and other issues affecting larger carriers. ATAC said the departing members represent just under half of its membership revenues.

13. GOL to Discontinue Long-Haul Service.

GOL will discontinue long-haul flights run by its subsidiary VRG Linhas Aereas, due to intense transatlantic competition and fuel costs, and return to its original model as a low-cost operator in Brazil and South America. GOL acquired operating assets of defunct Varig and formed VRG in April 2007 to fly intercontinental routes. In March, VRG had a load factor of 49% on international flights. TAM is the only remaining Brazilian long-haul carrier. Swaziland, Congo and nine individual carriers.

14. Delta, Northwest Propose Merger.

See Section I, item 2.

15. U.S., Australia Sign Open Skies Pact

See Section VII, item 2.

16. Delta-Air France Joint Venture Launches With U.S.-London Service.

See Section VIII, item 4.

17. US Airways Begins Heathrow Service and Code Share With Swiss.

See Section VIII, item 5.

18. United, Aer Lingus to Code Share.

See Section VIII, item 6.

19. Alliance News.

See Section VIII, item 9.

20. Delta Begins Atlanta-Shanghai Service.

See Section IX, item 3.

21. United Delays Guangzhou Service.

See Section IX, item 4.