



WASHINGTON AVIATION SUMMARY

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CONTENTS

I.	REGULATORY NEWS.....	1
II.	AIRPORTS.....	4
III.	SECURITY AND DATA PRIVACY	7
IV.	E-COMMERCE AND TECHNOLOGY.....	9
V.	ENERGY AND ENVIRONMENT	10
VI.	U.S. CONGRESS.....	11
VII.	BILATERAL AND STATE DEPARTMENT NEWS	13
VIII.	EUROPE/AFRICA.....	14
IX.	ASIA/PACIFIC/MIDDLE EAST	17
X.	AMERICAS	19

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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. IATA Revises Forecast.

The global airline industry is expected to post losses of \$5.2 billion in 2008. The revised forecast, issued by the International Air Transport Association (IATA), is based on an average crude oil price of \$113 per barrel (\$140 for jet fuel). Fuel is expected to rise to 36% of operating costs, up from 13% in 2002. In July, year-on-year passenger demand growth fell to 1.9%, the lowest in five years, capacity doubled to 3.8%, load factor was 79.9%. The surprise of July was a 0.5% drop in passenger demand by Asia-Pacific carriers partly attributable to a change in Chinese visa requirements. Cargo demand in July contracted by 1.9% compared to 2007, with Asia-Pacific carrier demand falling 6.5%. IATA's traffic forecast for domestic and international markets combined was also revised downward, with passenger traffic now expected to grow by 3.2% (was 3.9%) and air freight volumes by 1.8% (was 3.9%). North American carriers are expected to post losses of \$5 billion in 2008; Asia Pacific profits will shrink from \$900 million in 2007 to \$300 million this year; European profits will tumble seven-fold from \$2.1 billion in 2007 to \$300 million in 2008; Middle Eastern profits will drop by \$100 million to \$200 million; Latin American and African carriers will see losses deepen to \$300 million and \$700 million respectively. The initial 2009 outlook includes an expected oil price of \$110 per barrel (\$136 for jet fuel) and industry losses at \$4.1 billion. The 2009 fuel bill is expected to rise, as hedging offers less protection, to \$223 billion comprising 40% of operating expenses. "More airlines have gone bust in 2008 than in the aftermath of 9/11, said IATA Director General and CEO Giovanni Bisignani. "We need a strong dose of liberalization . . . We must take the opportunity of these extraordinary times to facilitate extraordinary change to strengthen the industry with normal commercial freedoms."

2. ILFC Caught in AIG Upheaval.

International Lease Finance Corporation (ILFC) parent American International Group (AIG) was taken over by the U.S. government to prevent bankruptcy, in exchange for an \$85 billion loan, and will sell units to repay the loan. Los Angeles-based ILFC, the world's largest airplane leasing company, owns a portfolio valued at more than \$50 billion, consisting of 1,000 jet aircraft. ILFC CEO Steven Udvar-Hazy, who founded the company in 1973, is expected to repurchase the unit from AIG. ILFC borrowed the maximum available principal amount of \$6.5 billion under its three unsecured revolving credit facilities, which, with cash provided by operating activities, will be sufficient to meet its debt obligations into first quarter 2009.

3. **American Wins Delay in Chicago-Beijing Launch.**

The U.S. Department of Transportation (DOT) approved a request by American Airlines to delay the start of Chicago-Beijing nonstops by one year, to April 4, 2010. The carrier cited “extraordinary adverse market and operating conditions affecting the entire airline industry.” DOT has approved similar requests by US Airways, United and Northwest.

4. **DOT Proposes Evergreen for U.S.-China Cargo Service.**

DOT proposed Evergreen International as a new all-cargo entrant in the U.S.-China aviation market. Evergreen would operate six weekly roundtrips to Shanghai from New York with stops in Chicago, Dallas-Fort Worth and Columbus, OH. The U.S.-China aviation agreement concluded in May 2007 permits the United States to name a new all-cargo carrier to begin service in the market on March 25, 2009. Kalitta Air and TradeWinds Airlines also applied, but DOT concluded that Evergreen could best compete with current all-cargo airlines in the market. Evergreen would offer the first scheduled U.S.-carrier all-cargo service to China from both New York and Columbus, has experience in the U.S.-Asia market, including U.S.-China charter services, and was the only applicant that would use the entire capacity of its aircraft for China services. DOT awarded backup authority to Kalitta. Airlines currently operating U.S.-China all-cargo service are Federal Express, Northwest, Polar Air Cargo and United Parcel Service. All restrictions on scheduled U.S.-China all-cargo services will be lifted in March 2011.

5. **American Airlines-British Airways Alliance Update.**

The European Commission (EC) opened an antitrust probe into the revenue-sharing alliance proposed by American Airlines, British Airways and Iberia, which includes fellow oneworld members Finnair and Royal Jordanian, to determine if it violates competition rules. Virgin Atlantic continued its battle to prevent the alliance with a campaign entitled, "No Way BA/AA," and in filings to U.S. regulators. They are “planning to create a monster monopoly on transatlantic routes,” Virgin told DOT, “with nearly half of all take-off and landing slots at Heathrow and nearly 60% of all frequencies between Heathrow and the U.S.” After American announced it had reached a “joint business agreement” with British Airways and Iberia, the Allied Pilots Association (APA) said its collective bargaining agreement precludes any joint business agreement between American and another carrier. APA also asked the government to defer any ruling on American’s application for antitrust exemption in its proposed alliance “to allow for a full examination of related national security, competitiveness and outsourcing issues.” American and the union have been negotiating a new contract for two years.

6. FAA Finds Croatia Does Not Meet ICAO Safety Standards.

Croatia has been assigned a Category 2 safety rating by the International Aviation Safety Assessment (IASA) program of the Federal Aviation Administration (FAA), meaning the country's civil aviation authority does not comply with international safety standards set by the International Civil Aviation Organization (ICAO) and Croatian air carriers cannot establish service to the United States.

7. DOT Air Travel Consumer Report for July.

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

	July '08/'07	June '08	Full Year				
			2007	2006	2005	2004	2003
On-time arrivals %	75.7 / 69.8	70.8	73.4	75.4	77.4	78.1	82
Mishandled baggage*	4.86 / 7.96	5.15	7.03	6.73	6.64	4.91	4.19
<i>Consumer complaints:</i>							
Airline service	1,093 / 1,720	881	13,168	8,325	8,741	7,452	5,983
Disability-related	65 / 47	27	480	430	511	521	375
Discrimination**	9 / 15	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.

**I.e., race, religion, national origin or sex.

II. AIRPORTS

1. Scores of Airports Losing Commercial Service.

A new report from the American Association of Airport Executives (AAAE) says domestic carriers have stopped flying more than 400 routes since March. According to the Air Transport Association (ATA), says the report, 60 communities have lost scheduled air service, 40 more will lose service by yearend, and as many as 200 communities could lose air service by early 2009. The report makes recommendations AAAE believes are critical to maintaining necessary levels of air service in the U.S., including creation of an aviation fund to subsidize service to small airports, increased passenger facility charges and priority use of the country's strategic petroleum reserves. Emergency response recommendations include temporary suspension of limits on foreign ownership of commercial carriers, allowing U.S. airlines to discuss routes and fares with supervision by antitrust regulators, and using airport improvement money to service airport debt.

2. JetBlue Unveils New Terminal 5 at Kennedy.

JetBlue showed off its newly constructed Terminal 5 at New York Kennedy, set to open in October. Linked to the historic Eero Saarinen-designed TWA terminal, which is being restored by airport operator Port Authority of New York and New Jersey, T5 is one of the first terminals in the U.S. to be completely designed and built post 9/11. The Port Authority provided nearly \$800 million in financing for the new 26-gate, 635,000-square-foot terminal, which was designed to handle up to 20 million passengers per year. With up to 250 daily flights, T5 will handle more than 30% of Kennedy passenger traffic. The central security checkpoint is the largest single checkpoint in the United States, capable of accommodating 20 screening lanes. JetBlue has become the largest airline at Kennedy, with more than 5,400 employees in New York. The terminal is part of the Port Authority's 10-year, \$29.5 billion capital plan, which includes more than \$6 billion in improvements and enhancements to area airports.

3. Denver May Delay Expansion.

Denver International may delay a \$280 million upgrade that would include a 10-gate expansion, due to reduced flights by major airlines and other industry conditions, reports the *Denver Post*. The airport handled a record 5.5 million passengers in July. Separately, United and Frontier asked Colorado to consider changing its aviation fuel tax formula, which is computed at 2.9% of cost rather than a flat amount per gallon. State aviation fuel-tax collections increased from \$12.1 million in 2003 to \$29 million in fiscal 2008, which ended

June 30. United and Frontier also wants the state to consider reduced rent and fees at Denver or a restructured revenue-sharing program.

4. **SFO to Reopen Renovated Terminal 2.**

San Francisco International will reopen a refurbished Terminal 2 in late 2010 to accommodate an annual 8% increase in traffic. The \$383 million renovation will include 14 gates, 10 of which are expected to be used by Virgin America, and 50,000 square feet of retail and restaurant space. Terminal 2 was shuttered in 2000 when the new International Terminal opened.

5. **Panama City Runway Approved.**

A 10,000-foot main runway was approved for the new Panama City–Bay County International Airport, subject to obtaining necessary permits and approvals, and will be completed in time for the May 2010 airport opening. Construction of the \$318 million Northwest Florida facility is three months ahead of schedule.

6. **Airports Subject to ADA Requirements.**

A federal judge in Detroit ruled that the Americans with Disabilities Act (ADA) applies to airport services, and to conclude otherwise would leave the door open for acts of discrimination that could not be remedied. Northwest had sought the dismissal of a suit by five disabled Detroit-area residents who claimed the airline failed to offer adequate help at the airport and in the air, causing them to miss flights, reported the *Detroit News*. Some courts had earlier ruled the ADA did not apply to airports because aircraft are excluded from the definition of "specified public transportation" under the act. Disabled travelers have had to rely on the Air Carrier Access Act, under which they have not been permitted to bring private claims and have had to rely on the federal government for enforcement.

7. **Belfast City Airport Sold to ABN Amro.**

Grupo Ferrovial sold Belfast City Airport to ABN Amro for more than \$230 million. The Northern Ireland airport is not part of the holdings of Ferrovial UK unit BAA.

8. **BAA to Sell Gatwick Airport.**

BAA announced plans to sell London Gatwick, following a UK Competition Commission recommendation that the airport operator sell some of its holdings. "We disagree with the Commission's report and the analysis on which it is founded," said BAA CEO Colin Matthews, and "will continue to present our case, in respect of the South East airports and those in Scotland. At Stansted, we believe that a change of ownership would interfere with the process of securing planning approval for a second runway, which remains a

key feature of Government air transport policy.” Sir Richard Branson hopes to form a consortium to launch a £2 billion bid for Gatwick, which handles 35 million passengers a year, and several airport groups have expressed interest.

9. Budapest to Get Second Airport.

A new airport handling primarily low-cost, charter and other airlines serving European point-to-point destinations will be constructed near Budapest. Real estate developer Biggeorge's-NV said Alba Airport will open for international air traffic in the first half of 2010. Budapest's main airport, Ferihegy, controlled by Germany's Hochtief, handled 8.6 million passengers last year.

10. Fraport Begins Xi'an Operations.

Fraport launched its German-Chinese joint-venture, Xi'an Xianyang International Airport Co., Ltd., with a 24.5% share. The first foreign airport operator to invest in a non-listed airport in China, Fraport will focus on developing tourism potential, increasing international routes and developing retail and real estate business at the airport.

11. New Airport in Indonesia.

Indonesia opened Sultan Hasanuddin Airport in Makassar, in the country's eastern islands. The airport is Indonesia's third-largest, able to handle up to 7 million passengers annually.

III. SECURITY AND DATA PRIVACY

1. Al Qaeda Still Threat to Aviation System.

“Al Qaeda continues to focus on the aviation system,” said Homeland Security Secretary Michael Chertoff in remarks to the National Press Club in Washington, D.C. “However, we’ve substantially reduced the vulnerability because we’ve built in layers,” including behavioral detection, new technologies, new protocols, that have raised the level of protection. The occasion was the seventh anniversary of the 9/11 attacks.

2. U.S. Scans Incoming Air Cargo.

DHS began checking all incoming air cargo, including cargo shipped on passenger planes, at Washington Dulles International Airport, using Radiation Portal Monitors. The huge detectors are meant to prevent the smuggling of radioactive or “dirty” bombs into the U.S. Four additional major airports will receive the detectors by yearend, reports *USA Today*, and eventually the 30 largest U.S. airports will have them. Opponents of the program are concerned about bottlenecks created by false alarms and by the steep cost of the equipment.

3. Secure Flight Implementation Near.

The Transportation Security Administration (TSA) said it has successfully met a 10-point certification requirement for Secure Flight, which will allow it to better match passengers to terror watch lists, reduce the number of misidentifications to these lists and validate that strict privacy protections are in the program. The responsibility for pre-departure watch list matching will shift from individual air carriers to TSA upon completion of testing of the system and processes with volunteer aircraft operators.

4. Canada Adds Privacy Protections to Screening Regulations.

Canada has amended its Identity Screening Regulations (ISR) to make mandatory privacy protection provisions that were previously included in a Memorandum of Understanding (MOU) between Transport Canada and air carriers. The Office of the Privacy Commissioner of Canada had expressed concern that the MOU would not adequately prevent certain airline personnel from improper disclosure of the information. The protections incorporated in the ISR from the MOU include: (a) using the most up-to-date names of persons specified to the air carrier by the Minister for the purpose of the Passenger Protect Program and prohibiting the air carrier from using any name of a person specified to the air carrier by the Minister for any other purpose (e.g. their own corporate use); (b) removing any name no longer

specified under the Passenger Protect Program from any air carrier system and prohibiting air carriers from using old names of persons specified to the air carrier by the Minister for any other purpose; (c) ensuring the names of persons specified to the air carrier by the Minister are not disclosed by air carriers and that the names of persons specified to the air carrier by the Minister are accessed only by those who need access to this information in order to carry out their duties; and (d) maintaining a list of airline personnel who have access to the names of persons specified to the air carriers by the Minister, and providing the list of personnel to Transport Canada, upon request.

5. **House Homeland Security Actions.**
See Section VI, item 4.

IV. E-COMMERCE AND TECHNOLOGY

1. Old Internet Article Circulates, United Stock Plummets.

United's stock price dropped 76% to \$3 when an archived *Chicago Tribune* Internet story about the carrier's 2002 bankruptcy was detected by Google search software, picked up by Florida-based Income Securities Advisers and treated as breaking news by Bloomberg. The stock later recovered. The U.S. Securities and Exchange Commission opened a preliminary investigation to determine if improper behavior was involved, reported the *Wall Street Journal*.

2. JetBlue Auctions Flights on eBay.

JetBlue auctioned over 300 roundtrip flights and six vacation packages on eBay, with opening bids starting as low as five cents on the online auction site.

3. Sabre Introduces Revenue, Passenger Management System.

Sabre launched components of its SabreSonic Customer Sales and Service (CSS) solution, which pairs revenue management, inventory capabilities and merchandising functions with "insightful" customer information, so airlines can tailor product and service offerings to fit each customer's needs. CSS modules will roll out over three years.

4. EU Parliament Revises CRS Code.

The European Parliament approved revisions to the code of conduct for computerized reservation systems (CRS) in the EU. Meant to promote competition and lower distribution costs by enabling global distribution systems and airlines to negotiate unrestricted content and fee agreements, the adopted revisions mandate that air carriers publish fares "inclusive of all taxes and charges, surcharges and fees, which are unavoidable and foreseeable. CRS displays should provide information on fares inclusive of the same price categories to ensure that travel agents can communicate this information to their clients." It also encourages CRSs to provide "easily understandable information about CO2 emissions and fuel consumption of the flight." No further clarification was made on the parent carrier definition, perceived by some to favor Amadeus, in which Air France-KLM, Iberia and Lufthansa each hold minority stakes.

V. ENERGY AND ENVIRONMENT

1. Airlines Form Sustainable Fuels Initiative.

The Sustainable Aviation Fuel Users Group has been formed by global air carriers, Boeing and Honeywell's UOP, a refining technology developer, to accelerate development and commercialization of sustainable new aviation fuels. With support and advice from the World Wildlife Fund (WWF) and Natural Resources Defense Council (NRDC), the group's charter is to enable commercial use of renewable fuel sources that can reduce greenhouse gas emissions, while lessening commercial aviation's exposure to oil price volatility and dependence on fossil fuels. Airlines involved include Air France, Air New Zealand, All Nippon Airways, Cargolux, Gulf Air, Japan Airlines, KLM, SAS and Virgin Atlantic. Collectively, they account for more than 15% of commercial jet fuel use. Group members pledge that any sustainable biofuel must perform as well as, or better than, kerosene-based fuel, but with a smaller carbon lifecycle, and to consider only renewable sources that minimize biodiversity impacts: fuels that require minimal land, water and energy to produce and that don't compete with food or fresh water resources. In addition, cultivation and harvest of plant stocks must provide socioeconomic value to the local communities. A Boeing-funded research project at Yale will conduct the first peer-reviewed, comprehensive sustainability assessment of the plant *jatropha curcas*, to include lifecycle CO₂ emissions and the socio-economic impacts to farmers in developing nations. Similarly, NRDC will conduct a comprehensive assessment of algae to ensure it meets the group's stringent sustainability criteria.

2. Airlines to Fit Winglets to Cut Fuel, Emissions.

Air New Zealand and Hawaiian Airlines will fit 11-foot-tall winglets, manufactured by Aviation Partners Boeing, to their B-767-300ERs. The modifications are expected to cut annual fuel consumption by more than 300,000 gallons per aircraft. Air New Zealand also plans to fit electrically-powered dryers to its entire fleet to reduce moisture trapped in aircraft insulation, which would save fuel and cut carbon emissions.

3. House Passes Bill to Stem Commodity Speculation.

See Section VI, item 2.

VI. U.S. CONGRESS

1. Congress Extends FAA Authority Through March.

As Congress focused on a proposed \$700 billion economic rescue plan before adjourning for the election recess, the House and Senate passed legislation reauthorizing FAA through March 31, 2009. The short-term extension includes \$1.95 billion for the Airport Improvement Program, \$4.5 billion for FAA operations, \$1.36 billion for facilities and equipment and \$85.5 million for research, development and engineering.

2. House Passes Bill to Stem Commodity Speculation.

The House passed the Commodity Markets Transparency and Accountability Act, which gives the Commodity Futures Trading Commission (CFTC) authority to impose limits on certain types of energy trades. John Dingell, Chairman of the House Committee on Energy and Commerce, said the bipartisan bill “will ratchet back the excessive speculation which has undermined the ability of the commodity markets to enable price discovery, while ensuring a means for legitimate hedgers, such as airlines, to lock in future prices as a way to protect their business from price volatility.” The Air Transport Association said, “We look to the Senate for their support in including strong speculation reform in their energy bill.”

3. Proposed DHL-UPS Pact Probed.

A House Transportation Committee hearing addressed competitive and antitrust issues regarding the proposed DHL-UPS agreement, in which United Parcel Service (UPS) would provide air transport services for DHL’s North American operations. DHL, a unit of Germany’s Deutsche Post, currently contracts with ABX and ASTAR to provide the airlift portion of its service, but says the new agreement is the only way it can maintain its U.S. presence, with \$3 billion in operating losses since 2003. Concern was expressed about lost jobs in Wilmington, Ohio, where DHL’s hub is located. “If a DHL-UPS agreement is consummated,” said Committee Chairman James Oberstar (D-Minn.), “it would potentially devastate the city of Wilmington and have significant economic effects on the entire state of Ohio.” Long-term implications of this complex arrangement, neither a merger nor an acquisition, and an ensuing merger could have a major effect on the future of the package delivery industry, said Aviation Subcommittee Chairman Jerry Costello (D-Ill.). Separately, Senate Antitrust Subcommittee Chairman Herb Kohl (D-Wis.) and Sherrod Brown (D-Ohio) asked the U.S. Department of Justice to block the partnership, charging it violates antitrust law and endangers U.S. jobs.

4. House Homeland Security Actions.

The House Homeland Security Subcommittee held a hearing regarding \$15 billion worth of failed contracts under the aegis of the Department of Homeland Security (DHS), and a panel of experts addressed remedies for the DHS acquisitions process. Among troubled programs is the delayed \$10 billion US VISIT program, that will track the entry and exit of visitors to the United States. "Agency officials must know where and how the money is being spent," Committee Chairman Rep. Bennie Thompson (D-Miss.) told the *Washington Post*. "DHS leadership has permitted a system of waste, abuse, mismanagement, vague contractual terms, overspending, bonuses for bad performance, contractors being hired to oversee contractors and the same missteps over and over again." In related news, the Committee released a report, "Wasted Lessons of 9/11: How the Bush Administration Has Ignored the Law and Squandered Its Opportunities to Make our Country Safer," which finds that "little, incomplete, or no progress has been made" on many requirements of the 9/11 Commission Recommendations Act of 2007. The House Homeland Security Appropriations Subcommittee approved language that, if adopted by the Senate, would withhold funding for the exit portion of US-VISIT, a move applauded by the Air Transport Association which maintains that DHS lacks legal authority to force airlines to collect biometric data from foreign travelers departing the U.S.

5. Committee: FAA Approved Eclipse 500 Despite Safety Concerns.

In testimony before the House Transportation Aviation Subcommittee, the DOT Inspector General (IG) and other investigators said FAA had approved the Eclipse 500 despite design and production problems and safety concerns of government engineers, inspectors and test pilots. The Committee alluded to a cozy relationship and reduced vigilance by the agency during the approval process, and recommended a review of FAA's aircraft certification program. The IG investigation is still under way. Albuquerque-based Eclipse Aviation said the planes have been flown 32,000 hours by 375 pilots without death or injury, a safety record comparable or better than other small or business airplanes certified in the last 20 years. FAA has promoted very light jets as a way to serve smaller communities.

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. U.S.-EU Negotiations

Phase two U.S.-EU negotiations continued in Washington, D.C., as the two sides try to work out a fully liberalized transatlantic regime, including relaxing remaining restrictions on airline ownership and control and traffic rights.

2. Venezuela Orders U.S. Airlines to Cut Flights to Caracas.

TSA announced in a travel advisory that it has been unable to assess security measures at international airports in Venezuela that serve as the last point of departure for nonstop flights to the United States. "Venezuela has refused multiple requests to allow for such assessments, which are required by U.S. law," said TSA. Venezuela National Civil Aviation Institute President Jose Luis Martinez reportedly called the advisory "a line of slander," and said TSA officials have no jurisdiction in Venezuela and that the country's airport security meets international standards. Martinez advised American Airlines, Continental and Delta that they would have to reduce flights to Caracas by the end of September, citing the "imbalance" in the number of U.S.-Venezuela flights; ten flights a day operate between the two countries, eight of them on U.S. carriers. However as of the end of September, the U.S. carriers were still operating their full schedules to Venezuela.

VIII. EUROPE/AFRICA

1. Alitalia Update.

Alitalia won another reprieve when unions agreed to support a takeover bid by investor group Compagnia Aerea Italiana (CAI). Air France-KLM and Lufthansa reportedly are considering participation. Nearly bankrupt, Alitalia was close to losing its operating license and foreign airlines were applying for the national carrier's domestic landing slots. Swiss investment company AMA Asset Management Advisor had offered to buy or lease Alitalia aircraft for use on routes out of Milan Malpensa and Rome Fiumicino.

2. Lufthansa to Acquire Brussels Airlines.

Lufthansa agreed to take a 45% stake in SN Airholding, parent company of Brussels Airlines, for €65 million, subject to regulatory approvals, and has an option to acquire the remaining 55% as of 2011. Brussels will be integrated into the Lufthansa Group, retaining its headquarters and management in Brussels. Lufthansa is also a front-runner in the bid for Austrian Airlines, along with Air France-KLM and Russia's S7, and is said to be considering a bid for SAS.

3. Air France-KLM to Split Chairman, CEO Roles.

Air France-KLM Deputy CEO Pierre-Henri Gourgeon will become CEO of both Air France and Air France-KLM from January 1. Current CEO Jean-Cyril Spinetta will remain as Chairman. KLM chief Leo van Wijk will remain Group Deputy Chairman. Spinetta said the change will guarantee continuity of governance, in view of the difficult economic climate.

4. EU Opens Antitrust Probe of KLM Take-Over of Martinair.

The EC is investigating the planned acquisition of Martinair by Air France-KLM, finding initially that competition between Amsterdam and Curaçao and Aruba in the Dutch Antilles might be substantially reduced. A final decision is expected in January. KLM already owns 50% of Dutch operator Martinair and seeks to buy the other 50% from Maersk.

5. Olympic Privatization Plans Approved by EC.

Greece received approval from the EC to privatize Olympic Airlines and Olympic Airways Services assets. Three resulting entities will include flight, ground-handling and maintenance companies; all public service obligations concerning essential life-line air services to the Greek islands are assured. The privatization will be overseen by an independent trustee who will submit

progress reports to the EC. Separately, the Commission said state grants to Olympia of some €850 million since September 2005 are illegal.

6. EU and India Sign New Air Service Agreement.

The EU and India have signed an air services agreement that brings the agreements between member states and India into conformity with EU law. Among other changes the new agreement will enable any EU airline to fly between India and any EU state where the airline currently operates.

7. Russian Holding Company to Replace AiRUnion.

AiRUnion, an alliance of five Russian airlines, was shut down due to financial problems and an \$800 million debt, and will be replaced by a state-controlled holding company. Led by industrial group Russian Technologies, the new company will include nine airlines: Atlant-Soyuz, KrasAir, GTK Russia, Kavminvodyavia, Orenburg, Saratov, Domodedovo, Samara and Vladivostok. Separately, an Aeroflot-Nord Boeing 737-500 crashed in the Ural mountains city of Perm, killing all 82 passengers and six crew. Aeroflot severed cooperation with the Arkhangelsk-based subsidiary and Russia's aviation authority suspended all B-737 flights while pilots receive additional training on B-737 simulators.

8. Eclipse 500s to be Assembled in Russia.

Russian State Bank VEB, chaired by Prime Minister Vladimir Putin, approved construction of a factory at Ulyanovsk-Vostochny International Airport for assembly of the Eclipse 500 Jet. Eclipse officials said export of components to Russia complies with U.S. and Canadian regulations. VEB expects to finance the \$205 million project in full. Production will begin in 2010, with ultimate capacity projected to be 800 jets a year. "Obtaining this approval and financing is an enormous step forward in our efforts to globalize the Eclipse 500," said Roel Pieper, CEO of Eclipse and of European Technology and Investment Research Center (ETIRC) Aviation, which provides sales, customer service, maintenance support and flight training for the Eclipse 500 in Europe, Russia and Turkey. Production at Eclipse's Albuquerque headquarters will continue.

9. EU Ends Bulgarian Airline Restrictions.

The EC lifted restrictions on Bulgarian airlines, saying Bulgaria has shown it has fulfilled its safety commitments and all European Union (EU) safety norms are being respected.

10. UK's XL, Spain's Futura Collapse, Stranding Thousands.

UK-based XL Leisure Group entered administration, as did Spanish charter airline Futura International. XL said its collapse was due to volatile fuel prices,

the economic downturn and an inability to obtain further funding. Futura intended to resume services, but the Spanish government said the company first must submit safety and business plans; a Dublin-based unit, Futura Gael, had its operating certificate withdrawn by Ireland's aviation authority.

11. Air France Plans High-Speed Rail Venture.

Air France-KLM said it is still in talks with French transport firm Veolia to form a joint venture to operate high-speed rail services. The sector currently is controlled by such state-owned rail companies as SNCF and Eurostar and is to be liberalized January 1, 2010. Veolia, which employs 81,600 in 30 countries, operates rail systems in Boston and Los Angeles.

12. American Airlines-British Airways Alliance Update.

See Section I, item 5.

13. FAA Finds Croatia Does Not Meet ICAO Safety Standards.

See Section I, item 6.

IX. ASIA/PACIFIC / MIDDLE EAST

1. China News.

China Eastern denied reports of a merger with Shanghai Airlines, but said the government may take such action. China Eastern President Cao Jianxiong had told the *Wall Street Journal* the companies could merge, then consider a stake sale to Singapore Airlines; SIA earlier this year made an offer for a 24% stake in China Eastern. Air China Chairman Kong Dong said plans to buy China Eastern have been postponed; his priority is to weather the drop in demand by strengthening Air China's internal controls rather than growing through mergers and acquisitions. A Chinese court ordered 10 pilots who resigned from China Eastern to compensate their employer \$1.17 million for their training.

2. FedEx Increases Vietnam Services.

FedEx added Airbus A310 service to Vietnam, increasing its capacity there fivefold, to more than 30,000 kg per day. Vietnam exports rose more than 20% to \$48 billion in 2007 and export turnover of \$58.6 billion is expected this year, up 22% year-on-year.

3. Qantas Ordered to Improve Maintenance Processes.

Australia's Civil Aviation Safety Authority (CASA) "uncovered signs of emerging problems" in an audit of Qantas maintenance practices, but did not find direct links between recent safety incidents or any increase in the rate of incidents. "They were unrelated events," said CASA; "there was no apparent common cause." CASA ordered Qantas "to make a range of improvements to the way it manages and delivers aircraft maintenance," to produce a plan to address deficiencies in meeting some of its own maintenance performance targets, to examine whether existing lines of authority and control over maintenance within the airline are delivering the best possible outcomes, and to report on how recent failures to fully comply with airworthiness directives requirements have been addressed.

4. Australia Denies Singapore Access to U.S. Route.

Australia said it will not give third-party airlines access to its U.S. route now, but may in the future. Singapore Airlines has called for a liberalized aviation policy on the transpacific route, which currently is dominated by Qantas and United; Virgin Blue unit V Australia will begin flights to the United States by the end of the year.

5. **Indian Carriers Add U.S. Service.**

Jet Airways will operate daily Airbus 330-200 flights from Bengaluru (formerly Bangalore) to New York Newark and Kennedy and Toronto via Brussels as of October 31. UB merged its Deccan and Kingfisher units. Low-fare Deccan was renamed Kingfisher Red. Kingfisher, which offers first and premium economy classes, launched international flights in September and plans Bengaluru-San Francisco nonstops starting in November. UB asked Airbus to defer delivery of 32 of 48 A320s on order, due to slowing demand. Indian carriers could post \$ 1.5 billion in losses in 2008, said IATA, which urged reducing fees and taxes, improving infrastructure and adopting global standards.

6. **Etihad Having Record Year.**

Etihad expects to add two new cities to its U.S. service in the next two years and is in talks with U.S. airlines regarding code share partnerships, said CEO James Hogan. The four-year-old carrier has flown more than four million passengers to 48 destinations to date this year and expects to carry six million by yearend. Hogan announced projections of 25 million passengers a year by 2020 for the Abu Dhabi-based national airline.

7. **American Wins Delay in Chicago-Beijing Launch.**

See Section I, item 3.

8. **DOT Proposes Evergreen for U.S.-China Cargo Service.**

See Section I, item 4.

9. **EU and India Sign New Air Service Agreement.**

See Section VIII, Item 6.

X. AMERICAS

1. Delta, Northwest Merger Progress.

Stockholders of both companies approved a Delta-Northwest merger and Delta stockholders also approved an amendment to Delta's employee compensation program allowing the company to distribute equity to U.S.-based employees of the combined company when the merger closes. FAA accepted the carriers' plan for interim operations and a single operating certificate transition. The merger is subject to approval by the U.S. Department of Justice. A pending federal lawsuit seeking to block the merger is set for trial November 5 in San Francisco; 28 air travelers are arguing it violates antitrust law and will substantially lessen competition.

2. United, Continental Pilots Form Alliance.

United and Continental pilots, represented by the Air Line Pilots Association (ALPA), formed a strategic alliance to protect and enhance their careers as the two airlines move forward with plans to link international networks and share technology and passenger programs. In related news, ALPA said Continental will lose 363 pilots, or 7.3%, through layoffs, early retirements and leaves, as the airline tries to counter high fuel costs.

3. Delta to Introduce Two-Class Shuttle Service.

Delta is reconfiguring its MD-88 Shuttle fleet to first and economy class, available beginning December 1. Delta Shuttle flies from New York LaGuardia to Boston Logan or Washington Reagan National.

4. Drop in Corporate Travel Expected.

Worsening economic conditions are causing corporate travel managers to cut business trips in 2009, says the Association of Corporate Travel Executives (ACTE). Nearly two-thirds of 131 companies recently surveyed said they planned less travel for next year; 31% are cutting back on all travel, 39% on internal meetings, and 16% on international travel; 9% have eliminated training trips; and 14% cited "other means." Some 36% of respondents plan to increase travel spending.

5. DayJet Discontinues Passenger Operations

DayJet ceased commercial air taxi operations due to an "inability to arrange critical financing in the midst of the current global financial crisis." However, said founder Ed Iacobucci, the year-old company had proved the need for per-seat, on-demand jet service. The company "also suffered as a result of Eclipse Aviation's failure to install missing equipment or functionality or repair agreed

technical discrepancies.” Eclipse Aviation said that while DayJet was its largest customer, with 28 EA 500s, it still has hundreds of other orders to fill. (See also Sections VI and VIII).

6. Zoom Airlines Suspends Ceases Operations.

Unable to keep pace with its financial obligations, Zoom Airlines, based in Ottawa and London, abruptly suspended operations. “The increase in the price of oil has added around \$50 million [Canadian] to our annual operating costs,” said founders Hugh and John Boyle, “and we could not recover that from passengers who had already booked their flights.” The low-cost carrier employed more than 600 people.

7. Canada Introduces Passenger Bill of Rights.

Transport Canada launched Flight Rights Canada, to ensure that air travelers know their rights as consumers and to enforce transparency and accountability of air carriers. Domestic carriers are required to prominently display terms and conditions at business offices and on their Web sites, and regulations are being developed to require international carriers selling air transportation to and from Canada to do the same. A six-point code of conduct for Canada’s airlines is available on Transport Canada’s Web site.

8. SkyWest Buying Stake in Trip Linhas Aereas.

Utah-based SkyWest will acquire up to a 20% stake in Brazilian airline Trip. One of the largest regionals in South America, Trip recently ordered five 88-seat Embraer 175 mid-range jets with options for ten more, plus purchase rights for another 15. SkyWest operates regional service for United, Delta and Midwest.

9. Merger Of GOL, Varig Operations Approved.

Brazil’s National Civil Aviation Agency approved a plan by GOL Linhas Aereas Inteligentes (GOL) to integrate subsidiaries VRG and GTA. GOL last year acquired operating assets of Varig, which was renamed VRG. Both GTA and VRG operate Boeing aircraft in Brazil and South America. The reorganization will increase efficiency, said GOL, exploit synergies and broaden and improve service offerings. GOL and Varig brands will be maintained.

10. Aerolineas Argentinas Nationalized.

Aerolineas Argentinas with its Austral subsidiary was nationalized in preparation for a sale. The airline was owned by Spanish travel conglomerate Grupo Marsans since 2001.

11. American Wins Delay in Chicago-Beijing Launch.

See Section I, item 3.

12. **DOT Proposes Evergreen for U.S.-China Cargo Service.**
See Section I, item 4.
13. **American Airlines-British Airways Alliance Update.**
See Section I, item 5.
14. **Canada Adds Privacy Protections to Screening Regulations.**
See Section III, item 4.
15. **Venezuela Orders U.S. Airlines to Cut Flights to Caracas.**
See Section VII, item 2.
16. **FedEx Increases Vietnam Services.**
See Section IX, item 2.
17. **Indian Carriers Add U.S. Service.**
See Section IX, item 5.