



WASHINGTON AVIATION SUMMARY

February 2008 EDITION

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The Kirstein & Young law firm specializes in representing U.S. and foreign airlines, airports, leasing companies, financial institutions and aviation-related companies before U.S. Government agencies, Congress, the courts and in commercial and financing matters.

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I. **REGULATORY NEWS**

1. **DOT Proposes Airport Congestion Charges.**

The U.S. Department of Transportation (DOT) proposed a new landing fee structure that would permit airports to impose a per movement charge, in addition to current weight-based runway charges, and increase fees during congested periods to encourage airlines to operate at other times, use secondary or reliever airports or “up-gauge” aircraft. The policy change would allow operators of congested airports to include costs of capacity expansion projects in the new landing fees, rather than after project completion. Airport operators with multiple airfields, like Port Authority of New York and New Jersey, could distribute landing fee revenue among those facilities. The U.S. Air Transport Association (ATA) opposed the proposal, saying carriers would continue to schedule flights to meet traveler demand. “We don’t believe [DOT] has the authority to impose congestion pricing,” said ATA. Comments may be submitted until March 3, 2008.

2. **DOT Secretary Peters Chastises Congress.**

“How much longer is Congress going to keep critical aviation issues in a holding pattern?” asked DOT Secretary Mary Peters in a speech before the Aero Club of Washington. She urged legislators to move forward with the FAA reauthorization bill, which would fund an overhaul of the U.S. air traffic control system, and on key appointments like the confirmation of Bobby Sturgell as FAA Administrator. She also announced a special Tarmac Delay Task Force charged with ensuring that airlines and airports improve handling of lengthy tarmac delays and unexpected weather events.

3. **Justice Department Approves Midwest Sale to TPG, Northwest.**

The U.S. Department of Justice approved the purchase of a 47% stake in Midwest Air Group by private equity firm TPG Capital. Regulators probed competitive effects, because Northwest is a passive investor in the \$450 million transaction.

4. **FAA Downgrades Philippines to Category 2.**

The U.S. Federal Aviation Administration (FAA) downgraded the Philippine aviation authority operations to Category 2, meaning it does not comply with International Civil Aviation Organization (ICAO) safety standards. Philippine Airlines, the only carrier that currently flies to the U.S., can continue flights but only under heightened FAA surveillance, said the American Embassy in Manila. Philippine President Gloria Macagapal Arroyo ordered the release of \$2.64 million to fund safety upgrades, fired the acting head of the Air

Transportation Office, Daniel Dimagiba, and directed Transport Secretary Leandro Mendoza to address issues raised by FAA within three months.

5. U.S. to Help Vietnam Upgrade Aviation Safety.

The U.S. Trade and Development Agency will provide \$1.4 million toward upgrading Vietnam's aviation safety oversight capability to international standards. Vietnam Airlines recently filed with DOT for services between Ho Chi Minh City and Los Angeles via Osaka. Vietnam's recent accession to the World Trade Organization offers opportunities for increased bilateral trade and tourism, said the U.S. embassy in Vietnam.

6. Tyler Duvall Replaces Jeff Shane at DOT.

DOT Assistant Secretary for Transportation Policy Tyler Duvall becomes Acting Under Secretary for Policy, effective February 1, as Jeff Shane departs to pursue other opportunities.

7. Industry Coalition Acts on Runway Safety.

Led by Acting Federal Aviation Administrator Bobby Sturgell, representatives from airlines, airports, air traffic control and pilot unions and manufacturers, agreed in August to find ways to improve airport safety, particularly the problems of runway incursions and wrong runway departures. Short-term actions completed to date include: *Upgrade Airport Markings*—53 of 75 airports with more than 1.5 million enplanements have completed painting; 28 Part 139 airports voluntarily have upgraded markings; FAA proposed extending the requirement for large airports to enhance taxiway centerline markings to all 567 certificated airports. *Airport Surface Analysis*—20 airports were reviewed, based on runway incursion and wrong runway departure data, resulting in more than 100 short-term initiatives. *Airport Recurrent Training*—385 airports now require recurrent training for non-airport employees, such as fixed-based operators or airline mechanics; 97 airports plan to adopt this requirement. *Pilot Training/ Cockpit Procedures*—All 112 active carriers are providing simulator or other training that incorporates realistic scenarios from pushback through taxi, and have reviewed cockpit procedures to develop a plan to address elements that contribute to pilot distraction during taxi. *Carrier Employee Training*—Carriers will establish mandatory recurrent training for non-pilot employees who operate aircraft or vehicles on the airfield; FAA developing new training DVD. *Taxi Clearances*—FAA analyzed ATC procedures pertaining to taxi clearances and found that more explicit taxi instructions are needed. An analysis of Multiple Landing Clearances is underway.

8. Senior Pilots Sue to Overturn Age Discrimination Law.

The Senior Pilots Coalition is seeking an injunction that would void legislation passed in December that allows pilots to continue flying until age 65. The bloc says the law was hastily written, is unconstitutional and unenforceable and denies carriers “the right to treat older pilots fairly, even countermanding prior contractual positions between pilots and their companies.” Among other disputed provisions, the Fair Treatment for Experienced Pilots Act is not retroactive and imposes requirements on pilots based on age without factual support or individualized review. Founded in February 2007, the Senior Pilots Coalition “is dedicated to ending age discrimination in the U.S. commercial airline industry.”

9. November 2007 Passenger Airline Employment.

U.S. scheduled passenger airline employment rose 3.7%, to 419,444, in November 2007 over November 2006, the largest year-over-year increase since August 2001. The six network carriers employed 59.6% (249,862) of the passenger airline total; low-cost carriers employed 22.9% (96,170); regionals employed 14.6% (61,109).

10. DOT Air Travel Consumer Report for November.

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

	Nov. '07 / '06	Oct. '07	Full Year			
			2006	2005	2004	2003
On-time arrivals %	80 / 76.5	78.2	75.4	77.4	78.1	82
Cancellations %	1 / 1.6	1.2	n/a	1.87	1.56	1.79
Mishandled baggage*	4.89 / 6.32	5.36	6.73	6.64	4.91	4.19
Consumer complaints:						
Airline service	808 / 589	1,096	8,321	8,741	7,452	5,983
Disability-related	39 / 34	56	427	511	521	375
Discrimination**	3 / 9	11	114	129	118	85

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. Pittsburgh to Refund Airline Fees.

Allegheny County Airport Authority posted a \$5 million year-end surplus and promised sizable refunds to airlines at Pittsburgh International on their 2007 lease fees. Savings were due to warmer weather and operating efficiencies; the Authority last August locked in natural gas prices through March and electricity rates through December 2009. Landing fees at the airport will rise about 35% and ramp fees by 65% in 2008.

2. O'Hare Flight Caps to Lift by November.

FAA confirmed it will lift flight caps at Chicago O'Hare in time for the November 20 opening of a new north runway. Put in place in 2004 to reduce delays, the caps (88 arrivals per hour, compared to up to 120 previously) have produced little improvement as O'Hare continues to rank poorly in on-time service among the busiest U.S. airports. FAA also announced a \$42.3 million federal grant to help finance an almost completed air traffic control tower for the new runway.

3. LAWA Settles Security Fee Lawsuit With Five Carriers.

The Los Angeles Board of Airport Commissioners agreed to settle a joint lawsuit brought by American, Continental and United against Los Angeles and Los Angeles World Airports (LAWA) over a fee hike imposed in 2006 to help pay for security costs at Los Angeles International terminals. Separate agreements were reached with Delta and Northwest. Under the settlements, which cover the 2006-2008 period, airlines agreed to pay for an \$11 million per year increase in terminal security costs. LAWA will credit airlines for some \$20 million already paid. The airlines also agreed to share up to \$218.7 million in construction costs for a central utility plant at the airport. Another 25 domestic and international air carriers have lawsuits pending over the fee hikes.

4. Sacramento Plans \$1.3 Billion Expansion.

Contracts for a \$1.3 billion expansion at Sacramento International are expected to be approved in May, with construction to begin in July. Plans for a four-story central terminal, satellite concourse, people mover, hotel tower and parking garage are contingent upon a potential construction moratorium in the flood-prone area. "We're conducting a continuity of operations plan," Airports Director Hardy Acree told the *Sacramento Bee*, as to where operations could be moved "in the unlikely event of a catastrophic levee breach." The Federal Emergency Management Agency (FEMA) plans a flood remapping of the area.

5. **Funding at Risk for Washington Dulles Metro Extension.**

Continued federal funding for a plan to extend the Washington-area Metro system to Dulles International is uncertain, with DOT Secretary Mary Peters and Federal Transit Administrator James Simpson, citing among other concerns Metro's own funding problems and Metropolitan Washington Airports Authority's lack of experience in managing such projects. The federal government was to contribute \$900 million toward the \$5 billion project, which has been planned for more than 40 years. Private equity investors are expected to submit proposals to partner with Virginia to fund the rail line, reports the *Washington Post*.

6. **Memphis to Construct \$72 Million Tower.**

Construction on a new air traffic control center at Memphis International will begin in February, with completion expected in 2011. Total costs for the 336-foot tower are estimated at \$72 million.

7. **Task Force Created to Advocate for U.S. Infrastructure Needs.**

A nonpartisan organization, Building America's Future, that will advocate for increased and wiser federal spending on infrastructure, was formed by New York Mayor Michael Bloomberg, California Governor Arnold Schwarzenegger and Pennsylvania Governor Edward Rendell, with funding from the Rockefeller Foundation. Citing an "infrastructure crisis," Bloomberg criticized federal legislators for short-sighted, politically motivated spending as U.S. roads, bridges and airports fall into disrepair.

8. **First Private International Airport.**

Construction of Del Rey Airport, believed to be the first full-service, private international airport in the world, will begin soon in the archipelago of Las Perlas in Panama. Del Rey will offer custom and immigration services to travelers to luxury resort Cuna de Vida. The runway will accommodate most personal and business jets.

9. **Sao Paulo Congonhas to Allow Increased Connections.**

The ban on using Sao Paulo Congonhas for domestic connections will be lifted in March, though tight flight caps will remain in place. Since July, when a TAM jet overshot the runway and crashed into a building, killing 199 people, traffic at the airport has been limited. In other news, the International Air Transport Association (IATA) is protesting Brazil's proposed increase in aircraft parking fees at Sao Paulo Guarulhos.

10. Charleroi to Sell 27% Stake.

Belgium's Walloon region plans to sell a 27% stake in Charleroi Airport, near Brussels, and plans to retain a 49% share. Ryanair is the dominant carrier at the airport, which has opened a new terminal with capacity for up to five million passengers yearly.

11. China to Construct 97 New Airports.

General Administration of Civil Aviation of China (CAAC) plans to construct 97 new airports by 2020 to accommodate expected traffic increases of 11.4% for passenger and 14% for freight. In other news, CAAC will increase airport fees for Chinese carriers and reduce them for foreign airlines.

12. DOT Proposes Airport Congestion Charges.

See Section I, item 1.

13. Industry Coalition Acts on Runway Safety.

See Section I, item 6.

III. **SECURITY**

1. **American Airlines Wins Appeal on Passenger Removal.**

In Cerqueira v. American Airlines the U.S. Court of Appeals for the First Circuit, in Boston, overturned a \$400,000 jury award to a Portuguese-born passenger who sued American Airlines, claiming he was removed from a flight because of racial discrimination and directed the District Court to enter judgment for American. Under Section 44902(b) of the U.S. Transportation Code, the three-judge panel ruled, carriers can turn away passengers who might be "inimical to safety." Because the crew must decide such matters quickly, it said, even mistaken decisions are protected so long as they are not arbitrary or capricious.

2. **DHS Budget for Airport Explosive Detection Increased.**

The Department of Homeland Security (DHS) 2008 fiscal budget for airport explosive detection rose by 7%, \$89 million of which will fund next-generation systems in small and medium-sized airports. Congress also allocated \$40 million for the DHS Model Ports of Entry initiative, to fund the addition of customs agents and improved arrival information at the top 20 airports; information would be broadcast on video monitors, and translators would be available in designated areas within airports. The DHS spending package includes provisions for a registered traveler program for international passengers; the program would be deployed within two years at the top 20 U.S. airports for international arrivals.

3. **U.S. Issues Real ID Standards.**

The federal government is moving forward with Real ID legislation, which requires U.S. citizens to carry new, DHS-approved driver's licenses. Although the law will not be fully implemented until 2017, some residents of states that do not comply with DHS requirements for the tamper-proof IDs will be unable to use their licenses to board commercial airplanes or enter federal buildings as of May 11. "The Department of Homeland Security is placing the burden on the traveling public for a state's inability to comply," said the Air Transport Association. The government will issue waivers to states that agree to comply, but many have refused, citing privacy and cost concerns.

4. **TSA Introduces New Technology for Screeners.**

The Transportation Security Administration (TSA) has taken over document-checking in about 450 U.S. airports and has introduced new technology for screeners. Handheld black lights illuminate holograms on passenger identification documents, such as passports and driver's licenses, and

magnifying glasses highlight tiny inscriptions found in borders of such documents. Screeners receive daily briefings on airport security concerns and are trained to spot forged documents and to study suspicious passenger behavior.

5. Carriers Appeal TSA Demand for Retroactive Fees.

U.S. and foreign airlines are appealing a 2007 decision by TSA requiring them to pay a collective annual fee of \$98 million, retroactive to January 1, 2005, owed for passenger and baggage screening at U.S. airports.

6. Registered Traveler Lacks Momentum.

Registered Traveler has 65,000 participants, half of the 126,000 projected by New York-based contractor Verified Identity Pass, which manages the program for 11 airports, reports *USA Today*. The TSA program is supposed to speed up the security screening process for those willing to pay a \$100-\$150 annual fee and pass a background check. Enrollees must pass through the same security checkpoints as other passengers, but they have their own line leading to metal detectors and X-ray machines.

7. EU Approves Use of Air Marshals on Planes.

The European Union (EU) announced new rules that would set common standards for airport and aircraft security, including passenger and baggage screening and staff recruitment and training. Countries that use air marshals will have to ensure that they carry weapons onboard only under special security conditions, such as a terror alert. EU Transport Ministers and the full European Parliament must approve the rules, which could take effect by April.

8. EU Ministers Agree to Collect Air Passenger Data.

EU ministers agreed to collect passenger name records (PNRs) for European and foreign passengers entering Europe. Non-Europeans would also provide information via visas and an entry-exit register underway. EU Justice Commissioner Franco Frattini supports the EU-wide plan and wants to avoid a patchwork of systems across the bloc; several EU nations have initiated their own PNR systems.

IV. E-COMMERCE AND TECHNOLOGY

1. Online Travel Purchases Surpass 50% in U.S.

A survey conducted by travel industry research company PhoCusWright shows that 51% of U.S. travel was booked online in 2007 and projects increases to 56% in 2008 and 60% in 2009. The “Consumer Travel Trends Survey” also found that travel products with multiple components, such as vacation packages, are purchased less frequently online than simple transactions, such as plane tickets. A separate “Travel 2.0 Consumer Technology Survey” shows that travel Web sites more often are offering group travel planning and booking and user-generated content, and travelers are seeking visual tools, such as pictures, three-dimensional maps and video. Most travelers visit between two and five Web sites when shopping for travel online to compare prices, read traveler reviews, research destinations and purchase tickets; half of people who read blogs read travel blogs.

2. Inflight Cell Phone Ban Could Hurt U.S. Competitiveness.

The U.S. ban on inflight cell phone use could have an impact on competitiveness, says Freesky Research. U.S. concern about interference with ground networks and chatty intrusiveness is allowing Middle Eastern, Asian, and European business travelers to be more productive on commercial jets, says Freesky; “There is growing operational evidence that picocell-based systems can allow phones to be used in flight without harming a ground network or an aircraft's avionics bus.”

3. U.S. Airlines Testing Inflight Internet.

American Airlines is testing an Aircell wireless Internet system on one of its Boeing 767-200s and hopes to launch customer tests in June. Southwest, in partnership with Southern California-based Row 44, will begin testing satellite-delivered broadband Internet access on four aircraft this summer. Continental signed with JetBlue's LiveTV to offer inflight TV; Wi-Fi is in the testing phase. An Orbitz For Business survey found that inflight Internet connections are not a necessity for 56% of business travelers; 36% would try to get a flight with Wi-Fi available, but only 8% would take less convenient or more expensive flights in order to have access. Citing noise concerns, 57% of business travelers surveyed oppose inflight cell phone usage.

V. NOISE AND ENVIRONMENT

1. Noise Reports Rise Since Launch of FAA Rerouting Plan.

The Alliance for Sensible Airspace Planning (AfSAP) is continuing its legal fight to reverse FAA's decision to reroute traffic across the congested corridor around New York and Philadelphia, gaining support from some Congressional leaders and threatening to block Senate confirmation of acting FAA Administrator Robert Sturgell. Comprised of about 15 communities in the region, AfSAP says FAA's plan to reduce flight delays "will result in a three-fold increase in noise pollution and produce unacceptable health, environmental, safety and quality-of-life impacts." Since FAA began phasing in the new traffic patterns at Newark and Philadelphia airports in December, Philadelphia has reported three noise complaints a day, compared to about one every two days in the previous three months.

2. Panama City Airport Stay Lifted.

The U.S. Court of Appeals vacated its stay that limited construction in the relocation of the Panama City-Bay County International Airport in northern Florida. New York-based National Resources Defense Council, Defenders of Wildlife and Friends of PFN (a group of Bay County recreational pilots) initiated the petition for review, arguing that wetlands will be destroyed by the new airport.

3. FTC Probing Green Marketing.

As part of a review of its environmental marketing guidelines, also known as the Green Guides, the Federal Trade Commission (FTC) held a public workshop to explore advertising claims related to carbon-offset programs. More than \$54 million was spent in 2007 by consumers and businesses on carbon offset credits toward tree planting, wind farms, solar plants and other projects to balance aircraft and other emissions, reports the *New York Times*. FTC is concerned that some green marketing language is misleading, a tactic environmentalists call "greenwashing."

4. CAAFI Update.

The Commercial Aviation Alternative Fuels Initiative (CAAFI) expects certification of a 50% synthetic paraffinic kerosene fuel this year, 100% synthetic fuel by 2010 and additional "drop-in" bio-fuels by 2013. Established to enhance energy security and environmental sustainability for aviation by exploring potential use of alternative fuels, CAAFI is sponsored by the FAA Office of Environment and Energy, Airports Council International-North America, Aerospace Industries Association and the Air Transport Association.

Participants include the international commercial aviation industry, fuel suppliers, universities and the U.S. Departments of Transportation, Defense, Energy and NASA.

5. **Virgin Atlantic Plans Biofuel Flight.**

Virgin Atlantic will conduct a 20-minute demonstration flight, without passengers, from London to Amsterdam on a Boeing 747-400 using 20% biofuel and 80% conventional jet fuel. The test, to occur in late February, is part of a joint research project of Virgin, Boeing and GE Aviation.

6. **British Airways Upgrades Green Initiative.**

British Airways passengers can now offset their flight emissions in a single transaction when booking tickets online. Donations will be used to support a wind farm in China and forest protection projects in Brazil. The airline is also supporting research by Cambridge University into the warming effects of non-carbon aircraft emissions; i.e., water vapor, contrails, nitrogen oxides.

7. **Cathay, Dragonair First Asian Airlines to Offer CO2 Offset Schemes.**

Cathay Pacific and Dragonair became the first airlines in Asia to launch a voluntary carbon offset scheme for their passengers, who can use cash or frequent flyer miles to pay for their offsets.

8. **Transat Supports Sustainable Tourism Projects.**

Montreal-based Transat, an international tour operator, said its program to support sustainable tourism projects to date has included commitments to the World Wildlife Fund Canada for a project to help Cuba develop sustainable tourism policy; a green-accreditation project of a UNESCO biosphere reserve in Ontario; and aiding Quebec to protect and maintain historic buildings and modernize reception structures, and protect and develop recreational-tourism potential of areas along the St. Lawrence River. Projects proposed by communities or not-for-profit organizations in Transat's 60 destination countries are eligible for financial support of up to \$50,000 or €35,000 each.

9. **Markey Urges EPA to Regulate Airline Emissions.**

See Section VI, item 2.

VI. U.S. CONGRESS

1. Airline Merger Talks Rile Congress.

Merger discussions between Delta and Northwest led James Oberstar (D-Minn.), Chairman of the House Transportation Committee, to say he will try to block any proposed airline mergers because they are not in the public interest. Oberstar said he would urge the Justice Department to conduct an inquiry into any merger plan and consider the domino effect on the industry. Airline mergers could result in reduced air service for small communities, he said, and would reduce competition, raise ticket prices and eliminate jobs. "Northwest has 66% of the business at Minneapolis, 60% at Detroit, and half of all flights at Memphis," said Congressman Steve Cohen (D-Tenn.). "Such a merger would lead to the loss of countless jobs at these locations. Also, Delta's Cincinnati and Atlanta hubs would overlap with Northwest's in Detroit and Memphis, leading to the likely closure of the smaller of the two hubs." Senator Amy Klobuchar (D-Minn.) asked Northwest CEO Doug Steenland and Delta CEO Richard Anderson to disclose the effects of a potential merger on jobs and air service, particularly at Minneapolis-St. Paul International Airport. Delta is said to be conducting talks with United as well; Northwest will look for another partner if Delta tries to merge with United, said Oberstar.

2. Markey Urges EPA to Regulate Airline Emissions.

Rep. Ed Markey (D-Mass.), Chairman of the Select Committee on Energy Independence and Global Warming, in a letter urged the head of the Environmental Protection Agency (EPA) to regulate greenhouse gas emissions from airplanes. Markey asked EPA Administrator Stephen Johnson about the role played by EPA in the Bush Administration's threat of legal action against the EU regarding its emissions-trading system. Airplanes accounted for about 3% of emissions in 2005, Markey wrote, and jet aircraft emissions deposited into the upper atmosphere may have a greater warming effect than gases emitted closer to the surface. "It is imperative that this nation find ways to reduce such emissions."

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. Australia, U.S. to Negotiate Open Skies.

Australia and the United States will begin open skies talks in Washington in February. A pact could clear the way for Virgin Blue's planned V Australia unit to begin flights on the route by yearend; the startup has applied for 10 weekly Boeing 777-300ER flights between Australia's east coast and the U.S. west coast.

2. Boeing and Airbus at the WTO.

A World Trade Organization (WTO) panel heard European arguments in the continuing U.S.-EU dispute over state subsidies to Airbus and Boeing. Both sides claim the other has shown little interest in resolving the claims through negotiation. Meanwhile, Boeing warned that new European government support for the Airbus A350 would constitute a display of contempt while the matter is being heard at the WTO.

3. Canada 's Competition Bureau Recommends Open Skies.

Canada 's Competition Bureau urged the government to allow foreign carriers to provide point-to-point service within Canada and eliminate foreign ownership restrictions for air carriers or raise limits to 49.9% from the current 25%. The Air Transport Association of Canada opposes the recommendations, reports the *Globe and Mail*, saying, "We shouldn't give away access to our marketplace" unless access is gained in the foreign country.

4. China, India Extend Bilateral.

India cleared a proposal by Chinese cargo carrier Great Wall to operate flights to Mumbai and Chennai. In return, China is expected to allow Jet Airways to conduct daily Mumbai-Shanghai-San Francisco flights; Jet would become the first non-Chinese airline to use a Chinese hub as a transit to a third country. India earlier blocked the Great Wall request, due to allegations that it shipped missile technology to Iran.

VIII. EUROPE/AFRICA

1. KLM's Peter Hartman Named AEA Chairman.

KLM President and CEO Peter Hartman was named Chairman of the Association of European Airlines (AEA) for 2008, succeeding Iberia Chairman and CEO Fernando Conte. AEA, which represents Europe's major network carriers, welcomed new members from Ukraine—Aerosvit and Ukraine International.

2. British Airways to Launch OpenSkies Subsidiary in June.

British Airways will launch "OpenSkies" in June, a subsidiary offering daily Boeing 757 flights from New York to either Brussels or Paris Charles de Gaulle. Virgin Atlantic put on hold its plans to launch a business-only carrier operating between European cities and New York this year, citing lack of progress in next stage open skies talks and a possibility that the first stage could be reversed.

3. United, Austrian Begin Code Share.

Star Alliance partners United and Austrian began code sharing on United flights to 20 U.S. cities from Chicago.

4. Lufthansa, TUI to Create Low-Cost Carrier.

Lufthansa and German travel group TUI plan to create a new low-cost carrier by mid-2009 through a merger of TUI Travel, Hapag-Lloyd and Hapag-Lloyd Express with Lufthansa units Germanwings and Eurowings. Reportedly, TUI and Lufthansa each would own 40%, with Albrecht Knauf, a partner with Lufthansa in Germanwings and Eurowings, holding the remainder. The new carrier would transport about 30 million passengers a year, comparable to low-cost Air Berlin. In other news, Lufthansa reached an 18-month agreement with its pilots, which includes a raise and a one-time payment equal to 25% of a month's wages.

5. India's Jet Airways Seeks Stake in bmi.

India's Jet Airways reportedly is seeking to purchase the 51% stake in bmi held by Chairman Sir Michael Bishop. Lufthansa and SAS also own shares of the British carrier, which holds a large number of London Heathrow slots. A Middle-Eastern airline is said to be involved in the offer.

IX. ASIA/PACIFIC / MIDDLE EAST

1. China Eastern, China Southern to Forge Alliance.

China Eastern rejected a strategic partnership offer by Air China parent, China National Aviation Corporation (CNAC), that could include \$1.9 billion in cash, but said it is still amenable to a \$920 million offer from Singapore Airlines and Temasek for a 24% share, which its shareholders rejected. The carrier then signed a cooperation agreement with SkyTeam member China Southern that includes joint operation of routes.

2. Korean Air to Add Dallas-Seoul Flight.

Korean Airlines will increase its Boeing 777-200 nonstops between Seoul and Dallas Fort Worth to four this summer. The Dallas area is spending about \$1 million to encourage Asian tourism.

3. Virgin Seeks Approval to Launch Domestic Airline in India.

[Virgin Group Chairman Sir Richard Branson has renewed efforts to establish a domestic carrier in India, which is said to be reviewing its policy of not allowing overseas airlines to own equity stakes in domestic airlines; companies other than airlines can own up to a 49% share.

4. Israel to Allow Competition on International Routes.

The Israeli government approved a plan to eliminate the El Al monopoly on certain international routes, allowing competition by carriers such as Israil and Arkia. The government also announced it will pay 80% of airline security charges annually, up from a current 50%. The decisions are meant to offset foreign competition; since 2006 the number of seats offered by foreign airlines to Israel has increased by 45%.

5. Libya Faces Fines for 1989 Airline Bombing.

The Libyan government and six of its officials face billions of dollars in fines for their role in a 1989 airline bombing, a Washington U.S. District Judge said, ruling that the estates of seven U.S. victims, their immediate families and Interlease Inc., which owned the aircraft, are owed hundreds of millions of dollars plus interest for economic losses and pain and suffering. All 170 people aboard UTA flight 172 were killed when a suitcase bomb exploded en route from the Republic of Congo to Paris. In 1999, six Libyans were convicted in absentia in a French court on charges of planning and carrying out the bombing.

6. Kuwait Airways Privatization Plan Approved.

Kuwait's parliament approved a government plan to sell a 40% stake in Kuwait Airways to the public, open only to Kuwaitis, and 35% to a long-term investor, open to some foreign firms. The state would retain a 20% stake and employees 5%.

7. Midex Launches Cargo Airline in UAE.

Privately-owned Midex International Group will launch United Arab Emirates' first all-cargo carrier, Midex Airlines, in February, with daily scheduled operations to Paris Orly, Mumbai, Kochi, Dhaka, Istanbul and Beirut from Al Ain International Airport in Abu Dhabi, using six Airbus A300B4-203Fs and one Boeing B747-200F. The airline is also licensed for passenger operations. There are plans to develop the airport into a regional cargo hub; Al Ain is near Oman and links to Abu Dhabi and Dubai by highways.

8. Indonesia Accelerating Safety Measures to Overcome EU Ban.

Indonesia is planning to accelerate improved safety standards at Garuda, Mandala, Airfast and Premiair to bring them in line with EU levels, said Transport Minister Jusman Syafii Djamal. The EU banned flights by all 51 Indonesian airlines in its airspace last June due to safety concerns. A November inspection found that Indonesian safety practices had not improved enough to warrant a lifting of the ban.

9. FAA Downgrades Philippines to Category 2.

See Section I, item 4.

10. U.S. to Help Vietnam Upgrade Aviation Safety.

See Section I, item 5.

11. India's Jet Airways Seeks Stake in bmi.

See Section VIII, item 5.

X. AMERICAS

1. ATA: 2008 Outlook.

The 2006-2007 period shows the first back-to-back net profit for U.S. airlines since 1999-2000, reported the Air Transport Association (ATA), a “welcome relief after an unprecedented five-year loss of \$35 billion.” In 2008, ongoing passenger and cargo revenue strength, particularly in the international arena, will help offset a sizeable increase in fuel expenses and a modest increase in non-fuel expense, enabling the industry to post a \$3.5 to \$4.5 billion net profit. Oil is likely to average \$80 per barrel, said ATA.

2. Doug Steenland Named ATA Chairman.

Northwest President and CEO Doug Steenland was named ATA Chairman. He will serve a two-year term.

3. Airlines Increase Fuel Surcharges

U.S. airlines, including Continental, American, United and US Airways, doubled fuel surcharges to \$40 from \$20 on domestic roundtrip tickets.

4. Airline Passengers Group Releases Model State Bill of Rights.

The Coalition for an Airline Passengers' Bill of Rights (CAPBOR) released a Model State Bill of Rights, for use by state legislators who wish to enact legislation similar to that of New York, which went into effect January 1. The FAA reauthorization bill stuck in Congress contains provisions for protecting passengers; meanwhile, a number of states are preparing their own bills. A challenge to the New York law was brought by ATA and dismissed. The ATA has appealed that decision. Separately, CAPBOR founder Kate Hanni filed suit against American Airlines, alleging false imprisonment while on a plane for nine hours during a 2006 Texas thunderstorm. She charges the carrier with inflicting emotional distress, negligence and breach of contract. Hanni and a passenger on another American plane, who has filed suit for similar reasons, hope to present their cases as class actions on behalf of 12,000 American passengers who were confined “in poor to deplorable conditions.”

5. JetBlue Reports First Profit in Three Years.

JetBlue reported a narrower than expected fourth quarter loss and its first full-year profit in three years, and said it is negotiating a commercial agreement with new stakeholder Lufthansa.

6. **Dion Flannery Named President of US Airways Express.**

US Airways executive Dion Flannery was named president of US Airways Express, with oversight for wholly owned regionals Piedmont and PSA and the seven regional affiliates that operate as US Airways Express. He succeeds retiring Robert Martens.

7. **AirTran Chairman Joe Leonard to Exit in May.**

AirTran Chairman Joe Leonard plans to leave the company in May. He will be replaced by CEO Robert Fornaro.

8. **Crash Victim Families Cannot Sue Comair for Loss of Companionship.**

A U.S. District Judge ruled that families of the 49 victims of the 2006 crash of a Comair jet are not entitled under Kentucky law to sue the airline for loss of companionship. Comair Flight 5191 crashed shortly after taking off from Lexington Blue Grass Airport.

9. **United, Austrian Begin Code Share.**

See Section VIII, item 3.

10. **Korean Air to Add Dallas-Seoul Flight.**

See Section IX, item 2.