



WASHINGTON AVIATION SUMMARY

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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 Reports Demand Slows in April.

Year-on-year international passenger demand grew by 3% in April, reports the International Air Transport Association (IATA), or 4% with seasonal and other adjustments, compared to 6.7% growth for the first four months of 2007. Capacity growth of 5% saw load factors fall to 75.4%, compared to 76.9% year-on-year and the third consecutive monthly year-on-year decline. International cargo demand growth remained sluggish at 3.7%. Unadjusted year-on-year April traffic increases by region: Europe, 1.6%; North America, 3.8%; Asia Pacific, 2.6%; Middle East, 11%; Latin America, 4%. Africa saw a 5.6% contraction in traffic.

2. DOT Approves Expanded Delta, Northwest Transatlantic Alliance.

The U.S. Department of Transportation (DOT) granted antitrust immunity to Delta, Northwest and SkyTeam partners Air France, Alitalia, Czech and KLM, allowing them to coordinate transatlantic fares, services and capacity as if they were a single carrier in these markets. The proposed alliance is in the public interest because it features an integrated joint venture that will likely produce efficiencies and provide consumers with additional price and service options, said DOT. The carriers are required to fully implement the proposed alliance within 18 months as a condition of retaining immunity and will remain subject to antitrust laws for domestic service and for international flights that are not covered by the alliance agreement. Northwest has an existing alliance with KLM, and Delta with Air France, Alitalia and Czech. The decision does not affect Delta's and Northwest's ongoing merger plans, which are subject to a separate antitrust review by the Department of Justice.

3. U.S. Fines Japan Air \$110 Million in Cargo Price Fixing Scheme.

Japan Airlines was sentenced to pay a \$110 million fine for its role in a conspiracy to fix rates for international cargo shipments, said the U.S. Department of Justice (DOJ), after agreeing in April to plead guilty. In related news, Bruce McCaffrey, the former highest-ranking Qantas cargo executive employed in the United States, agreed to plead guilty to price fixing and will serve eight months in prison, said DOJ. Under the plea agreement, subject to court approval, he agreed to pay a \$20,000 criminal fine and cooperate with the Department's ongoing investigation. In January, Qantas pleaded guilty and was sentenced to pay a \$61 million criminal fine for engaging in air cargo price fixing, and last year British Airways and Korean Air pleaded guilty and were each sentenced to pay separate \$300 million criminal fines.

4. **DOT Announces Consumer Protection Measures.**

DOT released consumer protection measures requiring airlines and travel agents to disclose fees for checking a second bag in Internet and print ads, prior to ticket purchase, and issued a final rule that requires airlines to report new and more complete data on the length of time passengers spend on the tarmac. DOT extended the Air Carrier Access Act, which protects travelers with disabilities from discriminatory policies, to foreign air carriers operating a flight that begins or ends in the United States and to U.S. air carrier operations worldwide. The new rule requires airlines to allow use in the passenger cabin of portable oxygen concentrators and further accommodates hearing- and vision-impaired passengers. A supplemental proposal addresses whether airlines should be required to provide medical oxygen to passengers upon request, as well as accessibility of airline Web sites, automated ticketing kiosks and inflight entertainment systems.

5. **FAA, Airlines Urged to Avoid Massive Abrupt Flight Cancellations.**

Airlines, aircraft manufacturers and the Federal Aviation Administration (FAA) should review current procedures to avoid massive abrupt flight cancellations, said Secretary of Transportation Mary Peters. Citing 'lessons learned' from reports submitted by FAA and American Airlines after the April grounding of hundreds of American's MD-80s, she called for their mutual understanding of compliance with an Aviation Directive, and of the process, timing and criteria for requesting and approving alternative solutions for safety directives, known as Alternate Means of Compliance. In their reports to DOT, FAA said the airline had not properly complied with a wiring-related order over a three-year period, and a reinspection had found situations representing serious and unacceptable failures; while American said problems found by FAA inspectors were trivial and posed no threat to safety. Peters has appointed a panel of outside experts to review the situation. Separately, FAA failed to perform more than 100 recommended safety reviews at major airlines in recent years, according to a self-assessment.

6. **Special Counsel Probes FAA Whistleblower Intimidation.**

In continuing fallout from allegations of lax oversight of Southwest, the Office of Special Counsel is investigating cases in which FAA managers are accused of intimidating or punishing employees for pointing out safety problems, reports the *Wall Street Journal*. Investigators instructed high-ranking FAA officials, including Acting Administrator Robert Sturgell, to save e-mails, telephone logs and personal computer files for law enforcement purposes.

7. **International Visitation Up 15% in February.**

The United States had 3.3 million international visitors in February, up 15% over February 2007, reports the U.S. Department of Commerce. Total

visitation year-to-date was up 13% from the first two months of 2007. Overall air arrivals were up 7% in February: 17% from Europe, 20% from Russia, 4% from Asia, 13% from South America, 12% from Oceania and 6% from the Middle East and Africa. International visitors spent \$11.6 billion during the month, up 26% from February 2007.

8. FAA Trains Baghdad's Air Traffic Controllers.

Three Iraqi nationals became Baghdad's first tower-certified air traffic controllers and another 22 are expected to complete training and receive certification in coming months. An FAA-led team oversaw the training program, needed to support the Iraqi Civil Aviation Authority, which now controls the nation's airspace above 29,000 feet. DOT personnel have worked since 2003 to help upgrade Iraq's airports, civil aviation regulations and ATC facilities. Modern ATC equipment in use at the Baghdad Area Control Center was installed using funds provided by the Iraqi government and the U.S. Agency for International Development. The Center has handled more than 30,000 civil aviation fights, a number expected to grow once Iraqi Airways begins taking possession of new aircraft later this year.

9. DOT Air Travel Consumer Report for March.

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

	March '08/'07	Feb. '08	Full Year				
			2007	2006	2005	2004	2003
On-time arrivals %	71.6 / 73.3	68.6	73.4	75.4	77.4	78.1	82
Mishandled baggage*	6.66 / 7.74	6.39	7.03	6.73	6.64	4.91	4.19
Consumer complaints:							
Airline service	1,013/1,307	936	13,168	8,325	8,741	7,452	5,983
Disability-related	43 / 37	35	480	430	511	521	375
Discrimination**	6 / 8	9	99	114	129	118	85

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

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. DOT Proposes Slot Auction for New York Airports.

DOT posted the final order to temporarily cap New York Newark flights at an average of 83 scheduled flights per hour from June 1 to October 2009, saying the measure will spread flight schedules more evenly throughout the day and allow for 30 operations more per day than last summer. DOT also wants to make slots available for auction at New York Kennedy and Newark. Under that proposal, airlines would be given up to 20 slots a day for the 10-year life of the rule. The proposal offers two options for Kennedy. Under the first, 10% of slots above the 20-slot baseline would be made available via an auction. The revenue from those auctions would be invested in regional congestion and capacity improvements. Under the second option, airlines would auction 20% of slots above the 20-slot baseline and keep all proceeds. Depending on the option, 91 to 179 slots would be affected out of 1,245 total Kennedy slots. At Newark, 10% of slots above the baseline would be auctioned annually for the first five years of the rule; 96 of a total 1,219 slots would be auctioned over the 10-year span of the proposal. The Air Transport Association of America (ATA) condemned the plan as “ill-conceived and unlawful,” saying, “We must work to expand, not limit, capacity.” DOT is accepting comments through mid-July. In related news, DOT will spend \$2 million to study ways to add transit connections to Stewart Airport, located 90 miles north of Manhattan.

2. American Rescinds Curbside Check-In Fee.

American Airlines agreed to drop a \$2 per bag fee for curbside check-in at airports throughout the country and to lift a ban on tips for skycaps at Boston Logan, reports the *Boston Globe*. In exchange, American skycaps at Logan agreed to drop a federal claim that accused the airline of imposing the tips ban May 1 in retaliation for skycaps' April victory in a lawsuit in which nine skycaps were awarded about \$325,000 for tips lost when the airline implemented the curbside fee. Lawsuits on behalf of skycaps also have been filed against US Airways, United and JetBlue, challenging similar curbside fees.

3. European Commission Accepts Slot Trading.

The European Commission clarified its slot allocation rules to ensure efficient and non-discriminatory use at congested airports, and recognized slot trading between air carriers as “acceptable.” Transport Vice President Jacques Barrot said slot trading has shown its value in London, where airlines are taking advantage of opportunities provided by the EU-US open skies agreement.

4. **British Airways to Begin \$30 Million Kennedy Terminal Upgrade.**

British Airways in June will begin a \$30 million, 18-month project to enhance premium facilities at its New York Kennedy terminal. In other news, the carrier said service to eight long-haul destinations, including New York Kennedy and Phoenix, will be switched from Heathrow Terminal 4 to the new Terminal 5 on June 5. The move is being handled in phases, following a chaotic opening of T5 that led to the firing of Heathrow CEO Mark Bullock and two senior British Airways employees. Airport operator BAA replaced Bullock with Mike Brown, Chief Operating Officer of London Underground.

5. **Breakup of BAA Probable.**

“Common ownership of Heathrow, Gatwick and Stansted by BAA is likely to prevent, restrict and/or distort competition,” said the UK Civil Aviation Authority (CAA), commenting on an interim report by the UK Competition Commission. CAA will work with the Commission to consider the appropriate ‘remedy,’ including divestment of airports and economic regulation reforms. CAA also concluded that economic regulation has not had an adverse effect on competition, but has mitigated adverse effects of market power, including common ownership of BAA's South East airports.

6. **New International Policy for Haneda.**

When Tokyo Haneda's new runway opens in 2010, the night curfew will be reduced to allow more convenient schedules for U.S. and European flights, reports the Centre for Asia Pacific Aviation. International slots will be restricted to 30,000 until October 2010, and eventually could rise to 60,000 as demand grows. Slot allocations will be aimed at expanding Asian city routes. Domestic slots will increase from 10,000 to 20,000 immediately.

7. **Vietnam to Expand Hanoi Airport.**

The Vietnamese government approved an \$850 million expansion plan for Noi Bai International Airport, near Hanoi. The project includes a third terminal with capacity for 25 million passengers a year by 2020, up from a current 10 million passengers.

III. SECURITY AND DATA PRIVACY

1. TSA Pilot Program Screens Employees at Seven Airports.

The Transportation Security Administration (TSA) launched 90-day employee screening pilots at seven airports, to conform with an act of Congress passed in January that provides up to \$15 million for the programs. TSA is required to report to Congress by September on the cost and effectiveness of the pilots at each airport. At Boston Logan and other airports, the pilot requires 100% physical employee and vehicle screening at key perimeter entrances and select employee entrances. At Denver and other airports, increased random physical screening, behavior detection training and other methods are being used.

2. Global Entry Program to Speed Customs Checks.

U.S. citizens and permanent residents who pass a background check and pay a \$100 enrollment fee will be able to avoid long lines at Customs checkpoints upon arriving from international destinations. Global Entry will operate as of June 10 at Washington Dulles, Houston Intercontinental and New York Kennedy, with expansion to 17 other major U.S. airports expected.

3. U.S.-Dutch Fast Lane Trial Planned.

The U.S. Department of Homeland Security and the Dutch Ministry of Justice signed a joint statement that will allow passengers holding Dutch or American passports to use automated facilities to pass quickly through American and Dutch border controls. The first transatlantic fast lane program, the International Expedited Traveler (IET) Program links the U.S. Customs Global Entry program with Schiphol Group's Privium program, which allows members to pass through automated border controls by means of iris verification. The one-year trial will begin in December 2008 or January 2009 at New York Kennedy, Houston Intercontinental, Washington Dulles and Amsterdam Schiphol.

4. DHS Biometric Exit Procedures Opposed.

Among groups opposed to a Department of Homeland Security proposal calling for biometric exit procedures at U.S. airports are IATA and the Association of Corporate Travel Executives (ACTE), which say the program will pose a substantial financial hardship on airlines that already are facing staggering fuel costs. It is equally unreasonable to drop a \$300 million travel cost increase in the form of security surcharges or additional ticket taxes onto business travelers, said Richard Crum, ACTE President. ACTE also objected to the lack of standards in the program's implementation. IATA said it is

strongly opposed to the proposal that airline employees collect fingerprints from foreign nationals leaving the United States because immigration is inherently a government responsibility; the collection process will result in airport congestion, delays and missed connections; and airlines and passengers are not in a position to absorb the multi-billion dollar price tag for this program.

5. French Biometric Passport Exceeds EU Requirements.

The Government of France has adopted by decree requirements for a new biometric passport and to establish a national database to store the fingerprints, and related documents submitted to obtain a passport. The new law will require applicants to submit eight digital fingerprints. The French national data protection agency (CNIL) opposed the law because the applicable European Council Resolution requires the biometric passport to include only two fingerprints. The CNIL contends that the new fingerprint requirement and related new database, creates unnecessary risks for the privacy of citizens.

6. TSA Technology News.

TSA certified the CT-80DR explosives detection system (EDS), made by Reveal Imaging Technologies, which has the ability to scan checked baggage for a wide variety of explosives at a rate of up to 226 bags per hour, an 80% increase in speed over previous versions of the system. The SmartCheck passenger screening system, which has been piloted at Phoenix Sky Harbor since February 2007, will be tested at Los Angeles International. American Science and Engineering says the system safely screens for a wide variety of threats concealed on a passenger, while ensuring their privacy. SmartCheck creates an image that looks like a chalk outline of the passenger with threats and contraband outlined, but does not reveal facial features. Additionally, SmartCheck systems installed in LAX and Phoenix cannot store, export, print or transmit images; all images are automatically deleted from the system immediately after they are reviewed. TSA has established a separate location for the security officer to view the images so that the officer never sees the passenger. SmartCheck scan is a voluntary option for passengers undergoing secondary screening as an alternative to pat down procedures. SmartCheck uses Z Backscatter X-ray technology, found to be safe for operators and scanned individuals.

7. Fines for Breach of UK Data Privacy Laws.

The new Criminal Justice and Immigration Act which was passed by the UK Parliament and has received Royal Assent will enable the UK [Information Commissioner's Office](#) (ICO) to impose substantial fines on organizations that

deliberately or recklessly commit serious breaches of the Data Protection Act. David Smith, Deputy Information Commissioner said: "This change in the law sends a very clear signal that data protection must be a priority and that it is completely unacceptable to be cavalier with people's personal information. The prospect of substantial fines for deliberate or reckless breaches of the Data Protection Principles will act as a strong deterrent and help ensure that organizations take their data protection obligations more seriously." Under the prior law penalties could only be imposed by the courts. No date has been determined for when the new ICO powers will be implemented or the level of fines that will be permitted.

IV. E-COMMERCE AND TECHNOLOGY

1. Transition to 100% E-Ticketing Environment.

The IATA measure to eliminate paper tickets by June 1, 2008, adopted in 2004, is to come into effect as planned with most airlines in compliance. To aid in the transition, Sabre launched the Virtual Miscellaneous Charge Order (vMCO), to enable agents to arrange for passengers to receive a paper ticket at the airport when an airline or route is not yet e-ticketable. The solution can also be used to pay for miscellaneous transactions, "Pre-paid Ticket Advices" and "Tickets on Departure" ("TOD"), for which e-ticketing is not yet available, and will be completely automated, passing transaction details to IATA's Billing and Settlement Plans, and an agency's mid- and back-office systems. Separately, Sabre Airline Solutions' 'SabreSonic Ticket' helps airlines distribute e-tickets and check in passengers with e-tickets. IATA predicts the mandate will save the industry up to \$3 billion annually.

2. EU Reports Misleading Practices in Internet Sales.

The EU Consumer Commissioner is investigating misleading advertising and unfair practices on Web sites selling airline tickets. One in three sites surveyed on February 22, 2008 received enforcement action for breaches of EU consumer law, most of which, the EC said, have been corrected. The report covered data for 13 countries and focused on misleading pricing, availability of offers, unfair contract terms, pre-checked boxes and clear contract terms in the language of the consumer. The sites under investigation represent airlines, travel agencies, tour operators and others, such as price comparison sites. The Commission will monitor developments in the airline sector over the coming year and provide a further report next May.

3. Sabre Study Shows LCCs Evolving to "Hybrid" Airlines.

A global study of 540 airlines revealed that out of 123 low-cost carriers (LCCs), 59% had evolved into full-service airlines or were "hybrids." The Sabre Airline Solutions study said only 41% retained true LCC characteristics including point-to-point routes, single aircraft types, single cabin configuration, simple fares with no interline or code share agreements and direct distribution. Hybrids carried 64% of all passengers in 2007 in the broader LCC segment. Full-service carrier attributes being introduced by LCCs include international routes, use of the global distribution system, code shares, connecting services, multiple fares and multiple aircraft types and classes of service. Southwest and JetBlue may be considered hybrids.

V. **NOISE AND ENVIRONMENT**

1. **EU Environment Committee Accelerates ETS Inclusion of Airlines.**

The European Parliament's Environment Committee voted to accelerate inclusion of aviation in the European Emissions Trading Scheme (ETS) by 2011, rather than 2012, as formerly proposed. A final parliamentary vote is expected in July.

2. **Honeywell, Airbus, JetBlue, Intl Aero in Biofuel Study.**

Airbus and Honeywell, in cooperation with JetBlue and International Aero Engines, plan to produce fuel from vegetation and algae-based oils that could provide up to 30% of all commercial aviation jet fuel by 2030. A Honeywell process will convert biological material into renewable jet fuel that performs like traditional fuel and meets flight performance specifications. Honeywell was selected by the Defense Advanced Research Projects Agency to develop and commercialize production of jet fuel from renewable sources for use by U.S. and NATO military aircraft; that process will be completed by yearend.

3. **KLM Developing Algae-Derived Alternative Jet Fuel.**

Air France-KLM entered an agreement with Dutch technology company AlgaeLink for a pilot project to develop alternative fuel for the aviation industry. AlgaeLink produces algae on a large scale in controlled photo-bioreactors and in greenhouses and processes it into algae oil, which can be used in jet engines, alone or in a mix with conventional jet fuel. AlgaeLink expects to start delivering algae-derived oil to KLM by yearend.

4. **FDA Warns Atlantic Southeast About Sediment in Water Cart.**

Food and Drug Administration (FDA) inspectors found paint chips and other debris in equipment used to deliver drinking water to Atlantic Southeast planes at Mid-Continent Airport in Wichita. The sediment indicates the water cart is not adequately maintained, flushed and sanitized with sufficient frequency to ensure potable water is delivered to the aircraft, said FDA, which called for changes to correct the problem. The watering point inspected is used to service Atlantic Southeast flights operating as connecting service for Delta. Atlantic Southeast, a unit of SkyWest, said the equipment is cleaned monthly.

VI. U.S. CONGRESS

1. FAA Reauthorization Legislation Still Stalled in Senate.

The Senate failed to achieve cloture on FAA reauthorization legislation, with Republicans objecting to non-aviation revenue provisions in the bill. The House passed its version of the bill in September, but it has been held up in the Senate due to disputes over how to pay for air traffic control modernization.

2. House, Senate Committees Review Delta-Northwest Merger Proposal.

Richard Anderson and Doug Steenland, CEOs respectively of Delta and Northwest, defended their proposed merger before the Senate Aviation Subcommittee, saying consolidation would preserve jobs and service to small cities, benefit consumers and enhance competition with foreign carriers. Representatives from the Consumer Federation of America, Association of Flight Attendants and International Association of Machinists and Aerospace Workers expressed concerns about the merger. Subcommittee Chairman John D. Rockefeller, IV (D-W.V.) said some consolidation may be necessary to ensure a financially stable U.S. commercial aviation industry. But, he said, "I am not convinced that consolidation is sufficient to solve the long-term challenges of the airlines." In the House, Transportation Committee Chairman James Oberstar (D-Minn.) and Aviation Subcommittee Jerry Costello (D-Ill.) said more mergers would be triggered, leading to further concentration of economic power in the industry.

3. Bill Would Ban Inflight Cell Phone Conversations.

The House Transportation Committee offered a bill that would prohibit commercial airline passengers from talking on a mobile device, should federal prohibitions be lifted. The "Hang Up Act," introduced by Peter DeFazio (D-Ore.) would ban voice communications only; passengers could access the Internet, e-mail and send text messages.

4. House Holds Hearing on Aviation and the Environment.

Wrapping up a House Aviation Subcommittee hearing on aviation emission issues, Chairman Jerry Costello (D-Ill.) urged FAA to produce and meet its timeline and milestones for modernizing the U.S. air traffic control system, which will lead to "positive impacts on the environment including fuel efficient operating procedures." Every penny in the price of a gallon of jet fuel results in an additional \$195 million in annual fuel costs for the U.S. airline industry, he said. Regarding the EU emissions trading scheme, he said, "any effort to reduce emissions should be done by consensus through ICAO and must

maintain economic growth while reducing emissions.” He promoted coal to liquids (CTL) technology, saying his state, Illinois, “is rich in coal and the United States has a 250-year supply of coal in the ground that we continue to use for half of our electricity production. . . . CTL fuels can be used in existing planes and engines without degradation in performance, and can help reduce our reliance on foreign sources of oil.” ATA President and CEO James May testified that operational improvement and technological advancements have resulted in the U.S. airline industry representing just 2% of all greenhouse gases, as compared to 25% for the balance of the transportation sector. He urged Congress to work collaboratively with the airline industry to modernize the aging air traffic control system, reinvigorate environmental aeronautics R&D programs and spur further commercial development of alternative jet fuels. “Modernizing air traffic management would result in a 10 to 15% reduction in emissions, in addition to the commitment of ATA member airlines to reduce emissions by at least 30% by 2025,” said May. The Commercial Aviation Alternative Fuels Initiative (CAAFI) aims to achieve certifications for a 50% synthetic fuel by the end 2008 and of bio-jet fuels by 2013. Climate change-related legislation, such as a cap-and-trade requirement, should be calibrated, said May, “so that it is not counterproductive to the industry’s reinvestments into the operational innovations and technologies that improve fuel efficiency.”

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. EU, U.S. Hold Next Stage Open Skies Talks.

A new stage of EU-U.S. open skies talks began in Slovenia and will continue in September in Washington. The EU will seek repeal of U.S. laws that limit foreign ownership of U.S. carriers to 25% of voting stock and prohibit actual control by foreign citizens. John Byerly, U.S. Deputy Assistant Secretary of State for Transportation Affairs, proposed an ancillary multilateral agreement for airlines from more than 60 nations, but, said EU chief negotiator Daniel Calleja Crespo, EU-U.S. talks should be completed before such expansion is considered. In remarks to the European Aviation Club prior to the opening of the talks, Byerly said the United States would seek to address an imbalance in seventh-freedom rights traffic rights in the second-stage negotiations, as well as EU noise and emissions constraints and investment liberalization. He cited London Heathrow as one of many indications of the success of first stage talks. "Where once only four airlines were allowed to offer air service—and even then, only to some cities in the United States—today a free market thrives." New transatlantic service now being offered from Heathrow includes: Air France to Los Angeles; American to Dallas and Raleigh; British Airways to Dallas and Houston; Continental to Houston and Newark; Delta to Atlanta and New York; Northwest to Detroit, Minneapolis, and Seattle; United to Denver; and US Airways to Philadelphia.

2. EU, Australia Sign Horizontal Pact.

The European Union and Australia signed a horizontal aviation agreement that allows European airlines to fly between any EU member state and Australia, paving the way, said EU Transport Vice President Jacques Barrot, for a comprehensive agreement involving cooperation in key areas such as competition, safety and the environment. The new agreement removes nationality restrictions in bilateral air services agreements previously signed by EU member states and Australia. More than 4 million passengers travel between the EU and Australia annually.

VIII. EUROPE/AFRICA

1. OpenSkies Approved for Launch.

British Airways' new premium transatlantic airline, OpenSkies, received DOT approval to begin operations to New York Kennedy. OpenSkies will begin Boeing 757 service from Paris Orly on June 19, in a code share arrangement with French airline L'Avion, and plans to add routes from Amsterdam, Brussels, Frankfurt and Milan. In other news, British Airways reported its profits rose 45% in the 12 months ended March 31, 2008 and declared its first dividend since 2001.

2. Silverjet Suspends Operations.

Silverjet ceased operations suddenly. "We are working actively with new investors who are prepared to inject new funds so we can recommence operations," said CEO Lawrence Hunt. The UK premium airline began service in January 2007, operating flights to New York and Dubai from London.

3. Austrian Launches All-Premium Service.

Austrian will introduce an all-premium service in July between Vienna and Astana, Damascus, Dubai, Erbil, Jeddah, Cairo, Riyadh and Teheran. Saudi businessman Sheikh Mohammed Bin Issa Al Jaber withdrew plans to take a 20% stake in Austrian and the government, which owns 43% of the carrier, reportedly is studying privatization; Lufthansa, Emirates and Aeroflot were named as potential bidders. In remarks made to the International Aviation Club in Washington, Lufthansa CEO Wolfgang Mayrhuber expressed interest in a friendly takeover of Austrian, a Star Alliance partner.

4. SAS Ordered to Pay \$26 million to Norwegian Air Shuttle.

The Norwegian unit of SAS was ordered to pay \$26 million to Norwegian Air Shuttle in a civil suit over unlawful access to computer systems and said it probably will appeal. The suit brought by Norwegian "resulted from unlawful insight into the Amadeus system several years ago," said SAS, which apologized but rejected the claim that this resulted in financial losses.

5. United to Launch Nonstops to Dubai, Moscow.

United will offer new daily passenger and cargo service to Dubai and Moscow from Washington Dulles, pending government approvals, in October.

6. **United, Air One to Code Share on Milan-U.S. Routes.**

Italian airline Air One will code share with United on new flights from Milan Malpensa to Boston and Chicago starting in June, and is considering services to other U.S. cities, including New York, Washington and Miami.

7. **Delta, Czech Expand Code Share.**

Czech Airlines in June will add service to Hartford, Rochester, Buffalo and Indianapolis in an expansion of its code share arrangement with Delta, with transfers at airports in New York or Atlanta. Delta will offer new flights through Czech from Prague to Tbilisi, Thessaloniki, Cracow and Larnaca.

8. **Zoom Offers Gatwick to Fort Lauderdale, San Diego Nonstops.**

Zoom Airlines began service from London Gatwick to Fort Lauderdale, and will begin twice weekly service from London Gatwick to San Diego in June. The Canadian budget carrier offers one-way fares, with allocated seating and meals included in all cabins, and enhanced premium economy service.

IX. ASIA/PACIFIC / MIDDLE EAST

1. China to Design, Build Large Jets.

The central and Shanghai governments are among major shareholders in Commercial Aircraft Corporation of China Ltd (CACC), newly formed to design and build passenger jets with more than 150 seats. CAAC President Jin Zhuanglong said the Shanghai-based company is open to international collaboration. The jumbo jet program will not pose a threat to Boeing and Airbus for at least 20 years, Chinese officials said, and even then will be able to meet only a small part of domestic demand. CACC initially will help market the 85-seat ARJ21, China's first commercial jet, which has 181 orders from Chinese carriers and a memorandum of understanding with GE Capital Aviation Services for five jets, the first sale to a major foreign company.

2. China's Hainan to Begin Seattle-Beijing Nonstops.

Hainan will launch Seattle-Beijing Airbus A330-200 service in June, the only nonstop service on the route, with flat-reclining seats in business class. Hainan is the largest non-government-owned airline in China.

3. Northwest Announces New Seattle-Beijing, Detroit-Shanghai Services.

Northwest announced new daily nonstop Seattle-Beijing and Detroit-Shanghai service, as of March 2009.

4. UPS to Move Air Hub to Shenzhen From Philippines.

United Parcel Service plans to relocate its intra-Asia air hub from Clark Airport, north of Manila, to south China, where Shenzhen Airport will build a one million sq. ft. facility eventually capable of processing up to 36,000 pieces per hour. The \$180 million hub will be operational in 2010 and employ about 400 people. In other news, UPS added five weekly flights to Shanghai from Anchorage via Nagoya. A Shanghai Pudong hub will open in November.

5. U.S. Carriers Delay Launch of China Routes.

US Airways planned to ask DOT for a one-year delay in launching newly won Philadelphia-Beijing service, saying fuel costs for the route would exceed \$90 million a year, rather than the original \$50 million estimate. In April, a United request for a one-year delay of its San Francisco-Guangzhou route was approved. Northwest applied for a waiver to suspend its cargo flights between the U.S. and Guangzhou via Tokyo, from July 1.

6. **Aeromexico Opens Mexico-China Route.**

Aeromexico became the first Mexican airline to offer service to mainland Asia, with twice-weekly Boeing 777 Mexico City-Tijuana-Shanghai flights.

7. **Singapore Offers All-Business-Class Nonstops to Newark, Los Angeles.**

Singapore Airlines began all-business-class service from Changi to Newark, using Airbus A340-500s configured with 100 flat-bed seats, and will offer similar service to Los Angeles from September. The state-controlled carrier invited offers for its 49% stake in Virgin Atlantic, calling it an underperforming investment; Richard Branson's Virgin Group has right of first refusal.

8. **Korean Air Adds U.S. Service.**

Korean Air will begin daily service to San Francisco and Washington in June, increase service to Dallas and launch three weekly services between Los Angeles and Sao Paulo.

9. **United, Jet Airways to Code Share.**

United and Jet Airways plan to offer U.S.-India code share service in November, subject to government approval. United will serve 13 cities in India, including Bangalore, Kolkatta, Mumbai and New Delhi, while Jet Airways will fly to United's five hubs, Chicago, Denver, Los Angeles, San Francisco and Washington, and more than 20 other U.S. cities.

10. **Malaysia Offers Free Seats.**

Malaysia Airlines offered one million free seats for travel between July and December on 24 regional routes, and a zero-fare campaign for domestic destinations. AirAsia also has an ongoing zero-fare campaign.

11. **U.S. Lifts Travel Warning For Indonesia.**

The U.S. State Department lifted a travel warning for Americans living in and traveling to Indonesia, in effect since November 2000, due to improved security. An Islamic militant group carried out bomb attacks in Bali and Jakarta, but Indonesia has not experienced a major terrorist attack since October 2005, and, said the U.S. Embassy in Jakarta, the government of Indonesia has disrupted, arrested and prosecuted numerous terrorist elements.

X. AMERICAS

1. United, US Airways End Merger Talks.

United and US Airways ended merger talks for now, reportedly because of labor opposition and other factors.

2. United Reorganizes Top Management.

In a reorganization of top management, United combined operations with sales and revenue functions under new Chief Operating Officer John Tague; former COO Peter McDonald became Chief Administrative Officer. United received a fine of more than \$190,000 for workplace safety violations at Chicago O'Hare, after the Occupational Safety and Health Administration found serious health violations related to the storage of liquids. United raised most domestic fares by \$10 to \$60 per roundtrip.

3. United, Hawaiian Partner on Inter-Island Flights.

United struck a code share pact with Hawaiian, to begin at the end of the summer. It replaces an agreement United had with Aloha, which ceased operations in April. United has 18 daily flights to Hawaii from the mainland.

4. American Announces Domestic Capacity Reductions of 11%.

American Airlines announced fourth quarter domestic capacity reductions from the previous year of about 11%, with retirement of 40 to 45 mainline aircraft, mostly MD-80s and some Airbus A300s, and 35 to 40 regional jets and a number of turbo-props. Resultant workforce reductions could result in facility closures. American will also cut New York-London Stansted service and introduced a \$15 fee for the first checked bag for some passengers and increased fees for other services, which it estimates will generate several hundred million dollars annually. The carrier rejected its pilot union's contract proposals, saying they would increase annual costs by \$3 billion.

5. Kelleher Steps Down.

Southwest CEO Gary Kelly was named Chairman of the Board, succeeding founder Herb Kelleher, whose contract with Southwest ends in 2013.

6. JetBlue Defers Delivery of 21 Airbus A320s.

JetBlue deferred delivery of 21 Airbus A320s until 2014-2015, from a scheduled 2009-2011. The carrier suspended plans to develop Los Angeles service and expanded other West coast services. Joel Peterson was named Chairman and Frank Sica Vice Chairman; both are long time board members.

7. Mesa Shuts Down Air Midwest, Threatens Bankruptcy.

Mesa Air Group will phase out Air Midwest by June 30 and said loss of its Delta Connection contract, worth about \$20 million a month, could cause it to declare bankruptcy. In March, Delta said it would terminate its agreement with Mesa's Freedom subsidiary, alleging failure to maintain a specified completion rate with respect to ERJ-145 flights. Mesa filed a motion in a Georgia court to prevent termination of the pact and won a preliminary injunction. In other news, Mesa and Hawaiian Airlines reached a settlement in their lengthy lawsuit. Hawaiian will receive \$52.5 million and Mesa will withdraw its appeal of an \$80 million judgment awarded by the U.S. Bankruptcy Court last year. Mesa said it will receive \$37.5 million from the bond previously posted with the bankruptcy court, admitted to no wrongdoing, and said the settlement does not restrict its inter-island flight services operated under the go! brand name.

8. Virgin America Seeks Service to Chicago O'Hare.

Virgin America is seeking government approval to serve Chicago O'Hare, under the airport's demand management rules. "With legacy airlines representing 99% of domestic departures at O'Hare, and low-cost airlines only 1%," said CEO David Cush, "Virgin America intends to add some healthy competition to the market." The airline would fly from San Francisco and Los Angeles to Chicago, the eighth destination for the startup.

9. Midwest Announces Layoffs.

Midwest Air Group will reduce its flight schedule and cut 100 jobs from its Midwest and Midwest Connect workforce, including 35 pilots, to ensure survival, said CEO Tim Hoeksema. The company is saving several million dollars a year by buying fuel and insurance with silent investor Northwest.

10. UPS to Provide Lift for DHL Air Express in North America.

UPS and DHL Express U.S. are working on an agreement in which UPS would provide air lift for all DHL express, deferred and international package volume within the United States and between the United States, Canada and Mexico. A final contract, anticipated later this year, would extend for 10 years and produce up to \$1 billion in additional annual revenue for UPS, and could affect 10% of DHL Express jobs. The arrangement with UPS is part of a \$2 billion U.S. restructuring announced by DHL parent Deutsche Post World Net and is subject to U.S. regulatory approvals. Deutsche Post expects to end its existing agreements with U.S. cargo airlines ABX Air and Astar Air Cargo.

11. Neeleman Names Brazilian Airline 'Azul.'

Azul Linhas Aereas Brasileiras will begin service in January 2009, said CEO David Neeleman, founder and former CEO of JetBlue. A fleet of 76 Embraer

195s, configured with 118 ultra-leather seats and inflight satellite TV, will bypass congested hubs to offer low-cost, point-to-point service. In related news, Brazilian airline OceanAir is cutting 600 employees, in addition to 200 cut in April, reducing routes and downsizing its fleet.

12. **OpenSkies Approved for Launch.**
See Section VIII, item 1.
13. **United to Launch Nonstops to Dubai, Moscow.**
See Section VIII, item 5.
14. **United, Air One to Code Share on Milan-U.S. Routes.**
See Section VIII, item 6.
15. **Delta, Czech Expand Code Share.**
See Section VIII, item 7..
16. **China's Hainan to Begin Seattle-Beijing Nonstops.**
See Section IX, item 2..
17. **Northwest Announces New Seattle-Beijing, Detroit-Shanghai Services.**
See Section IX, item 3..
18. **UPS to Move Air Hub to Shenzhen From Philippines.**
See Section IX, item 4..
19. **U.S. Carriers Delay Launch of China Routes.**
See Section IX, item 5.
20. **Aeromexico Opens Mexico-China Route.**
See Section IX, item 6.
21. **Singapore Offers All-Business-Class Nonstops to Newark, Los Angeles.**
See Section IX, item 7.
22. **United, Jet Airways to Code Share.**
See Section IX, item 9.