



WASHINGTON AVIATION SUMMARY

March 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. IATA May Reduce 2008 Traffic Forecast.

For full-year 2007, worldwide passenger traffic rose 7.4% and cargo traffic was up 4.3%. This year, demand rose 4.3% in January, year-on-year, but was down sharply from the 6.7% growth of December. This could reflect a turning point in demand for air travel, said the International Air Transport Association (IATA), which in October had forecast a 5.4% increase in 2008 passenger traffic and 4% for cargo. For January, North American carriers recorded a 5% rise in international traffic, down from 6% in December; domestic traffic fell 3% to 4%. European airline international passenger traffic growth at 0.3% was down from a 5.5% rise in December. In Asia, growth dropped to 5.7% from a 6.2% rise in December. Latin American airlines recorded a 16.9% growth in January, while Middle Eastern growth slowed to 7.4% and African to 2.8%. "Fasten your seatbelts. There is likely to be turbulence ahead," said Giovanni Bisignani, IATA's Director General and CEO. In other remarks, he said: After over \$40 billion in losses since 2001, the industry returned to profitability in 2007 with \$5.6 billion on revenues of \$490 billion, less than a 2% return. During the period, airlines improved productivity by 64%, cut sales and marketing unit costs by 25% and reduced non-fuel unit costs by 16%, while debt rose to \$190 billion. Oil, hovering now at \$100 per barrel, accounts for 30% of operating costs or a total of \$149 billion.

2. DOT Submits \$14.6 Billion FAA FY 2009 Budget Request.

The U.S. Department of Transportation (DOT) submitted a \$68 billion budget for Fiscal Year 2009, which requests \$14.6 billion for the Federal Aviation Administration (FAA). Of that, \$9.67 billion would be for FAA's Air Traffic Organization; \$2.1 billion for safety and operations; \$2.75 billion for airport grants; \$171 million for research, engineering and development. A request of \$688 million for development of the Next Generation satellite-based air traffic control system is up from \$212 million in the last fiscal year. DOT resubmitted a proposal to shift to user fees from the airline ticket tax to underwrite the Airport and Airway Trust Fund. DOT proposed an additional passenger fee of up to \$1 per one-way trip to help fund new baggage screening systems and upgrades; the surcharge would revert to the current maximum level of \$5 per one-way trip after four years.

3. DOT Postpones Landing Fee Policy Change.

DOT delayed by at least a month a landing fee policy designed to reduce airport congestion by permitting airports to charge higher landing fees during peak periods. The policy, if adopted, also would encourage congested airports

to include the cost of expansion projects in the landing fees. The Air Transport Association (ATA) and other groups that oppose the plan requested the 30-day extension on the comment period to allow “more time to thoroughly review the proposal and provide meaningful input.”

4. DOT Selects Spirit, AirTran for New Reagan Washington Flights.

DOT awarded AirTran and Spirit two inside perimeter exemptions each to begin new daily roundtrips to Ronald Reagan Washington National Airport. AirTran will serve either Jacksonville or Milwaukee and Spirit will fly to Fort Lauderdale. The carriers must begin their new services by May 3. They were chosen because they “have a record of providing low-fare service,” said DOT, “and would offer more seats than competing carriers.” DOT also received applications from Comair, Midwest and US Airways. The exemptions to the slot limitations at Reagan National awarded to AirTran and Spirit were made available when ATA in November ceased service there to Chicago Midway. ATA was operating four of the Reagan National exemptions created by Congress to promote airline competition and enhance air service to the nation’s capital. Back-up authority was awarded to Midwest for service to either Milwaukee or Kansas City, MO.

5. Virgin America Seeks Los Angeles-San Jose del Cabo, Mexico Rights.

Virgin America filed an application with DOT seeking authority to fly from Los Angeles International Airport to San Jose del Cabo, Mexico. If approved, this would be the airline's first international destination. Frontier announced it will stop serving the market in April. United and Delta have also applied.

6. British Airways Petitions DOT for Traffic Rights for OpenSkies.

In a filing with DOT, British Airways said its new transatlantic subsidiary, OpenSkies, plans to operate its first flight in June between either Paris Charles de Gaulle or Orly and New York Kennedy. Service later will extend to other European cities and other U.S. points. The carrier averted a strike by British Air Line Pilots Association, with both agreeing to refer issues relating to the launch of OpenSkies to a conciliation process with an independent third party.

7. FAA Speeds Process to Hire Air Traffic Controllers.

FAA created consolidated centers to handle security clearances, medical screenings and fingerprinting for prospective new air traffic controllers. Some 3,000 applications were received for 1,800 positions to be filled this year. FAA is installing state-of-the-art air traffic tower and en route simulators to give the new controllers an enhanced, real-world experience during training.

8. December Passenger Airline Employment Rose 3.7%.

U.S. scheduled passenger airlines employed 419,838 workers in December 2007, 3.7% more than in December 2006. The six network carriers employed 249,972, up 2.7% (59.5% of the passenger airline total). Low-cost carriers employed 96,315, up 34.4% (22.9%). Regionals employed 61,080, up 4.9%, (14.5%).

9. DOT Air Travel Consumer Report for 2007.

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

	Dec. '07 / '06	Nov. '07	Full Year				
			2007	2006	2005	2004	2003
On-time arrivals %	64.3 / 70.8	80	73.4	75.4	77.4	78.1	82
Mishandled baggage*	9.01 / 8.93	4.89	7.03	6.73	6.64	4.91	4.19
Consumer complaints:							
Airline service	849 / 607	808	13,168	8,325	8,741	7,452	5,983
Disability-related	18 / 29	39	480	430	511	521	375
Discrimination**	2 / 9	3	99	114	129	118	85

* Reports per 1,000 passengers.

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

II. AIRPORTS

1. Airlines Agree to Midway Privatization.

Chicago issued a request for proposals to operate Midway Airport after a privatization plan was approved by Delta, AirTran, ATA and Frontier. Southwest, the airport's largest tenant, agreed last year to privatization plans. Federal guidelines required approval from 65% of airlines operating at Midway. The agreements guarantee that airlines will obtain 25-year leases from a new operator, with landing fees and other charges frozen for the first six years and increases then limited to the rate of inflation. Airlines can enforce quality standards for terminal and airfield operations and approve or reject the proposed operator. With 43 gates, five runways 13,500 parking spaces and 43,000 square feet of concessions, Midway revenues exceeded \$130 million in 2006; there were 304,000 aircraft operations in 2007. Talks continue with Northwest and Continental, which have not signed agreements.

2. Detroit Proposes 10,000-Ft. Runway.

Detroit Metropolitan Airport officials proposed building a 10,000-foot runway as part of its 20-year plan to handle a projected 60 million passengers by 2027, compared to a current 36 million. The city of Romulus, where the airport is located, strongly objects, saying the project would displace 3,500 people, two elementary schools and 50 businesses.

3. Boston Logan Incentive Program for New International Routes.

Carriers at Boston Logan that provide three weekly nonstops to foreign destinations will receive a 75% rebate on landing fees during the first year of service and a 25% credit the second year. Massachusetts Port Authority also will donate billboard advertising space in the international terminal and publicize the routes on local radio. Massport said the program, to run from July 1 of this year to June 30, 2011, is designed to help Logan compete more aggressively for international airline service and minimizes the initial business risk to the carrier; it is not meant to subsidize routes that are not self-sufficient. Logan currently offers nonstops to 32 international destinations in Europe, the Caribbean and Canada and wants routes to Asia, Latin America, Africa and the Middle East.

4. Sea-Tac Sees Surge in International Service.

Grand China Airlines, a.k.a. Hainan Airlines, will launch its first North American route on June 9, with nonstop Airbus A330-200 Beijing-Seattle service. About 75,000 passengers travel to and from China through Seattle each year. Hainan is the fifth airline to announce new international service to Sea-Tac in

the last year. In 2007, Air France started nonstops to Paris and AeroMexico to Mexico City. Lufthansa will begin nonstops from Frankfurt on March 30 and Northwest to London on June 1.

5. New International Routes to LAX Generate Billions for Economy.

Six carriers have begun or announced new transoceanic service to Los Angeles International since October. Alitalia will offer five weekly nonstops to Rome beginning in June, the only nonstop service between California and Italy. In March, Air France will begin daily roundtrips to London and EVA Air will add three per week to Taipei via Osaka. British Airways adds seven weekly services to London in April and Air China to Beijing in summer 2009. United launched daily service to Frankfurt in December and to Hong Kong in October. The new services will have an estimated economic impact of \$3.8 billion, said Los Angeles Mayor Antonio Villaraigosa, and sustain more than 19,000 jobs paying wages totaling \$957 million.

6. Port Authority to Renovate TWA Terminal.

The Port Authority of New York and New Jersey approved a \$19 million project to repair the Trans World Airlines terminal at Kennedy International Airport, unused since 2001. The 46-year-old official landmark, designed by architect Eero Saarinen, will be used as a passageway to the new JetBlue terminal. Both buildings, known as Terminal 5, will open this fall, reported the *New York Times*.

7. San Diego Considers Greater Airport Expansion.

San Diego County Regional Airport Authority and the city have agreed to consider an expansion proposal for Lindbergh Field while moving forward with a long-planned Terminal 2 upgrade that would add 10 gates. The new, longer-term expansion would include a new terminal and intermodal transportation center. The Terminal 2 expansion is expected to break ground within two years. Lindbergh Field is expected to handle more than 22 million passengers a year by 2013, compared to 17 million in 2007.

III. **SECURITY**

1. **APIS AQQ Approved.**

Advanced Passenger Information Quick Query (APIS AQQ), a system that provides real-time passenger screening prior to boarding, was approved by the U.S. Department of Homeland Security (DHS) after testing with aviation IT specialist SITA. AQQ enables airlines to send manifest information to the U.S. Customs and Border Protection service (CBP) as each passenger checks in and receive an immediate board/no board response. AQQ informs rejected passengers of contacts for assistance and works through automatic kiosks and for telephone and Internet check-in. CBP now requires that all airlines with international flights that depart from, over-fly, or fly to the United States submit passenger and crew manifest data before aircraft departure. Airlines have the choice of submitting the data for the entire flight in batch at a minimum of 30 minutes prior to securing aircraft doors, or using the new AQQ service.

2. **EU Proposes Sweeping Security Measures.**

New European Union (EU) proposals to combat illegal migration, terrorism and organized crime would require non-Europeans to submit biometric data at border checkpoints. Travelers from countries with a visa requirement would need to provide biometric data at European consulates before leaving their home country. Those arriving from nations not requiring visas, like the United States, would submit fingerprints and a digitalized facial image. EU citizens and low-risk frequent travelers from outside the bloc could pass through fast-track checkpoints; voluntary programs for prescreening such visitors would be accelerated. The EU expects all member states to have issued passports with two biometric identifiers by 2019. Franco Frattini, European Commissioner for Justice and Home Affairs, also called for development of a new database to store information on time and place of entry and exit of non-Europeans, using biometric identifiers, so that national authorities could be alerted upon expiration of a visa.

3. **EU Warns Member States on U.S. Security Proposals.**

The European Commission (EC) described as unacceptable U.S. proposals to some EU states, mostly in eastern Europe, that seek to increase security on passenger flights bound for the United States. The proposals go beyond a U.S.-EU agreement struck last June that provides DHS with 19 categories of data about air travelers from the EU. EU officials said the U.S. wants European airlines to provide data on passengers who are flying over the continental U.S., even if they do not land in the U.S., and wants EU states to repatriate their citizens who are in the United States illegally. The EU does not

object to a U.S. proposal that EU states provide access for U.S. air marshals on transatlantic flights, since that is up to individual states.

4. **DHS Sued for Records on Electronics Searches.**

San Francisco-based Electronic Frontier Foundation (EFF) and Asian Law Caucus (ALC) filed suit against DHS for denying access to public records on the questioning and searches of travelers at U.S. borders. Filed under the Freedom of Information Act, the suit responds to complaints by U.S. citizens and immigrants of excessive or repeated screenings by U.S. Customs and Border Protection agents. ALC received more than 20 complaints from Northern California residents last year who said they were grilled about their families, religious practices, volunteer activities, political beliefs or associations when returning to the United States from travels abroad. In addition, customs agents examined travelers' books, business cards collected from friends and colleagues, handwritten notes, personal photos, laptop computer files and cell phone directories, and sometimes made copies of this information. When individuals complained, said ALC, they were told, "This is the border, and you have no rights." ALC and EFF asked DHS to disclose its policies on questioning travelers on First Amendment-protected activities, photocopying personal papers, and searching laptop computers and other electronic devices. The agency failed to meet the 20-day time limit that Congress has set for responding to public information requests, prompting the lawsuit.

IV. E-COMMERCE AND TECHNOLOGY

1. Countdown: E-Tickets Only on June 1.

IATA members will use only electronic tickets as of June 1, a move expected to save airlines \$3 billion a year. Passengers without access to the Internet or printers can continue to purchase tickets by phone or through travel agents, but will pick them up at airports instead of receiving them in advance. Small airlines that lack necessary computer systems will have to buy and process paper tickets themselves; IATA has been the clearinghouse for paper tickets, distributing ticket stock that airlines and travel agents order from specialized printers. Global e-ticketing penetration is over 93%, said IATA, but only 83% in Africa, 84% in Middle East North Africa (MENA) and 54% in Russia and CIS. IATA is working with airlines in these regions.

2. Amadeus Signs 34 Airlines to Three-Year Program in Europe.

Amadeus said 34 airlines have signed up for its three-year, full-content program launched in January in Europe, including Air France-KLM, Iberia, Alitalia, TAP Air Portugal and Malev. Another 29 airlines signed one-year full-content agreements. An extension of the one-year Amadeus Full Content Option introduced in 2005, the new agreement offers airlines lower distribution costs in exchange for their full range of fares; airlines also provide full content to travel agents and corporations in Europe through Amadeus with no surcharges through 2010.

3. Spanair Auctioning Flights on eBay.

Spanair held a three-day auction on eBay.es of up to 15,000 flights to European and domestic destinations and plans two similar auctions in March and April. The initiative launches a new distribution channel for the industry, said Spanair, and enables consumers to set the price for tickets.

4. Farecast Launches International Airfare Predictions.

Farecast.com now offers predictions for more than 200 markets from U.S. cities to destinations in Europe, Mexico, the Caribbean and Canada. Launched in 2006, the site uses historical data and proprietary airfare prediction software to advise travelers of the lowest fares for a specific trip.

5. SAS Acquires GO.

SAS purchased the Reitan Group's majority stake in GO, which was launched in Norway last year and sells travel through the SAS and AVIS/Budget Web sites and www.gonow.no.

6. **PhoCusWright Releases 2008 Travel Industry Trends**

Travel metasearch looks promising in 2008 due to the twin forces of consolidation and innovation, said Connecticut-based PhoCusWright, a travel industry research source. New entrants such as Farecast and the planned merger of Kayak and Sidestep may provide increased press and consolidated consumer power that metasearch needs to go mainstream. As more consumers become aware of and start using travel search engines, the overall efficiency of the travel market will increase. The end result for travel suppliers will be continued pricing pressure on airfares and hotel rates. Other 2008 trends include continued consolidation where multiple service providers offer undifferentiated services and where growth is stagnating, emerging markets where successful travel startups are likely to be “gobbled up by larger fish (read: India),” and niche sectors that require mergers in order to reach critical mass. Online travel agencies will adapt their business strategies to capitalize on all their search traffic; in late 2007, Expedia announced a new pricing model that blends transaction pricing with media pricing.

7. **Sabre to Launch Web 2.0 for Travel Industry.**

Sabre Travel Network's GetThere unit will launch an Enterprise 2.0 Community Platform for corporate travelers by mid-year, in partnership with American Express Business Travel. The cubeless™ platform facilitates sharing of travel knowledge among a company's employees. Web 2.0 is moving from a focus on social networking to providing benefits of an enhanced knowledge base that can easily and quickly be tapped into, as well as for potential for cost savings, said Sabre, whose Travel Studios, an “incubator for positive change,” identifies, tests, and launches new concepts. GetThere facilitated more than \$9.4 billion in online corporate bookings in 2007.

V. **NOISE AND ENVIRONMENT**

1. **Virgin Biofueled Jet Makes Test Run.**

Virgin Atlantic, in partnership with Boeing, General Electric and Imperium Renewables, carried out the world's first flight of a commercial aircraft powered with biofuel. The Boeing 747-400, which carried pilots and technicians but no passengers, flew from London Heathrow to Amsterdam Schiphol partially fueled with a mixture of coconut and babassu oil in one of its fuel tanks. Neither the aircraft nor its engines were redesigned for the test, which, said Sir Richard Branson, would provide crucial knowledge that we can use to dramatically reduce our carbon footprint. Coconut and babassu were used in initial tests because they do not compete with staple food supplies or cause deforestation, but Branson said algae-derived fuel is most promising because it can be produced in large quantities without harming the environment. The Virgin Group founder is using all profits from his airline and rail business to combat global warming by cutting carbon emissions.

2. **FAA Announces Asia/South Pacific Environmental Initiative.**

Acting FAA Administrator Bobby Sturgell introduced the Asia and South Pacific Initiative to Reduce Emissions (ASPIRE) at the Aviation Leadership Summit in Singapore. Calling for a “focus on technologies instead of taxes; new procedures, not penalties; and unified solutions—nothing unilateral,” Sturgell said ASPIRE will promote ways to increase operations efficiency in the Pacific Ocean, such as Dynamic Airborne Reroute Programs that take advantage of more efficient trajectories based on changing wind and weather patterns; Automatic Dependent Surveillance for In-Trail Procedures, which verifies distances between aircraft; and Oceanic Tailored Arrivals, a low power, continuous descent approach designed to reduce fuel burn, noise and emissions while on approach to coastal airports. Trials on the latter have been conducted in San Francisco and Sydney with positive results. Greenhouse gas emissions generated by the U.S. aviation system have dropped by about 4% since 2000, even as airlines moved 12% more passengers and 22% more freight, said Sturgell, and airlines have reported millions of dollars in fuel and time savings, due to new technologies and procedures adopted at major airports like Atlanta. Looking ahead, FAA’s new green program, part of the NextGen effort, aims to improve scientific understanding of effects of aviation on climate change, promote continued improvements in development of environmentally friendly aircraft and alternative fuels, and accelerate air traffic management reforms that can contribute to a reduction in aviation emissions.

VI. U.S. CONGRESS

1. House Extends Airport and Airway Extension Act.

The House approved a bill to extend through June 30 FAA authority to collect aviation excise taxes and disburse funds from the Aviation Trust Fund. FAA's authority under a temporary extension was due to expire at the end of February, as the multi-year reauthorization bill awaits action in the Senate. The Trust Fund in recent years has provided about 80% of FAA's budget, said James Oberstar (Minn.), Chairman of the House Committee on Transportation and Infrastructure. With an uncommitted cash balance of \$1.5 billion, any lapse in aviation taxes could put the Trust Fund at risk. Without authority to make expenditures from the Trust Fund, he said, FAA would be unable to pay 4,000 employees and face a partial shut-down beginning March 1. The bill provides \$2.76 billion in contract authority for the Airport Improvement Program (AIP).

2. Aviation Panel Probes Runway Incursions.

The House Aviation Subcommittee heard testimony on runway incursions, which, according to a report by the Government Accountability Office (GAO), reached 6.05 incidents per million operations in 2007, a 12% increase over 2006 and the greatest increase since 2001. Of 370 incursions in 2007, 24 were classified as "severe." This year, as of February, there were 10 "severe" incursions. Controller fatigue was identified as an issue in the report. FAA reauthorization awaiting passage provides, over four years, \$42 million for runway incursion reduction programs and \$74 million for runway status light acquisition and installation. It also requires FAA to submit a report to Congress containing a Strategic Runway Safety Plan and a plan for the installation and deployment of systems to alert controllers and flight crews to potential runway incursions. Those providing testimony at the hearing included FAA Air Traffic Organization executive Hank Krakowski, who said most incursions result from pilot error, while some 30% are caused by controllers and the rest by pedestrian or vehicle errors; FAA is working with the National Air Traffic Controllers Association to implement a voluntary, non-punitive reporting system for air traffic controllers. Robert Sumwalt of the National Transportation Safety Board said FAA has not acted on specific runway safety changes recommended by NTSB since 2000, at least one of which might have prevented the 2006 Comair crash in Lexington, Ky., which killed 49 of the 50 people aboard. Subcommittee Chair Jerry Costello (Ill.) ordered FAA to provide a progress report on runway safety every three months.

VII. **BILATERAL AND STATE DEPARTMENT NEWS**

1. **IATA Urges End to “Archaic” Bilateral System.**

The bilateral system established by the Chicago Convention and in effect since 1947 was a great idea when airlines were state-owned and a luxury enjoyed by 9 million elite passengers, but it is outdated, said IATA CEO Giovanni Bisignani. He called for the complete opening of markets in a staged approach, starting with the lifting of restrictions on all intra-Asian flights. Asia will be the largest commercial airline market with a 27% share of global traffic by 2010, he said, and urged Asian nations to throw out the bilateral system, define a new framework and develop a centralized aviation regulatory apparatus that could harmonize standards, streamline air traffic control and license pilots.

2. **U.S., Australia Sign Open Skies Agreement.**

A new U.S.-Australia open skies agreement, concluded after three days of negotiations in Washington, ends all restrictions on U.S. and Australian air services for carriers of both countries. An earlier treaty capped weekly flights at four for airlines based in either country in the first year. Virgin Blue's new unit, V Australia, has applied to DOT for 10 weekly flights to the U.S. West Coast, to begin by yearend. Qantas welcomed more trans-Pacific competition, said CEO Geoff Dixon, and will increase its 48 weekly flights to the U.S. to 51 from March. United operates 14 weekly nonstops to Australia. The agreement only applies to American and Australian carriers; Singapore Airlines' requests for permission to fly from Australia to the United States have been rejected by the Australian government.

3. **EU, Israel Sign Aviation Agreement.**

Israel and the EU signed a memorandum of understanding that would liberalize existing agreements between European states and Israel during ongoing open skies negotiations. Israel earlier agreed to pay 80% of El Al's security costs in return for allowing other Israeli carriers to expand their routes to destinations in Europe, the Far East and North America. Arkia Israeli Airlines has been authorized to offer Tel Aviv-Paris service.

VIII. EUROPE/AFRICA

1. Alitalia Update.

Alitalia started eight weeks of takeover talks with Air France-KLM on January 15. The sale is supported by the outgoing government, but needs support from the new government, which is expected to be elected in April and seated in May. Air France-KLM said it would inject €3 billion into Alitalia over six years and hopes ultimately to acquire 100% of the Italian carrier, but would not pursue the deal without the new government's support. In line with Air France-KLM demands, Alitalia on April 1 will more than halve its Milan Malpensa service to 105 flights a day; Milan's Lombardy regional government and labor forces are strongly opposed and Malpensa is seeking €1.25 billion in damages from Alitalia. Italian carrier Air One filed suit over Alitalia's decision to pursue exclusive talks with Air France-KLM, demanding transparency and a non-discriminatory process; the suit was rejected by a Rome court and Air One is appealing.

2. Skyteam Partners to Add New Heathrow-U.S. Flights.

Air France-KLM and SkyTeam partners Delta, Continental and Northwest will add 11 new daily flights between the U.S. and London Heathrow on March 30, when EU-U.S. open skies takes effect. Air France and Delta will code share on service to Los Angeles, New York Kennedy and Atlanta; Continental will offer service to Houston and Newark; and Northwest and KLM will code share service to Detroit, Minneapolis and Seattle.

3. British Airways, Virgin Atlantic Settle Price-Fixing Claims.

British Airways and Virgin Atlantic agreed to settle class action litigation brought on behalf of U.S. and UK passengers, relating to alleged overcharges on long-haul passenger fuel surcharges. The settlement, subject to court approval, will return more than \$200 million to travelers who flew long-haul services between August 11, 2004, and March 23, 2006. British Airways previously was fined more than \$500 million by U.S. and UK authorities for its role in the case; Virgin was not fined because it exposed the alleged collusion.

4. JetBlue, Aer Lingus Forge Partnership.

JetBlue and Aer Lingus announced a strategic partnership, effective April 3, in which customers of both carriers can use a single online booking process for Aer Lingus flights from Dublin or Shannon to New York Kennedy and beyond to JetBlue destinations. Simplified baggage transfer will also be available. In other news, Christoph Franz, CEO of Lufthansa unit Swiss International, was

named to the JetBlue Board of Directors as part of the compact in which Lufthansa acquired a 19% stake in the U.S. carrier.

5. EU Court Rules Against Greece in Olympic Case.

The EU Court of First Instance supported a 2005 EC decision that ordered Greece to recover illegal state aid to Olympic Airways Services and Olympic Airlines granted between 2002 and 2005; Greece has not complied with this decision. If swift compliance is not achieved, said Transport Vice President Jacques Barrot, "I would have no choice but to propose the filing of a new action with the Court of Justice, asking for the imposition of fines and periodic penalty payments." In December 2007, the Commission opened a new formal investigation into alleged illegal aid granted since 2005.

6. British Airways Business Class-Only Flights: London City-New York.

British Airways has settled on London City airport for its launch of double daily business class-only flights to New York next year. The new flights will operate on two Airbus A318s, each with 32 seats that convert to fully flat beds.

7. Virgin Russia on the Horizon.

Sir Richard Branson hopes to form a discount carrier, Virgin Russia, within two years. There are 150 million people within a three-hour flight from Moscow and a lot of potential to take business from the rail services, he told the Troika Dialog Russia Forum.

8. British Airways Petitions DOT for Traffic Rights for OpenSkies.

See Section I, item 6.

9. EU, Israel Sign Aviation Agreement.

See Section VII, item 3.

10. TAM, Lufthansa Combine Frequent Flyer Programs.

See Section X, item 8.

IX. ASIA/PACIFIC / MIDDLE EAST

1. IATA Urges Asia to Lead Industry With Sound Policies.

IATA called on Asia to join in the race for industry leadership with sound policies and innovation, along with the race for market share. "ASEAN's decision to liberalize traffic between capital cities in 2008 is a step in the right direction," said IATA Director General and CEO Giovanni Bisignani, who suggested the formation of a new regional institution to coordinate air policy issues and harmonize regional security and air traffic management. Separately, he urged Japan to make the privatization of its airports an example of global best practice and to champion efforts toward a zero carbon emission industry when it hosts the G8 summit in July. He said Japan's plans to implement performance-based navigation systems at its top 20 airports by 2012 will reduce fuel burn by 2% and save 162,000 tons of CO2 annually.

2. JAL Chairman Shinmachi to Retire.

Toshiyuki Shinmachi will retire on March 31 as Chairman of the Board of Japan Airlines. He joined JAL in 1965, was elected president in 2004, became JAL Group CEO in 2005 and was named Chairman in June 2006. No successor has been appointed.

3. American Airlines, Jet Airways Frequent Flyer Partnership.

American Airlines and India's Jet Airways are offering a reciprocal frequent flyer program for flights anywhere in their networks. The two code share on flights operated by American between New York Kennedy Airport and Baltimore, Boston, Cleveland, Dallas Fort Worth, Raleigh-Durham and Washington Reagan; and on flights operated by Jet Airways between New Delhi and Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata and Mumbai.

4. Far Eastern Air Transport Wins Court Protection.

Far Eastern Air Transport, with debts of more than \$300 million, was granted court protection from creditors and permission to restructure. The 51-year-old private Taiwanese airline flies domestically and to eight cities in Southeast Asia and the South Pacific. Taiwan's domestic airlines are competing with a new high-speed rail system.

5. Hawaiian, Virgin Blue Extend Partnership.

Hawaiian and Virgin Blue extended their partnership to three new Virgin routes, Canberra-Sydney, Albury-Sydney and Port Macquarie-Sydney. Hawaiian flies three times weekly from Sydney to Honolulu.

6. **EgyptAir Chairman to Head AACO.**

EgyptAir Holding Company Chairman Atef Abdel Hamid was elected to a three-year term as Chairman of the Arab Air Carriers Organization (AACO).

7. **Bjorn Naf Appointed Gulf Air CEO.**

Bjorn Naf was named President and CEO of Bahrain's Gulf Air. The Swiss national served as the airline's COO before being named Acting President and CEO upon the resignation of Andre Dose in July. Naf had been an executive at SWISS under CEO Dose.

8. **U.S., Australia Sign Open Skies Agreement.**

See Section VII, item 2.

9. **EU, Israel Sign Aviation Agreement.**

See Section VII, item 3.

X. AMERICAS

1. Airline Mergers Expected.

The anticipated announcement of a Delta and Northwest merger may have reached an impasse as the pilots for the two carriers have been unable to resolve a dispute over how to combine seniority systems. If the Delta-Northwest merger does not go forward, Northwest's golden share in Continental would prevent Continental from merging with other carriers.

2. U.S. Air Fares Rise.

After several attempts, a \$10 roundtrip fare increase on many domestic routes of several U.S. airlines was expected to remain in place. As with fare increases last year, airlines say they need to offset rising fuel expense. At the end of February, U.S. jet fuel prices were hovering around \$120 a barrel, an increase of almost 60% over a year ago. In addition, some carriers announced they will charge \$25 to check a second bag, a change US Airways said could generate \$75 million in cost savings and new revenue.

3. US Airways Rewards Workers for December On-Time Performance.

US Airways made a \$1.8 million payment to its 36,000 employees, with each receiving a \$50 bonus for contributing to the carrier's on-time performance in December. US Airways ranked first among the 10 largest carriers, as measured by DOT, and third among the 20 airlines that DOT tracks.

4. JetBlue to Launch LAX Service to East Coast.

JetBlue announced a West Coast expansion with 16 new flights. Included is the launch of Los Angeles International service, with three daily roundtrips to New York and one to Boston. New routes from Ontario, Burbank and Long Beach include two daily roundtrips from Burbank to Washington Dulles, one of which is shifting from Long Beach.

5. California Airline Passenger Bill of Rights Proposed.

California lawmakers are considering an Airline Passenger Bill of Rights. Modeled after legislation that passed in New York, the bill would require airlines to provide passengers with water, snacks, fresh air and clean restrooms if their aircraft is delayed on the tarmac for more than three hours. The Air Transport Association (ATA) challenged the New York law, but its argument that the federal government pre-empts state rights to legislate customer service was dismissed; the judge found the matter to be a health and safety rather than a customer service issue, and was therefore not pre-empted by federal law. ATA appealed and a hearing is scheduled March 5.

ATA will also oppose the proposed California law. A Washington state air passenger rights bill failed to make it through the Senate, due to heavy lobbying by Alaska Airlines, but could still be passed with the state budget. The ATA appeal may get a boost from the U.S. Supreme Court decision in *Rowe v. New Hampshire* decided February 20, 2008, holding a State law that affected the rates, routes or service of motor carriers was preempted even though the law was intended to protect the health of minors. The preemption language for motor carriers is based on, and is similar to the preemption provision in the Airline Deregulation Act. The Court reiterated its holdings under the Airline Regulation Act that only State laws where the affect on the carrier is “tenuous, remote or peripheral” might not be preempted.

6. Steve Fossett Declared Legally Dead.

Steve Fossett was declared dead in February; his single-engine plane had vanished on September 3, en route to California from Nevada. Fossett was inducted into the National Aviation Hall of Fame in July for his brave pursuits. In 2002, he became the first person to circle the world solo in a balloon, and in 2005 was first to solo pilot a plane around the world without stopping or refueling, covering 23,000 miles in 67 hours in the Virgin Atlantic GlobalFlyer jet. In 2006, again in the GolbalFlyer, he set the nonstop distance record for an aircraft, flying solo from Florida to England; the 26,389 mile trip, which included two Atlantic crossings, took 76 hours, 42 minutes and 55 seconds.

7. JetBlue Founder to Launch Brazilian Airline.

Jet Blue founder David Neeleman reportedly has found investors to finance the launch of a Brazilian airline, and is in talks to buy 36 Embraer E-190s with options for another 38. The 100-seat jets would fly to smaller airports. Born in Brazil, the U.S. entrepreneur holds dual citizenship, allowing him to sidestep Brazilian foreign ownership restrictions and acquire a small Brazilian airline, Cheta, as a base for the new operation.

8. TAM, Lufthansa Combine Frequent Flyer Programs.

TAM Brazilian Airlines and Lufthansa formed a reciprocal frequent flyer partnership as they move toward a code share agreement, planned for the first quarter of this year.

9. JetBlue, Aer Lingus Forge Partnership.

See Section VIII, item 4.

10. British Airways Business Class-Only Flights: London City-New York.

See Section VIII, item 6.

11. **American Airlines, Jet Airways Frequent Flyer Partnership.**

See Section IX, item 3.

12. **Hawaiian, Virgin Blue Extend Partnership.**

See Section IX, item 5.