



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. **Global Passenger Traffic Drops 2.9%, Cargo, 7.7% in September.**

Global passenger traffic declined 2.9% and cargo traffic dropped 7.7% in September, compared to the same month in 2007, reports the International Air Transport Association (IATA), due to the economic recession. Load factors tumbled by 4.4% from 79.2% in August to 74.8% in September. All major regions reported declines in passenger traffic, with the exception of Latin America, where carriers saw an increase of 1.7%, albeit compared to 11.9% growth of the previous month. "The deterioration in traffic is alarmingly fast-paced and widespread," said Giovanni Bisignani, IATA Director General and CEO. "We have not seen such a decline in passenger traffic since SARS in 2003." Although fuel fell to below \$50 per barrel in November from a peak of \$147 in July, IATA said industry "losses could be even deeper than our forecast \$5.2 billion for this year."

2. **Bush Order Makes NextGen "Leading Priority."**

President George W. Bush signed an executive order making implementation of the Next Generation Air Transportation System (NextGen) "a leading priority for agencies across the federal government." The order directs the Department of Transportation (DOT) to recruit NextGen support staff by January 18 and assemble an advisory committee within six months. In a farewell speech to DOT employees, Bush supported New York-area slot auctions, which begin in January, and said that while DOT is not in the business of managing airlines, it is "in the business of making it easier for airlines to do the job we expect them to do."

3. **Tarmac Delay Task Force Report.**

A DOT task force has developed a model contingency plan for use by airlines and airports to develop individualized plans that would address the needs of passengers subject to lengthy ground delays aboard aircraft and a return to an airport terminal. The voluntary guidelines contain no fixed limit on how long passengers can be delayed before being allowed to deplane, disappointing consumer groups. Among task force recommendations, airlines are advised to update passengers every 15 minutes, make refreshments and entertainment available when practical, make reasonable efforts to keep airplane restrooms usable, and provide a secure room for passengers from overseas flights to avoid the need for security checks when re-boarding. Representatives of airlines, airports, consumer groups and DOT served on the task force. Most major airlines and airports have instituted their own passenger protection guidelines, but DOT is advancing a regulation that would require airlines to

have airport-specific plans in place to ensure that passengers are treated appropriately during extended tarmac delays.

4. Expansion of "Thanksgiving Express Lanes."

The Administration again made military airspace available for use by civilian airliners over the Thanksgiving holiday and is expanding the program this year to areas of the Midwest, Southwest, and West Coast, including the skies over Phoenix and Los Angeles, and over the December holidays. The Federal Aviation Administration (FAA) and Transportation Security Administration (TSA) are making more staff available to speed up check-in and boarding and help passengers affected by cancellations and delays. New regulations that require airlines to provide greater compensation for lost bags and impose tougher penalties when airlines fail to notify travelers of hidden fees are expected to take effect in time for the December holidays.

5. Delta, Northwest Apply for New Japan, Africa Services.

Delta applied for DOT authority for New York-Tokyo, Atlanta-Luanda and Atlanta-Malabo services. Northwest applied for authority to serve Tokyo-Ho Chi Minh. Delta plans to add 15 new routes to Asia, Africa, Europe and the Middle East beginning January 2009. Separately, in a Securities and Exchange Commission filing, Delta said it plans to reduce future domestic and international capacity due to a fourth quarter slowdown in seat demand amid the global financial crisis.

6. DOT Selects Spirit for New U.S.-Colombia Service.

DOT proposed to allow Spirit Airlines to operate a new daily passenger flight between Fort Lauderdale and Medellin, Colombia. The service became available when Continental ended daily flights between Houston and Cali. American had applied to add a third daily Miami-Bogota flight, but DOT has tentatively concluded that Spirit's proposal would provide greater benefit to the public because it would provide the first-ever nonstop service between Fort Lauderdale and Medellin and enhance competition in the South Florida-Medellin market.

7. Volunteered Safety Information Needs Legal Protection: FSF.

In the wake of recent judicial decisions forcing disclosure of voluntarily supplied aviation safety information, and the use of aviation accident investigation reports in civil litigation and criminal prosecutions, Flight Safety Foundation (FSF) announced support for new laws to protect against release or use of information gathered by voluntary self-disclosure reporting programs. Legislatures need to step in to prevent critical sources of safety data from drying up, said FSF officials, amid an increasing tendency to criminalize aviation accidents. FSF endorses the creation of a "qualified exception" from

discovery of voluntary self-disclosure reporting programs, similar to the protection already provided in U.S. law against use of cockpit voice recorder (CVR) and surface vehicle recordings and transcripts. Examples of such programs include the Aviation Safety Action Program (ASAP), the Flight Operational Quality Assurance program (FOQA), and the Aviation Safety Information Analysis and Sharing (ASIAS) system.

8. September Passenger Airline Employment Down 4.5%.

U.S. scheduled passenger airlines employed 397,400 workers in September 2008, 4.5% fewer than in September 2007 and the first time industry employment fell below 400,000 since DOT began tracking employment statistics in 1997. The seven network carriers employed 268,416 in September (67.5% of the passenger airline total); low-cost carriers employed 61,200 (15.4%); and regional carriers employed 59,412 (15%).

9. DOT Air Travel Consumer Report for September.

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

	Sept. '08/'07	Aug. '08	Full Year				
			2007	2006	2005	2004	2003
On-time arrivals %	84.9 / 81.7	78.4	73.4	75.4	77.4	78.1	82
Mishandled baggage*	3.86 / 5.36	4.98	7.03	6.73	6.64	4.91	4.19
<i>Consumer complaints:</i>							
Airline service	684 / 898	1,006	13,168	8,325	8,741	7,452	5,983
Disability-related	40 / 49	41	480	430	511	521	375
Discrimination**	10 / 10	17	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.

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

II. AIRPORTS

1. Southwest Seeks ATA's LaGuardia Slots.

Southwest has submitted a \$7.5 million bid to obtain ATA Airlines' rights to operate 14 slots at New York LaGuardia by purchasing ATA, which filed for bankruptcy protection in April. The bid does not contemplate operating ATA, and Southwest would not acquire any aircraft, facilities or employees of the Indianapolis-based airline. The bid is subject to bankruptcy court approval. Southwest serves Islip Airport on Long Island but does not fly into LaGuardia, Kennedy or Newark. Other ATA assets include two slots at Washington Reagan National.

2. New Runways Open at Three Major U.S. Airports.

Three major U.S. airports opened new runways in November. A \$455 million, 7,500-foot runway at Chicago O'Hare, the airport's seventh runway, will enable handling of an additional 52,300 annual operations; it is supported by a new 255-foot, \$42 million satellite control tower. A \$356 million, 9,400-foot runway at Washington Dulles allows three parallel, simultaneous landings or takeoffs and potentially accommodates 100,000 additional annual aircraft operations. A \$1.1 billion, 8,500-foot runway at Seattle-Tacoma, its third, accommodates two simultaneous staggered arrival streams in poor weather, making as many as eight additional on-time arrivals per hour possible.

3. LAX "Bradley West" Project Unveiled.

Los Angeles International Airport unveiled modernization plans for the west side of its Bradley International Terminal and a new midfield concourse capable of handling the Airbus A380 superjumbo and Boeing 787 Dreamliner. The first set of proposed new gates would be in service in 2012 and the entire "Bradley West" Project would be completed in seven years. Fentress Architects of Denver created the design concept, which includes flat-seam stainless steel roofs over column-free structures and which is subject to environmental review. In other news, Los Angeles World Airports (LAWA) will establish an Office of Regionalism to promote passenger growth of secondary facilities, such as Palmdale, Ontario and Van Nuys.

4. UK Airport News.

A Civil Aviation Authority (CAA) report supports claims that connecting passengers help maintain a wider range of flights to different destinations and ensure more frequent flights to popular, often business, destinations, improving Heathrow's competitive position against other major European airports. Among the study's findings: 90% of connecting air passengers in the

UK use the three main London airports; Heathrow alone accounts for 70% of all connections, the majority of which are made by non-UK residents; and, two-thirds of connections at Heathrow between international and domestic services were made by people traveling to or from Scotland or Northern Ireland. Virgin Atlantic and easyJet are considering bids for London Gatwick, with Virgin offering financial participation and both airlines offering long-term commitments to use the airport. Airport owner BAA, which also runs Heathrow and Stansted, is being forced to sell Gatwick by competition authorities. Regarding the multitude of problems associated with the March opening of Heathrow Terminal 5, a Transport Committee study “revealed serious failings on the part of both owner BAA and operator British Airways” and concluded the “chaotic scenes could, and should have been avoided through better preparation and more effective joint working.” Also BAA, a unit of Spain’s Ferrovial, will invest about \$375 million in Crossrail, a cross-London project expected to be operational by 2017 that will improve access to Heathrow; contracts to design and build the multi-billion pound project are to be awarded by spring 2009.

5. Changi to Operate King Fahd in Saudi Arabia.

Changi Airports International (CAI) signed a six-year, \$42 million contract with the General Authority of Civil Aviation (GACA) of Saudi Arabia, to provide management services at King Fahd International, Dammam, including passenger and cargo terminal operations, commercial and airport network developments and staff training.

6. Vietnam Begins Construction of Resort Airport.

Vietnam has begun construction of Phu Quoc International Airport, on a resort island off the southern coast. Completion of the \$1 billion facility is expected in 2012.

III. **SECURITY AND DATA PRIVACY**

1. **Irish Airports to Offer Pre-Flight U.S. Customs Clearance.**

A new agreement broadens U.S. Customs and Border Protection operations in Shannon and Dublin to include full pre-clearance of U.S.-bound commercial and private air passenger flights. Planned to start in Shannon in 2009 and Dublin in 2010, the operations will enable airlines and general aviation aircraft to fly into less congested and less expensive domestic terminals at U.S. airports, and passengers to check baggage through to their final destination. Pre-inspections at Dublin and Shannon airports have been limited to immigration clearance; the new agreement includes screening of aircraft for radiological and nuclear threats, as well as for customs, immigration and agricultural.

2. **Judge Rules Suspects Cannot Be Detained Due to Ethnicity.**

A federal judge in Brooklyn ruled the U.S. government could not use ethnicity to justify detaining two Egyptian-born men who were questioned for four hours after a San Diego-New York Kennedy flight in 2004, reports the *New York Times*. The men, a former New York City police officer and a worker for GE in Egypt with a valid U.S. visa, were met at the gate by at least 10 armed police officers in SWAT gear with shotguns and police dogs, ordered to raise their hands, frisked, handcuffed, taken to a police station and jailed. They sued the government, which said the men, who were not charged with any crime, had acted strangely during their flight and that counterterrorism agents had observed them switching seats, checking their watches often and speaking in Arabic. The government said the men's ethnicity was a factor in the decision to detain them, and argued that it was an acceptable factor. In response to the government's request for a determination without a trial, the judge said there was enough merit for the case to continue. He cited the internment of Japanese-Americans during World War II, saying the 9/11 attacks should not justify detaining a suspect based on race. "Fear cannot be a factor to allow for the evisceration of the bedrock principle of our Constitution that no one can be arrested without probable cause that a crime has been committed," he said. This was the first post-9/11 case to address whether race may be used to establish criminal propensity under the Fourth Amendment. "Hopefully this will mark a turning point in the ethnic profiling that has pervaded law enforcement in the aftermath of 9/11," said the New York Civil Liberties Union.

3. **Airlines Want TSA Screening Fees Refunded.**

A federal appeals court heard oral arguments in an industry lawsuit alleging that the Transportation Security Administration (TSA) has overcharged airlines

nearly \$400 million for conducting passenger and baggage screening. Airlines contend TSA should calculate Aviation Security Infrastructure Fees on the basis of what they spent on their own security checks in 2000, before TSA was established post-9/11. TSA said airlines underreported amounts they spent on security, according to a Government Accountability Office report.

4. Cargo Screening Begins for Single-Aisle Passenger Planes.

Airlines and TSA began screening cargo aboard single-aisle passenger aircraft, which make up more than 90% of all passenger aircraft in the U.S. Congress has mandated that 50% of cargo on passenger carriers be screened by February 2009 and 100% by August 2010. The screening is done with explosive detection systems, physical inspections, canines and other methods, such as allowing only verified shippers to place cargo on passenger airplanes.

5. Family Screening Lanes Offered Nationwide.

TSA expanded family screening lanes to all large and mid-sized U.S. airports; they formerly were available at 48 airports. Travelers with medically necessary liquids, aerosols and gels in excess of three ounces also may use the family lanes, which feature bottle scanners capable of detecting dangerous fluids.

6. Behavior Detection Program Faulted.

TSA is adding behavioral and explosives specialists at U.S. airports, in an effort to reduce stress levels at security checkpoints and make guilty parties stand out more. According to TSA, behavioral specialists have singled out 60,285 passengers for additional screening this year, resulting in 509 arrests on various charges. But, says *USA Today*, since the 2006 program launch, of 160,000 fliers singled out for additional screening by behavioral experts, only 1,266 were arrested. TSA has not confirmed whether terrorists have been caught through the program. A recent National Academy of Sciences report said behavioral surveillance has enormous potential for violating privacy, and calls for more research; surveillance should be used only as preliminary screening to find people who merit follow-up investigation, says the report.

7. Canada Objects to TSA Rule on Passenger Data.

The Air Transport Association of Canada (ATAC) is protesting a Secure Flight provision that requires foreign flights in U.S. airspace to provide passenger name records, even if they do not touch down in the U.S. ATAC said the TSA rule could violate Canadians' privacy, cause flight delays and present expense for small airlines unequipped to gather and transmit the data. Ottawa-based International Civil Liberties Monitoring Group called the rule a "Kafkaesque" situation, where Canadian rights will be breached by another country.

IV. E-COMMERCE AND TECHNOLOGY

1. Points.com Launches Trades of Air and Hotel Points.

Travelers can trade hotel and mileage points due to a new partnership that unites loyalty reward management Web site, Points.com, with hotel loyalty program, Priority Club Rewards. Airline partners of Toronto-based Points.com include American, Delta, British Airways, Northwest and Lufthansa.

2. Help for Frequent Fliers.

Yapta.com now alerts frequent fliers when award seats become available for a particular trip. Users find the flights they want and opt for "track prices" and "include award tickets." Airline programs currently supported include Alaska, Continental, Delta, U.S. Airways and United. For a fee, ExpertFlyer.com offers a similar alert service for 21 airlines. The sites do not book flights.

3. Use of Consolidators in Managed Travel Programs.

A recent survey of 152 corporate travel managers from 13 countries regarding use and efficacy of air ticket consolidators in managed travel programs found that 37.5% who use consolidators report significant savings from negotiated fares. About 37% noticed increased interest regarding consolidators from among their travelers; 27.8% of those using consolidators are purchasing first class tickets, 77.8% business class and 61.1% economy class. The survey was conducted by Business Travel Coalition (BTC). In these hard economic times, said BTC Chairman Kevin Mitchell, employees authorized to travel business and first class actively look at consolidator fares. "It's not unusual for a \$10,000 fare, available via a corporate travel program, to be offered by a consolidator for \$5,000."

4. Air France, KLM Launch Social Network Web Site.

Air France and KLM jointly launched bluenity.com, a social network Web site enabling customers of both airlines to make their flight schedule public and meet online with other travelers to arrange to share a taxi, for example, or to share tips for hotels, restaurants and shopping anywhere in the world.

V. ENERGY AND ENVIRONMENT

1. UK Revises Environmental Tax.

The UK abandoned plans to levy a "per-plane" environmental fee on airlines and instead will use a four-band system that imposes fees on passengers based on distance traveled. Under the new system, effective next November, rates will be set at intervals of 2000 miles from London, with the duty on maximum miles to rise further in December 2010. Green opposition called the new plan "bad news for the UK tax payer, the environment and the world's poor." UK union Unite called it "a shot in the arm for the UK air industry [and] a victory for common sense," saying the original plan, if implemented, would have encouraged passengers to avoid using Heathrow. "This is an illegal action, which we expect to be settled in the courts," said the Air Transport Association of America (ATA). It "improperly asserts regulatory jurisdiction over flights far outside UK airspace . . . The funds collected do not go to environmental projects, and yet the taxes take money from airlines that they could otherwise invest in more fuel-efficient and greenhouse gas-efficient technologies."

2. Commercial Aviation Test Flight for Sustainable Biofuels.

The world's first commercial aviation test flight powered by a sustainable second-generation biofuel is set for December 3. The 50:50 blend of standard Jet A1 fuel and synthetic paraffinic kerosene derived from jatropha oil has been certified as suitable for use by Rolls-Royce and will power one RB211 engine on an Air New Zealand Boeing 747-400 for the two-hour test flight. Air New Zealand sourced the jatropha oil from seeds grown on environmentally sustainable farms in South Eastern Africa (Malawi, Mozambique and Tanzania) and India.

3. Biofuels Tested in Transcontinental Flight.

A transcontinental experimental flight to demonstrate viability of renewable fuels was conducted by Orlando-based Green Flight International, with 1,776 miles of 2,486 total miles flown powered on 100% biofuel. A 50:50 mixture of biofuel and standard jet fuel was used for 710 miles to compare performance data and demonstrate the capability of blending biofuel with existing jet fuel supplies. The flight operated to stringent FAA specifications, said the company; FAA has expressed an interest in using the Green Flight biofuel test program as a template to assess future generations of aviation fuels. The record-setting flight, using an L-29 jet trainer, originated in Reno, NV and concluded in Leesburg, FL, with a total flight time of 11 hours, 13 minutes, flown at altitudes ranging from 13,000 to 17,000 feet. Green Flight CEO

Douglas Rodante and Chief Pilot Carol Sugars in October 2007 became the first crew to pilot a jet aircraft powered entirely on biofuel. An around-the-world flight is planned for 2010.

4. **FedEx to Reduce Aircraft Emissions by 20% by 2020.**

FedEx plans to reduce carbon dioxide emissions from its fleet by 20% by 2020. The company is replacing Boeing 727s with B-757s, which reduce fuel consumption up to 36% while providing 20% more payload capacity, and will acquire B-777s that provide greater payload capacity and use 18% less fuel on average than MD-11s currently in operation. These aircraft replacements will also significantly reduce carbon emissions. Among other initiatives, ranging from improvements in flight planning to aircraft operation efficiencies, FedEx is saving almost one million gallons of fuel per month by using ground power when a plane is at the gate instead of aircraft power.

5. **Participation in VALE Program Increasing.**

At the request of Congress, the Government Accountability Office (GAO) evaluated FAA's implementation of VALE, the Voluntary Airport Low Emissions program, meant to reduce ground emissions at commercial service airports in air quality non-attainment and maintenance areas. GAO found the number of participants is increasing, as are the range and scope of projects and the amount of money spent on them. As of September 2008, nine of 160 eligible airports had or were planning to initiate a VALE project, compared to two at program inception in 2005. GAO found some airports believe that VALE projects compete with other projects, such as runways or terminals, for airport improvement program (AIP) funding, but, according to FAA, they are funded through a discretionary AIP set-aside for noise and emission projects. Expenditures have been nearly \$20 million for 20 VALE projects this year. Projects initiated to date will reduce emissions of such pollutants as nitrogen oxide and carbon monoxide by over 5,700 tons estimated over a 10-40 year project lifetime, according to FAA, which said emission reductions resulting from VALE projects, although large in some cases, such as equipping gates with electricity and air conditioning outlets for aircraft, represent a small fraction of total emissions at participating airports. Airports can receive credits for emission reductions achieved through VALE projects to offset emissions from other airport development projects. FAA is developing a methodology to assess VALE's cost-effectiveness and plans to develop other measurable performance objectives, but has yet to assess the overall performance of the VALE program.

6. **Accelerated Development of Algae Industry Planned.**

Algal Biomass Organization (ABO), formed in 2007 with a mission to accelerate development of the algae industry, held a forum for the world's

leading algae scientists, technologists, process engineers and entrepreneurs to present data on projects including pilot plants, innovative growth technologies and algal strain selection. Representatives from Boeing, Airbus, Honeywell unit UOP and KLM outlined steps they are taking to address carbon dioxide emissions, including the use of algal-based jet fuel. Almost \$200 million has been spent this year on research into the conversion of algae into fuel for airplanes and automobiles.

7. Air France to Ferry Passengers in Compressed-Air Powered Vehicles.

Air France KLM will begin a six-month trial of zero-emission, compressed-air powered passenger-carriers at Paris de Gaulle and Amsterdam Schiphol in spring 2009, evaluating them for safety, ergonomics, deployment, reliability and maintenance. Operating costs for the four-seat AirPods, developed by Motor Development International (MDI), are extremely low, said the airline, launch user of the vehicles.

8. First Chinese Airline Signs on For EcoPower Engine Wash Service.

Shanghai-based cargo carrier Great Wall Airlines is the first Chinese customer for Pratt & Whitney's EcoPower engine wash service. The washes reduce engine fuel burn by up to 1.2%, eliminate three pounds of carbon dioxide emissions for every pound of fuel saved, and decrease engine exhaust gas temperature (EGT), improving performance and increasing the amount of time an engine can stay on wing, says Pratt & Whitney. The agreement covers PW4056 engines that power three Boeing 747-400 freighters. All engine washes will be conducted at EcoPower's Amsterdam service center.

VI. U.S. CONGRESS

1. Changes in the Next Congress.

The November election brought about a few Senate changes that will affect the aviation industry in the next congressional session. Ted Stevens (R-Alaska) and John Sununu (R-N.H.), both members of the Senate Commerce Aviation Subcommittee, were not re-elected. Stevens also served on the Homeland Security Committee. While Joe Lieberman (I-Conn.) will remain Chairman of the Senate Homeland Security Committee, he no longer will head the Environment and Public Works Global Warming Subcommittee.

2. Foreign Repair Station Reform May be Priority in New Congress.

Foreign repair station reform may be a priority in the new Congress, reports the *Atlanta Journal-Constitution*. A co-sponsor of the Safe Aviation Facilities Ensure Aircraft Integrity and Reliability Act (SAFE AIR) of 2008 was then-Senator Barack Obama (D-Ill.). Introduced by Sen. Claire McCaskill (D-Mo.), SAFE AIR would ensure that all certified foreign repair stations receive FAA inspections twice a year. A letter sent in March to the Teamsters Union by Obama said, "The practice of outsourcing aircraft maintenance overseas raises security concerns and pits our skilled mechanics making a middle-class living against less skilled, less well-protected workers abroad." And House Transportation Committee Chairman James Oberstar (D-Minn.) in February told Teamsters that he opposes foreign outsourcing because "these are good-paying jobs." The DOT Inspector General then studied the issue and found that "foreign repair stations performed 27% of outsourced heavy airframe maintenance checks in 2007, up from 21% in 2003"; problems included "untrained mechanics, lack of required tools, and unsafe storage of aircraft parts."

VII. BILATERAL AND STATE DEPARTMENT NEWS

1. U.S. Hopes to Open Latin American Skies.

The United States would negotiate expansive Latin American open skies agreements "at the drop of a hat," said John Byerly, U.S. State Dept. Deputy Assistant Secretary for Transportation Affairs, in remarks at the ALTA Airline Leaders Forum in Cancun. He has prepared a multilateral convention that would waive nationality clauses affecting any country that signed such agreements, reports *Air Transport World*, but TAP Portugal CEO Fernando Pinto said the U.S. faces a "closed, regulated and protected market." ALTA is the association of Latin American and Caribbean airlines.

2. TIACA Calls for Cargo Liberalization

The International Air Cargo Association (TIACA) is calling on countries that support the severance of cargo from passenger rights to reach agreement on a separate cargo annex that could become the first step towards market liberalization. TIACA's aim is establishment of a multilateral group of countries permitting fifth, sixth and seventh freedom rights. "Present bilateral negotiating structures often inhibit the growth of air cargo, due to political and structural resistances," said the group. "Positive progress towards multi-lateral freedoms for cargo would support the current parallel work on liberalization principles in the OECD [Organization for Economic Co-operation and Development] and the Trans-Atlantic Common Area negotiations between the EU and the USA."

3. Taiwan, China Expand Cross-Strait Pact.

Building on a July agreement that allowed 36 cross-strait passenger charter flights from five mainland cities, Taiwan and China will extend the number to 108 flights from 21 cities. Frequency will rise from four times a week to daily. Under the new agreement, effective mid-December, there also will be 60 direct cargo flights monthly, and private business jets will be allowed to fly the route. Officials said the direct air links would cut airline fuel costs by up to 50%.

4. Singapore, Kuwait Sign Open Skies Agreement.

Singapore and Kuwait concluded an open skies agreement that allows their carriers to operate any number of flights to and beyond both countries.

VIII. EUROPE/AFRICA

1. Alitalia Offer Approved.

The acquisition of Alitalia assets by Compagnia Aerea Italiana (CAI) was approved by the Italian government and the European Union (EU) and the new Alitalia is expected to take off in December. The European Commission (EC) appointed a trustee to oversee the sale. "This process will lead to the emergence of a private airline, smaller in size but more efficient," said EU Transport Commissioner Antonio Tajani. The Commission ruled that CAI would not be liable for repaying a €300 million government loan made to Alitalia; the loan will be repaid from liquidation proceeds. The rescue plan does not constitute state aid, but represents a real privatization, said Tajani; Ryanair said it would appeal the "corrupt and biased" decision.

2. Lufthansa Italia Unveiled.

Lufthansa will operate a new Italian airline, Lufthansa Italia, from February 2, 2009, offering connections from northern Italy to major European destinations. "The new airline blends traditional Lufthansa values, notably reliability and high quality, with Italian flair," said the German airline. With a fleet of six, two-class, 138-seat Airbus A319s, the Lufthansa subsidiary initially will offer nonstops from Milan to Barcelona and Paris de Gaulle, with flights to Brussels, Budapest, Bucharest and Madrid added in early March, and London Heathrow and Lisbon at the end of March. Lufthansa said Milan Airport operator SEA will successively upgrade Malpensa infrastructure to provide its passengers with more service and comfort, including "an enhanced lounge product and fast-track passage through security." Lufthansa has another Italian subsidiary, Air Dolomiti and is considering a stake in Alitalia, as is Air France KLM. Lufthansa is the exclusive bidder for Austrian Airlines and, said CEO Wolfgang Mayrhuber, would liked to have taken more than a 19% stake in JetBlue, but was prevented from doing so by the cap on foreign ownership of U.S. airlines; "Nobody should be afraid of foreign direct investment," he added..

3. Olympic Privatization Moves Forward.

Greece's Transport Ministry named investors that have expressed interest in buying components of state-run Olympic Airlines. They include Chrysler Aviation, Goldair, Ellaktor, Hellenic Cargo, Iberia, Italian MyAir, Kuwait's Fouad Al Ghanim Group, Athens Airways, Qatar Airways, Sky Europe, SkyOne and Swissport. The tender ended October 31 and is expected to conclude by yearend. The privatization plan won EC approval in September.

4. Sterling Ceases Operations.

Sterling Airlines filed for bankruptcy and ceased operations as a result of the Icelandic financial collapse. A Danish venture capital firm is involved in negotiations to buy the Icelandic-owned carrier, which is based in Denmark, but talks stalled due to union opposition. SAS, Norwegian Air and Transavia announced flights to former Sterling destinations.

5. Delta Plans Service to Paris from Raleigh-Durham, Pittsburgh.

Delta will begin Boeing 757-200 nonstops to Paris de Gaulle from Raleigh-Durham and Pittsburgh in June 2009, through its joint venture with Air France, with connections to more than 90 cities beyond. The Pittsburgh route will be the city's only nonstop transatlantic service. The Raleigh-Durham route will be Delta's first nonstop transatlantic flight from North Carolina.

6. EU Updates Blacklist.

The EC released an updated list of airlines banned from flying into EU countries due to safety concerns. A ban was imposed on Siem Reap Airways, the sole scheduled airline in Cambodia, which then ceased operations. A ban on TAAG Angola Airlines was extended to all carriers certified in Angola. The EC maintained a ban on all operations of Ukraine Mediterranean Airlines and Ukraine Cargo Airways, saying they have not proven successful implementation of corrective actions for permanent resolution of previously detected safety deficiencies. A full operating ban on Nouvelle Air Affaires certified in Gabon continues, since no evidence was found that a plan of corrective measures has been approved and verified by Gabonese civil aviation authorities. The EC intends to carry out a safety assessment of Philippine civil aviation authorities in early 2009, having examined an action plan addressing oversight.

7. Delta, Northwest Apply for New Japan, Africa Services.

See Section I, item 5.

8. Irish Airports to Offer Pre-Flight U.S. Customs Clearance.

See Section III, item 1.

IX. ASIA/PACIFIC / MIDDLE EAST

1. Chinese Stimulus Plan Includes \$60 Billion for Airports.

China will spend about \$60 billion on airport projects over the next two years, as part of a \$586 billion national stimulus plan. Airports in Shanghai Pudong, Guangzhou, Chengdu, Nanjing and elsewhere will be expanded, and new airports will be built in Anhui province, the Inner Mongolia autonomous region and other areas. In other news, the China Civil Airport Association reported to the Civil Aviation Administration of China (CAAC) that 29 domestic airlines had failed to pay on time \$61.7 million in airport charges by the end of October, and that all airlines must sign new service contracts with airports by yearend to ensure rights to service. A new CAAC policy, meant to relieve financial pressure on airlines, allows airports and airlines to negotiate fees among themselves; most have been unable to reach a consensus or sign agreements. Chinese airlines are seeking government aid to cope with massive losses due to earlier high fuel prices and present weak demand.

2. FedEx Delays Opening of New Asia-Pacific Hub.

FedEx Express is delaying until the first half 2009 the planned opening of its new Asia-Pacific hub at Guangzhou Baiyun International Airport, in southern China. The largest FedEx hub outside of the U.S. was to open by the end of this year. FedEx said the revised operations date provides time to fully test all systems and processes and work closely with authorities to ensure all necessary regulatory approvals are in place.

3. Air New Zealand, Air Canada Cooperation Denied.

The Australian Competition and Consumer Commission (ACCC) plans to deny authorization of a proposed agreement, in which Air New Zealand and Air Canada would jointly promote and sell direct flights between Sydney and Vancouver (operated by Air Canada) and Auckland and Vancouver (operated by Air New Zealand). The pact also provided for the airlines to pool and share revenue in relation to the direct flights. Air New Zealand and Air Canada are two of four main carriers on the route, and ACCC said it is not convinced the agreement is needed to underpin the direct services or would ensure the ongoing provision of direct services. "On balance, the ACCC considers that the public benefits of the Cooperation Agreement are not likely to outweigh the public detriments."

4. News From India.

India's Parliament approved establishment of the Airport Economic Regulatory Authority (AERA), with a mandate to foster airport competition and ensure

cost-efficiency and service-level targets. The International Air Transport Association (IATA) urged rapid implementation. "There is a big gap to cover with little or no transparency in charges and differential pricing practices. Our best estimate is that the air navigation service provider over-collects by 20%," said IATA CEO Giovanni Bisignani. "India must address crippling taxation." In other news, British Airways, Singapore Airlines and Virgin Atlantic were mentioned as possible suitors for Kingfisher, despite current regulations that prohibit overseas airlines from owning a stake in an Indian airline. Air India deferred a planned initial public offering until global financial markets rebound and air travel demand increases. The state-run airline is finalizing a \$1 billion loan to fund the purchase of 21 Airbus planes, reports Dow Jones. IATA forecasts that Indian carriers will lose \$1.5 billion in 2008. And, Jet Airways and United launched a reciprocal frequent flyer partnership.

5. Vietnam's First Private Airline Begins Service.

Vietnam's first privately owned airline began flights from Ho Chi Minh City to Hanoi and Danang, using two leased Boeing 737-800s. Indochina Airlines is owned by Vietnamese businessmen and chaired by Vietnamese pop music composer Ha Hung Dung.

6. Delta, Northwest Apply for New Japan, Africa Services.

See Section I, item 5.

7. Taiwan, China Expand Cross-Strait Pact.

See Section VII, item 2.

8. Singapore, Kuwait Sign Open Skies Agreement.

See Section VII, item 3.

X. AMERICAS

1. DHL Express to Cut 9,500 U.S. Jobs.

Deutsche Post's DHL Express unit will cease U.S. domestic air and ground services as of January 30, 2009, but will continue international shipping to and from the U.S. The company will close U.S. ground hubs, and reduce the number of stations from 412 to 103, resulting in loss of 9,500 American jobs, in addition to the 5,400 cut since January. The company will retain 3,000 to 4,000 U.S. Express employees, "tailored to the needs of international express customers," allowing a reduction in operating costs from \$5.4 billion to under \$1 billion. John Mullen, Global CEO of DHL Express, said the company has lost over \$1 billion over each of the past two years. Since May, Deutsche Post has tried to conclude a deal that would allow UPS to carry DHL packages between airports in North America. That venture, once expected to generate up to \$1 billion annually for UPS over 10 years, is opposed by current DHL providers of air service within the U.S., ABX and ASTAR Air Cargo. ABX said it will reduce employment and renegotiate contracts and diversify operations, offering wet- and dry-lease and expanded third-party maintenance services. Deutsche Post CEO Frank Appel said cooperation with other U.S. companies will be considered if talks with UPS fail.

2. Court Sides With United in Pilot Dispute.

A U.S. federal court granted a motion for preliminary injunction against the Air Line Pilots Association (ALPA) and four individual pilots accused by United of deliberately disrupting operations and engaging in an "unlawful campaign of sick leave abuse, pilot intimidation and other actions that resulted in the cancellation of hundreds of flights, inconvenienced thousands of customers and cost United millions of dollars in lost revenues." The company is seeking a permanent injunction to conclude the process. The actions were a response to plans announced in June to eliminate 950 pilot jobs as part of capacity cuts, said United, which filed the suit on July 30. United's ALPA unit has instructed members to resume normal working practices.

3. JetBlue Pilots File Petition for Sole Bargaining Agent Representation.

JetBlue Pilots Association filed a petition with the National Mediation Board (NMB) to gain recognition as the sole bargaining agent for the low-cost carrier's nearly 2,000 pilots. JetBlue, the largest U.S. carrier with no union representation, said, "We believe a direct relationship with the company is in our pilots' best interest."

4. **Delta, Alaska Expand West Coast Alliance.**

Delta and Alaska Air Group amended their marketing agreement to include “supporting the launch of new Delta long-haul trans-Pacific and Latin American routes from the West Coast; expanded connecting opportunities to and from Alaska Airlines and Horizon Air hubs and focus cities; and enhanced worldwide frequent flier and lounge reciprocity agreements.” The alliance expands on one launched in 2004, and on the 20-year relationship between Alaska, Horizon and Northwest. Current code shares by Delta (including Northwest) extend to more than 100 markets served by Alaska (including Horizon), while Alaska code shares extend to more than 30 markets served by Delta. Proposed long-haul international routes from the West Coast in 2009 include Seattle-Beijing, operated by Northwest, and Los Angeles-Sao Paulo. Existing service from the West Coast includes Northwest-operated flights between Los Angeles, Portland, San Francisco and Seattle and Tokyo and between Seattle and Portland and Amsterdam; KLM-operated flights between Los Angeles and San Francisco and Amsterdam; and Air France-operated flights between Los Angeles, San Francisco and Seattle and Paris de Gaulle.

5. **New Jet Service in Hawaii.**

Mokulele Airlines began inter-island jet service, flying 70-seat Embraer 170s obtained under a service agreement with Republic Airways. CEO Bill Boyer acquired the airline in 2005 and last year reached an agreement to serve smaller Hawaii airports for Mesa’s go! division, but the airlines now are suing each other. According to news reports, Mesa says Mokulele failed to pay \$390,000 in fuel costs. Mokulele charged Mesa with anticompetitive behavior, and said Mesa CEO Jonathan Ornstein threatened Boyer after plans to partner with Republic were disclosed. An antitrust lawsuit against Mesa by defunct Aloha is pending and a settlement was reached with Mesa favoring Hawaiian Airlines, in a suit over go! services. Third quarter go! available seat miles increased 61% from the prior quarter this year and operating revenue increased \$9.4 million from the same period in the prior year.

6. **Canada Rules for Obese, Disabled Passengers.**

Canada's Supreme Court upheld a January 2008 Canadian Transportation Agency order barring domestic airlines from charging disabled and morbidly obese people for an additional seat for comfort or for an attendant. Air Canada and WestJet said a screening process will be needed to assess who is eligible for an extra ticket. The ruling takes effect January 10.

7. **Southwest Allies With Mexican Carrier Volaris.**

Southwest and Mexican carrier Volaris agreed to form a code share partnership by early 2010. Founded in 2006, Volaris serves 39 routes in 23 cities throughout Mexico, is known for competitive pricing and an end-to-end

operations model and operates a fleet of 18 Airbus A319s and an A320 with an average age of 2.17 years. Volaris' CEO is Enrique Beltranena.

8. Mexicana Adds International Service.

Mexicana will begin flights to Sao Paulo in December, London Gatwick in January and Madrid in February. CEO Manuel Borja told *Air Transport World* that Mexicana will post a "small" loss in 2008, but he expects a "neutral" 2009. In other news from Mexico, Alma Airlines suspended operations and filed for bankruptcy protection, after gradually reducing services due to the difficult business environment. Pilot error was cited as the likely cause of a crash of a government Learjet 45 that killed all nine people aboard, including Mexico's interior minister. Ruling out sabotage, Transportation Minister Luis Tellez said the pilot lost control of the plane on approach to the Mexico City airport and got caught in turbulence created by a Boeing 767-300. The Learjet was 4.15 nautical miles behind the jumbo jet, said Tellez, and standard flight procedures require a separation of five nautical miles. The U.S. Ambassador to Mexico said American investigators had found no evidence of sabotage; Mexican legislators said he had spoken out of turn.

9. Administrator to Oversee Aerolineas Argentinas.

In the ongoing battle to nationalize Aerolineas Argentinas and its subsidiary Austral, the government assigned a Justice Department accountant to oversee operations and prevent current owner Grupo Marsans of Madrid from selling assets. Marsans claims Argentina violated terms of their agreement that call for a third party to assess the value of the airline; Argentine officials say the company has a negative value, while Marsans seeks \$440 million for the sale. A congressional committee recommended that both airlines be expropriated; Marsans may appeal to the World Bank. The two airlines control 80% of domestic service and employ 9,000 people.

10. Officials Charged in 2007 TAM Crash.

A report by the Sao Paulo Institute of Criminology has placed responsibility for the July 2007 crash of a TAM Airbus A320 at Sao Paulo Congonhas primarily with government agencies that failed to ensure runway safety and TAM. In what was the worse disaster in Brazil's aviation history, the crash killed all 187 people on board and 12 people on the ground. Police have charged 10 people, including the former head of the national aviation authority (ANAC), Milton Zuanazzi, and officials at TAM and airport authority Infraero. All are accused of violating national aviation security and could face prison terms of up to six years. Investigators attributed an incorrect positioning of the plane's thruster controls to pilot error and lack of training by TAM. In addition, the slick runway had not been properly grooved and should not have been used during

rain. Airbus was also cited for not requiring an alarm warning for incorrect positioning of the aircraft's thruster controls.

11. **Delta, Northwest Apply for New Japan, Africa Services.**

See Section I, item 5.

12. **DOT Proposes Spirit for New U.S.-Colombia Service.**

See Section I, item 6.

13. **Delta Plans Service to Paris from Raleigh-Durham, Pittsburgh.**

See Section VIII, item 5.

14. **Air New Zealand, Air Canada Cooperation Denied.**

See Section IX, item 3.