

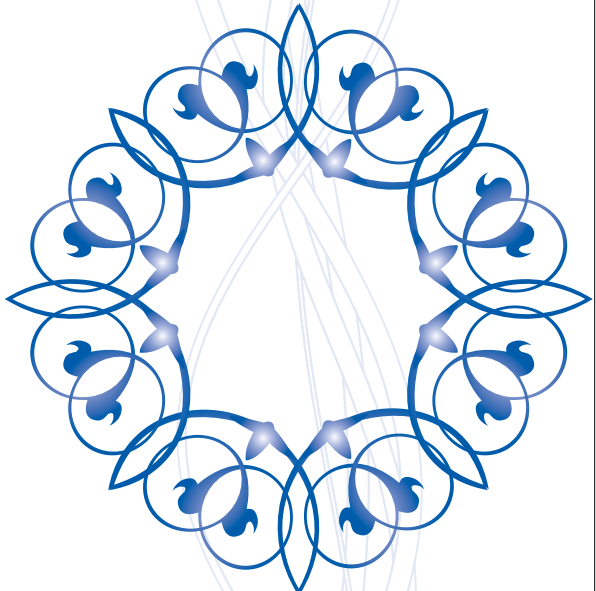
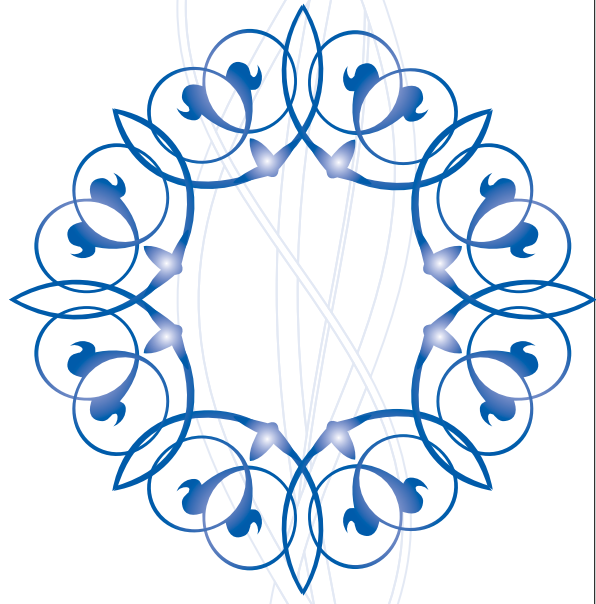


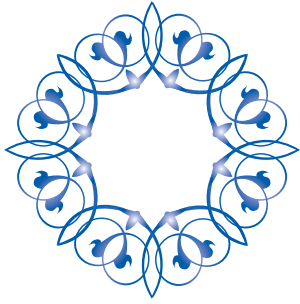
AACO 45<sup>th</sup> AGM – Algeria  
الجمعية العامة الخامسة والأربعون

# Annual Report

Arab Air Carriers Organization  
45<sup>th</sup> Annual General Meeting – Algeria

5-7/11/2012





2012

# Annual Report

## Arab Air Carriers Organization

### 45<sup>th</sup> Annual General Meeting – Algeria

#### **Vision**

To stand out globally as THE association that serves with dedication the Arab airlines and to be instrumental in dealing with an evolving aviation industry.

#### **Mission**

To serve the Arab airlines, represent their common interest and be the catalyst for their cooperation.

#### **Objectives**

- To support the Arab airlines' quest for highest safety and security standards
- To support the Arab airlines' quest for developing their environmental policies for processes in harmony with the environment
- To actively contribute in the development of human resources
- To interact with the regulatory bodies to support and protect the interests of the Arab airlines
- To launch and serve joint projects between member airlines with the objective of embracing best practices to assist the airlines in serving their customers within strict adherence to competition laws
- To provide forums for members and for industry partners to enhance the knowledge base and improve cooperation amongst them
- To reflect the positive image of The Arab Airlines Globally

#### **Strategy**

To initiate and implement Specific, Measurable, Attainable, Relevant, and Traceable synergistic targets (SMART) that serve its objectives.

#### **AACO Executive Committee**



**Mr. Mohamed Salah Boultif**  
AGM Chairman



**Mrs. Ghaida Abdullatif**  
Chairperson of the Executive Committee

Mrs. Ghaida Abdullatif, Vice Chairman - Director General and CEO, Syrian Arab Airlines

Mr. Mohamed Salah Boultif, President and Chief Executive Officer, Air Algerie

Mr. Driss Benhima, Chairman and CEO, Royal Air Maroc

Mr. Tim Clark, President, Emirates Airline

Mr. James Hogan, President & Chief Executive Officer, Etihad Airways

Eng. Samer Majali, Chief Executive Officer, Gulf Air

Mr. Mohamad A. El-Hout, Chairman & Director General, Middle East Airlines

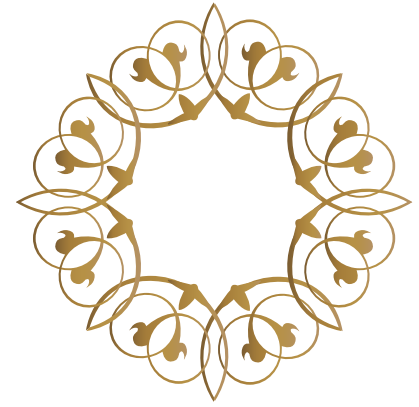
Capt. Tawfik Assy, Chairman & CEO, EgyptAir Holding Company

H.E. Mr. Akbar Al Baker, Chief Executive Officer, Qatar Airways

H.E. Eng. Khalid Almolhem, Director General, Saudia

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# Milestones

The weight of the global air transport is gradually shifting from where it was established in Europe and the United States to emerging markets especially to the Arab world, Turkey, Asia and Latin America. The debt crisis in Europe, its impact on world economy, and the slow economic recovery in the US have contributed to highlighting the structural problem that many airlines in advanced markets have. These airlines suffer from the maturity of their markets, which leads to low rates of growth, a cost base that is not optimal for competition, and various burdens including having their governments far from playing a positive role in developing the infrastructure and widening the air transport opportunities. Actually some of these governments are becoming creative in devising new taxes, charges and regulations specifically targeting airlines.

Conversely, most of the governments in emerging markets recognize that one of the most important elements in economic development is enabling the growth of air transport. These governments match the development of infrastructure with the growth of air transport by their airlines which helps these airlines in enhancing their presence on the global air transport map. Yet, in spite of the generally positive role these governments play, some of them still have reservations towards free market access and opening up opportunities for cross border investment. However, this has not impeded the Arab air transport market from growing in 2011 in spite of the massive changes in many of the Arab states. The Arab air transport market grew by 5.7% in 2011 compared to 2010, reaching 133 million passengers and is expected to reach 140 million passengers in 2012.

Although Arab airlines are advancing their global position, most of their passenger traffic is still within the Arab world. And taking into account that passenger numbers in the Arab world represented 40% of the population in 2011 compared to 110% in Europe and 200% in the US, and when we recognize that 50% of the Arab population are under 25 years of age, we deduct that growth opportunities of Arab airlines are still massive, not only because of their geographical location but also due to opportunities for transport within the Arab world.

Making way for the growth of air transport in the Arab world led Arab airports to handle around 225 million passengers in 2011 compared to around 100 million in 2001. It is expected that by the end of 2012

# Milestones

the number will increase to 257 million passengers. These airports also handled 5.7 million tons of cargo in 2011 compared to 2.3 million tons in 2001.

The dynamic relation between developing the infrastructure and expansion of Arab airlines has led to a successful balance for all relevant stakeholders, especially the Arab and global traveller that now enjoys increasingly competitive choices for a larger set of services and networks that reach various quarters of the earth. This is done with flights operated by new generation aircraft that are environmentally friendly with advanced entertainment systems and high safety records. Accordingly, productivity of Arab airlines has increased and demand for travel with these airlines grew, whereby the Arab airlines recorded a 7.6% growth in RPKs in 2011, and same is expected to grow by 12.1% in 2012. However, AACO member airlines have recorded an aggregate negative financial result in 2011 due to the economic and unstable situation in some Arab countries, in addition to the steady rise in fuel prices. Within these negative results, some members recorded high operating margins reaching 6.5%, while others recorded massive losses.

Some Arab airlines made use of their geographical location and aircraft technology advancements by emerging as global brands with state-of-the-art services and competitive prices. These airlines benefit from growth opportunities in the Arab air transport market, in addition to the increase of their share in global transport in the most populated markets on earth. Accordingly, aviation relations with Asia and Australia on one hand and Europe, the US and Africa, on the other, are as important as aviation relations amongst Arab countries. AACO continues calling on Arab and European authorities in particular to agree on a balanced framework that opens up opportunities for airlines, regardless of their nationality, to offer best services for the consumer. This is the essence of the Open Skies Principle; which is to give the consumer the right to choose the carrier that meets his/ her requirements. The next step should be giving airlines the chance to conduct joint operations, exchange ownership, and the right to consolidate in order to be able to reduce their cost and consequently provide the consumer with best prices on one hand and achieve adequate return on investments on the other. It is definitely proven that opening market access and airlines' consolidation enhance serving the consumer and contribute to developing air transport consequently giving rise to the economic movement as a whole.

In this aspect, 2012 witnessed the accession of two Arab airlines to Skyteam alliance, and one invited to **oneworld**, in addition to the two other Arab airlines already members in **oneworld** and Star alliance. Some other members have started to invest in other airlines, while others concluded positive partnerships with selected airlines.

The European stance on emissions is still subject to a global debate. Some states have forbidden their airlines from complying with the EU Emissions Trading Scheme, while other states threaten to close their airspace in front of European aircraft. This stance of the European Union will lead to undesirable consequences. The only solution to deal with aviation's impact on the environment is through having a global scheme by ICAO that is based on what was reached at ICAO in 2010.

AACO continued to work on being the heard voice of Arab airlines. We also work on various levels to enhance cooperation between Arab airlines, which ultimately contributes to increasing the efficiency of serving the consumer. AACO's cooperation projects continue functioning with strict compliance to global competition and anti-trust laws. AACO also continues to lobby for the common interests of members at regional and international quarters in areas like aeropolitical affairs, safety, security, passenger rights, emissions and other areas. AACO's regional training center as well continues its work graduating more than 23,000 trainees so far. In parallel, we maintain strong ties with our industry partners to widen the awareness on the latest developments in this dynamic industry.

Our publications and documents have become the most important reference for the Arab air transport and are distributed widely to increase awareness of our industry, whereby we focus on highlighting what interests our member and partner airlines, and industry partners.

Last but not least, I thank AACO's members for their continuous support especially the CEOs and in particular the Chairman of this AGM, Mr. Mohamed Salah Boulouf, and the Executive Committee Chairperson, Mrs. Ghaida Abdullatif, and members of the Executive Committee. I also thank our Partner Airlines and Industry Partners as well as our sister associations, especially IATA, for their support. We definitely share the same vision with them.

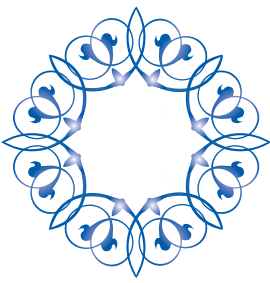
Lastly, AACO's Secretariat General's work requires a coherent and efficient team. And this is the fact of our small group of professionals that do their best to serve AACO members.

Abdul Wahab Teffaha



Secretary General

# Milestones



# Arab Air Transport Updates

## Regulatory Scene

### Introduction: Opportunities for Growth of the Arab Air Transport Sector

- Strong economic growth in the Arab world has fostered noticeable opportunities through, for example, rapid infrastructure development and starting to implement plans for future expansion to meet the anticipated growth in passenger numbers and cargo volumes.
- Arab world aviation markets are new non-mature markets, whereby passenger numbers in the Arab world represented 40.3% of the population in 2011.
- The Arab world gathers one of the youngest populations in the world with more than 50% of the Arab population younger than 25 years of age, and hence the human resources market is very competitive and opportunities for expansion are massive.
- The Arab world geographic location opens big opportunities for air transport.
- Arab airlines operate one of the youngest fleets worldwide, whereby the average age of the Arab fleet was 7.4 years in 2011.
- Arab air transport stakeholders provide high quality service to the consumer.
- The Arab world benefits from low labor cost.
- Air traffic growth is expected to remain above the world average.

### Regulatory Hitches in the Arab Air Transport Market

Although there are massive opportunities for growth of the Arab air transport sector, the sector still suffers from major hitches as follows:

- Lack of implementation of the Damascus Convention and reaching a single Arab aviation market governed by the economic rules and conditions stipulated in the Convention.
- Taxes and charges imposed by some Arab governments that are a barrier to the development of the Arab air transport.
- Some governments in the region still stick to national ownership and control of airlines and are not moving into at least an environment where Arab investment in airlines is considered as national investment. This situation is putting barriers on consolidation and mergers amongst Arab carriers.
- The lack of a clear policy to deal with regional blocs, especially with the European Union, in a way that guarantees economic balance in air services agreements.
- Airspace blocks in Air Traffic Management in some Arab regions due to many airspace areas that cannot be used by civil aviation and which go back to decades ago.

### This Year's Developments of Aviation Policies in the Arab World

#### Market Access

- Most Arab countries adopt policies that impose huge restrictions on market access.
- Air transport relations between Arab countries are mostly governed by bilateral agreements granting 3rd and 4th freedom traffic rights.

#### Latest Highlights

- **Saudi Market:** We see some moves towards opening markets that were previously relatively restricted. In 2012, Saudi Arabia's General Civil Aviation Authority announced



opening the opportunity for foreign carriers to attain licenses for domestic and international operations to and from the kingdom's airports. The Saudi market is considered one of the largest domestic travel markets in the Arab world with around 22.6 million passengers in 2011. This market is currently served by "Saudia" and "Nasair". Currently the kingdom has four major international airports and 23 smaller domestic airports, of which few also serve international traffic.

- **UAE Market:** The UAE has worked on expanding its open skies agreements with various countries, signing so far open skies deals with 114 countries.

### **Ownership of Arab Airlines**

- Most Arab airlines are owned by their governments.
- Some Arab airlines are totally or partially owned by the private sector; some of these have their shares traded in the financial markets like Air Arabia, Royal Jordanian, Jordan Aviation, Nouvelair, and others.

#### **Latest Highlights**

**Saudia:** In September 2007, Saudia sold 49% of its catering unit, followed by 30% of its cargo unit in 2008. In 2012, the airline sold another 30% of its catering unit in an IPO, and based on its strategic plan of 2006, the airline plans to sell its various business units to the private sector.

### **Multilateral Relations between Arab Countries**

- The Damascus Convention was adopted by the Council of Arab Transport Ministers in 2004 where 13 Arab states signed the Convention. The Convention entered into force in 2007 after being ratified by 8 states: Jordan, Lebanon, Morocco, Oman, Palestine, Syria, Yemen, and the UAE.
- The Damascus Convention is the multilateral agreement for the liberalization of air transport between Arab countries, and was drafted based on the common policies of the EU for the EU single aviation market:
  - Council of Arab Transport Ministers, at their 22nd session in October 2009, mandated a working group to study ways for the implementation of the Convention and its economic regulatory code.
  - The group is headed by the UAE General Civil Aviation Authority and representatives from Arab civil aviation authorities, in addition to representatives from the Arab Civil Aviation Commission (ACAC) and the Arab Air Carriers Organization (AACO).
  - The Arab Transport Ministers at their meeting on 28-29 April 2010 issued another resolution in this regard, that includes a call to study the common EU aviation policies and code of work to adapt the Economic Regulatory Rules of the Damascus Convention with those of the EU.
  - Moreover, the Damascus Convention was also discussed at the October 2010 Council meeting which adopted a resolution giving more emphasis on efforts to implement this Convention.

#### **Latest Highlights**

- During the past year, the Damascus Convention working group worked on questionnaires that were circulated to all Arab Civil Aviation Authorities. These questionnaires aimed at understanding the reasons behind not activating the Damascus Convention in their air transport relations.
- AACO Secretariat General always participate in the meetings of the Working Group.
- The group decided to recommend the following to the next meeting of the Council of Arab Transport Ministers, based on the results of the survey:

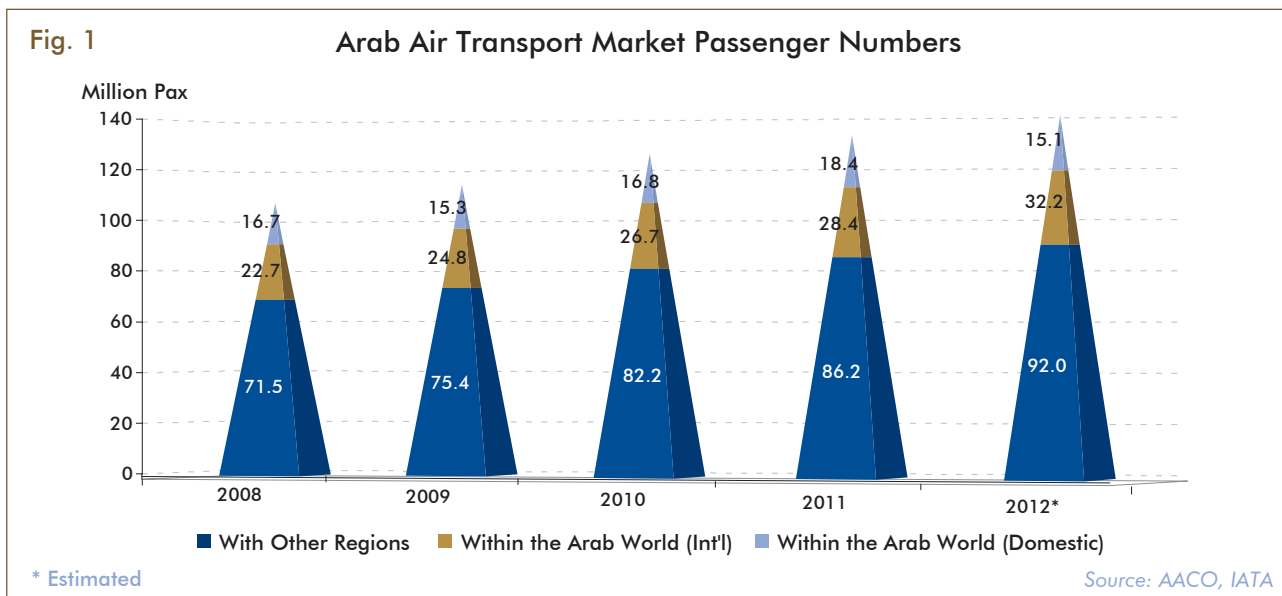




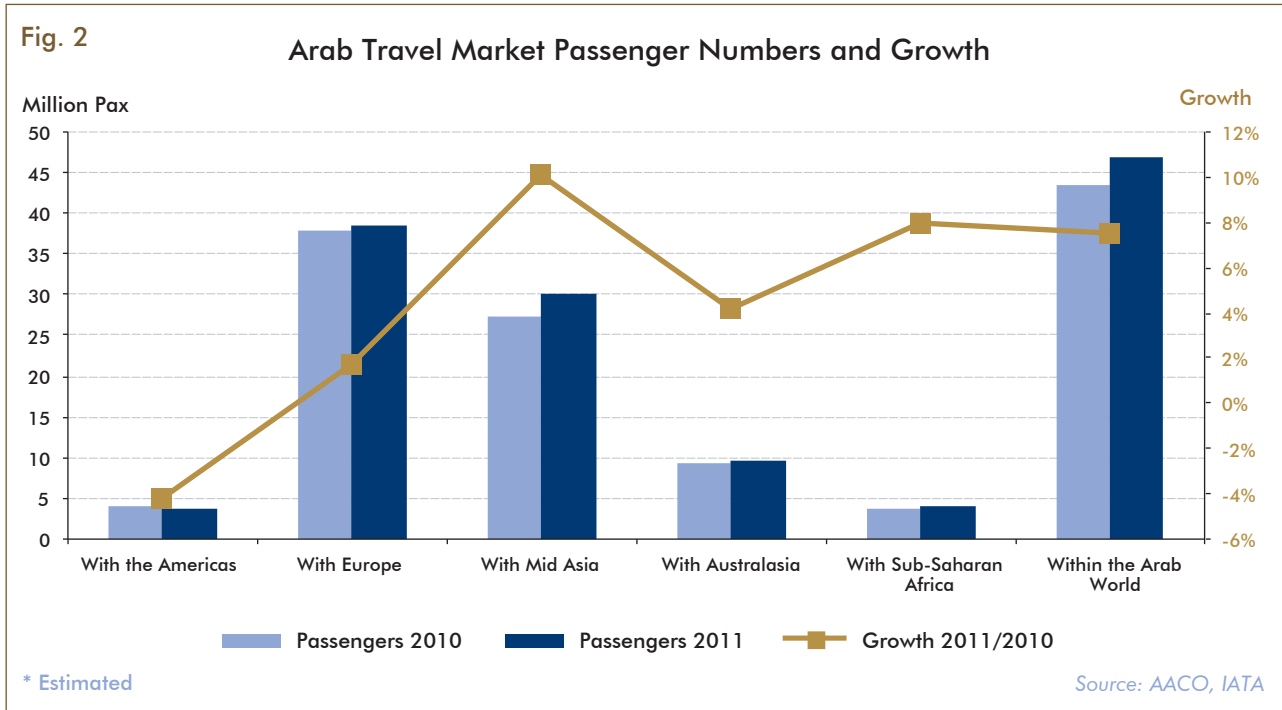
- To urge states that ratified the Convention to activate it in their bilateral relations.
- States working on the legislative procedures for the ratification of the Damascus Convention to expedite completing these procedures and to announce the activation of all the Convention's provisions upon completion.
- States that did not join due to some reservations on some of the Convention's provisions, to join and use the agreement for a while and then seek adding preferred protocols or changes.
- To approach other countries to join the Convention.
- To visit states that did not join yet, in order to understand their concerns.
- Transport Ministers to reinstate their commitment to open skies policies between Arab countries under the umbrella of the Damascus Convention and to direct their relevant Civil Aviation Authorities to apply the provisions of the Convention.

## Market Movement

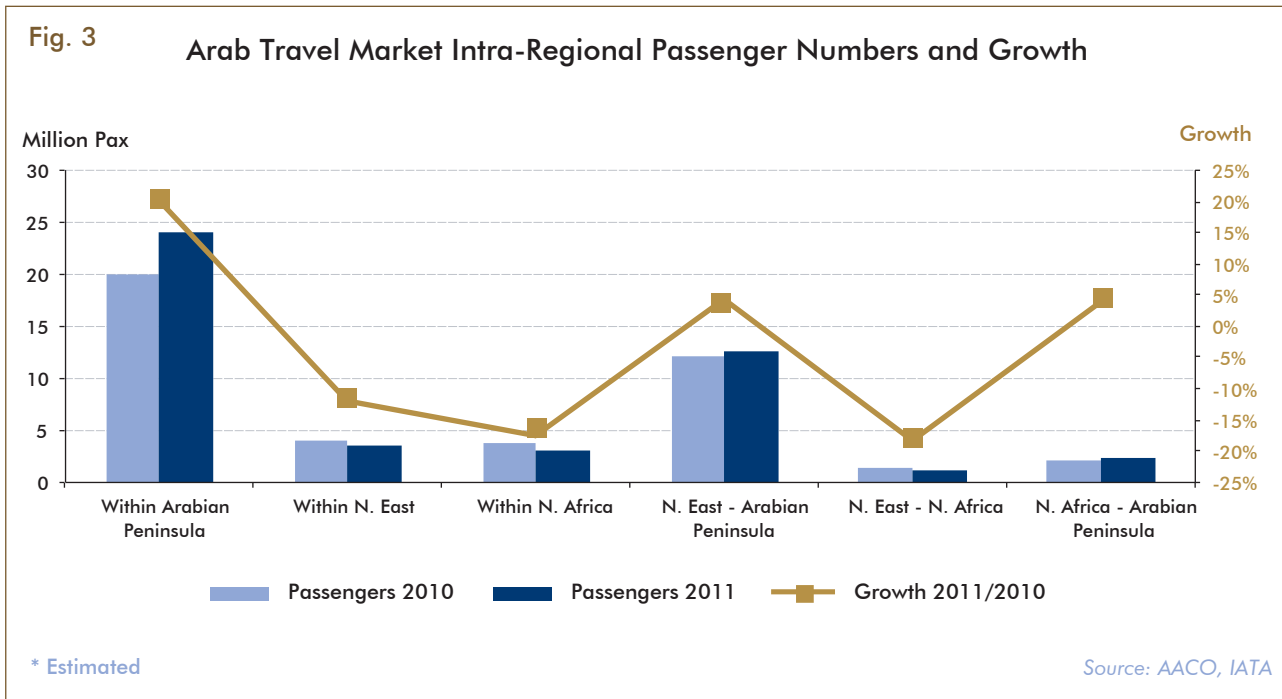
The Arab air transport industry witnessed a string of drawbacks in 2011, namely the European sovereign debt crisis, jet fuel prices, and the socio-political unrest in the region. However and in spite of those events, the Arab air transport market continued to expand in 2011, growing by 5.7% compared to 2010. The number of passengers to, from and within the Arab world reached around 133 million passengers compared to 126 million in 2010. And with the persistence of the unrest in several Arab countries, we expect a growth of around 4.8% in the number of passengers traveling to, from and within the Arab world in 2012 over 2011.



Passenger numbers to and from the Arab world recorded a growth of 4.8% in 2011 compared to 2010. Passenger traffic to and from the Arab world is forecast to grow by 6.8% in 2012 compared to 2011.



Passenger numbers within the Arab world recorded a growth of 7.5% in 2011 compared to 2010, with international traffic within the Arab world growing by 6.3%, and domestic traffic increasing by 9.5%. Passenger traffic within the Arab world is forecast to grow by 1.0% in 2012 compared to 2011.





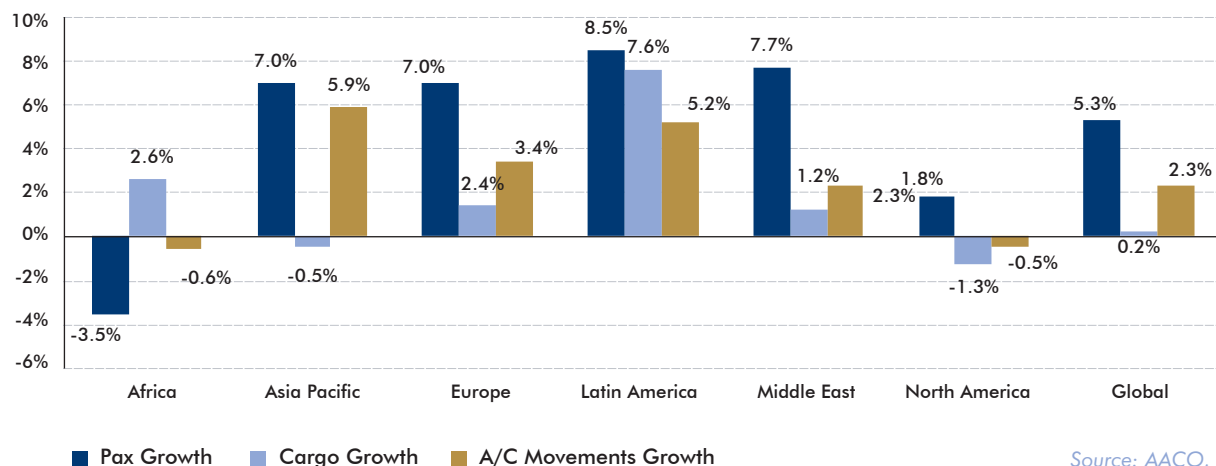
## Infrastructure

### Global Airports' Traffic

- According to Airports Council International, global passenger traffic and cargo traffic at world airports grew by 5.3% and 0.2% respectively in 2011 over 2010, and aircraft movements increased by 2.3% over 2010 levels.
- Looking at regional patterns, all world regions recorded good growth rates in passenger traffic except African airports, which recorded a decrease in their aggregate number of passengers, mainly due to the closure of airspace of some North African countries and to the increase in uncertainty over the economic situation in Europe. In addition, that uncertainty resulted in stagnation in global freight traffic due to the decrease of cargo traffic at Asia Pacific and North American airports.

Fig. 4

Worldwide Airports Traffic Growth - 2011/2010



Source: AACO, ACI

The Regional Geostructure used in this Graph is ACI's

- Looking at airports' ranking in 2011, Dubai airport scored the 4th rank worldwide by international passengers and 7th worldwide in terms of total cargo lifted. In addition, Doha airport ranked 28th worldwide in terms of international passengers, and 18th in terms of international cargo lifted. Moreover, Abu Dhabi airport came at the 27th position in terms of international cargo lifted.

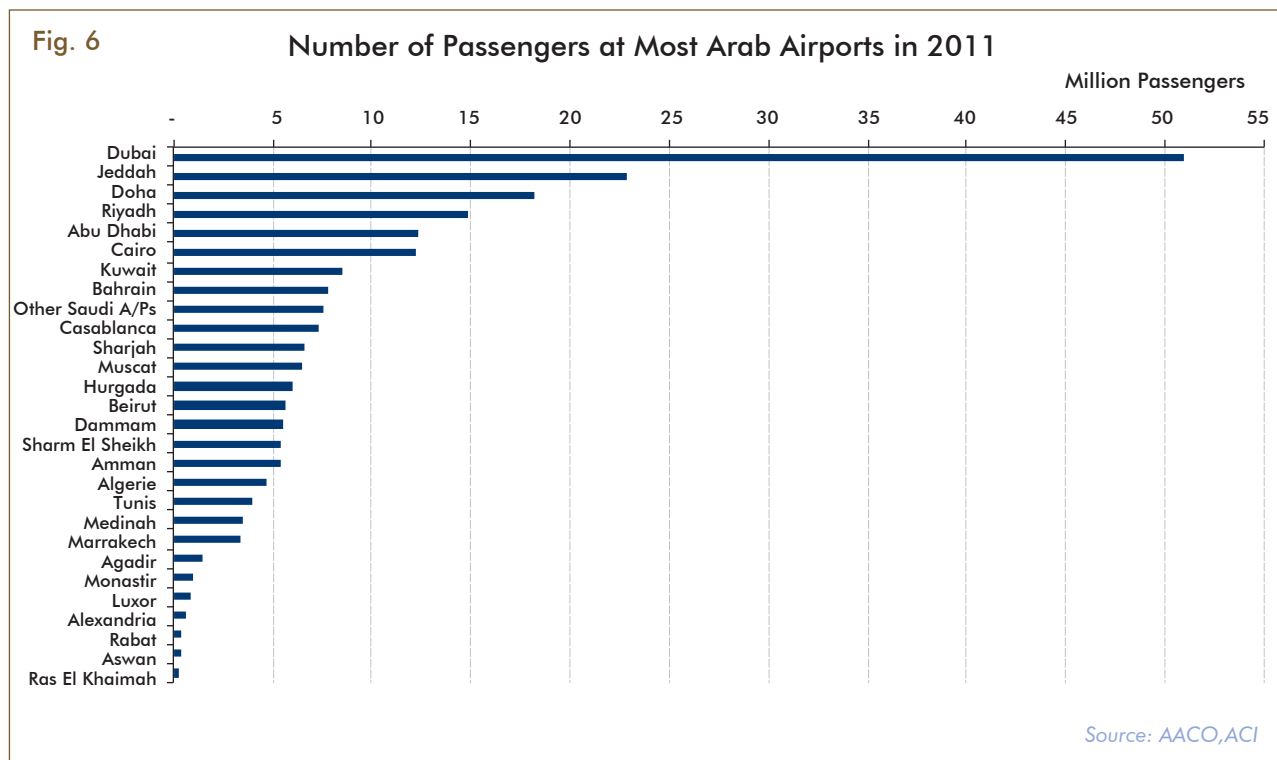
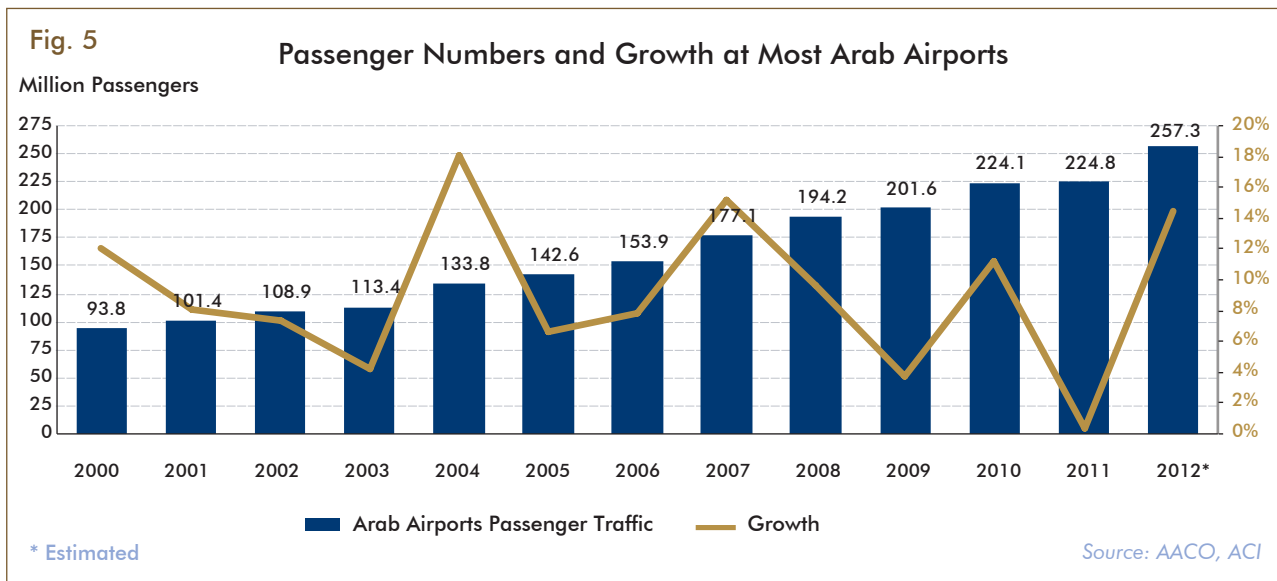
### Arab Airports' Traffic

- 2011 witnessed a slight growth in passenger traffic at Arab airports in comparison to figures of 2010. Passenger numbers in 2011 increased by 0.3% to reach more than 225 million passengers using Arab airports.
- Airports in Saudi Arabia contributed to the bulk of this growth, followed by UAE airports, where Dubai International Airport still tops the list of Arab airports in terms of passenger numbers which exceeded 51 million passengers, followed by Jeddah airport and then Doha airport.
- But the unstable situation in some Arab countries has contributed significantly to the diminished growth rate in 2011 compared to the growth rate of 2010, which exceeded 11.2%. Most of the airports in Egypt witnessed a decline in passenger numbers, for



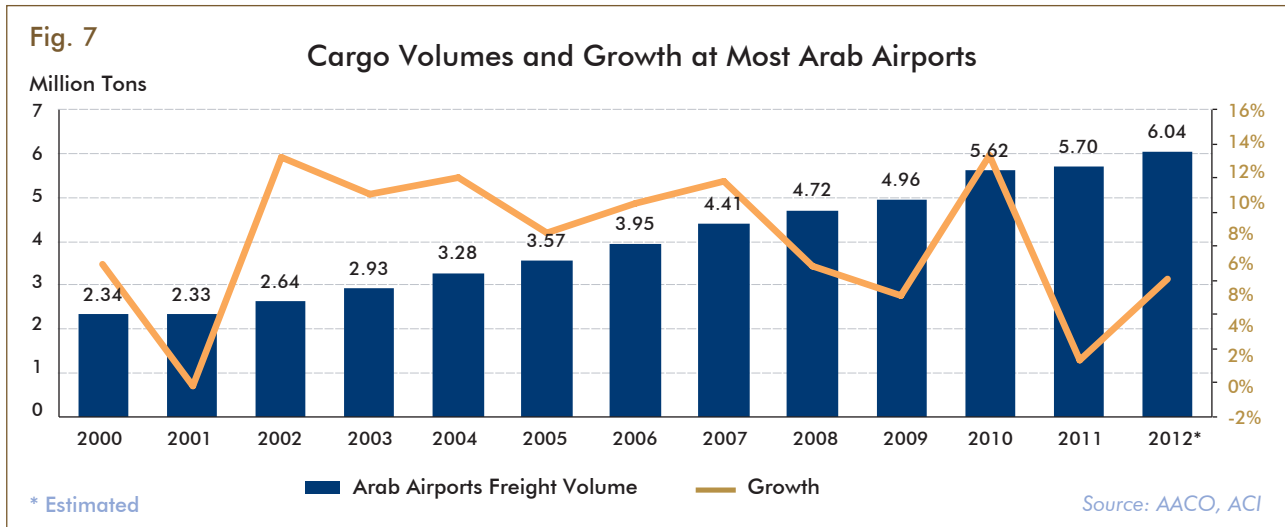
example a decline of around 24% at Cairo International Airport, and more than 53% at Luxor airport. The same situation at Tunisian airports with lower passenger numbers at rates ranging between 13% and 70%. In addition to Bahrain airport, which saw a drop in passenger numbers exceeding 12% compared to 2010.

- The top five Arab airports namely Dubai, Jeddah, Doha, Riyadh and Abu Dhabi, combined grew by 86% in 2011 over 2005 in terms of number of passengers, recording an average annual growth rate in passenger numbers between 2005 and 2011 of 11%. Thus, these airports are forecast to be serving about 289 million passengers in 2020.

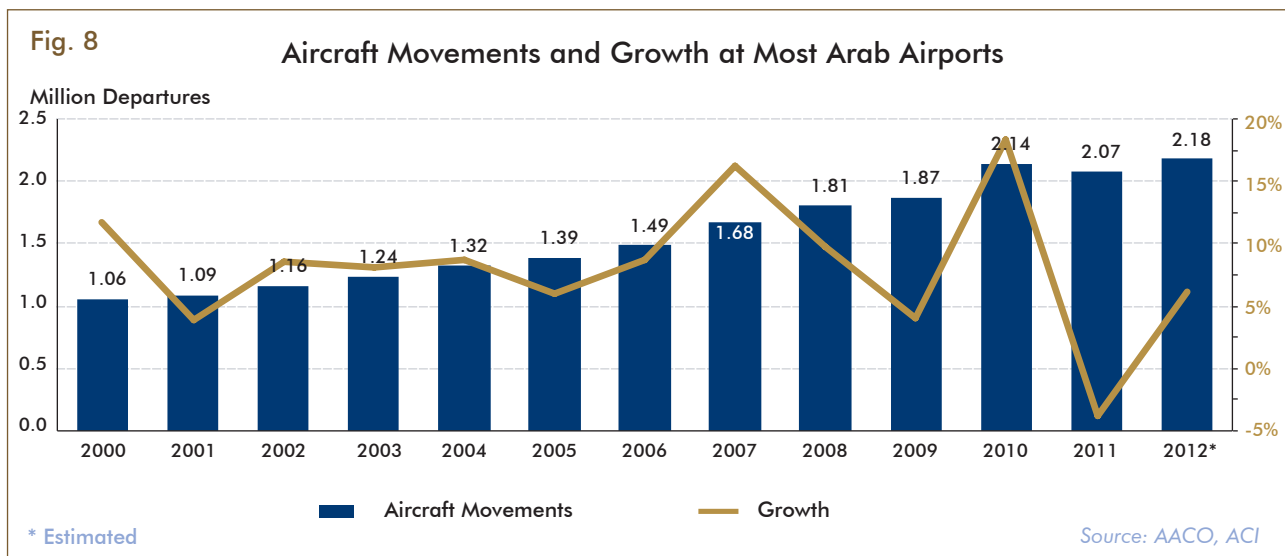




- Similar to passenger traffic, cargo traffic at Arab airports increased by 1.3% in 2011 over 2010. Doha Airport contributed significantly to this increase followed by Riyadh and Jeddah airports, then Al Medinah airport and Abu Dhabi airport. Dubai International Airport still tops the highest cargo traffic amongst Arab airports in 2011, with freight volume of around 2.3 million tons.



- Aircraft movements at Arab airports in 2011 have seen a decline of (3.1%) over 2010. This decrease is due to the unstable situation in some Arab countries, which consequently affected the movement as a whole in the region. However some Arab airports witnessed a rise in aircraft movements to meet the demand for transit traffic and labor travel which is concentrated particularly in the Gulf region. Aircraft movements at Saudi Arabia airports grew by 6% in 2011, while Doha International Airport recorded a growth that reached 10%, and Dubai and Abu Dhabi airports grew by 6.2% and 2.5% respectively compared to 2010.





## Arab Airports' Infrastructure Developments

- Some Arab airports recorded more than double the number of passengers over the last six years i.e. between 2005 and 2011. For example, the number of passengers at Dubai International Airport increased from 24.8 million passengers in 2005 to about 51 million passengers in 2011, Abu Dhabi Airport recorded an increase in the number of passengers from 5.5 million passengers to 12.4 million passengers, and Doha International Airport handled 18.2 million passengers in 2011 compared to 8.1 million in 2005.
- Due to such massive growth in passenger numbers throughout the years, most of the Arab states set plans and initiated projects to develop the Arab airports' infrastructure. Other reasons that led to the initiation of these projects are as follows:
  - To accommodate for the current and forecasted traffic, as studies indicate that some GCC countries currently use more than 120% of their airports' capacity.
  - To improve the competitiveness of their airports to accommodate for policies like open skies and national airlines joining global alliances.
  - To improve passenger service to ensure smooth journeys and comfort.
  - To develop and strengthen the position of their airports as important regional airports, or as international hubs, given that most of the large nearby European airports are suffering from capacity congestion.
  - To stay up to date with the latest technology innovations for airports.
  - To positively contribute to the growth of tourism for countries, especially those that are looking to attract millions of tourists in the coming years.

## An overview of some airports' projects in the Arab world

Airport	Investments	Completion	Capacity	Project Highlights
<b>UAE: UAE plans to invest USD 27.2 billion during the next five years</b>				
<b>Dubai International Airport</b> <ul style="list-style-type: none"> <li>● 4<sup>th</sup> largest airport in the world in terms of number of international passengers, 13<sup>th</sup> in terms of passenger traffic, and 7<sup>th</sup> in terms of cargo traffic.</li> <li>● Expected to be the largest airport in the world by 2015 in terms of number of international passengers (approximately 75 million passengers).</li> </ul>	More than USD 4.5 billion	Project will be completed in stages, starting from 2013 till 2018	Increase the airport's annual capacity from 60 to 75 million passengers in the first quarter of 2013, and to 90 million passengers in 2018	<ul style="list-style-type: none"> <li>● Complete terminal 3 in the first quarter of 2013.</li> <li>● Complete the construction of terminal 4 in 2018.</li> </ul>
<b>Al Maktoum International Airport</b> Expected to be the largest airport in the world	USD 33 billion	End of 2020	Around 120 million passengers, and more than 12 million tons of cargo per year	<ul style="list-style-type: none"> <li>● Building a number of passenger terminals.</li> <li>● Five parallel runways.</li> <li>● Cargo gateway.</li> <li>● High-speed express rail system to link the airport with Dubai International Airport.</li> </ul>



Airport	Investments	Completion	Capacity	Project Highlights
<b>Abu Dhabi International Airport</b>	USD 10.8 billion	Till end of 2017	From currently 12.5 million passengers to 40 million passengers in 2017	Construction of Mid Field Terminal Building and all related work.
<b>KSA: The total cost of the airports' development and design projects planned before 2020 are between USD 10 – 15 billion</b>				
<b>King Abdullaziz International Airport (Jeddah)</b>	USD 11.4 billion	The 1 <sup>st</sup> phase will be completed in 2014, while the rest to be finalized in 2035	By the end of phase 1, the capacity will be around 30 million passengers annually. Once the project is completed the capacity will be more than 70 to 80 million passengers annually.	<ul style="list-style-type: none"> <li>● Construction of new terminal for domestic and international flights.</li> <li>● Station and center for transportation linked to the new railway serving Mecca and Al Medinah.</li> <li>● All facilities to support the airport infrastructure mainly a complex for ATC.</li> </ul>
<b>King Khaled International Airport (Riyadh)</b>	USD 1.1 billion	Till 2015	Project is designed to increase the current capacity of the airport from 13 million passengers per year to 30 million passengers, reaching 80 million passengers by the end of the project.	<ul style="list-style-type: none"> <li>● Refurbishment of the current airport terminals.</li> <li>● Rehabilitation of the runway.</li> <li>● Construction of a new services building.</li> </ul>
<b>Qatar</b>				
<b>Doha International Airport</b>	USD 14.5 billion	The project plan and implementation started in 2004. First phase to be completed in 2012, while the project will be finalized in 2015.	The airport capacity will be 24 million passengers annually, once the 1st phase of the project is completed this year (2012), which is double the current capacity, then the capacity will be increased to reach 50 million passengers in 2015.	<ul style="list-style-type: none"> <li>● Building a new airport, which is 4 km away from the current airport.</li> <li>● During the construction of the new airport, an expansion to the existing airport will be carried out to increase the capacity of the airport temporarily to 7.2 million passengers.</li> <li>● Building the longest runways in the world (for commercial use).</li> </ul>



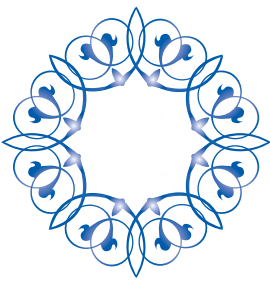
Airport	Investments	Completion	Capacity	Project Highlights
<b>Kuwait</b>				
<b>Kuwait International Airport</b>	USD 6 billion	Started in 2012, and expected to complete the first phase of the project in 2016.	Increase the capacity from 8.5 million passengers in 2011 to 13 million passengers in 2016, and 25 million in 2025, and to 50 million passengers in 2035.	<ul style="list-style-type: none"> <li>● Expansion of the current passenger terminal and building a new commercial complex.</li> <li>● New metro to link the airport to downtown.</li> <li>● Expansion of the existing runways and building a new runway.</li> </ul>
<b>Oman</b>				
<b>Muscat International Airport</b>	USD 1.8 billion	Started in February 2012 and expected to be completed in April 2014.	The airport capacity will reach 12 million passengers annually when the project is completed. The project could be developed later to increase the capacity to reach 24 million, 36 million, and 48 million passengers annually, when and if needed.	Reconstruction and expansion of the passenger terminal
<b>Egypt</b>				
<b>Cairo International Airport</b>	One billion USD	Project started in 2012 till 2013.	Airport capacity when project is completed will be around 29.5 million passengers per year: <ul style="list-style-type: none"> <li>- T1: 6.5 million passengers</li> <li>- T2: 8.5 million passengers</li> <li>- T3: 11 million passengers</li> <li>- Seasonal Terminal: 3.5 million passengers</li> </ul>	<ul style="list-style-type: none"> <li>● Refurbishment of terminal 1.</li> <li>● Complete renovation of terminal 2.</li> <li>● Building terminal 3.</li> <li>● New seasonal terminal.</li> <li>● New runway and ATC tower .</li> <li>● Automated people mover for interlining passengers.</li> </ul>





Airport	Investments	Completion	Capacity	Project Highlights
<b>Bahrain</b>				
<b>Bahrain International Airport</b>	USD 12 million is the cost of design of the project only	Started in 2011 after rebuilding of the existing terminals was completed in 2006	13.5 million passengers in 2015	Expansion to the existing airport terminal
<b>Jordan</b>				
<b>Queen Alia International Airport</b>	USD 850 million	The project will be completed end of 2012 and the official opening will be early 2013	The airport capacity will reach 9 million passengers per year when the first phase of the project is completed, 12 million passengers when phase two is completed, and 24 million passengers at the end of the project	<ul style="list-style-type: none"> <li>Renovation to the current passenger terminals.</li> <li>Building a new passenger terminal.</li> </ul>

- Most of the above Arab states continuously study congested airspace and evaluate their airspace in collaboration with their partners in the aviation industry; airports' officials and air navigation services' experts, in addition to national airlines in order to achieve smooth flow of air traffic in the future.
- Therefore, these states are investing in the civil aviation infrastructure through developing air navigation systems and air traffic management to ensure safety and operational efficiency while increasing airspace capacity.
- Geographical location and proximity to several markets - namely the Indian market which offers tremendous opportunities for growth and has a solid aviation infrastructure – enabled a number of Arab states to change the traditional travel patterns prevailing in Europe, and impose a new equation at the level of operation and services offered through adopting development projects and establishing international airports according to the highest international standards; which led to the rise of alternative international hubs for travelers and transit traffic.



# AACO Members

## AACO Members' Operations

### Passenger Operations

#### Revenue Passenger Kilometers

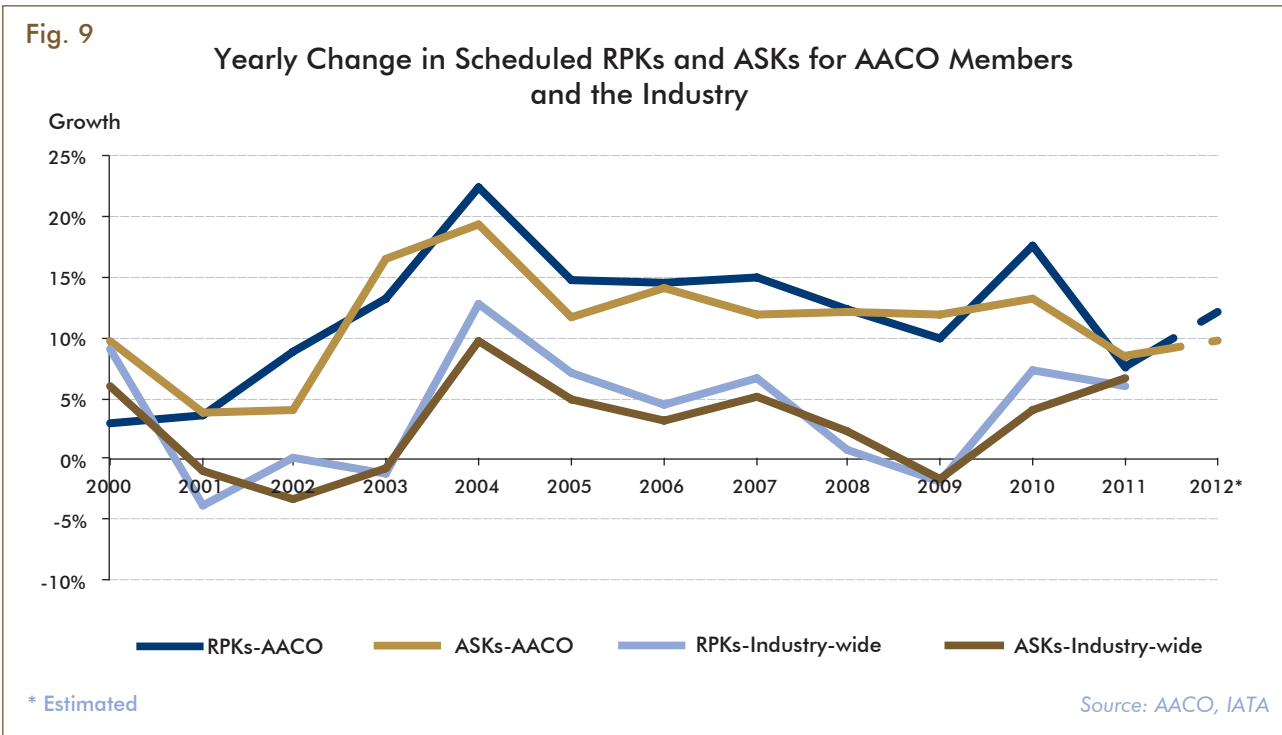
Member airlines recorded an increase of 7.6% in 2011 in scheduled RPKs compared to 2010. The global growth in scheduled RPKs for the same year was 5.9% compared to 2010. Overall, total RPK growth of AACO member airlines in 2011 was 7.6% (including scheduled and charter operations). We estimate a traffic growth of 12.1% in 2012.

#### Available Seat Kilometers

AACO members witnessed a growth rate of 8.4% in 2011 in scheduled ASKs over 2010, while the global growth for the same period was 6.6%. Total ASK growth recorded at member airlines in 2011 was 8.5% over 2010. AACO carriers are estimated to post a growth of 9.8% in ASKs in 2012 in line with new aircraft expected to be delivered and with the restoration of disrupted operations.

#### Passenger Load Factor

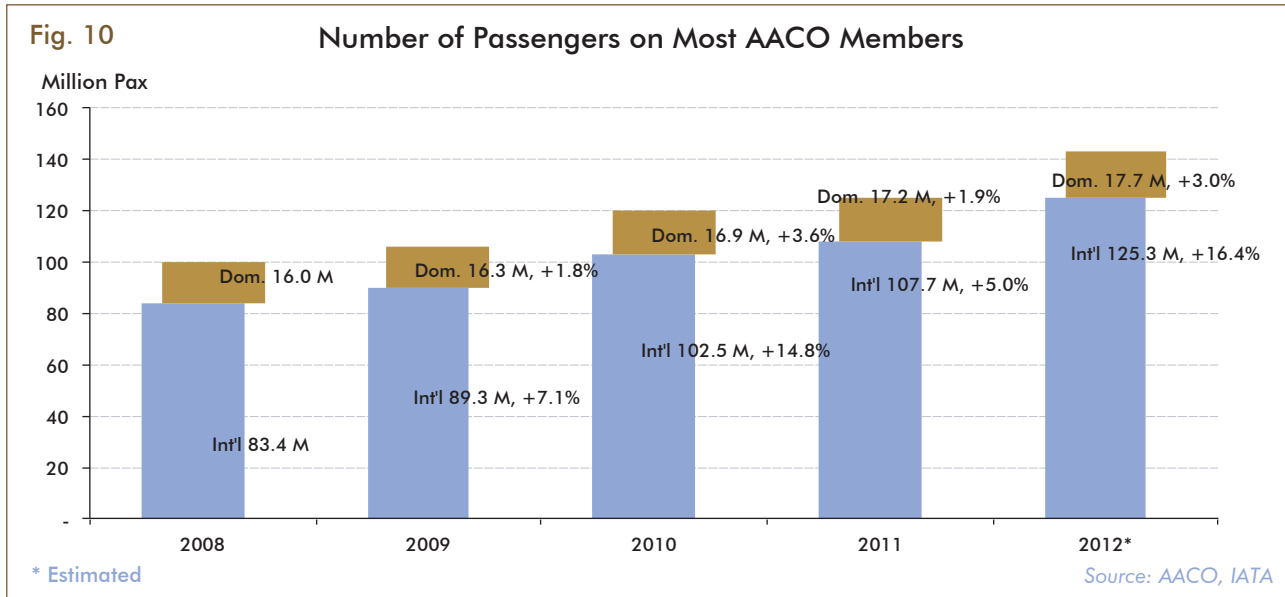
Passenger Load Factor of AACO member airlines decreased by 0.6 percentage points in 2011 to 73.5%, as traffic increase lacked behind the growth in offered capacity.





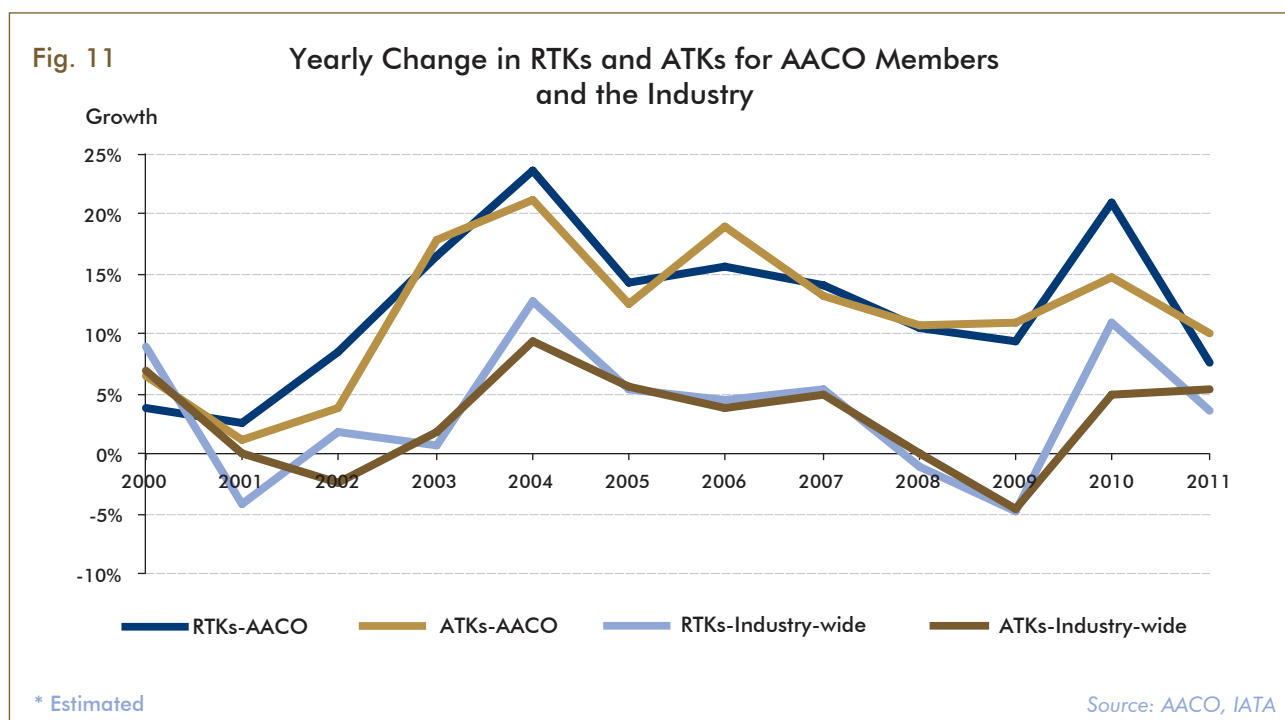
## Total Number of Passengers

The total number of passengers carried by AACO members reached 124.9 million passengers in 2011, an increase of 4.6% over 2010. We estimate that the number of passengers carried by member airlines will increase by 14.5% in 2012 over 2011 to reach 143 million passengers.



## Cargo Operations

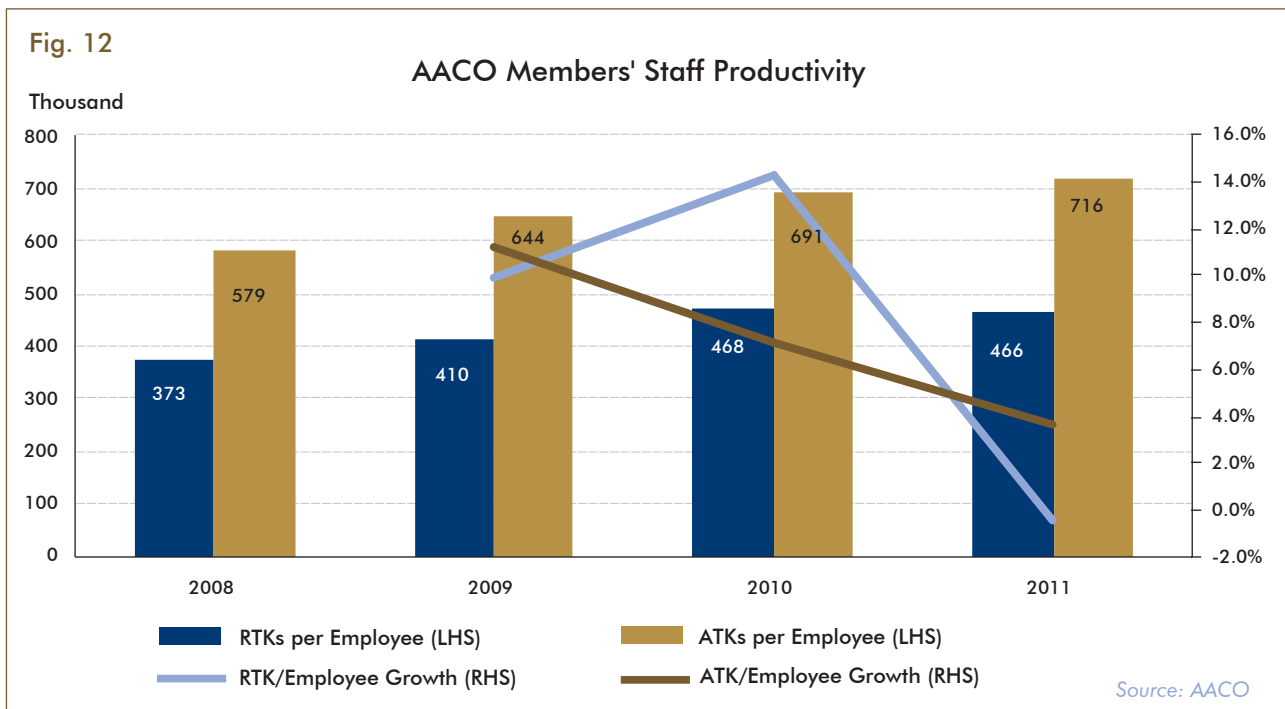
AACO member airlines recorded a growth of 7.5% in 2011 in RTKs compared to 2010. AACO members also witnessed a growth of 9.9% in ATKs. Consequently, AACO carriers' Weight Load Factor decreased by 1.4 percentage points to 60.7%.





## Employees

Staff counts at 12 reporting AACO members increased by 5.7% in 2011 over 2010. The internal conflicts in some countries in the region had a negative effect on employee productivity and efficiency, where employees productivity reached 466 thousand RTKs per employee; a decrease of 0.5% over 2010 levels. However, productivity in terms of ATKs increased, where productivity of reporting member airlines increased by 3.7% over 2010, reaching 716 thousand ATKs per employee. The global growth for productivity scored -0.1% and 1.9% in terms of RTKs per employee and ATKs per employee respectively. It is worth mentioning that reporting carriers exceeded the global results in absolute terms as IATA reported an average of 375 thousand RTKs per employee, and 563 thousand ATKs per employee.



## Financial Performance

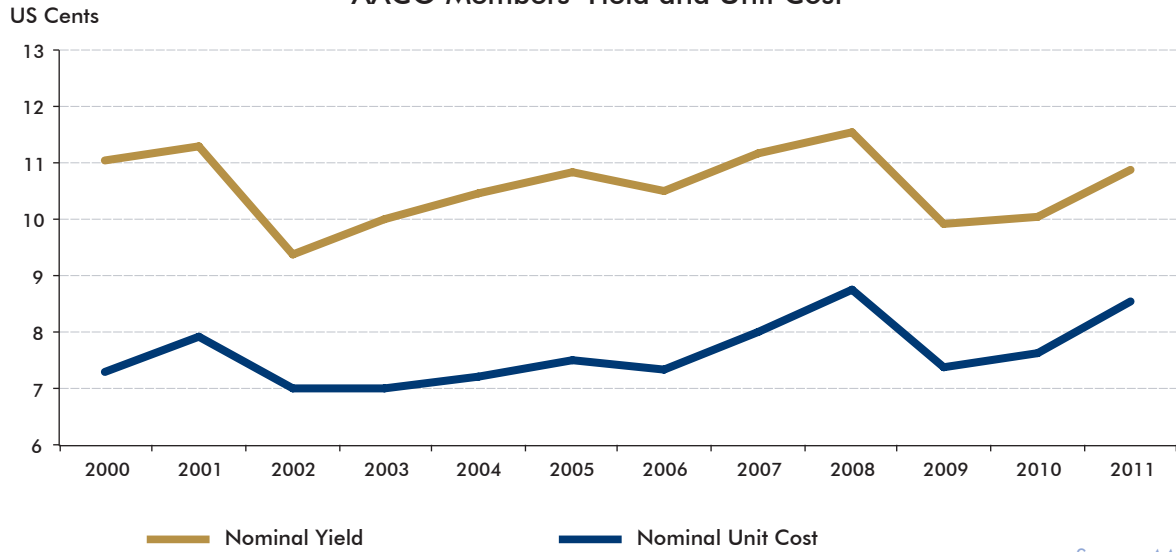
### Yield and Unit Costs

Passenger Yield of 12 member airlines increased by 8.5% in 2011 as a result of the increase in traffic and revenues. However, this increase was not enough to cover for the increase in unit cost, which increased by 11.8% due to the increase in fuel unit cost, restoration of disrupted operations, and the increase in maintenance and insurance expenses caused by the situation in the region. As a result, AACO members' Passenger Break-even Load Factor increased by 2.3 percentage points to 78.5%.



Fig. 13

AACO Members' Yield and Unit Cost



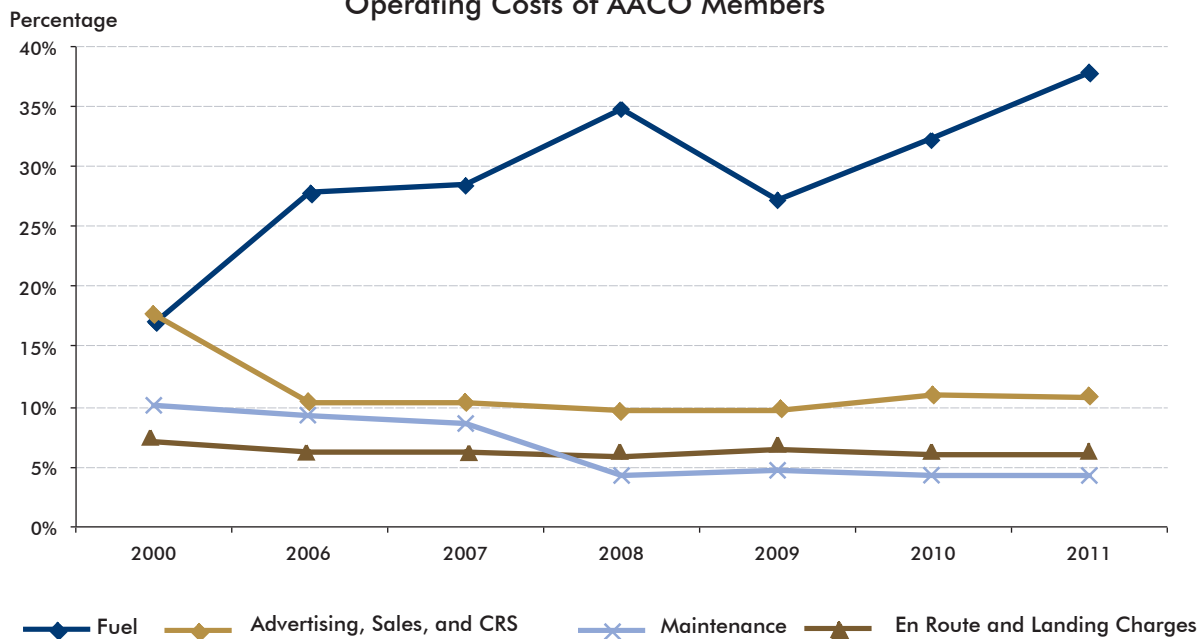
Source: AACO

### Changing Cost

Jet Fuel returned to the forefront of airlines' concerns in 2011, after the big hike in jet fuel prices of 38.96% over 2010, which is not far from the highest increase recorded in 2009 of 42.65% over 2008. Consequently, reporting member airlines spent 41.8% more on jet fuel compared to 2010, which constituted 37.9% of their operating expenses. This increase, greatly contributed to the increase in reporting airlines' operating expenses that reached 19.3%.

Fig. 14

Contribution of Some Operating Cost Components in the Total Operating Costs of AACO Members

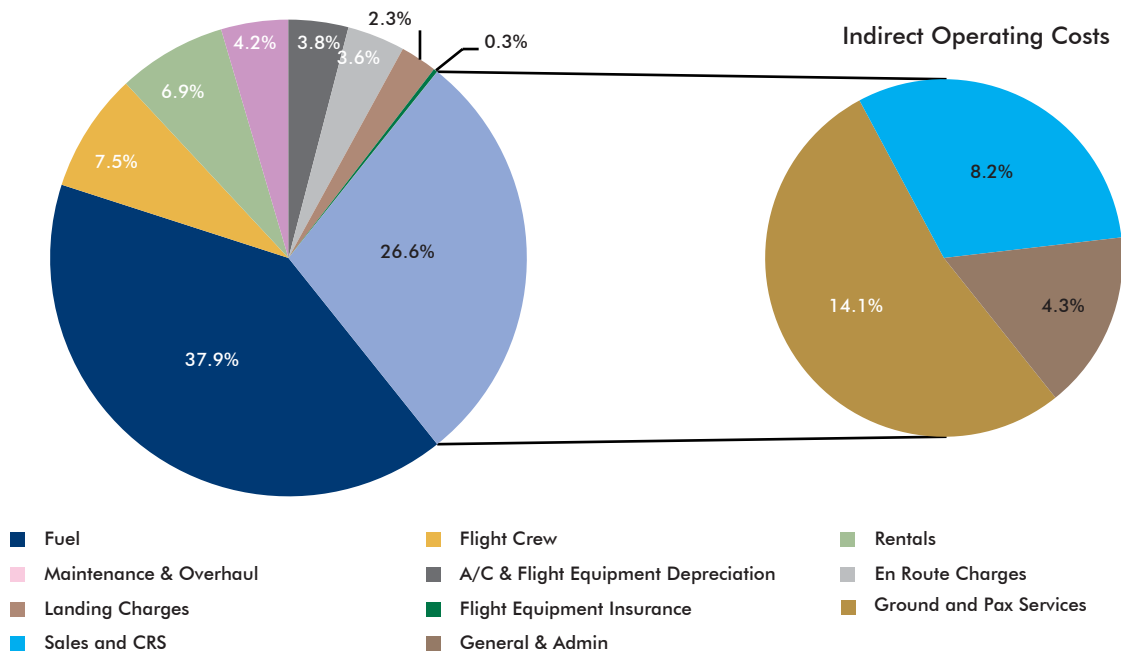


Source: AACO



Fig. 15

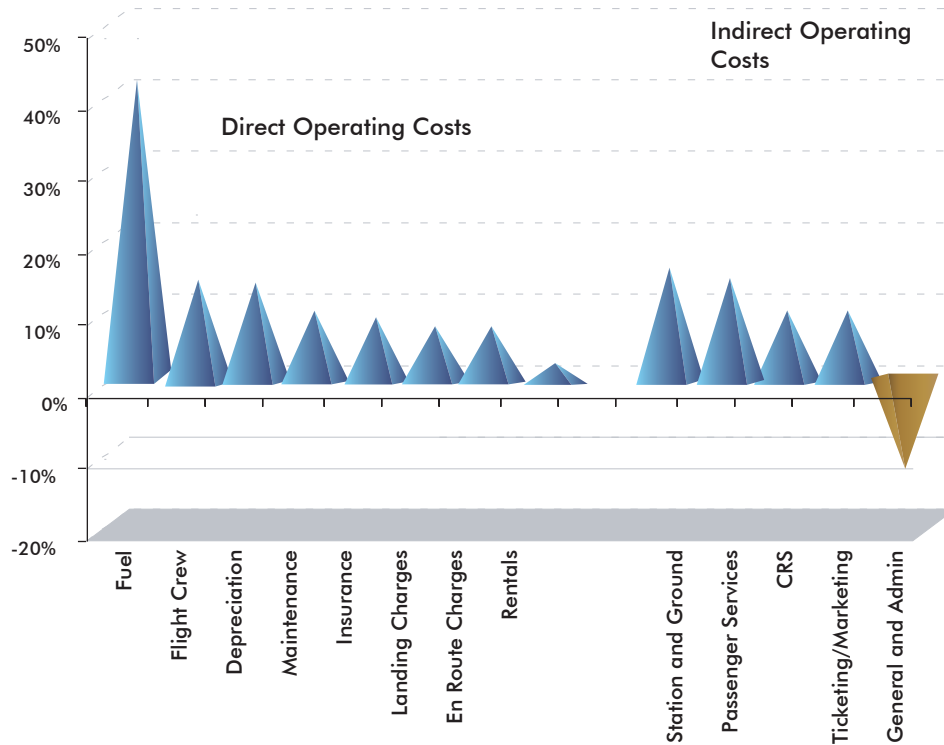
Operating Expenses by Cost Item - 2011



Source: AACO

Fig. 16

Cost Changes - 2011 / 2010



Source: AACO

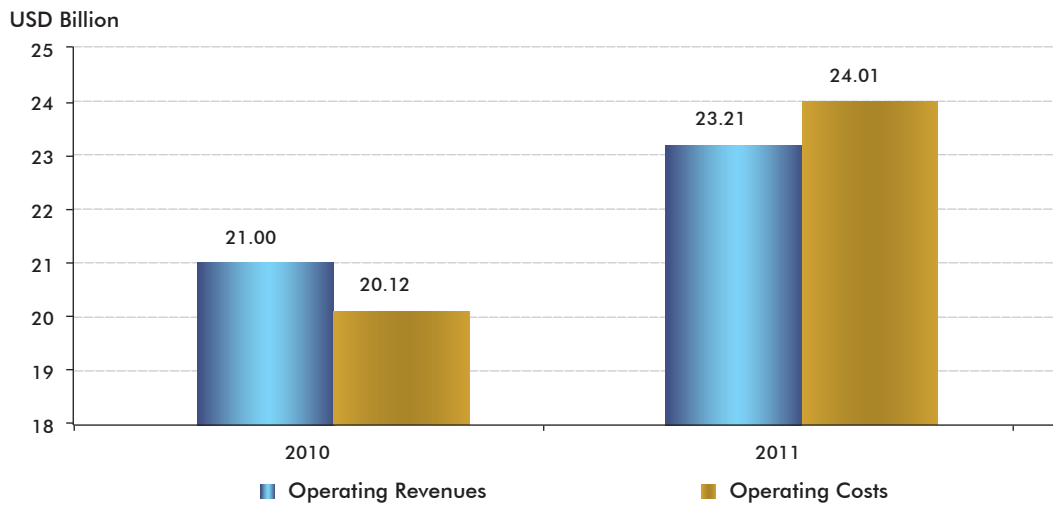


## Financial Results

Reporting AACO carriers' aggregate operating revenues increased by 14.3% in 2011 over 2010. On the other hand, airlines' operating expenses increased by 19.3% during the same period. Consequently, reporting members recorded an operating loss of USD 803.5 million, and a net loss of USD 758.6 million. Within those numbers, the highest profits reported by a reporting member airline were USD 409.2 million, and the highest losses incurred by a reporting carrier were USD 470.8 million.

Fig. 17

### Comparison of Operating Revenues and Operating Costs for Some AACO Members



2010 data has been recalculated for data set consistency.  
Reporting carriers: AT, BJ, EK, FO, G9, IY, KU, ME, RJ, SM, TU and WY

Source: AACO

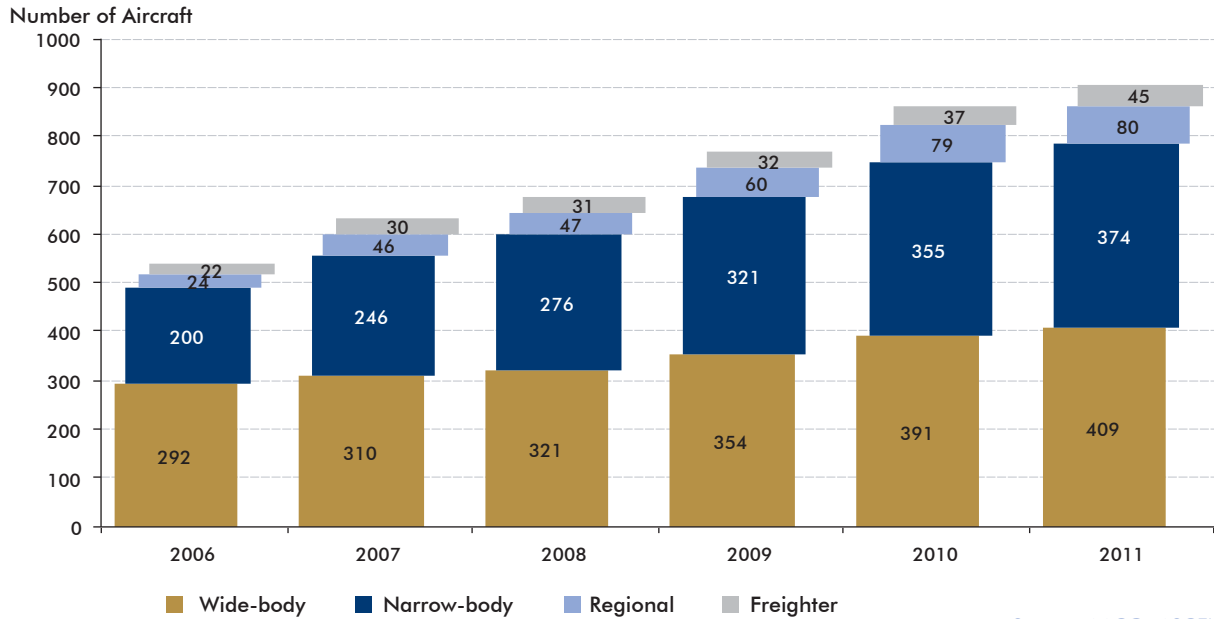
## Fleet Development

- AACO member airlines took delivery of 112 aircraft in 2011, including 86 brand new aircraft, and 26 older ones. Accordingly, AACO member airlines' fleet count increased to 908 aircraft by the end of 2011, compared to 862 aircraft at the end of 2010.
- With the new deliveries, AACO member airlines' fleet composition was 45% Wide-body aircraft, 41% Narrow-body aircraft, 9% Regional aircraft and 5% Freighters.



Fig. 18

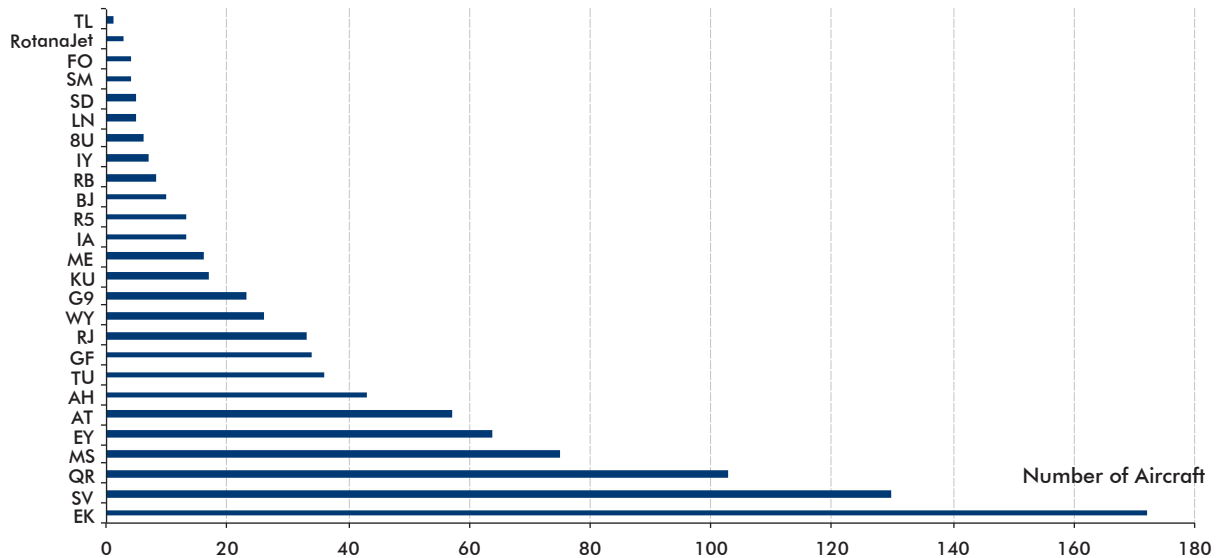
AACO Members Commercial Fleet Composition by Size



Source: AACO, ASCEND

Fig. 19

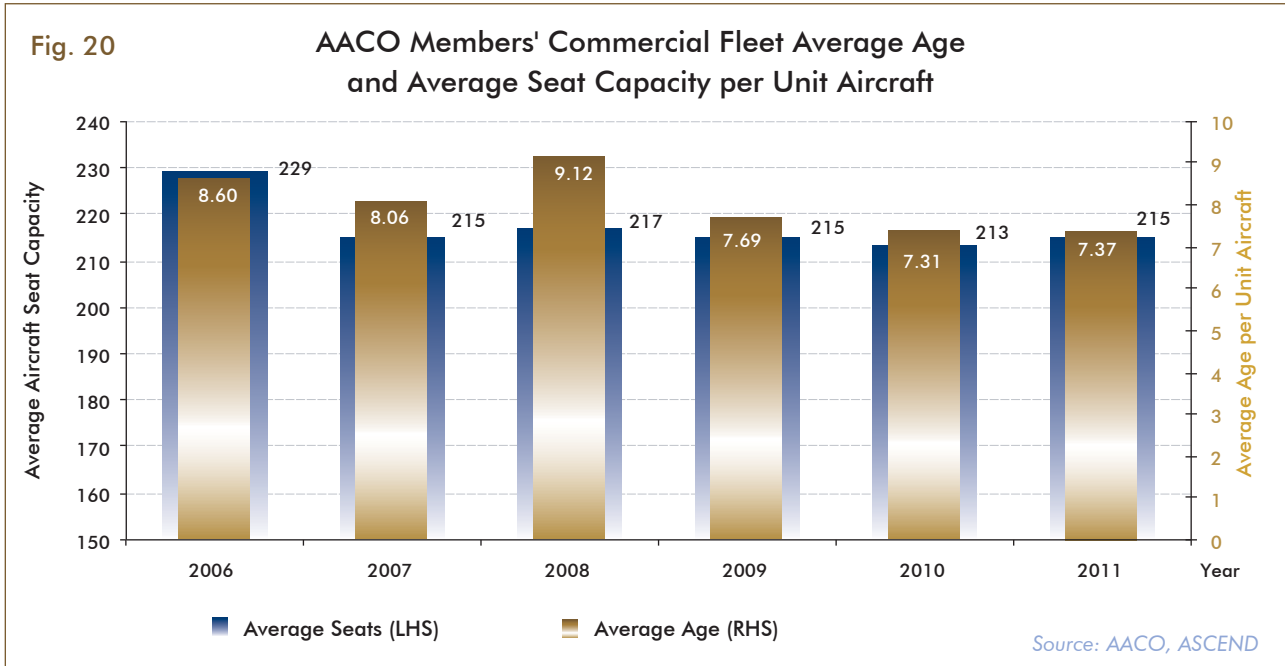
Individual AACO Members Commercial Fleet in 2011



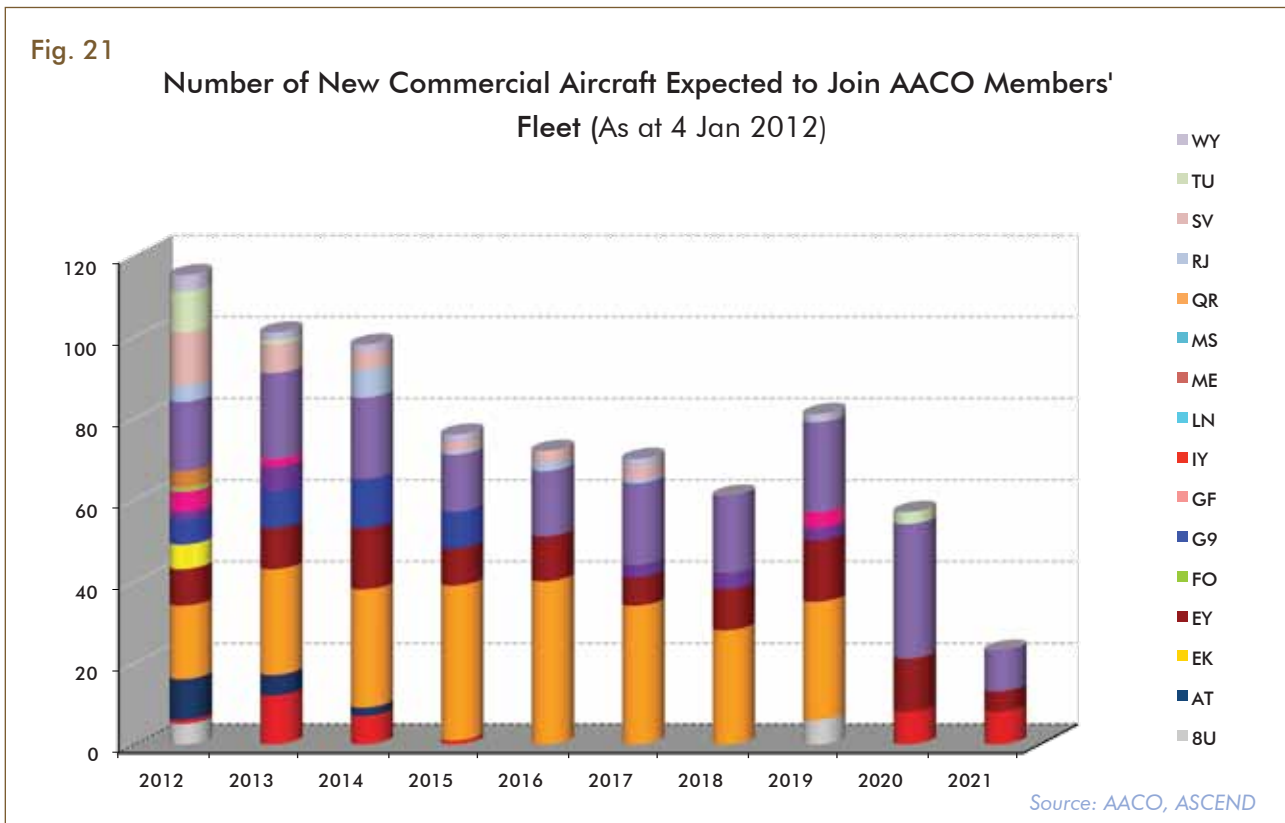
Source: AACO, ASCEND

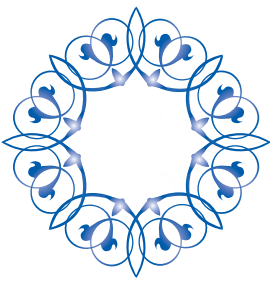
- AACO members' average age per unit aircraft increased slightly by 0.9% over 2010 fleet to 7.37 years, highlighting the efficiency of member airlines' fleet in terms of cost per seat, and underlying the environment aware culture that AACO airlines are adopting and promoting. On the other hand, the average seat per aircraft of member airlines increased slightly by 0.82% over 2010 levels, reaching 215 seats per aircraft.





- AACO member airlines are scheduled to receive 754 aircraft until 2021, among which 115 aircraft are scheduled for 2012. AACO members took delivery of 56 new aircraft during the first six months of 2012, with 59 scheduled for delivery until year end.





## Industry Affairs

### Aviation Safety

- 2011 witnessed a decrease in the number of aircraft accidents globally by 2.1% over 2010, and a decrease in hull loss rate per million flown sector for western-built aircraft. In addition, the number of fatal accidents and fatalities decreased by 4.3% and 38.2% respectively over 2010 levels.

Global	Western-built Aircraft Accidents	Eastern-built Aircraft Accidents	Western-built Aircraft Hull Loss Rate (per Million Sectors) - Jet and Turboprop	Eastern-built Aircraft Hull Loss Rate (per Million Sectors)- Jet and Turboprop	Western-built Aircraft Fatal Accidents	Eastern-built Aircraft Fatal Accidents	Western-built Aircraft Fatalities	Eastern-built Aircraft Fatalities
2008	95	14	1.18	12.09	16	7	434	68
2009	78	12	0.78	10.13	14	4	492	193
2010	74	20	0.78	20.55	14	9	681	105
2011	75	17	0.66	20.90	12	10	308	178

Source: IATA Safety Report

- Similar to previous years, the most common type of accidents remained Runway Excursions (18% of total accidents); however 2011 recorded an improvement over 2010 in this type of accidents: 17 accidents in 2011 versus 20 in 2010 and 23 in 2009, i.e. a decrease of 26.1% in 2011 over 2009.
- Looking at the Arab world, the overall number of accidents in the region in 2011 remained at 2010 levels of 5 accidents in total. In addition, no fatal accidents were recorded in the region. However, the region still needs improvement in safety management and regulatory oversight which requires attention from operators and states.

Arab World	Total Number of Accidents	Number of Hull Losses	Number of Fatal Accidents	Fatalities
2008	10	5	5	59
2009	8	4	2	158
2010	5	2	2	109
2011	5	3	0	0

Source: IATA Safety Report

- In order to assist in improving aviation safety in the region, AACO works with all regional and international aviation stakeholders within the framework of ICAO Middle East Regional Aviation Safety Group – MID RASG.
- Further details on AACO's work in this area are found in the Technical Work section of this publication.



## Aviation Security

- The security regulatory landscape witnessed several developments in 2011, especially after the cargo planes bomb plot in October 2010. The amendment 12 of ICAO Annex 17 included new and strengthened aviation security provisions, including more stringent air cargo security measures, and became applicable in July 2011.
- ICAO and the World Customs Organization signed a Memorandum of Understanding that calls for harmonized development of ICAO and WCO policies, standards and guidance material for air cargo security.
- Moreover, a new trend in aviation security began to emerge in 2011, where several states are beginning to test measures to transform aviation security to a risk based approach rather than one size fits all. An example to those trials is fast security check for air crew and known passengers.
- In spite of those developments, implementation of security regulations on national levels still lacks behind the required levels. The second cycle of ICAO Universal Security Audit Programme (USAP), which audited in total 128 states and 1 Special Administrative region on the implementation of the critical elements of an aviation security oversight system, reported that the level of implementation of quality control obligations reached 51.2% among audited states, followed by the level of implementation of resolution of security concerns at 58.2%. On the other hand, the level of implementation of aviation security legislation reached 84.1% among audited states.
- In line with those developments in aviation security, and although security is mainly the role of governments, airlines are contributing to those costs to improve their operations' security. According to IATA, this area is costing airlines and their passengers USD 7.4 billion annually, which includes USD 2.8 billion (38% of total security cost) on fraud & theft prevention, audits and emergency planning, USD 2.1 billion (28% of total security cost) on passenger operations security, and USD 1.5 billion (20% of total security cost) on aircraft protection.
- The most dangerous security incident in 2011 was a suicide bombing at the international arrival hall of Moscow's busiest airport, Domodedovo Airport, on 24 January 2011, where the bomber managed to carry an explosive device under his coat unnoticed while passing a security checkpoint at the terminal entrance. He proceeded through the international arrival hall to the luggage claim area where the explosive device mounted was detonated. The bombing killed 37 people and injured another 173.
- AACO has been voicing in all forums that aviation is a global business, and therefore aviation security cannot be regulated only at state level; instead, security processes and procedures should be globalized throughout the supply chain whereby all stakeholders collaborate to increase the effectiveness of the security system in order to guarantee the secure transport of passengers and freight from the point of origin until the destination, while at the same time looking into means to simplify the complexity of security procedures for the common passenger. In addition, recognizing the need for trained personnel to achieve the security objectives, AACO has been providing its member airlines' personnel with security training, beginning with basic security training and several intermediate security courses, and reaching the globally recognized ICAO AVSEC PMC (Aviation Security Professional Management Course).



- On the other hand, AACO has been working closely with its member airlines to spur cooperation in this area of airlines' business through its AVSEC Working Group. Further details on the work of AACO AVSEC Work Group are found in the Technical Work section of this publication.

## Aviation Policies and Relations

### Aviation Relations between the Arab World and Europe

Aviation relations with Europe is considered one of the most important topics that AACO's Aeropolitical Watch Group works on, whereby the group prepared a roadmap for the relations with Europe that would guarantee a balance in economic interests between the two regions. The roadmap also includes guiding principles for air services negotiations between the two regions.

Activities of AACO's Aeropolitical Watch Group are elaborated in-depth in future parts of this report.

### Bases of the relations between the Arab World and Europe

#### Bilateral Agreements

- Bahrain amended its Air Services Agreements (ASAs) with 7 EU Member States to remove the national Designation.
- Egypt amended 9 ASAs. Iraq (6), Kuwait (1), Oman (4), Qatar (11).
- EC signed Horizontal agreements with Jordan, Lebanon, Morocco, Saudi Arabia, and UAE. (Although some of these countries did not ratify the agreements yet)
- Discussions are ongoing between the EC and with Algeria, Egypt, Libya, and Tunisia.

#### Euromed Agreements

- Euromed Agreements open the skies between the two parties in addition to a gradual regulatory convergence in areas like safety, air navigation, environment, competition laws and passenger rights.
- Morocco signed the Euro-Mediterranean agreement with the EU in 2006.
- Jordan signed the Euromed agreement in 2010.

#### Sharm El-Sheikh Declaration

- Signed in November 2008 between EC, ACAC, and AACO.
- The provisions of this declaration are being used in bilateral negotiations between Arab countries and the EC.
- Confirmation of the principle of reciprocity.
- Strengthening future technical cooperation.



### **Muscat Declaration**

- Signed between the EC and ACAC in October 2009 following the first EU - Arab World Aviation Conference.
- Stressed the need to enhance EU-Arab cooperation.
- Two regions identified areas of cooperation.
- Stressed the importance of making the Euromed agreement on the level of the European and Arab regions.

### **Resolutions by the Council of Arab Transport Ministers**

- April 2010: Resolution to use Sharm El-Sheikh Declaration of Principles in bilateral negotiations between Arab countries and the EU.
- October 2010: Resolution to hold a meeting dedicated for relations with Europe and mandated ACAC Executive Council to follow up for implementation.
- October 2011: Resolution mandating the Arab Civil Aviation Commission to draft a guiding agreement that Arab countries could use when bilaterally negotiating with Europe, and to report back the findings to the Council of Arab Transport Ministers at their next meeting.

### **AACO's 44th Annual General Meeting Resolution**

- AACO's 44th AGM stressed the importance of preparing a framework of principles between the Arab world and Europe that guarantees a balanced relationship between the two regions, and secures a parallel framework to that of the Euro- Mediterranean one that would include all Arab countries willing to join.
- The AGM called upon the Arab Civil Aviation Commission and relevant stakeholders in the Arab League of States to launch a dialogue with the relevant European parties with regards to realizing this Arab-European aviation framework in order to reach the desired Declaration of Principles.

### **Aviation Relations between Europe and the United States**

- The US and the EU reached a new agreement on the transfer of air passenger data. The agreement will replace a provisional deal in place since 2007 for 7 years.
- The US and the EU signed an agreement where both sides recognize each other's air cargo security regimes starting 1 June 2012.

### **Latest Developments in Europe**

- The European Commission announced a comprehensive package of measures that consists of a policy summary document and three legislative measures, on slots, ground-handling and noise.



- 1- Proposal to revise the slots Regulation (EEC) No 95/93 on common rules for the allocation of slots at Community airports.
- 2- Proposal to revise the groundhandling Directive 96/67/EC on access to the ground-handling market at Community airports.
- 3- Proposal to revise the noise Directive 2002/30/EC on the establishment of rules and procedures with regard to the introduction of noise related operating restrictions at Community airports.

The proposals require the approval of both Council and the European Parliament to become law, noting that this process is expected to take two years. AACO follows up on these proposals for regulations and cooperates with IATA to ensure that members' interests under any amendments to the regulations are secured.

- EU Regulation 859/2011 entered into force on 1 February 2012. The regulation stipulates that all carriers carrying cargo into the EU from non-exempted states must be designated as "Air Cargo or Mail Carrier operating in the Union from a Third country airport" (ACC3).
- The European Commission published a Communication in September 2012 about the "EU External Aviation Policy – Addressing Future Challenges" that indicates proposals to be introduced by the EC in early 2013 for amendments to the EU external aviation policy.

### Latest Developments in the US

- US President Obama signed a funding bill for the Federal Aviation Administration, whereby the legislation would last through 2015. This bill comes after 23 short-term extensions of the 2007 FAA funding levels.
- US President Obama signed a legislation that renews the charter of the Export-Import Bank for three years and increases the bank's lending cap to USD 140 billion from the current USD 100 billion.
- The provisions of the US Consumer Rule II pertaining to the disclosure and assessment of baggage fees came into effect on July 24, 2012. These provisions were part of DoT's so-called Consumer Rule II, which was published on April 25, 2011. However, the baggage fee provisions of that rule were extended until January 24, 2012 to give carriers time to develop automated systems to enable compliance. On 6 June 2012, the US DoT refused a request by a number of airline associations to extend the imposition of these provisions for one more year; however the DoT agreed to extend applying these provisions for six months provided that airlines meet certain conditions. This extension ended on 24 July 2012.

## Industry Consolidation

### Models of Commercial Cooperation between Carriers

- **Interline:** A commercial agreement that allows for selling itineraries with multiple carriers involved.
- **Codeshare:** Marketing flights operated by other airlines to expand network.



- **Alliances:** A number of carriers harmonizing their product, route networks, Frequent Flyer Programs, joint sales, and marketing efforts.
- **Mergers and Acquisitions:** Airlines have three options: (1) Establishing a holding company, (2) partial acquisition, (3) one entity with common pricing, revenue management, and strategic planning.

### Factors affecting Mergers and Acquisitions

- There are more than 3000 bilateral air services agreements between countries, which most of them request national ownership of the operator.
- Competition and Anti-trust Laws.
- Some governments' protective policies towards their national carriers.

### Latest Developments of Global Alliances

Status of Alliances as at June 2012	Star Alliance (Since 1997) 28 members	SkyTeam (Since 2000) 18 members	Oneworld (Since 1999) 12 members
# of Annual Passengers	649 million	506 million	303 million
Countries served	190	186	147
# of Destinations	1293	993	766
Revenues (billion)	160.9	97.9	89.9
Market Shares	29.3%	24.6%	23.2%

Source: Wikipedia

Most of the alliances' focus during the past period was on markets with high growth rates in Asia, Latin America, and the Middle East.

- **Star Alliance:** In Latin America, both "Avianca Taca" and "Copa Airlines" joined the alliance. In Africa, Ethiopian Airlines joined the alliance joining South African Airlines and EGYPTAIR. Taiwan's "Eva Air" was invited to join the alliance as well. Two of the alliance's members, namely "Spanair" and "BMI" left the alliance, the first ceased operations, while the latter was sold by Lufthansa to IAG.  
It's worth noting that Star alliance has no members in India and Russia so far.
- **SkyTeam Alliance:** Three airlines joined the alliance lately, including "Saudia", and Lebanon's Middle East Airlines. "China Airlines" joined the alliance as well at the end of 2011. Aerolineas Argentinas" joined in August 2012 as the first member from South America. "Xiamen" is expected to join this year, while "Garuda Indonesia" is expected to join in 2014.  
It's worth noting that SkyTeam does not have any members in India so far as well.

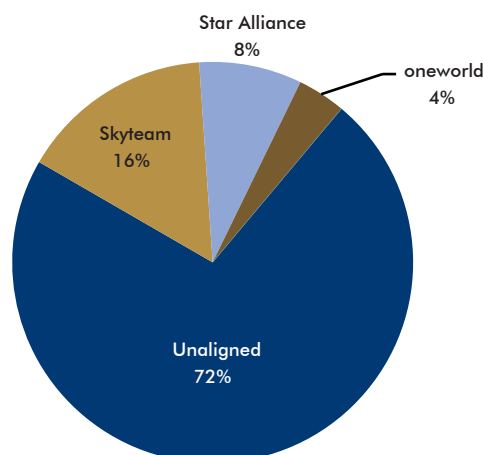


- **oneworld**: In Europe, “Malev Airlines” left **oneworld** in February 2012, while “Air Berlin” joined. In India, “Kingfisher Airlines” was expected to join, however it faced financial problems and accordingly joining procedures were frozen. “Malizia Airlines” and “Srilanka Airlines” are both expected to join, and in October 2012, Qatar Airways was invited to join the alliance.
- There are other big airlines, like Emirates and Etihad which did not join any of the global alliances; however they opt for other cooperation models with global airlines through code-sharing and other commercial agreements.

### Arab Airlines and Alliances

- Royal Jordanian was the first airline in the Middle East region to join an alliance in 2007 when the airline joined **oneworld**, followed by EGYPTAIR which joined Star Alliance in 2008.
- On 29 May 2012, “Saudia” joined Skyteam, becoming the 16th member of the alliance and the first from the Middle East region. Saudia adds 35 new destinations to Skyteam’s network, mostly in the Arab Gulf area. With the joining of Saudia, Skyteam has the largest presence in the Middle East compared to other global alliances.
- On 28 June 2012, Lebanon’s Middle East Airlines joined Skyteam as the 17th member and the second from the Middle East region. Skyteam’s share in total available capacity in the Middle East rose from 14% to 16% following the airline’s accession.
- In October 2012, Qatar Airways was invited to join **oneworld** alliance.
- Although four airlines from the region have acceded to global alliances (as at June 2012), the Middle East region has relatively low participation in global alliances, as more than 70% of available capacity in the region is operated by carriers not party to any of the alliances.
- Airlines not party to any of the alliances adopt various cooperation and partnership strategies for growth. Of the latest highlights, Etihad Airways acquired shares in a number of foreign carriers namely in “Air Lingus”, “Virgin Australia”, “Air Berlin”, and “Air Seychelles”. Emirates as well struck a global aviation partnership with Australia’s “Qantas” that includes in addition to codesharing, integrated network collaboration with coordinated pricing, sales and scheduling as well as a benefits sharing model.

Middle East capacity share by alliance (% of seats) - June 2012



Source: AACO & CAPA – Centre for Aviation & Innovata





## Environment

### Extension of Kyoto Protocol

- The Kyoto Protocol identified targets and commitments up till 2012, which lead to the start of negotiations worldwide to discuss the possibility of extending the Kyoto Protocol and to agree on a second commitment period for new emission mitigation targets by states.
- Unfortunately during COP-15, the main focus was not on Aviation except for few, but rather on other economic issues, and getting access to financial aids. The meeting was concluded with the Copenhagen Accord which is a non-binding agreement in-between governments.
- The wide variation between what the developed & developing states wanted made it difficult for COP-16 to reach consensus. The only outcome was the agreement on the “Green Climate Fund” by raising USD 100 billion a year from 2020 to help developing countries adapt to climate change & transit to low-carbon economies.
- COP-17 resulted in an agreement to extend the current reduction targets of the Kyoto Protocol until 2018 or 2020, and established an Ad-Hoc Working Group to work on a roadmap to a second legally binding agreement to be concluded by 2015, where the new commitment period will come into effect after 2020.

### ICAO’s Work on a Global Scheme for Aviation’s Emissions

- ICAO Council requested the Secretary General to present a roadmap with actions and milestones to accelerate the work on market-based measures, on the basis of the 37th Assembly Resolution on aviation & environment, in addition to the initial study related to the implications of the de minimis provision for MBMs.
- Members of ICAO Ad Hoc Working Group are: Australia, Brazil, EC, IATA, Mexico, Nigeria, Singapore, UAE, USA, India, Canada, ICSA, Switzerland Japan, and Korea.
- The Secretariat General proposed 6 options which were rendered by the Council to only four excluding all options related levies. The Council in its June meeting agreed that no further consideration of option 4 is required as recommended by the Ad Hoc Group. The Ad Hoc Group identified common design features for all the options as well as specific differences between them, as below:

#### Common Features to all

Participants: State/Operator Level	Compliance Period	Monitoring, Reporting & Verification	Enforcement	De Minimis
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#### Specific Design Features

Option One	Global Offset System	
		<ul style="list-style-type: none"> <li>• Participants acquire “emissions units” to offset emissions from international aviation above an agreed baseline. No aviation allowances to be created.</li> <li>• Allocation of responsibility among individual participants.</li> </ul>



Specific Design Features		
<b>Option Two</b>	<b>Global Offset with Revenue Generation Mechanism</b>	<ul style="list-style-type: none"> <li>● Same as option one with an additional mechanism for generating revenues to be used for agreed purposes, e.g. climate change mitigation/adaptation.</li> </ul>
<b>Option Three</b>	<b>Cap &amp; Trade System</b>	<ul style="list-style-type: none"> <li>● “Aviation allowances” are created for all the emissions under an agreed cap of international emissions and are distributed to participants (either States or operators).</li> <li>● Aviation allowances can be bought and sold, and participants can acquire additional emissions units from other carbon markets.</li> <li>● Allocation of responsibility among individual participants.</li> </ul>
<b>Option Four</b>	<b>Baseline &amp; Credit System</b>	<ul style="list-style-type: none"> <li>● An absolute emissions baseline would be set ex: 2020.</li> <li>● Tradable credits can either be banked for use in a future compliance year or sold to another participant in a deficit position.</li> <li>● Due to growth and the ongoing efforts to improve fuel efficiency, the liquidity of the credit market would be limited and the price of credits would be very high - closed system.</li> </ul>

### Update on the European Emissions Trading Scheme

- The EU ETS was the first large emissions trading scheme in the world. It was launched in 2005 to combat climate change and is a major pillar of EU climate policy. On January 1, 2012, the aviation sector became a part of the scheme, where all airlines flying to and from the EU are required to report their verified emissions and surrender the equivalent of their CO<sub>2</sub> to the designated competent authority annually.
- By the end of March 2012, all operators submitted their verified emissions reports (except for some Indian and Chinese carriers), and opened registry accounts in their designated competent authorities - under protest - in preparation for the receipt of their 85% free allowances which will be done through the Union registry that was activated by 30 June.
- The inclusion of aviation in the European Scheme was faced by substantial reaction and opposition from the airline industry and states.



## Update on State Opposition to the EU ETS

- States worldwide are still opposing the inclusion of aviation into the EU ETS and politically challenging its implementation, emphasizing on the fact that aviation emissions should not be addressed unilaterally, but rather through a global agreement under the auspices of ICAO. Some states opposed the EC initiative by writing officially to the EU and signing declarations, others threatened to apply retaliatory measures against the European carriers while directing their operators not to comply with the EU ETS requirements.

Action	States	Description
<b>Opposition</b>	Most non EU -Countries	Opposing the inclusion of aviation into the EU ETS
<b>Declaration</b>	Argentina, Brazil, Canada, China, Chile, Colombia, Cuba, Egypt, India, Japan, Korea, Malaysia, Mexico, Nigeria, Paraguay, Peru, Philippines, Qatar, Russia, Saudi Arabia, Singapore, South Africa, Thailand, Turkey, UAE and USA.	New Delhi: Urging the EU to refrain from including flights by non-EU carriers in the EU ETS and to work collaboratively with the rest of the international community to address aviation emissions under ICAO
	AFCAC, ACAC, LACAC	Submitted position papers to the ICAO Council stating their EU ETS opposition
<b>Retaliation</b>	Armenia, Argentina, Republic of Belarus, Brazil, Cameroon, Chile, China, Cuba, Guatemala, India, Japan, Korea, Mexico, Nigeria, Paraguay, Russia, Saudi Arabia, Seychelles, Singapore, South Africa, Thailand, Uganda and USA	Moscow Declaration which identifies measures of possible retaliation leaving it up to each state to decide on the measure keeping in mind their national laws and regulations
<b>Law/Bill</b>	China, USA, India, Russia	Request their carriers not to comply with the ETS requirements
<b>Legal Case</b>	Algeria , USA	Challenged legally the EU ETS application
<b>Trade War</b>	China , India, Russia	Air space closure, over-flying charges, penalties and cancellation of European Manufactured Aircraft



## Update on the EU Position on the State Opposition

- The EC still ignores the various calls to postpone or halt its scheme, insisting that it was forced to introduce this measure due to the inability of ICAO to develop an international mechanism for tackling rising aviation emissions.
- However, with the escalated opposition, a growing number of Members of the European Parliament across party lines are urging the EC to start negotiations with 3rd countries to defuse the conflict and come up with plan B and hence, avoid the trade war.
- The former French Prime Minister sent a letter to EC President asking to revisit the EC decision to include Aviation in the EU ETS and to try to find a mutually acceptable solution with 3rd countries.
- Various EU stakeholders as Airbus, British Airways, Iberia, Air Berlin, Air France, Lufthansa, Virgin Atlantic and Safran have written to leaders of UK, Germany, France, and Spain requesting them to urge the EU to delay or stop the implementation of the ETS as it will lead to trade war which will impact their economies negatively.
- With the progress achieved by ICAO, the EC indicated that it is willing to consider “an alternate scheme that would charge for the air-miles over EU airspace” & that it is committed to reaching a world-wide agreement on dealing with carbon emissions from airlines and wants to work with the global aviation industry to achieve a global deal which it hopes that consensus amongst ICAO is reached by end of 2012, while ICAO indicated that it will present the final scheme during its 2013 Assembly.

## Update on States’ Individual Initiatives on Climate Change

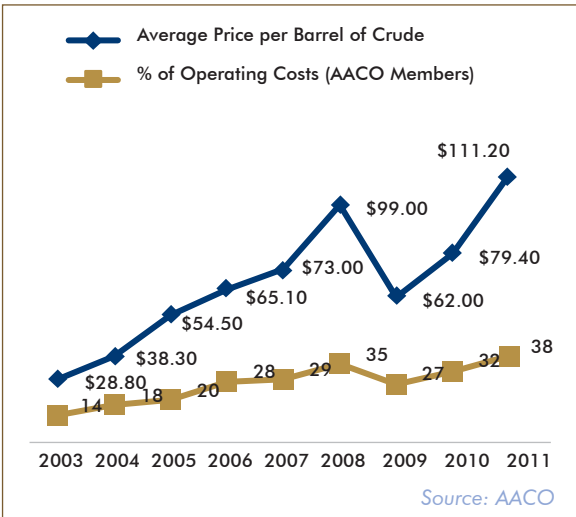
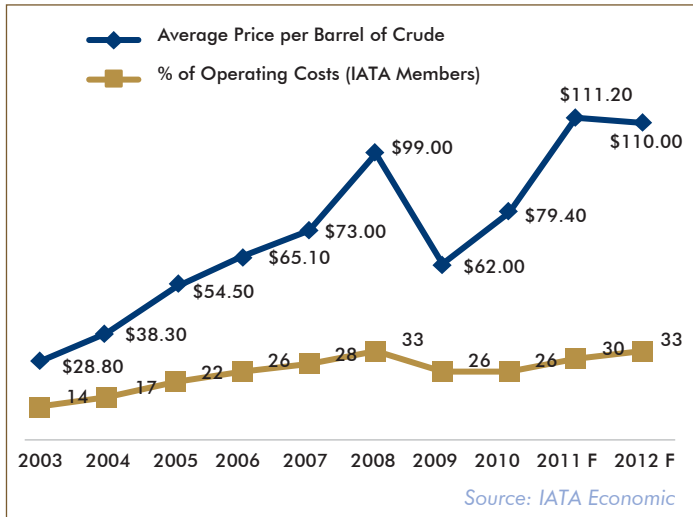
Country / Jurisdiction	Scheme Type	Operating / Under Development
<b>EU Countries</b>	EU ETS	Operating & includes International Aviation
<b>Norway</b>	Linked to EU ETS	Operating & includes International Aviation
<b>Iceland</b>	Linked to EU ETS	Operating & includes International Aviation
<b>Liechtenstein</b>	Linked to EU ETS	Operating & includes International Aviation
<b>New Zealand</b>	National ETS	Operating – International aviation exempted
<b>China</b>	Pilot ETS in several cities and provinces	Under development – Inclusion of aviation not decided yet
<b>Republic of Korea</b>	National ETS	Under development
<b>South Africa</b>	Carbon Tax	Under development – Aviation not included



Country / Jurisdiction	Scheme Type	Operating / Under development
<b>Japan</b>	Voluntary ETS	Under development
<b>Australia</b>	National ETS	Under development – Domestic flights only
<b>India</b>	Carbon Tax	Operating - Aviation is not included
<b>Mexico</b>	Voluntary Emissions Trading Scheme	Operating - Aviation is not included
<b>USA</b>	Regional Greenhouse Gas Initiative (RGGI)	Operating - Aviation is not included

## Fuel Prices and their Impact

The cost of fuel has accounted to 33% of the total cost of airlines in the first half of this year compared to 30% in 2011. IATA forecasted that the airline industry will have additional cost expenditure of USD 17.3 billion over 2011.



### Effect of Increases in Fuel Prices

- The cost of fuel has an obvious and direct impact on the cost of operation of an airline. It constitutes roughly 30-35% of airlines operating expense. And every penny increase in the price of jet fuel costs the airline industry USD 180 million a year.
- The increase in fuel cost trigger economic recessions, which in turn result in a substantial decline in demand for air travel and air cargo. The airline industry is inextricably tied to the overall economy, where minor recessions result in reduced demand on travel and increased sensitivity to prices for leisure and business travelers.



## Managing the Rise in Fuel Prices

- In the absence of pricing power, airlines transfer the additional costs caused by the rise in fuel prices to the bottom line (end customer) by charging higher airfares.
- By having the most fuel-efficient aircraft possible.
- Through working with engine manufacturers to reduce fuel consumption.
- Looking into every facet of their operations to further improve fuel efficiency, through changes in cruise speed, use of flight simulators, sophisticated flight planning systems, increasing load factors and the introduction of newer, more aerodynamic aircraft designs combined with modern engine technology, taxiing on one engine, delaying startup and push back, and removing all discretionary weight.

## Achievements

- Today's fleet is nearly three times more fuel-efficient than the fleet that was operating at the time of the first OPEC fuel crisis.
- Fuel conservation efforts have resulted in a fuel consumption rate of almost 40 passenger miles per gallon in today's aircraft; a rate that compares favorably with the most fuel-efficient automobiles.
- Applied measures to save fuel are helping in reducing emissions.

## Taxation of Aviation

### Types of Taxes and Charges imposed on Aviation

- Airlines pay a number of taxes and charges, of which some are in return for airport services and the use of airspace, while other taxes are introduced for filling governments' treasuries.
- Governments impose taxes on income, property, fuel, equipment, and lately for social and economic purposes like aids for developing countries, climate change, and tourism.
- There are also "Green Taxes" which are only tools to generate public revenues, and do not have any significant benefit to the environment. In most cases, these revenues are not reinvested in the aviation sector to improve the infrastructure or undergo research for new technologies.

### Economic Impact of Aviation Taxes

- There's a direct association between aviation taxes and reducing the benefits that this sector brings to global economies. The largest impact is obviously on the tourism sector that is a price-sensitive sector.

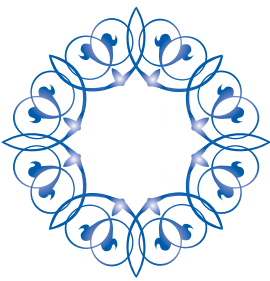


- Taxes reduce the demand on travel and air links between regions, for example, after the Danish government imposed an aviation departure tax on travel on 1 July 2008 that reached 45 Euros on some flights, the Dutch economy lost between 1.2 billion Euros and 1.3 billion Euros. Moreover, passenger traffic at Amsterdam Schiphol airport was negatively impacted whereby the airport lost 1.4 million passengers during the second half of 2008 following the introduction of the tax, which led passengers to opt for neighboring airports in Germany and Belgium, and as a consequence the Danish government did not get the anticipated amount of returns from this tax. The government ceased this tax after witnessing its negative effect on the economy.

### Latest Developments during the Past Year

- In 2011, taxes imposed on aviation rose by around USD 2.7 billion, mostly coming from the UK, India, Austria, South Africa, Seychelles, Granada, and Jamaica.
- **United Kingdom** - Air Passenger Duty (APD): This tax started in 1994 and increased by around 2,600% throughout the years till June 2011. This year the tax was raised by another 8% giving the UK government GBP 2,605 million as a result between 2011 and 2012. The World Travel and Tourism Council (WTTC) estimates that the APD has cost the UK economy GBP 4.2 billion of the GDP and resulted in 91,000 job losses.
- **Spain:** Spanish airports' operator imposed an increase in airport charges starting from 1 July 2012, noting that airport operators were not consulted beforehand as per ICAO principles. The average of the charges increase is estimated at 18.9% noting that charges doubled at some larger airports.
- **Austria:** The Austrian government introduced on 1 April 2011 a travel tax on all passengers using Austria's airports reaching EUR 35 on long haul sectors.
- **Ireland:** The Irish government reduced the travel tax from EUR 10 per passenger to EUR 3 further to the reduction of passenger numbers by around 2 million persons for 3 years.
- **Germany:** At the beginning of 2011, the German government introduced a tax on air transport, however announced a reduction to this tax at the beginning of 2012 by 6.27% following the inclusion of aviation in Europe's Emissions Trading Scheme.
- **India:** A 345% increase during the next two years in airport charges at India's Delhi airport was approved, in addition to levying a user development fee on all passengers, including arriving passengers. These additional charges started on 15 May 2012.

AACO cooperates with IATA in communicating with governments and airport operators to reduce the levels of taxes and charges and improve their structure. AACO's Aeropolitical Watch Group also follows up on these issues and works on reducing the cost of Arab airlines by urging Arab governments to avoid any duplications in taxes imposed on aviation and to reduce the levels of taxes and charges in some states, noting that taxes imposed on aviation in the Arab world are at the lowest levels compared to other regions. Activities of AACO's Aeropolitical Watch Group are addressed in details in later parts of this report.



## AACO's Work

### Aeropolitical Affairs

#### Aeropolitical Watch Group (AWG)

- A group of aeropolitical and legal experts from AACO member airlines follow up on Aeropolitical affairs within the framework of AACO's Aeropolitical Watch Group (AWG).
- This group follows up on regulatory affairs that affect operations of AACO member airlines, lobbies for their common interests, and exchange information bringing awareness on aeropolitical affairs to AACO member airlines.

#### AACO's Work this Year within the Framework of the AWG

<b>Roadmap for Arab - EU Aviation Relations</b>	Due to the high importance of the European market to Arab airlines, and following AACO's 44th AGM resolution on relations with Europe,,,
<p>AACO's AWG and Secretariat General worked on developing a roadmap to establish a common aviation area between the Arab world and the EU. The roadmap includes a set of guiding principles to ensure a balance in the relations between the two regions. The roadmap includes the establishment of an experts team from both regions, in addition to the Arab League of States and AACO. The team to set the foundations and scope of cooperation in the main domains of civil aviation between the two regions and to set up phased objectives and possible scenarios for EACAA, with an impact assessment and timeline for the establishment of the Euro-Arab Common Aviation Area.</p>	
<b>Draft Agreement on mutual exemption of taxes and charges on Arab airlines' activities and equipment</b>	The Arab governments set measures in 1979 within the framework of the "Tunis Convention on Reciprocal Exemption from Taxes and Charges on Activities and Equipment of Arab Air Transport Institutions",,,,
<p>Following a resolution by the Council of Arab Transport Ministers that requested AACO and ACAC to establish a joint task force to study the Tunis Convention, follow up on its implementation and develop it in line with developments in the air transport industry; and then submitting a report to the Executive Office of the Council of Arab Transport Ministers on the results and recommendations of the task force, AACO AWG worked on preparing a new version of the Convention that goes in line with the developments of the air transport industry.</p> <p>AACO AWG worked on including new types of exempted taxes, and broadened some of the definitions to exempt more airline operations from taxes and charges, in addition to updating some of the indexes such as the Equipment Index to be in line with the new requirements of air transport.</p>	





It is noteworthy that AACO's 44th AGM adopted a resolution on this issue and found it necessary to update and clarify the Convention in line with the latest developments in the air transport industry since 1979.

**AACO/ IATA  
Aeropolitical Forum**

AACO held an Aeropolitical Forum in coordination with IATA and under the kind sponsorship of Etihad Airways on 16 January, 2012 in Abu Dhabi. The forum was attended by more than 100 representatives of Arab Civil Aviation Authorities and Arab airlines

Experts from various fields of the aviation industry participated in the forum; including Arab civil aviation authorities, IATA, AACO, Association of European Airlines, in addition to specialized academics in air transport. Discussion and presentations tackled the state of air transport between Arab states, the threats and opportunities facing the air transport industry within the worldwide economic environment, the impacts of aeropolitical affairs on the industry, Arab aviation relations with Europe, EU passenger rights, EU "Airports Package", other EU regulations, DoT's regulations, and aviation conventions; in addition to human capitals in the aeropolitical field. The forum called for the following:

- Arab states to enhance the pan-Arab aviation relations and to have a more sense of urgency and more leadership in implementing the Damascus Convention.
- Arab states to work towards having a comprehensive approach for aviation relations with Europe, and regional industry stakeholders to work on developing a roadmap for these relations, while working on a comprehensive approach towards competitive cooperation between Arab and European airlines.
- Industry Stakeholders to work on lobbying for moving forward with the Agenda For Freedom to ensure that 2012 is a new starting point for the Agenda For Freedom.
- The forum strongly called as well for the development of an urgent curriculum to address the serious need and shortage of human capitals in the field of Aeropolitical and industry affairs professionals worldwide.

**Workshop on Consumer and  
Competition Laws in the EU**

AACO held an Aeropolitical Course in cooperation with aviation law firm 'Gates and Partners'. The course was conducted at AACO Regional Training Center in Amman.

The course addressed European Aviation Competition and Consumer Laws, including:

- Prohibition on anti-competitive agreements;
- Prohibition on the abuse of a dominant position;
- Mergers, acquisitions, alliances and joint ventures;
- State aid and subsidies;
- EC Regulation 261/2004 and EC Regulation 1107/2006;
- Pricing air fares and regulation of payment surcharges; and others.



## Environmental Policies

### Environmental Policy Group

- Gathers environmental experts from member airlines that follow up on the environmental policy issues within the framework of AACO Environmental Policy Group (EPG).
- The scope of the EPG group is to follow up on environmental developments affecting the Arab airlines, market the common interest of AACO members, exchange environmental information, provide environmental awareness, and provide cost effective solutions that would help AACO members in facing the environmental challenges.

### AACO's Work within the Framework of the EPG Objectives for this Year

POLICY Level	ACHIEVEMENTS
<b>Environmental Policy Developments</b>	<p>The EPG followed up on the environmental developments on the global level with the extension of Kyoto protocol which was perceived by the EPG as a positive step. However, the group stressed on the fact that although aviation is not directly mentioned in the Kyoto protocol, yet bunker fuel should not be considered as one of the main sources to finance the Green Climate Fund. Thus, it is very important that ICAO speeds up the work for achieving a global framework agreement for aviation's emission mitigation as any funding raised under the Green Climate Fund will add extra burden to the airlines since that will be additional cost to the cost of the EU ETS.</p>
<b>Comprehensive Approach to Emissions Mitigation Template</b>	<p>The comprehensive approach to emissions mitigation template that was prepared by the EPG and which adopts the four – pillars strategy endorsed by IATA, the Industry, and other global parties was approved by AACO 44th AGM and by AACO's Executive Committee. The comprehensive approach was circulated to Arab countries to be used as a template for any negotiations with the European Union only in the case that no global agreement was reached under ICAO.</p>
<b>Carbon Neutral Growth Strategy beyond 2020</b>	<p>The EPG is following up on IATA's Carbon Neutral Growth strategy, where AACO and some of the members are participating in IATA's Climate Change Task Force meetings tasked to develop a mechanism for implementing the CNG 2020 to ensure that it takes into account Early Movers and Fast Growth treatment.</p>
<b>Political Opposition for the EU ETS</b>	<p>The EPG followed up on States' opposition against the inclusion of aviation in the EU unilateral ETS, and calling upon achieving a global solution which tackles aviation emissions under the auspices of ICAO. Some Arab states such as the UAE, Egypt, Saudi Arabia and Qatar have signed on the New Delhi declaration, while only Saudi Arabia signed</p>



	Moscow declaration. And since the political opposition between the States and the European Union is still active, the EPG recommended that members should comply with the EU ETS under protest to avoid non-compliance penalties, unless they were otherwise directed by their governments.
<b>ACTION TARGETS</b>	<b>ACHIEVEMENTS</b>
<b>Carbon Trading</b>	In light of the continuous awareness provided to members regarding the updates on carbon trading, and the importance of not waiting for the results of the political opposition, the EPG held a meeting and invited various providers to present for the members options of dealing with Carbon Trading, where each airline expressed its willingness to work with this issue either unilaterally or collectively through pooling the needs of airlines, on individual basis, and requesting proposals to benefit from the collective amount by reducing the commission of the providers since the price of carbon certificates is fixed and is dependent on the supply and demand of the market. A small group of interested airlines, consisting of 5 member airlines, was formed and is currently exploring various options.
<b>EU ETS Adherence</b>	The EPG is following up on all the EU ETS adherence requirements such as sending verified emissions reports for 2012, and opening registries to receive the free allowances under protest, as well as sharing experiences of some members in solving the problems that were faced with the requirements of complying to the EU ETS.

## Fuel Project

AACO provides its members with a framework for purchasing their fuel requirements from international and local jet fuel suppliers through two ways:

- 1- Tenders
- 2- Bilateral Negotiations

The main objective of AACO Fuel project is to rationalize the fuel cost and achieve savings for member airlines.

In AACO-Tenders 2012, 460 airports were included to cover around 500 million gallons of fuel requirements. The new action plan for negotiations implemented by the Board helped in achieving additional savings estimated at a 6% increase over 2011 results.

The achieved savings allow member airlines to develop and enhance their services and to offer better airfares to their customers.



The Fuel Project consists of the following 20 member airlines:

Air Cairo, Air Algerie, Air Arabia, Afriqiyah Airways, EGYPTAIR, Gulf Air, Jordan Aviation, Kuwait Airways, Libyan Airlines, Middle East Airlines, Oman Air, Qatar Airways, Royal Jordanian, Saudia, Sudan Airways, Syrian Arab Airlines, Tunis Air, Yemen Airways, Felix Airways and Trans Mediterranean Airways.

AACO Fuel Technical Group, whose main objective is to enhance and expand the knowledge base of AACO member airlines as well to improve cooperation between member airlines and fuel companies, is in its final steps to finalize the updates on the Fuel inspection and specifications manuals that they earlier translated to Arabic in order to make it more familiar for members to read and comprehend. On the other hand, members of the Fuel Technical Group started planning to hold the next Fuel Forum whose objective is to increase members' awareness and information sharing related to Jet Fuel industry issues.

## Technical Work

### Aviation Safety

- AACO is closely working alongside all stakeholders in the framework of ICAO Middle East Regional Aviation Safety Group (MID-RASG). In that regards, AACO participates in the group's meeting, is part of its Regional Steering Committee (RSC-MID), and participates in the Middle East Aviation Safety Report Team (ASRT-MID) which prepares the Annual Safety Report published by the group.
- Moreover, AACO has been following up on all regulatory issues that affect its member airlines, such as the developments in the EU Safety Assessment of Foreign Aircraft (SAFA) programme. In addition, AACO develops its relationship with regulators, and briefs periodically its member airlines with regards to those developments.

### Aviation Security

AACO AVSEC Working Group is still working on the initiatives that were launched in 2010. In spite of the pressure resulting from the situation in the region on security departments of member airlines, AACO AVSEC Working Group was able to accomplish the following:

- **Harmonization of Security Audit Checklists:**  
The group finalized the harmonized security audit checklist in line with the new IOSA 6th version. The checklist was circulated to member airlines for comments and to include any airline-specific requirements. In addition, AACO held the first training course to train inspectors on the new checklist which will be used by the pool of auditors that will be formed. That pool will comprise auditors from interested member airlines for stations' security audit.
- **Security Handlers at Outstations:**  
AACO has been closely following up on the new regulations related to security handling in India. The Indian Bureau of Civil Aviation Security (BCAS) declared that non-Indian airlines



are required to use the services of an Indian carrier for security handling at Indian stations, and are prevented to perform security self-handling at those stations. Therefore, AACO and member airlines are following up on the issue and exploring options to reach a suitable solution.

- **Security Management Systems (SeMS):**

Acknowledging the need for an Arabic Security Management System (SeMS) as Arabic is the only language known for security personnel in some countries, AACO AVSEC Working Group is updating the previously translated IATA SeMS to conform to the new version. The group finalized the update of the translated executive summary this year, and is still working on the document.

## **Engineering & Maintenance**

2010 marked the launch of AACO Members Collaboration in the MRO field with the launch of the MRO Consultancy study with ICF SH&E. Implementation of the study began in 2011. Carriers participating in the study are: Air Algerie, EgyptAir Holding Company, Emirates, Kuwait Airways, Middle East Airlines, Qatar Airways and Saudia.

The consultancy study aims at assessing the feasibility of collaboration of AACO member airlines in the following areas:

- Joint Purchasing of Aircraft Parts
- Joint Management of Aircraft Parts
- Joint Use of MRO Capabilities in the Arab World

The consultancy study will be concluded in September 2012. The results will be presented to the CEOs of participating carriers in order to decide on launching AACO MRO Collaboration project.

## **Technical Forum**

AACO is currently preparing for the seventh AACO Technical Forum that will be held in the first quarter of 2013. AACO member airlines, partner airlines, industry partners, regional and international organizations, and civil aviation authorities will be invited to meet, network, and discuss the regulatory and operational sides of technical issues.

The forum will comprise mostly panel discussions to discuss the following tentative subjects:

- Environmental issues from an operational perspective.
- Developments in aviation security.
- Developments in European programmes.
- Developments in aviation safety and the work of ICAO Middle East Regional Aviation Safety Group.
- Developments in engineering, maintenance and overhaul.



## Distribution

The recent technical evolution has extensively contributed to changing distribution patterns; the most significant were the development of communication technologies and the Internet, resulting in:

- Creation of new distribution channels which are direct channels to consumers through airlines' websites or virtual travel agencies like Travelocity, Expedia, and Opodo.
- Formation of new intermediates for sales "Online Travel Agents", while strengthening the role of "Travel Management Company".
- Establishment of portals that utilizes mega search engines to compare all the prices offered online and by any party.
- The ability to sell optional services "Merchandising".

The most important trends and developments in distribution this year were as follows:

- **Co-existence of innovative distribution channels with traditional distribution channels**

This is because of the tendency of all airlines to adopt most of the available distribution channels to promote & foster their sales. So the development of an integrated strategy for distribution is a very complex task, as the effectiveness of the cost of sales may affect profitability, in addition to the conflicts that may arise due to inconsistency of airlines' offers through various distribution channels, which may affect the credibility of the airline and its brand. Accordingly, airlines need to evaluate all distribution options and identify the criteria and correct economic standards for each distribution channel after doing in-depth study of the total cost per distribution channel, taking into account: the cost of booking and the cost of associated processes for each linked system, commissions required by all parties in the sales process, including credit cards and payment gateways, and transaction costs.

- **Increased demand for sales of Ancillary and Optional Services**

Passengers have become more demanding about the available travel options and the ability to compare the final cost of the trip, with complete transparency of the detailed cost of each of the optional services before completing their purchases. So airlines became more eager than before to provide this service to their passengers across all channels of distribution and sale, thus giving the passenger the ability to pick the service they want from the list of those options "Product Unbundling". Airlines already showed a great deal of innovation in their product offering via their direct sales channels.

- **A new distribution initiative "NDC" launched by IATA this year**

Airlines are very much keen about their brand and the ability to provide all its offers in a consistent way across all channels, except that the global distribution systems "GDSs" have not developed their systems and functionalities in such a way that would enable the travel agent to compare all airlines' offers effectively, which lead IATA to launch a new project this year, and call on all parties in distribution and various aviation stakeholders to participate including global distribution systems (GDSs). The project or "New Distribution Capabilities (NDC)" aims to establish uniform or common standards for the air transport industry which will enable the airline to sell all its products and offers to various customers and across all intermediaries in a consistent, coordinated and coherent manner. AACO supports this project and works in coordination with IATA to make it a success.



- **Proposed Regulation by U.S. Department of Transportation concerning Distribution**  
AACO along with the majority of the international and regional airline and air transport associations have signed a letter indicating their opposition to any DOT proposal mandating that airlines serving the US to distribute all content and services including the optional ones through global distribution systems. AACO and other organizations see that this proposal will result in significant consumer overcharges and will invariably lead to a reduction in competition and technology innovation. Furthermore, subject is considered as DOT interfering in contractual relationships between airlines and GDSs.

### **Distribution is still among the highest priorities of AACO's work**

Despite the emergence of innovative distribution channels, the number of bookings done by travel agents and through GDSs is more than half, compared with bookings done directly with the airline (through the airlines' CTOs, ATOs, airline's website, call centers, or direct connect between travel agents and airlines' host). Experts estimate that the percentage of bookings done via travel agents worldwide is 60%, taking into consideration bookings of Low Cost Airlines (which are not distributed through global distribution systems) and bookings done directly with airlines through emerging channels.

Airlines, including AACO member airlines, realized that they cannot do without global distribution systems in spite of yearly significant increases in booking fees and charges, but the value-added services offered by travel agents to passengers cannot be ignored.

AACO with its member airlines worked for more than fifteen years to strengthen their partnership with global distribution systems in order to improve the general contractual matters and address best means to control the cost of distribution, and succeeded in concluding a number of agreements for distribution in local markets since that time. Currently, member airlines have distribution agreements with the three prominent global distribution systems as follows:

- 13 AACO member airlines with Amadeus
- 3 airlines with Sabre bilaterally
- Two airlines with Travelport bilaterally

AACO continues to work with member airlines to cooperate and coordinate with the GDSs to stamp down the travel agency abuses, and improve functionalities of travel agents' systems in order to provide better service for travelers, in addition to the exchange and adoption of best practices in the field of distribution.

## **Market Intelligence**

- AACO follows up on market intelligence data and tools in line with its strategy to provide the best solutions for member airlines while ensuring optimization of costs. In addition, AACO follows up on developments in that area and invites providers of such solutions to present their systems to member airlines at AACO meetings and forums alongside the updates on Pax-IS.
- Moreover, AACO and its carriers are involved in the Direct Data Services (DDS) project for direct and indirect data that is being developed by IATA, and which is expected to replace Pax-IS in the medium to long terms.



- There are several gains from the DDS project. First, DDS data comes directly from participating carriers, and hence it includes all airline sales data including direct sales that do not go through GDSs. Moreover, the cost of DDS is expected to be significantly lower than the price charged by the GDSs for Market Information Data Tapes (MIDTs) in spite of including wider data sets which would provide better market visibility and thus allow airlines to increase their competitive edge.
- AACO promotes the use of IATA market intelligence tools to member airlines due to their analytical power and competitive costs.

## Network Analysis

- Arabesk, the network cooperation project amongst a number of AACO members, has taken a new dimension this year after providing large returns to participating airlines for a span of 6 years. At AACO's 44th AGM held in November 2011, AACO signed an agreement with Sabre Airline Solutions, by which Sabre provides to AACO members individual reports highlighting the opportunities and threats facing their individual networks.
- These periodic reports are distributed individually to airlines highlighting the strengths and weaknesses of each airline's route network at the level of schedules, pricing, competition, and revenue management; in addition to setting clear recommendations on these areas.
- AACO holds a bi-annual Commercial Awareness Forum that gathers member airlines with Sabre to discuss these reports bilaterally. Moreover, AACO invites a number of other vendors to these forums to present the latest commercial strategies and products that could bring benefits to the airlines.
- During the forums, AACO member airlines also have the chance to meet bilaterally to discuss their bilateral commercial agreements.
- Executives from commercial departments, network planning, and revenue management from AACO member and partner airlines attend these forums.

## Innovative IT Systems and Solutions

### Future of IT Systems and Solutions

The results of a survey carried out by SITA for this year confirmed that passenger service is one of the most important priorities behind airlines' investments in projects related to information technology systems and solutions, followed by lowering the operating costs, and increasing revenues.

The future development of information technology solutions governed by the increased demand of passengers to the following matters - and which must be considered when





developing information technology strategy for any airline are:

- Access and ability to get as much information as possible
- The ability to control the performance of any process
- The possibility of interacting at all times
- Personalization, by getting the service as required

All these factors worked jointly to shape the future of information technology solutions in the air transport industry, leading international airlines to plan to adopt them during the coming three years. These solutions are mainly the following:

- 1- Mobile solutions and strengthening airlines' website
- 2- Integration with social media
- 3- Promoting self-service solutions
- 4- Direct sales of ancillary services according to the need and demand

All of these solutions increase the airlines' ability to reach the market and customers more effectively and faster than any of the current traditional IT solutions.

By the year 2015, the mobile will be the dominant channel for passenger services, with more than 70% of passenger processes accomplished through mobile solutions or via the airlines' websites. The mobile is a central location for accessing information, a source of revenue, a contributor to building airlines' brands, and a supporter to passenger loyalty.

Mobile phones provide airlines with the ability to:

- Transmit information to the customers in a timely manner, and even the ability to pass on an actionable information to the passengers before, during and after the flight
- Sell ancillary services to the passenger to the last minute prior to departure, or during the flight through Onboard Retailing by utilizing new technology of Near Field Communications (NFC)
- Customize marketing campaigns for individuals and frequent travelers based on their prior choices
- Increase the competitiveness of the airline by providing distinguished services to passengers, like inviting them to use airport lounges or sending them food coupons when any delay occurs for their flights.

AACO E-commerce team worked during 2011 on exploring all mobile solutions, and looked at all mobile applications that are offered by the best and prominent providers to the air transport industry.

As for social networks, these have proved relevance and effectiveness to the airlines, which will become a key channel for marketing and sales and will address passenger service issues and disseminate important information related to operational and marketing matters. The survey indicates that 91% of airlines have plans to invest in programs to integrate with social network sites by the year 2015.

The survey also confirmed that the airlines are pursuing to build up and develop self-service solutions in order to facilitate and speed up all processes related to passenger services. About 89% of the airlines are planning projects to check-in passengers through self-service solutions, 76% of them have plans to develop solutions for self-service kiosks for checking-in passengers with bag tag printing and fast bag drop. In addition to offering new services through self-service kiosks, like Missing Bag and Flight Transfer.

It is therefore expected that by the year 2015 a new sales channel will accommodate around 12% of airlines sales through mobiles, social media, and self-service Kiosks.



## Airlines Revenues from Ancillary Services

Airlines' revenues from additional and optional services increased in 2011 by 66% compared to 2009 to reach approximately 18.22 billion Euros. This remarkable growth is attributed to the major airlines which considered offering these services among their priorities in the past two years, and implemented them, after it was previously limited to low-cost airlines.

The most important reasons that prompted major airlines to adopt a strategy to provide additional and optional services is to provide new sources of revenues while enhancing their competitiveness in providing better services and attracting new passengers.

Airlines who realized the importance of these revenues seized the opportunity in providing distinctive innovative ancillary services, which included but not limited to:

- Additional baggage
- Priority check-in at the airport
- Offering additional space in front of the seat
- Early boarding
- Quick rewards for frequent flyer program
- Featured entertainment on board
- The use of airport lounges
- Travel insurance

The highest results of ancillary services revenues were recorded by major airlines such as United, Delta, American, followed by low-cost airlines such as easyJet and Ryanair from the top ten list.

Majority of the airlines realized now the importance of these revenues and the value of providing those ancillary services, therefore they are working on implementing ancillary services solutions, as SITA survey stated that 93% of airlines will provide these ancillary services through their websites by the year 2015. But providing those ancillary services by the airlines must be evaluated thoroughly, and carefully, especially with the growing multi-channel approach, to ensure that ancillary services are offered in a consistent way across all channels. As 65% of the airlines will be ready in 2015 to provide ancillary services across multiple channels, including mobile phone, media and self-service systems.

All of the above topics will be included in the AACO IT Business Forum that will be held by the end of January 2013.

## Ground Handling and Facilitation at Outstations

- The project aims to address all matters relating to the services and facilitation at outstations with a focus on Ground Handling services in order to improve the level of service provided to Arab airlines and to control costs while improving the general contractual terms with all parties in these stations.
- AACO Services Steering Board continue to follow up on the latest developments in outstations, especially those relating to proposals for new legislation that could have a direct impact on the ground services market, the last of which was in Europe. Furthermore, the



Board follows up closely on the implementation of the joint agreements concluded with ground handlers under the umbrella of AACO - which have so far proved their significance in helping achieve benefits to all participating airlines. Current agreements are with Havas in Istanbul and 10 other Turkish stations, and in Rome with FlightCare Italia.

- The members of the Steering Board are now looking at expanding the project to include other outstations mainly in Kuala Lumpur, Nairobi, Paris, Amsterdam and Brussels.
- Moreover, the Board is following up developments at some outstations in which most members are suffering from the current status of ground services, in terms of the low level of quality of services provided, the high handling charges, with no other alternatives of ground handlers because of some monopoly situations.

## Training and Human Resources Development

### Achievements of the Regional Training Centers in 2011

- The number of trainees in 2011 reached 1438 through 79 courses as follows:
  - 261 participants attended 18 scheduled courses
  - 1017 participants attended 53 in-house courses
  - 160 participants attended 8 additional courses
- Despite the decrease in the number of courses, AACO RTC was able to make good savings for Arab airlines; reaching USD 3,725,787 so far.
- AACO RTC had 147 scholarships in 2011, whereby member airlines took advantage of 50 granted scholarships by registering their employees on scheduled courses and covering some in-house courses.

### Achievements of the Regional Training Centers (January – June 2012)

The situation in some Arab countries in 2011 still impacts Arab airlines which is evident in the number of in-house courses requested from our member airlines as well as the number of participants who attended the scheduled courses during this year, whereby year 2012 witnessed a significant reduction in the demand of training courses.

Despite all circumstances mentioned before, there were some airlines who requested in-house training courses to cut costs and used their scholarships to cover the courses expenses.

These airlines are: Qatar Airways, Saudia, Gulf Air, Royal Jordanian, Libyan Airlines, and Afriqiyah Airways.



Number of trainees reached 657 during the 1st half of 2012 through 45 courses as follows:

- 127 trainees attended 9 scheduled courses
- 468 trainees attended 30 in house courses
- 62 trainees attended 5 additional courses

Despite the decrease in the number of conducted courses, the AACO training centers were able to achieve good savings for Arab airlines reaching nearly USD 1,751,870 so far.

### **Scholarship Program in Collaboration with Industry Partners**

AACO has provided 137 scholarships during the first half of 2012, though member airlines took advantage of only 31 scholarships during the year. AACO had stimulated its member airlines to take advantage of the scholarship program either through using them to register on a variety of scheduled courses conducted by AACO RTCs, or by compiling some scholarships to cover the costs of organizing in-house trainings at the airlines' home base, to cut travel expenses of staff & reduce fees by training more people at cheaper costs without affecting quality.

### **Free Courses**

AACO RTC organizes a number of courses financed through the airlines' annual contribution where each carrier is offered one or two free seats on each course. During the first half of 2012, four free training courses were conducted, attended by about 50 participants.

### **Masters in Air Transport Management with Helwan University**

A protocol was signed between AACO and Helwan University in Egypt to conduct a Master's degree Program specialized in Aviation Management Program (MAM), in corporation with EGYPTAIR airlines Co. in which this program is considered to be the first of its kind that grants this specialized degree in the Middle East region.

First group finalized their study in October 2010 and second group finalized their study in October 2012, and the current scholars are discussing their thesis.

### **Graduation of Saudia staff from Civil Aviation Management Diploma in cooperation with the American University**

AACO has held three Postgraduate Diploma programs in Air Transport Management, in cooperation with the American University in Cairo, for Saudia staff to train new leaders through a program named "Pioneers Program".

The first two groups graduated in 2011 while the third group completed the program in February 2012.

As well, AACO also held a training program for Saudia in May 2012, consisting of 14 training courses for new employees in order to develop and enhance their skills and prepare them for completion of the work assigned to them.

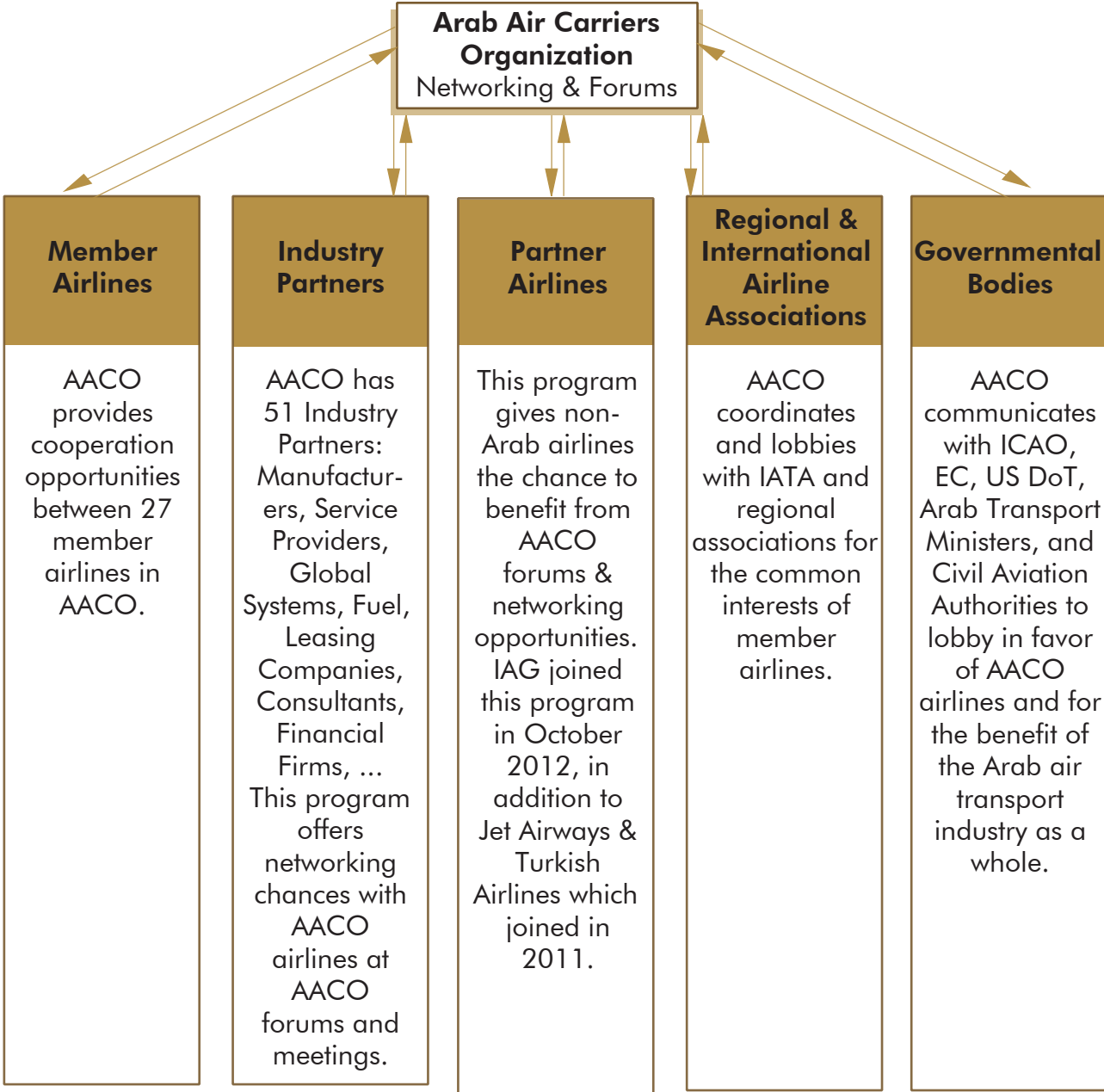
### **Expanding Training Cooperation Framework with IATA**

AACO got a 20% discount on the annual renewal fees for the accreditation of training centers for member airlines. In addition to getting an inclusive offer from IATA in which AACO member airlines would be exempted from both the network access fees (USD 5000), and the ATC evaluation Fees. This offer was only valid for 3 months, for subscription before the end of March 2012. Jordon Aviation benefited from this offer.



## Networking and Forums

AACO cooperates with regional and international organizations, governmental and non-governmental bodies, airlines, manufacturers and service providers, offering a broad framework of cooperation for AACO members, protection of their interests, and support for a better economic environment for their operations.



## AACO Publications

AACO works constantly on enhancing the knowledge base of its members and partners through a number of general and specialized bulletins. These bulletins are distributed to members, partners, regional and international associations, and governmental and non-governmental organizations that AACO cooperates with at all levels.



### **AACO Annual Report**

AACO Annual Report includes a review of the work conducted by AACO projects' steering boards, work groups and task forces, in addition to the latest industry updates in the Arab world region and worldwide. This report is distributed during AACO AGMs in printed format, in English and Arabic. Moreover, the Annual Report is available on <http://www.aaco.org/publications>

### **AATS – Arab Air Transport Statistics**

This annual bulletin highlights the major operational developments related to the Arab airlines and airports as well as a synopsis on the world air transport developments at large, in addition to statistical information about general trends of the economy with emphasis on the air transport and tourism sectors in the Arab world. The bulletin includes brief information about each AACO member and partner airline. It is distributed, in printed format, to AACO members, Industry Partners, and Partner Airlines. This publication is in the English language only.

### **3D Insight “AACO Quarterly Bulletin”**

3D Insight “AACO Quarterly Bulletin” is an electronic statistical and analytical bulletin in English. This bulletin is done in collaboration with Seabury Group and contains a detailed analysis of industry topics affecting the Arab aviation market, in addition to Arab airports statistics, Arab airlines operations data, and Arab fleet data.

### **TopView**

The TopView is an electronic bulletin dedicated for briefing the CEOs and Commercial Directors of AACO Member airlines about the major industry developments and AACO's activities in a very concise and executive manner. The TopView bulletin is issued every two months.

### **The NASHRA - Industry's Pulse & Arab Aviation**

The NASHRA is AACO's official monthly bulletin that is distributed electronically in the English language. It is a monthly recap of aviation in the Arab world on a regional and International level. The main issues covered in the NASHRA include:

- Major developments in the Arab aviation industry at various levels within the Arab world and on a global scale.
- Statistical monthly data related to the Arab world on passenger traffic flows, market shares, available capacity for Arab airlines and foreign airlines in the Arab world, and others.
- AACO's Industry Partners news – dedicated to our partners who sponsor this bulletin.
- AACO's Partner Airlines news and statistics – dedicated to our partners who have joined the Partner Airline Program.

The NASHRA is distributed to the CEOs and managerial staff of AACO member airlines; Director Generals and senior management of Civil Aviation Authorities in the Arab world; Transport, Tourism and Economy's ministers in the Arab countries; worldwide regional and international associations and government organizations; media around the world; in addition to AACO's Industry Partners and Partner Airlines.



### **Regulatory Update**

The Regulatory Update is a monthly electronic bulletin that covers all updates on aviation regulatory affairs in the Arab region and the world for the previous month. This bulletin is sent to the Commercial Directors, Aeropolitical Experts, and Legal Experts of AACO member airlines.

### **Safe and Level**

The Safe and Level is a monthly electronic bulletin that revolves around the major safety developments, accidents and reports in the aviation industry at the international and regional levels. Its circulation is restricted to AACO technical work groups and steering boards. This bulletin is published in English.

### **Weekly Web News**

Weekly Web News is AACO's newsletter that includes the weekly update of the latest developments posted on our homepage. The newsletter covers the previous week's news, upcoming AACO events, and scheduled RTC courses.

### **Fuel Bulletin**

The Fuel Bulletin is published electronically on a bi-annual basis. The bulletin covers prominent events and issues related to aviation fuel industry at the technical, environmental, and commercial levels. This bulletin is circulated to members of AACO's Fuel Steering Board and aviation fuel technical group.

### **RTC Catalogue**

The Regional Training Center catalogue is a detailed description of the yearly training courses. This catalogue helps in giving the trainees detailed information about the courses facilitating their choice of course, registration and accommodation.

