ANNUAL REPORT

C A I R O

Arab Air Carriers' Organization

51st Annual General Meeting – Cairo

5 - 7 November 2018

AACO's 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.

AACO's Mission
To serve the Arab airlines, represent their common interests, and facilitate, in a manner consistent with all applicable competition and other laws, their cooperation so as to improve their operational efficiencies and better serve the travelling public.

Strategy
To initiate and implement Specific, Measurable, Attainable, Relevant, and Time-bound synergistic targets (SMART) that serve its objectives.

AACO's 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 joint projects between member airlines with the objective of achieving efficiencies that will lower their costs in a manner consistent with all applicable competition and other laws and that enhance members' best practices.
- To provide forums for members and for industry partners to enhance the knowledge base.
- To reflect the positive image of The Arab Airlines Globally.

Capt. Ahmed Adel
Chairman of the AGM

H.E. Eng. Saleh N. Aljasser
Chairman of the Executive Committee

AACO Executive Committee

H.E. Eng. Saleh N. Aljasser, Director General, Saudia
Capt. Ahmed Adel, Chairman & CEO, EgyptAir Holding Company
Mr. Adel A Ali, Group Chief Executive Officer, Air Arabia
Mr. Tony Douglas, Group Chief Executive Officer, Etihad Aviation Group
Mr. Mohamad A. El-Hout, Chairman-Director General, Middle East Airlines
H.E. Mr. Akbar Al Baker, Group Chief Executive, Qatar Airways
Mr. Abdelhamid Addou, Chairman & Chief Executive Officer, Royal Air Maroc
Mr. Stefan Pichler, President & CEO, Royal Jordanian
Mr. Ilyes Mnakbi, Chairman and President, Tunisair

AACO'S PRIORITIES

CLIMATE CHANGE

To mitigate the negative impact of international aviation's emissions on climate change through supporting ICAO's efforts to ensure the successful implementation of its global scheme and to join efforts to improve operational performance.

REGULATIONS

To advocate for policies and regulatory principles that are clear and balanced to be adopted through transparent methods that include adequate consultations with the relevant stakeholders.

SAFETY

To assist members in enhancing the safety of their operations through advocating the adoption of safety culture, contributing to capacity building, and fostering collaboration among airlines in emergency response planning.

SECURITY

To provide a platform to share information and risk assessments, address emerging threats, contribute to capacity building, and promote and support collaboration among all stakeholders in aviation security.

AIRSPACE INFRASTRUCTURE

To promote and support enhancing the region's airspace infrastructure through enhancing the air route network, advocating civil/military collaboration, fostering Performance Based Navigation implementation, and supporting the implementation of a regional Air Traffic Flow Management mechanism.

COST

To assist member airlines in optimizing their operational environment, promote best practices while rationalizing their cost through cooperative activities.

CUSTOMER

To assist airlines in finding solutions that harness the technological advancements to enhance the customer travel experience in all touch channels and increase customer satisfaction.

AWARENESS

To provide highest quality, cost effective training and knowledge building that cover most aspects of the air transport industry to maximize the performance of the human capital in the Arab region.

Table of Contents

The Economy

Global Overview

In 2017, global GDP grew by 3.8% up from 3.2% in 2016, supported by the notable improvement in investment and trade activity. The global economy is expected to continue its positive performance in 2018 amid favorable financial conditions and improved market sentiment across major economies. However, risks from trade tensions and global geopolitical challenges may depress the outlook, given the high instability of financial markets witnessed in early 2018 especially in major emerging economies, which will affect investment, trade, and production activities.

Year-on-Year Real GDP Growth (%)

● ● ● World ● ● ● Advanced Economies ● ● ● Emerging & Developing Economies ● ● ● Arab World

* Estimated

Source: IMF, AACO
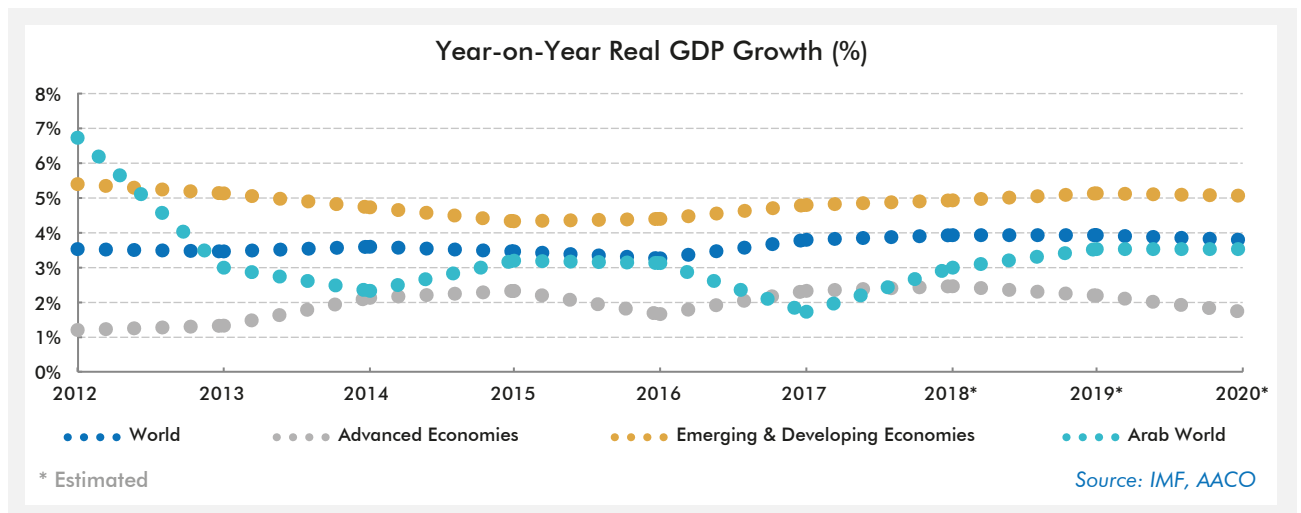
Arab World

The Arab world economy decelerated in 2017, growing by 1.7% down from 3.1% in 2016 mainly due to oil production cuts associated with low oil prices especially during the first half of 2017. In addition, geopolitical tensions continue to weigh on the region's output.

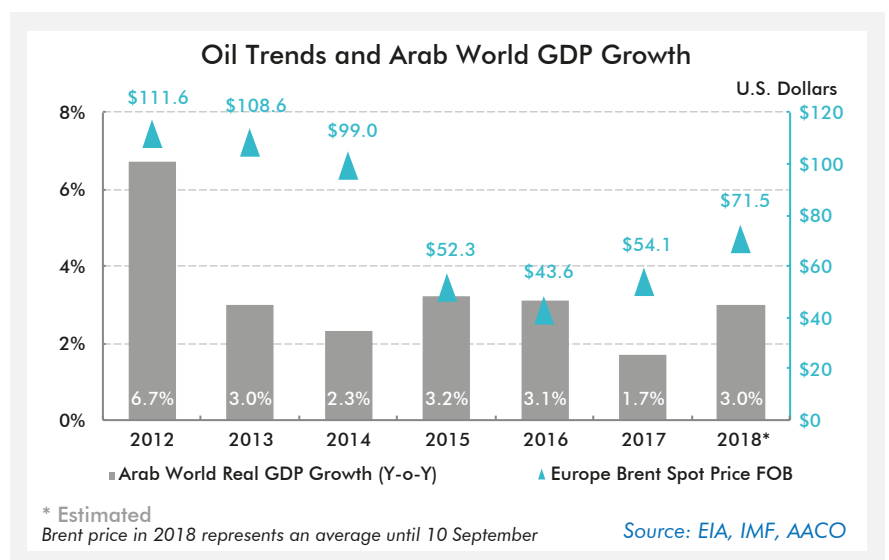However, the Arab world economy is expected to regain its strength in 2018 supported by the increase in oil prices.

Oil Trends and Arab World GDP Growth

U.S. Dollars

Year	GDP Growth	Brent Price
2012	6.7%	$111.6
2013	3.0%	$108.6
2014	2.3%	$99.0
2015	3.2%	$52.3
2016	3.1%	$43.6
2017	1.7%	$54.1
2018*	3.0%	$71.5

■ Arab World Real GDP Growth (Y-o-Y) ▲ Europe Brent Spot Price FOB

* Estimated
Brent price in 2018 represents an average until 10 September

Source: EIA, IMF, AACO

On the macro level, most Arab world oil-exporting countries witnessed a contraction or a shy growth in their GDP as they heavily rely on oil exports, which constitute on average around 79.3% of total Arab world exports of goods and commodities.

Inflation remains below target at some Arab countries amid weak domestic demand, while some are facing inflationary risks mainly due to volatile financial conditions.

GDP and Inflation Changes for Most Arab Countries

■ GDP Growth (2017/2016)   ■ Inflation (Change 2017/2016)   ■ Fuel Exports (% of Exports of Goods & Commodities) 2017
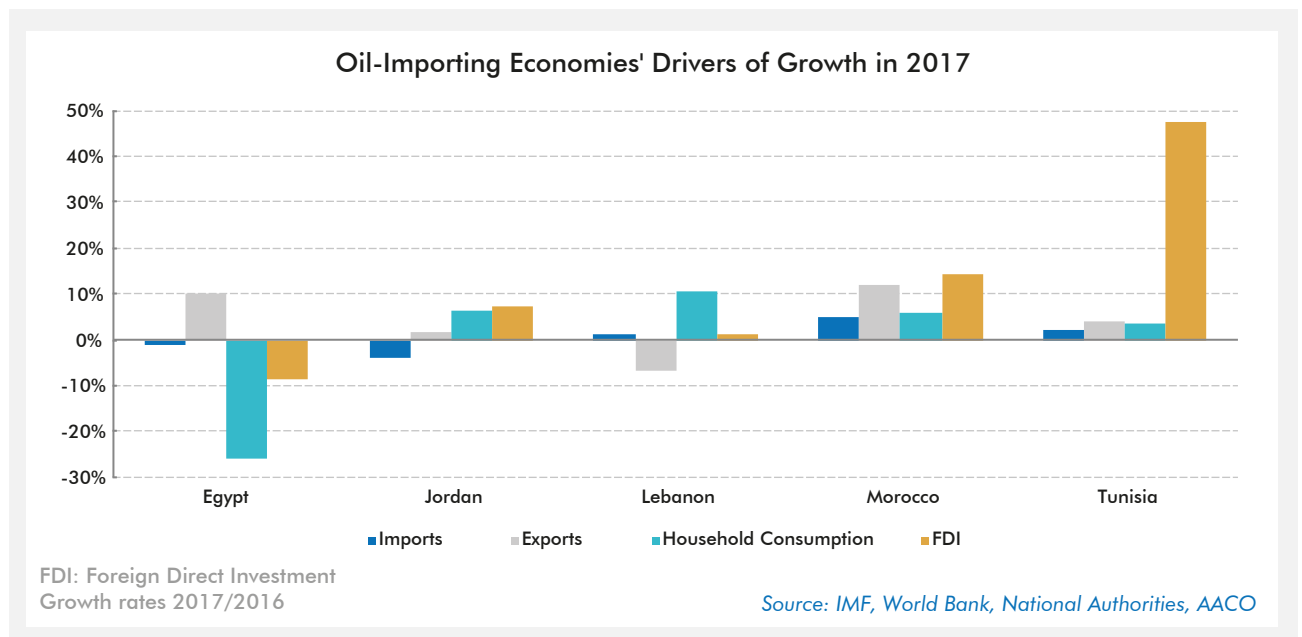
Red indicates a decline

Source: IMF, World Bank, AACO
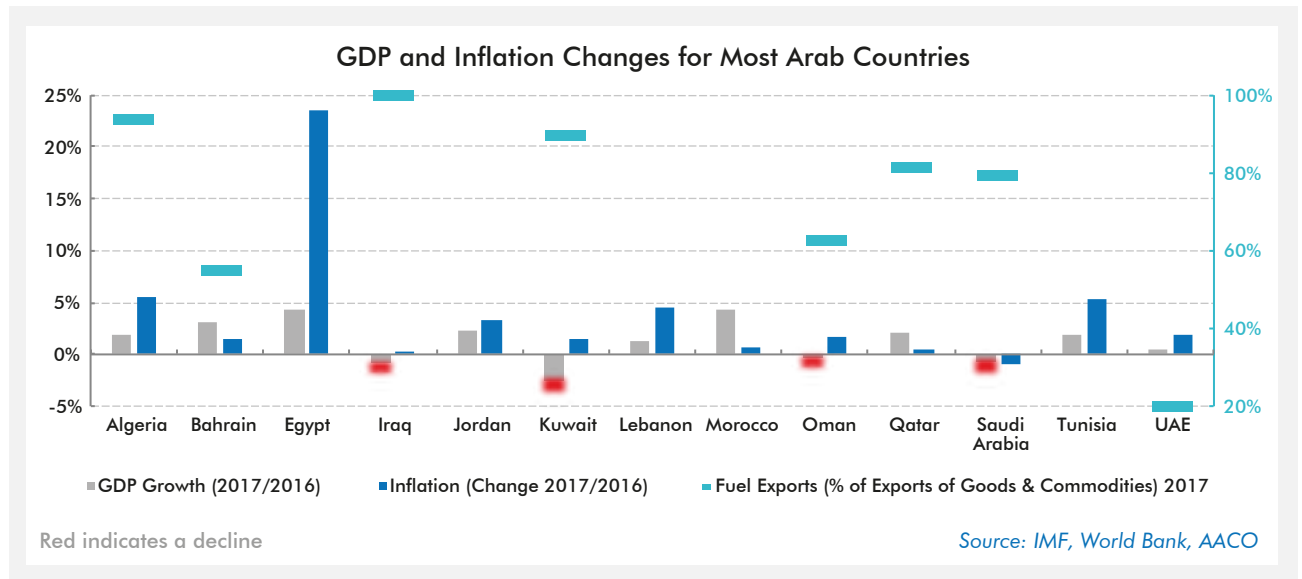
On the other hand, economic activity in oil-importing economies improved in 2017, supported by the spillovers from the recovering Euro area mainly exports and foreign direct investment coupled with an improvement in consumption.

Yet, market confidence remains fragile due to ongoing geopolitical challenges since 2011.

Oil-Importing Economies' Drivers of Growth in 2017

■ Imports   ■ Exports   ■ Household Consumption   ■ FDI

FDI: Foreign Direct Investment
Growth rates 2017/2016

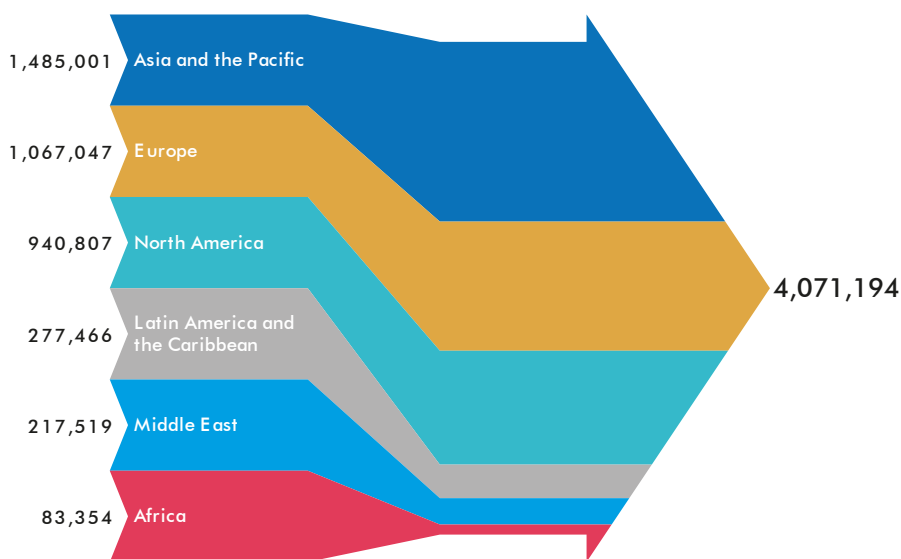*Source: IMF, World Bank, National Authorities, AACO*

Global Air Transport and Tourism

The global aviation market fared well in 2017 amid favorable financial conditions and low oil prices during the first half of the year. Scheduled RPKs and ASKs respectively grew by 7.9% and 6.5% leading to an increase in Passenger Load Factor by 1.1 percentage points.

A slower growth is anticipated during 2018 amid higher oil prices, escalated trade tensions, and financial volatility across major travel markets.

GDP Vs. Global RPKs Growth

* Estimated

Source: IMF, ICAO, AACO
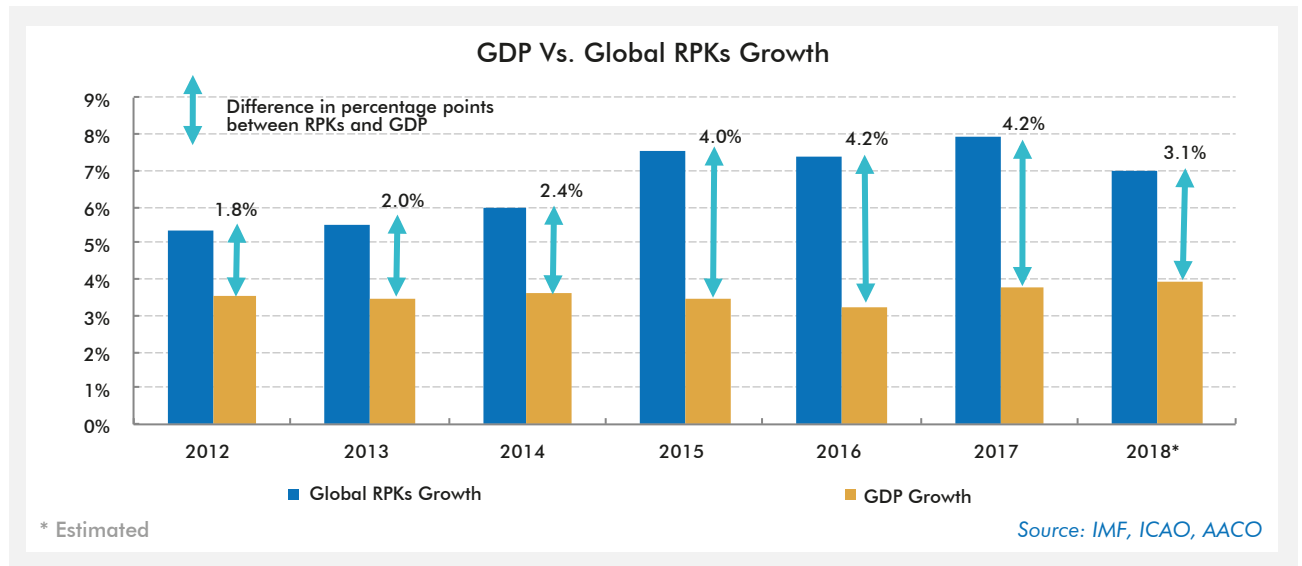
Global Passenger Distribution in 2017 (thousands)

Region	Passengers
Asia and the Pacific	1,485,001
Europe	1,067,047
North America	940,807
Latin America and the Caribbean	277,466
Middle East	217,519
Africa	83,354

Total: 4,071,194

Source: ICAO, AACO

Asia and the Pacific recorded around 1.5 billion passengers in total, having a total market share of 36.5%, followed by the Americas with total passengers of 1.2 billion and market share of 30.0%, then Europe at around 1.1 billion with a market share of 26.2%, followed by the Middle East with around 0.22 billion passengers and 5.3% market share. Finally, Africa recorded 0.08 billion passengers with 2.0% market share.

We can simply notice that Asia and the Pacific and the Middle East combined total market share is around 42.0% compared to 30.0% registered in 2007, showing that the travel market is shifting east.

Tourist Arrivals Distribution per Region in 2017*

Europe 671.1 M

Asia and the Pacific 323.2 M

Americas 207.3 M

Africa 63.0 M

Middle East 58.2 M
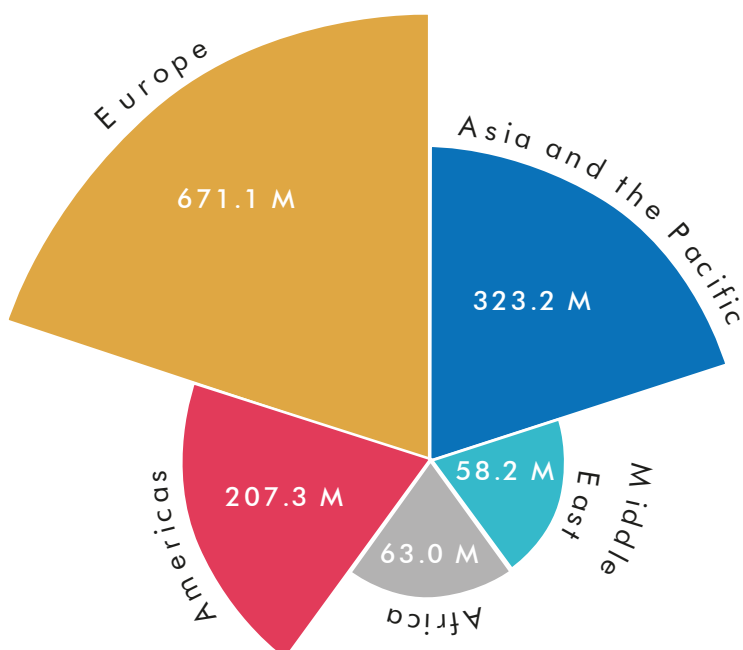
* Estimated

International tourists traveling by air are expected to have spent USD 711 billion (which is equivalent to 53.4% of international tourism receipts in 2017) an increase of 6% compared to 2016.

Europe remained the top visited region in 2017 welcoming around 671.1 million tourists which represents a growth of 8.4% over 2016. Africa recorded the highest growth in arrivals in 2017 at 9.0%, with tourist arrivals reaching 63.0 million. Asia and the Pacific grew its international tourists by 5.7%, the Middle East by 4.7%, and finally the Americas by 3.3%.

On the international tourism receipts side, Europe still has the highest contribution at 38.4%, growing its tourism receipts by 10.8% in 2017 over 2016. The Middle East topped the growth list in 2017 at 14.9% with tourism receipts reaching USD 67.8 billion. Africa grew its tourism receipts by 13.2% reaching USD 37.8 billion, followed by Asia and the Pacific at 5.0% reaching USD 389.5 billion, and finally the Americas at 3.8% reaching USD 325.7 billion.

Arab Air Transport and Tourism

Arab International Air Transport Market Growth 2017/2016*

With Europe
With Mid Asia
With Australasia
With Sub Saharan Africa
With Americas -0.9%
Within the Arab world -6.8%

14.1%

4.5%

9.3%

10.1%
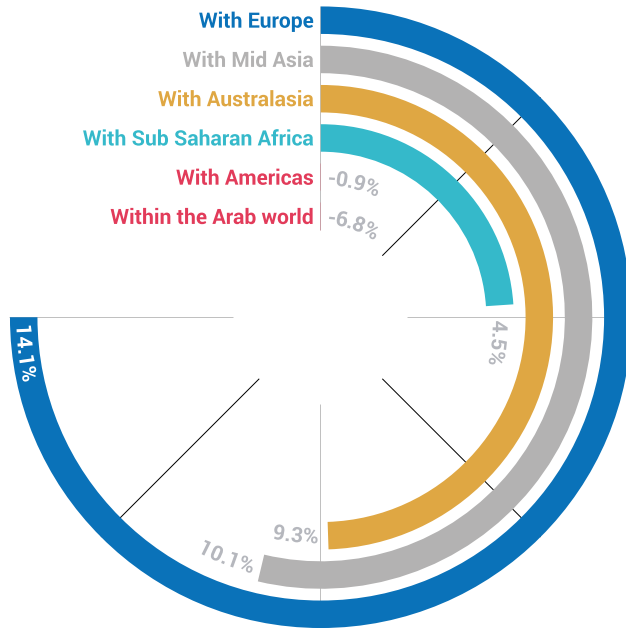
*True O&D

Source: IATA, AACO

The Arab air transport market did well in 2017 facing headwinds of weak economic performance and geopolitical challenges, growing by 7.7% over 2016 in terms of passenger traffic. Passenger traffic 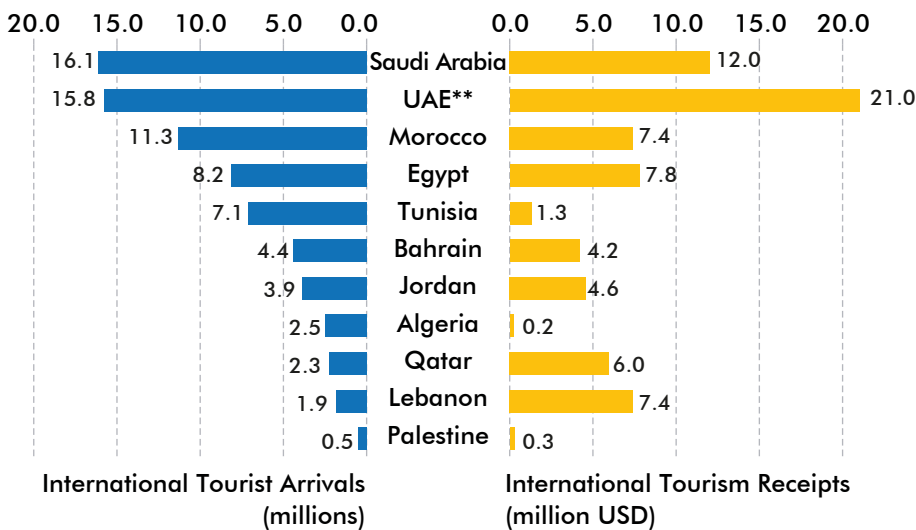on international routes grew by 8.2% reaching around 270 million passengers, whereas traffic on domestic routes grew by 2.3% reaching around 27 million passengers.

Traffic flows from the Arab world across all regions of the world were healthy except for traffic with the Americas which recorded a decline due to the electronics ban and tougher facilitation regulations over some Arab countries, and international traffic within the Arab world amid elevated political tensions.

Arab World Tourism Highlights in 2017*

International Tourist Arrivals (millions)	Country	International Tourism Receipts (million USD)
16.1	Saudi Arabia	12.0
15.8	UAE**	21.0
11.3	Morocco	7.4
8.2	Egypt	7.8
7.1	Tunisia	1.3
4.4	Bahrain	4.2
3.9	Jordan	4.6
2.5	Algeria	0.2
2.3	Qatar	6.0
1.9	Lebanon	7.4
0.5	Palestine	0.3

International Tourist Arrivals (millions)

International Tourism Receipts (million USD)

** Dubai Only

* Estimated

Source: UNWTO, AACO

International tourist arrivals to the Arab world increased by 7.2% in 2017 over 2016. Generally, all reporting countries performed well.
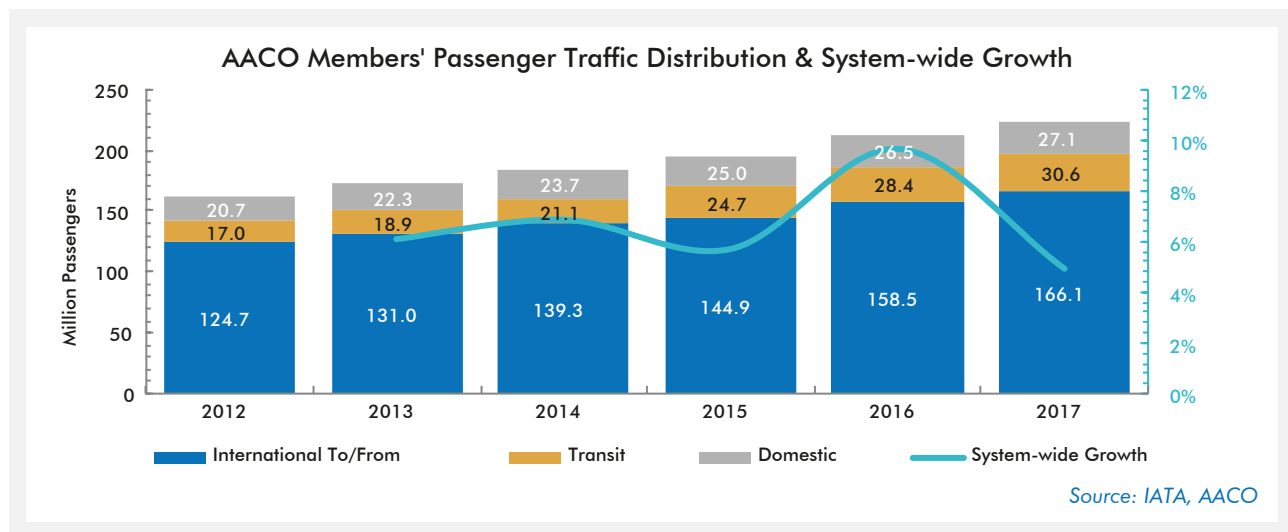
Mirroring the increase in arrivals, international tourism receipts also increased by 14.4%, which was mainly attributed to the solid growth in Egypt, United Arab Emirates (Dubai), and Jordan.
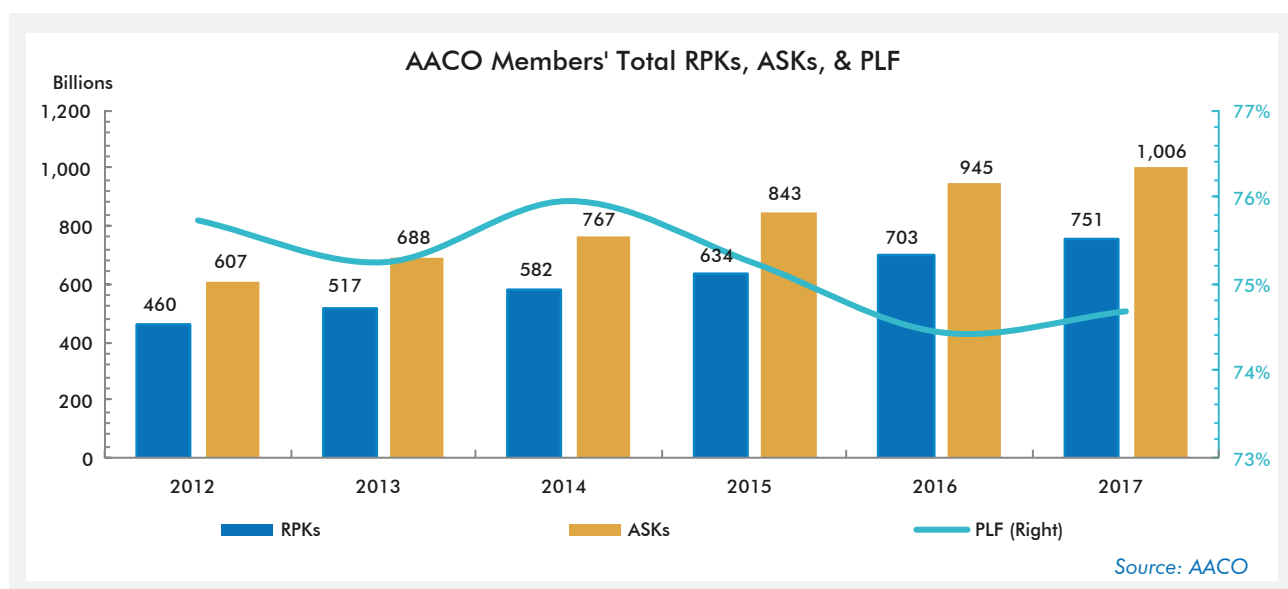
AACO Members

Passenger Operations

AACO member airlines did well in 2017 despite several pressure points affecting their operations.

AACO member airlines' passenger traffic on international routes (to/from) grew by 4.8%, transit traffic by 8.0%, and domestic traffic by 2.3% in 2017 over 2016.

AACO Members' Passenger Traffic Distribution & System-wide Growth

Year	International To/From	Transit	Domestic
2012	124.7	17.0	20.7
2013	131.0	18.9	22.3
2014	139.3	21.1	23.7
2015	144.9	24.7	25.0
2016	158.5	28.4	26.5
2017	166.1	30.6	27.1

Y-axis (left): Million Passengers. Legend: International To/From, Transit, Domestic, System-wide Growth

Source: IATA, AACO

AACO members' total RPKs and ASKs respectively grew by 6.8% and 6.5% leading to an increase in Passenger Load Factor by 0.2 percentage points reaching 74.7%.

International RPKs and ASKs grew by 6.9% and 6.6% respectively, and domestic RPKs and ASKs respectively grew by 5.0% and 3.3%, leading to improved Passenger Load Factors on international and domestic routes of 74.6% and 77.7% respectively.

AACO Members' Total RPKs, ASKs, & PLF

Billions

Year	RPKs	ASKs
2012	460	607
2013	517	688
2014	582	767
2015	634	843
2016	703	945
2017	751	1,006

Legend: RPKs, ASKs, PLF (Right)

Source: AACO

Destinations Analysis of AACO Members in 2017

Top 20 International Destinations Outside the Arab World by Seat Capacity

LHR, 10.5%
BKK, 8.2%
CDG, 7.7%
IST, 5.6%
BOM, 5.5%
KHI, 5.3%
DAC, 5.3%
DEL, 5.0%
ORY, 4.7%
MNL, 4.3%
JFK, 4.3%
KUL, 4.2%
CMB, 4.2%
FRA, 4.2%
Others, 3.7%
MUC, 3.7%
COK, 3.6%
MXP, 3.5%
MAN, 3.3%
FCO, 3.2%
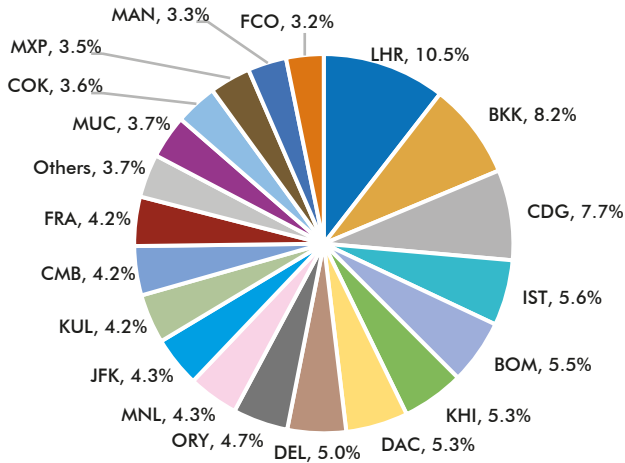
Top 20 International Destinations Within the Arab World by Seat Capacity

DXB, 17.4%
CAI, 9.2%
JED, 9.1%
DOH, 8.7%
KWI, 7.5%
RUH, 6.1%
BAH, 5.5%
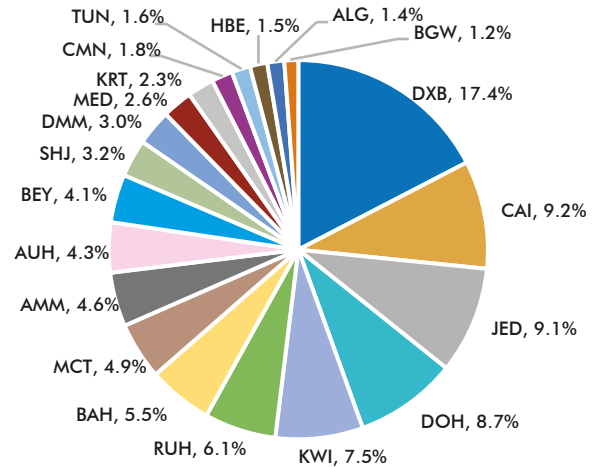MCT, 4.9%
AMM, 4.6%
AUH, 4.3%
BEY, 4.1%
SHJ, 3.2%
DMM, 3.0%
MED, 2.6%
KRT, 2.3%
CMN, 1.8%
TUN, 1.6%
HBE, 1.5%
ALG, 1.4%
BGW, 1.2%

Source: OAG, AACO

Fleet Analysis

AACO member airlines increased their fleet count by 2.3% in 2017 over 2016 to 1,363 aircraft, acquiring 137 aircraft with average age of 2.4 years per unit aircraft and phasing out 106 aircraft with average age of 12.3 years per unit aircraft, maintaining an average fleet age of 7.34 years.

AACO members' order book as at 30 June 2018 anticipates the delivery of 1,516 new aircraft until 2035.

AACO Members' Major Aircraft Types Count and Average Age (As at 2 Jan 2018)

Number of A/C

B777, A320, B737, A330, A380, B787, A321, A350, B747, ATR 72, E170/75, A319, B767, CRJ900, DHC-8, E190/95, A340, A300 F, B737 Max 8

■ Number of Aircraft   ▬ Average Age
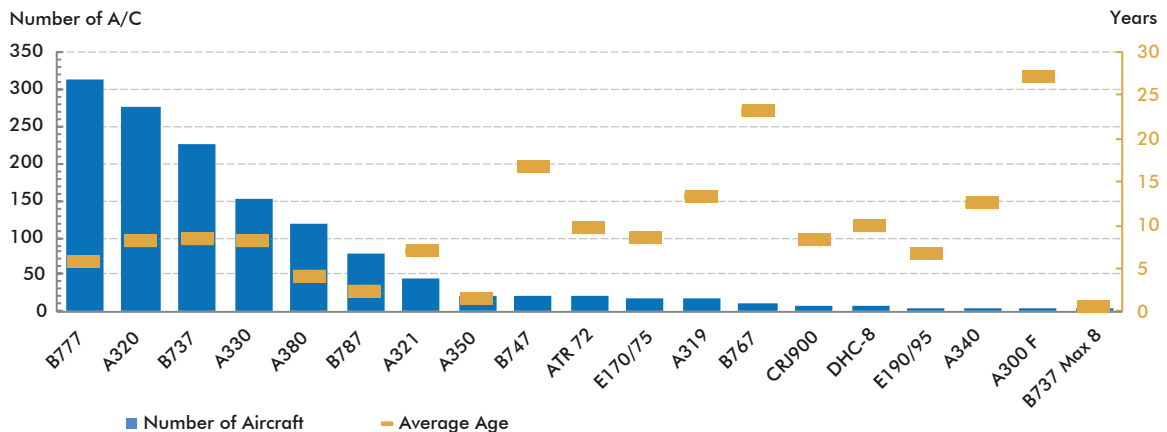
Source: Flight Fleets Analyzer, AACO

11

Financial Performance

AACO members' operating revenues reached USD 64.46 billion in 2017, an increase of 8.7% over 2016 levels. Members benefited from low oil prices during the first half of 2017 and the increase in freight and aircraft leasing revenues.
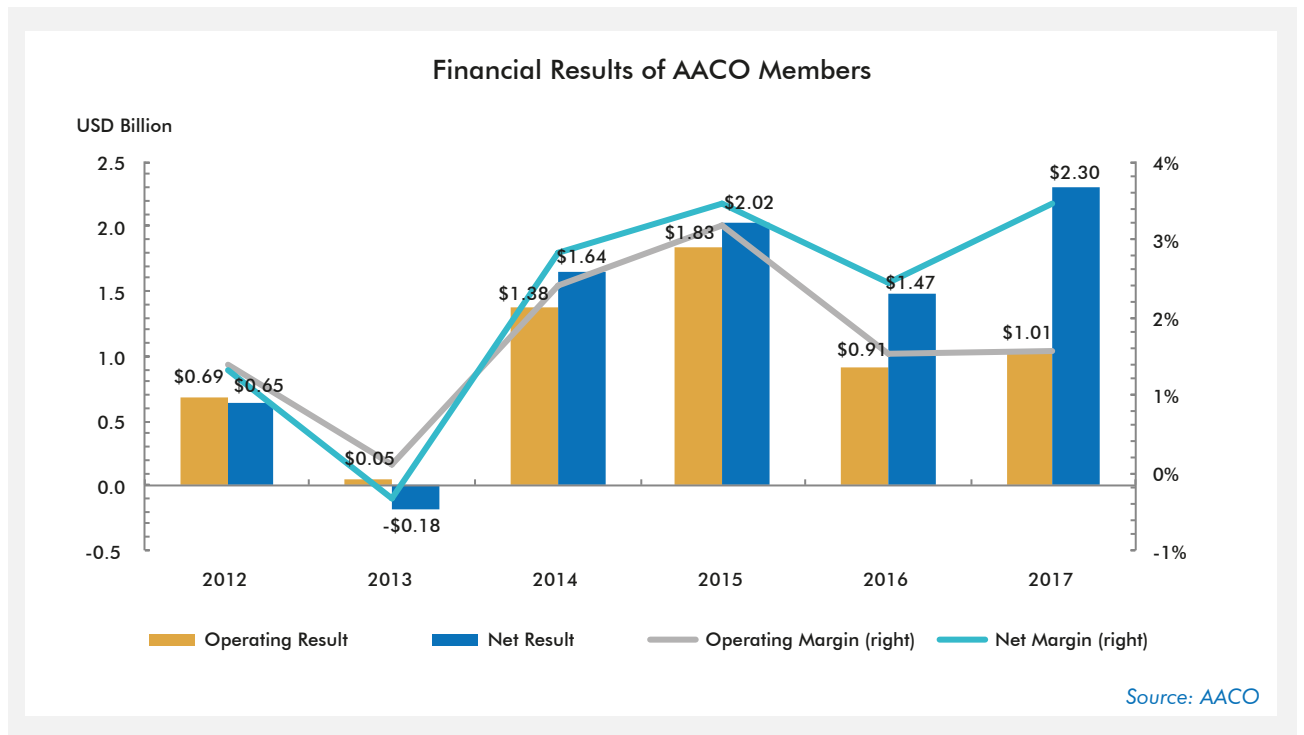
On the other hand, AACO members operating cost increased by 8.6% in 2017 over 2016 reaching USD 63.45 billion affected by the increase in oil prices during the second half of 2017 and the increase in rental costs.

Overall, AACO members closed their financial year with an operating profit of USD 1.01 billion and USD 2.30 billion in net profits, representing a 1.57% and 3.46% in operating and net margins respectively.

Financial Results of AACO Members

USD Billion

Year	Operating Result	Net Result
2012	$0.69	$0.65
2013	$0.05	-$0.18
2014	$1.38	$1.64
2015	$1.83	$2.02
2016	$0.91	$1.47
2017	$1.01	$2.30

Legend: Operating Result • Net Result • Operating Margin (right) • Net Margin (right)

Source: AACO

Arab Airports

Arab Airports Passenger Traffic

Year	Passengers
2012	258,754,658
2013	273,755,949
2014	298,428,425
2015	324,798,266
2016	340,238,140
2017	359,433,391
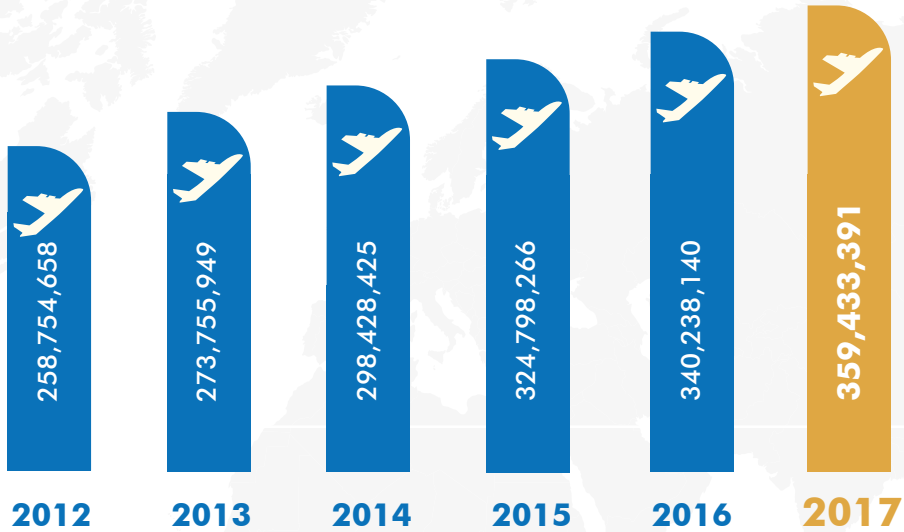
Cargo Tonnes Handled

2016	2017	Growth
8,365,912	8,832,827	5.6%

Aircraft Movements

2016	2017	Growth
2,680,718	2,703,054	0.8%

Source: ACI, AACO
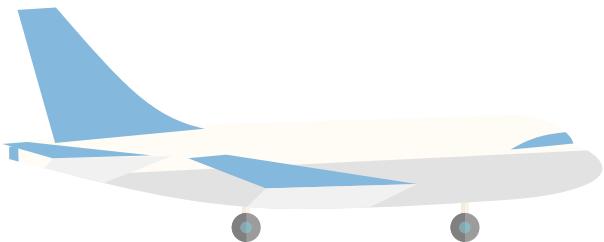
Individual Arab Airports

Middle East Airports 2017

🧍 Passengers (millions)	🏭 Cargo Tonnes (millions)	✈ Aircraft Movements (000)

	🧍	🏭	✈
Jeddah	34.0	0.4	229
Riyadh	25.4	0.4	205
Dammam	10.0	0.1	92
Medinah	7.5	0.01	57

	🧍	🏭	✈
Dubai	88.2	2.7	408
Abu Dhabi	23.4	0.7	159
Sharjah	11.4	0.1	80
AlMaktoum	0.9	1	31

	🧍	🏭	✈
Kuwait	13.8	0.2	111

	🧍	🏭	✈
Doha	35.3	2.0	249

	🧍	🏭	✈
Beirut	8.2	0.1	71

	🧍	🏭	✈
Amman	7.9	0.1	74

	🧍	🏭	✈
Muscat	14.1	0.2	114

	🧍	🏭	✈
Bahrain	8.5	0.2	96
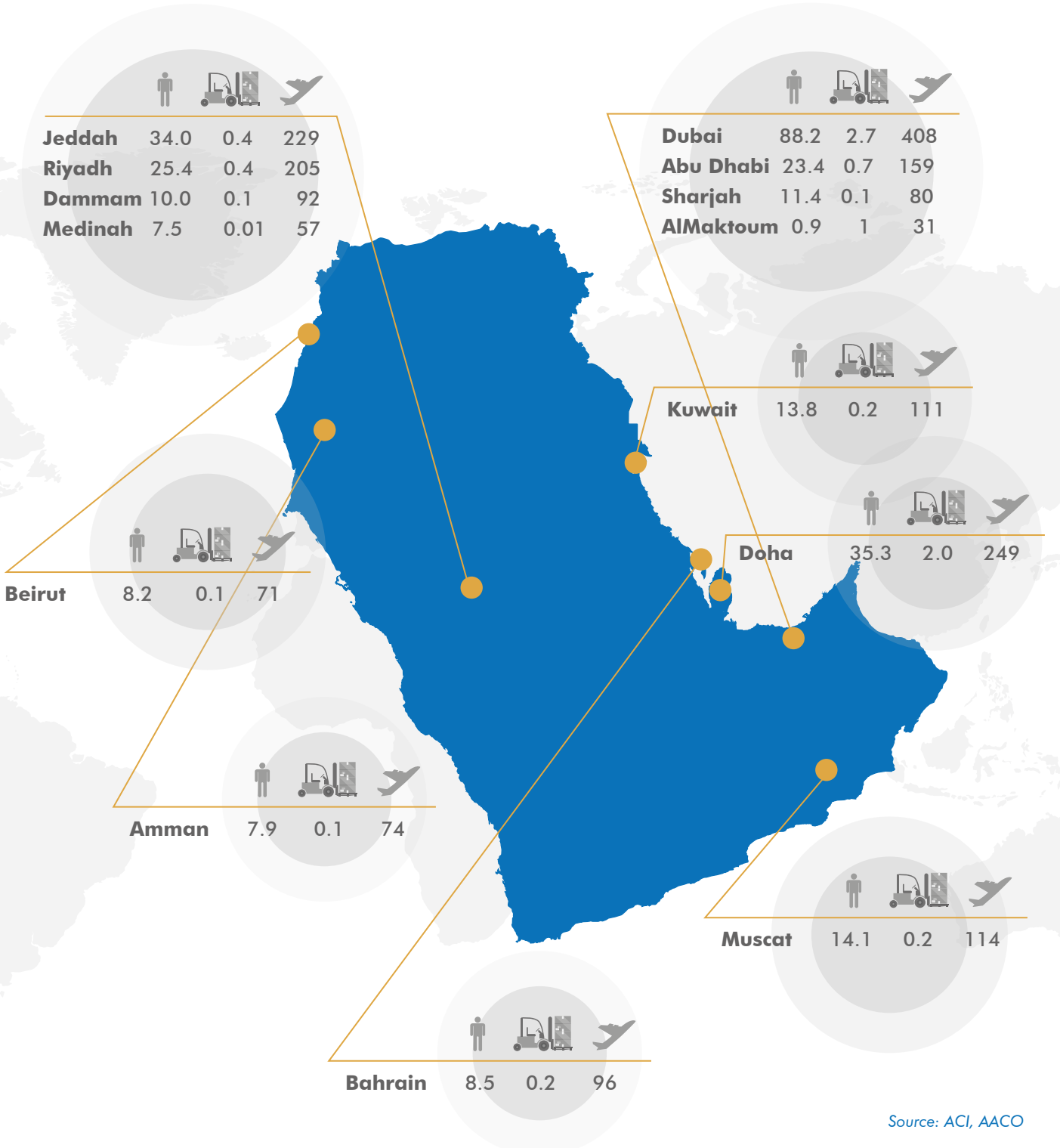
Source: ACI, AACO

Individual Arab Airports

North African Airports 2017

👤 Passengers (millions)	🚜 Cargo Tonnes (000)	✈ Aircraft Movements (000)

	👤	🚜	✈
Casablanca	9.4	76.5	87.6
Marrakech	4.4	0.4	35.4
Agadir	1.5	0.2	14.6
Rabat	0.9	1.7	8.9

	👤	🚜	✈
Cairo	15.9	322.7	150.4
Hurgada	4.6		36.5
Sharm El Sheikh	3.0		26.0
Luxor	0.6		8.6
Aswan	0.5		8.2
Alexandria	0.05		5.4

	👤	🚜	✈
Tunis	5.8	35.0	63.6
Monastir	1.0		12.0

	👤	🚜	✈
Algeria	7.8	44.0	90.0

Safety

Global Review:

	Total Accidents	Hull losses	Fatal Accidents	Fatalities
Average (2012-2016)	72.2	26.6	11.2	321
2016	64	20	9	202
2017	45	13	6	19

2017 Highlights:
- No commercial passenger jets were involved in fatal accidents in 2017.
- Most Frequent Accident Cause: Runway excursion (38% of total accidents/0 fatalities).
- Most lethal Accident Cause: Loss of Control In-Flight (9% of total accidents/58% of fatalities)
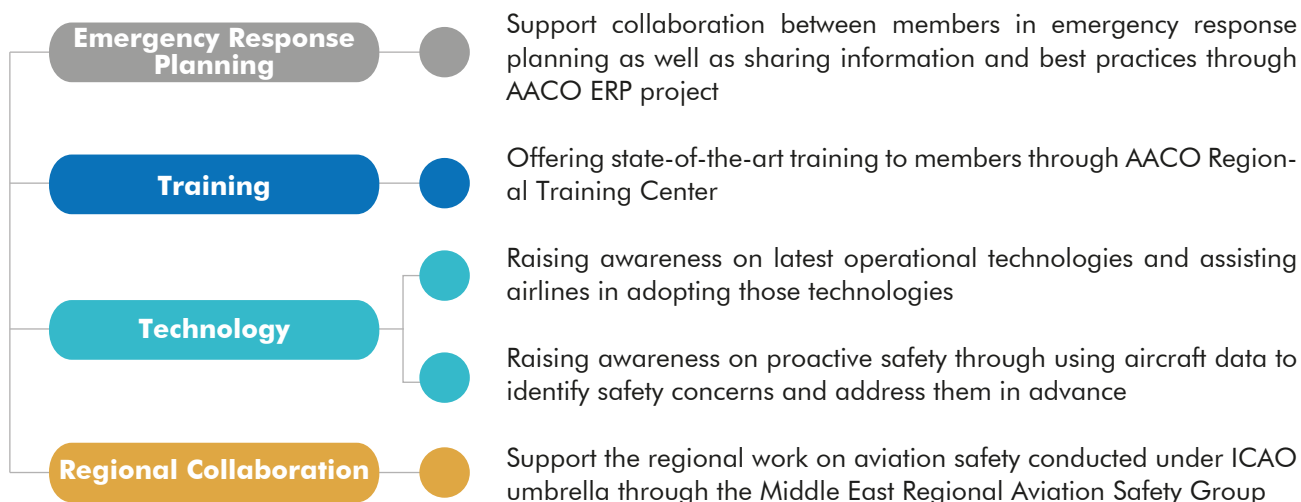
Source: IATA Safety Report, AACO

AACO Members' Review:

	Total Accidents	Hull losses	Fatal Accidents	Fatalities
Average (2012-2016)	2.4	0.6	0.2	12
2016	4	2	1	62
2017	0	0	0	0

Source: IATA Safety Report, AACO

- Safety remains AACO members' number one priority. Members' clean record in 2017 emphasizes members' focus on continuously enhancing the safety of their operations.
- AACO is addressing safety issues through four areas:

Emergency Response Planning	Support collaboration between members in emergency response planning as well as sharing information and best practices through AACO ERP project
Training	Offering state-of-the-art training to members through AACO Regional Training Center
Technology	Raising awareness on latest operational technologies and assisting airlines in adopting those technologies
	Raising awareness on proactive safety through using aircraft data to identify safety concerns and address them in advance
Regional Collaboration	Support the regional work on aviation safety conducted under ICAO umbrella through the Middle East Regional Aviation Safety Group

Aviation Security

Global Developments

- In 2017, terrorist attacks directly targeting aviation decreased significantly to one attack which took place at Orly International Airport in France in March 2017. On the other hand, the tourism sector suffered from 44 attacks in 2017, among which 31 attacks targeted hotels and tourist attractions, according to The Risk Advisory Group.

- Two major global aviation security developments took place in 2017/2018:

UK/US Ban on carriage of Portable Electronic Devices (PED) in aircraft cabins:	ICAO Global Aviation Security Plan (GASeP):
The ban was imposed in March 2017 on operations from ten Middle Eastern countries in total.	The plan presents a global framework to enhance aviation security in a harmonized manner.
Following the ban, AACO and other stakeholders launched global campaigns to emphasize that aviation security matters should be addressed through ICAO while highlighting safety concerns related to storing PEDs in cargo holds.	It includes five priorities and specific tasks to foster implementation of Annex 17 provisions, and is cascaded into regional plans and roadmaps.
The campaigns resulted in ICAO establishing a Task Force on Improvised Explosive Devices (IED) to address the threat of concealed IED's in personal items, including PED's, in addition to the US and UK developing enhanced security measures to be applied by airlines to remove the ban.	AACO and member airlines are working closely with ICAO and all stakeholders on supporting the formulation of a collaborative regional security and facilitation roadmap that promotes collaboration between stakeholders and enhances aviation security in the region.

Regional Developments

AACO AVSEC Advisory Group continues to work collaboratively to address aviation security matters affecting member airlines and to support global development of aviation security. The group worked on the following issues in 2017/2018:

- Foster information sharing among member airlines.

- Continuously seek reliable information sources to enhance threat and risk assessment.

Information Sharing

Regional Security & Facilitation Plan

Unruly Passengers

Global Advocacy Efforts

- Collaborate with all stakeholders to develop a regional security & facilitation plan to support the implementation of the Riyadh and Sharm El Sheikh Declarations.
- The ICAO Regional Security and Facilitation Plan and priorities were finalized in May 2018.

- Support Advocacy Efforts for the endorsement and ratification of Montreal Protocol 2014.

- Work with all stakeholders to support development of effective and sustainable aviation security and facilitation regulations.

Airspace Infrastructure

- Advocacy and efforts of all stakeholders to emphasize the importance of airspace reform to the safety and sustainability of aviation resulted in the implementation of airspace enhancements in most Arab states in 2017 and 2018. Those enhancements included:
  - Implementation of more than 100 new air routes.
  - Upgrade of Air Traffic Management systems.
  - Upgrade of Communication, Navigation, and Surveillance equipment.
  - Enhancement of flight procedures at several airports.

- However, coordination of national airspace projects on the regional level remains a crucial component for national enhancements to deliver optimal results to the aviation sector, through ensuring a harmonized continuum of air traffic service provision across the region's individual Flight Information Regions.

> AACO continues to work closely with all stakeholders on airspace infrastructure issues to advocate, promote, and support cooperation between stakeholders in the planning and implementation of airspace enhancements, as well as supporting the regional work on member airlines' priorities as stipulated in its Assembly resolutions through the following regional initiatives:

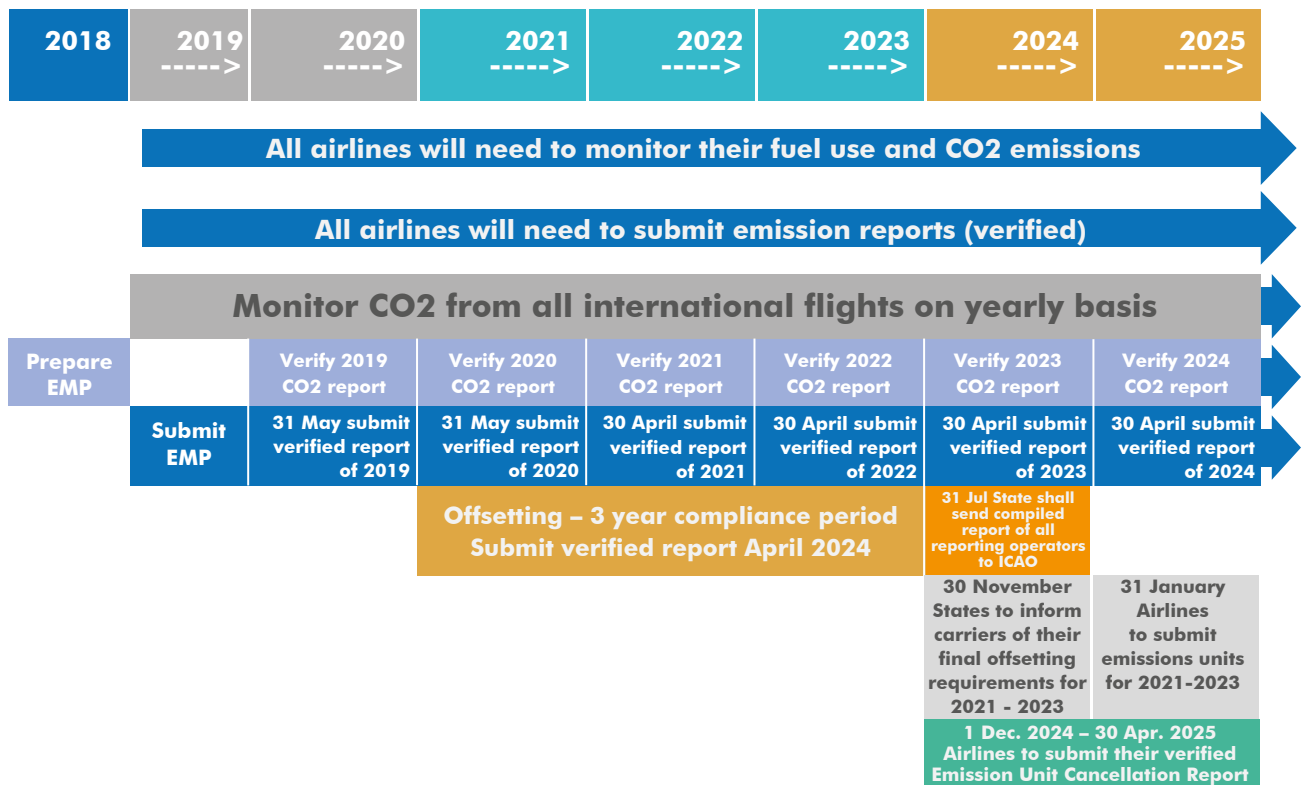| Air Routes	Performance Based Navigation	Air Traffic Flow Management (ATFM)
Support ICAO Middle East Route Development Working Group in order to:	Support ICAO Middle East Flight Procedure Programme in order to:	Support ICAO ATFM Task Force in order to:
• Develop the Regional Route Network based on Airlines' Requirements • Identify Priority Areas for Civil/Military Collaboration	• Enhance Airspace Design Capabilities in the Region • Pool Resources to Develop Airspace Design Enhancements	• Devise a Regional Air Traffic Flow Management Concept of Operations • Implement the Regional ATFM Mechanism

Climate Change

The ICAO Council, in its meeting on 27 June 2018, adopted the international Standards and Recommended Practices (SARPs) for the implementation of CORSIA, as Annex 16, Volume IV, to the Chicago Convention and will apply to all ICAO Member States from 1 January 2019.

Under CORSIA, all airlines, whether registered in a State that is exempted from CORSIA or a non-volunteering State, must do the following:
- Submit an Emissions Monitoring Plan by September 2018.
- Monitoring, Reporting, and Verification (MRV) of their emissions for the years 2019 and 2020 for ICAO to set the baseline.
- Monitoring, Reporting, and Verification (MRV) of their emissions as of 2021.

It is worth mentioning that offset requirements are not obligatory until 2027 for States and airlines that did not volunteer from the start.

2018	2019 ----->	2020 ----->	2021 ----->	2022 ----->	2023 ----->	2024 ----->	2025 ----->
	All airlines will need to monitor their fuel use and CO2 emissions						
	All airlines will need to submit emission reports (verified)						
	Monitor CO2 from all international flights on yearly basis						
Prepare EMP		Verify 2019 CO2 report	Verify 2020 CO2 report	Verify 2021 CO2 report	Verify 2022 CO2 report	Verify 2023 CO2 report	Verify 2024 CO2 report
	Submit EMP	31 May submit verified report of 2019	31 May submit verified report of 2020	30 April submit verified report of 2021	30 April submit verified report of 2022	30 April submit verified report of 2023	30 April submit verified report of 2024
			Offsetting – 3 year compliance period Submit verified report April 2024			31 Jul State shall send compiled report of all reporting operators to ICAO	
						30 November States to inform carriers of their final offsetting requirements for 2021 - 2023	31 January Airlines to submit emissions units for 2021-2023
						1 Dec. 2024 – 30 Apr. 2025 Airlines to submit their verified Emission Unit Cancellation Report	

- ICAO working groups are still working on finalizing the CO2 emission units' criteria.
- As of 29 June 2018, 73 States, representing 75.96% of international aviation activity, intend to voluntarily participate in CORSIA from its outset.
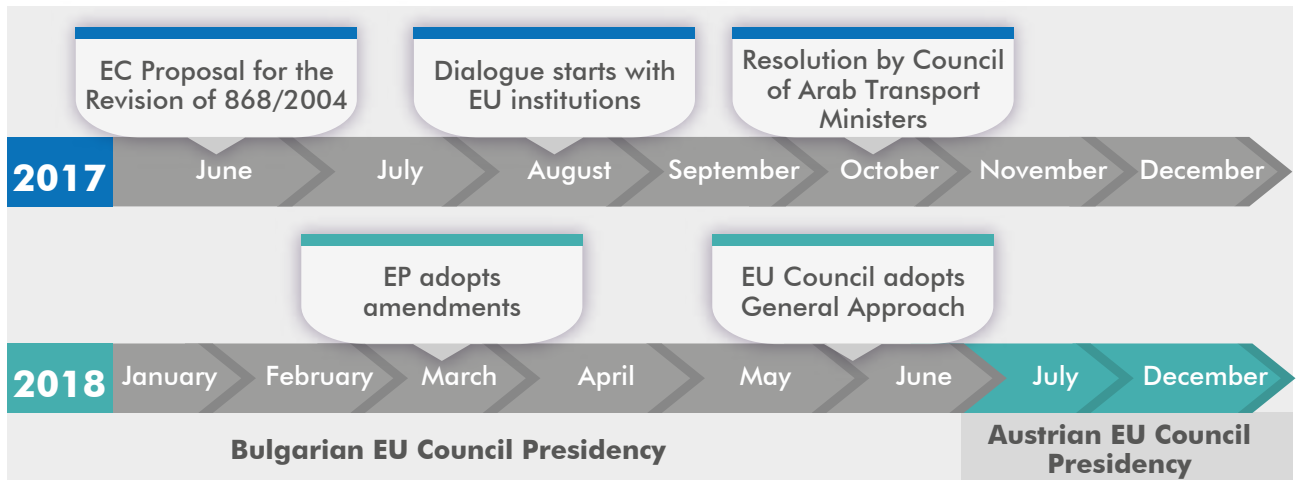
AACO's Work
- AACO is following up with all Arab airlines to ensure that Emission Monitoring Plans are submitted by end of 2018 at the latest.
- AACO is continuously raising awareness of the member airlines and states about the applicability of CORSIA SARPs.
- AACO in collaboration with IATA and ICAO continuously holds workshops and seminars to raise awareness of the members and states on the implementation of CORSIA SARPs and CORSIA design elements.

Regulations and Policies

Market Access and Competition in Air Transport

▶ In June 2017, the European Commission published a proposal repealing EU regulation 868/2004 on safeguarding competition in air transport in relations with non-EU countries.

▶ Based on AACO Executive Committee's directives, AACO and the Aeropolitical Watch Group advocated for principles to be taken into account in the revision of the regulation.

▶ A legal consultancy was commissioned by AACO that resulted in recommendations for Arab states and airlines to be guided by if the revised regulation is triggered against any of them.

| 2017 | June | July | August | September | October | November | December |

EC Proposal for the Revision of 868/2004 — June

Dialogue starts with EU institutions — August

Resolution by Council of Arab Transport Ministers — September/October

| 2018 | January | February | March | April | May | June | July | December |

EP adopts amendments — March

EU Council adopts General Approach — May

Bulgarian EU Council Presidency (January–June)

Austrian EU Council Presidency (July–December)

Principles Agreed at Arab Level

1. Any development of air transport regulations must respect the sovereignty of other states and their legal and economic structures.

2. Any final regulation should aim at strengthening air links between the Arab countries and the European Union.

3. It is very important that the new regulation is not used to put pressure on the dialogue between the EU and Arab countries with which it is negotiating comprehensive agreements.

4. Dialogue and negotiations with sovereign states is the right path.

5. Any development of civil aviation regulations should place the interests of passengers at the top of the priorities.

6. Regulations should not become a source of disagreement with other countries.

7. It is essential that the European institutions take into consideration the observations that were submitted by a number of Arab parties on the EC Proposal for the revision of reg. 868/2004.

Current: EU Interinstitutional Trilogue on Revised Regulation 868/2004
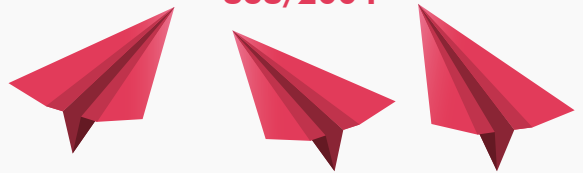
EU Other Aeropolitical Updates

EU General Data Protection regulation: AACO and member airlines worked closely with Consultants to comply with the regulation.

EU Package Travel Directive: Awareness at the level of AACO's member airlines done from a policy and technical perspectives.

Evaluation of CRS Code of Conduct: Monitoring developments.

Consultations on earlier EC proposals: Revision of EU Passenger Rights Regulation and EU Slots Regulation. AACO coordinates with IATA.

Consumer Protection

▶ **EU** 261/2004: A variety of new Courts' Rulings throughout 2018. A clear and balanced regulation is urgently needed.

▶ **ACAO** Passenger Rights' Guidelines: Cooperation between AACO and ACAO is ongoing.

▶ **Egypt and Jordan:** Passenger Rights regulations are in the making. AACO is coordinating advocacy efforts with IATA.

▶ **Canada:** Passenger Rights Regulation is on the way. AACO is participating in the consultations.

Important Principles for Consumer Protection

In addition to the ICAO Core Principles:

- Regimes should allow the share of liability
- Regimes adopted by different states should be compatible
- Should avoid extraterritoriality in application
- There needs to be clarity on extraordinary circumstances
- Consultations with Stakeholders prior to adoption
- Ample time between adoption and entry into force

Taxation & User Charges

▮ It's highly important that air transport activities are excluded from VATs and GSTs.

▮ Implementation and levels of user charges are highly recommended to comply with ICAO's Doc 9082.

▮ AACO focuses on bringing this to the attention of governments.

Focus on Conventions

Montreal Protocol 2014 on Unruly Passengers
- Ratified by 15 States including Bahrain, Egypt and Jordan.
- Requires 22 states to come into force.
- IATA: 58,000 reported cases of unruly passengers from 2007 to 2016

Benefits of MP14
Gives states the legal tools they need to deal with unruly passengers and hold them to account for their misbehavior.

Montreal Convention 1999
- Applicable in 12 Arab states. Newly effective in Tunisia.
- IATA: 95% of global passengers are covered by MC99.
- IATA: 7% of global air cargo by value, in bilateral trade has been opened to the benefits of e-AWB and e-freight.

Benefits of MC99:
- Better protection for passengers
- Ease of operations for air cargo shippers
- Greater certainty to airlines

Revised Tunis Convention: An Arab Convention for the Mutual Exemption of Taxes and Charges for Arab Airlines
- Revising the convention was an initiative by AACO's Aeropolitical Watch Group.
- The Convention is now open for ratification by Arab states following approval by the Council of the League of Arab States in September 2018.
- Requires ratification of 4 states members of the old convention to enter into force.

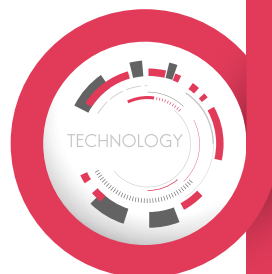**Benefits of Revised Tunis Convention:**
- Wider coverage
- Clarity in implementation
- Higher credibility: Based on OECD Model Tax Convention

Effective Cooperation

Jet Fuel
AACO's Fuel Project benefits its members and spreads awareness to ensure a safe and sustainable aviation fuel industry in the world in general and in the Arab world in particular.

Business Technology
AACO continuously raises awareness of member airlines on all technological developments and provides a platform that gathers 3rd party providers and member airlines in order to provide them with cost effective advanced solutions that go in line with their vision to provide the customer with added value services.

Technical Cooperation
AACO provides its members with a platform to share experience, information, and best practices as well as benefit from collaboration projects. Technical Cooperation activities cover the following domains: emergency response planning, engineering & maintenance, flight charts, and aviation security.

Cooperation at Outstations
AACO's Ground Handling Steering Board promotes and increases the level of cooperation between member airlines at outstations by providing the framework that allows member airlines to enhance the services they provide to their customers. Moreover, the board continues to spread awareness related to new relevant technologies, services and regulations.

Human Resources
AACO regional training centers in Amman and Cairo continue to enhance the performance of human capital in the Arab air transport sector through quality, cost effective training and knowledge building.

Jet Fuel

Kerosene Production and Demand in Selected Arab States

Source: OPEC, AACO
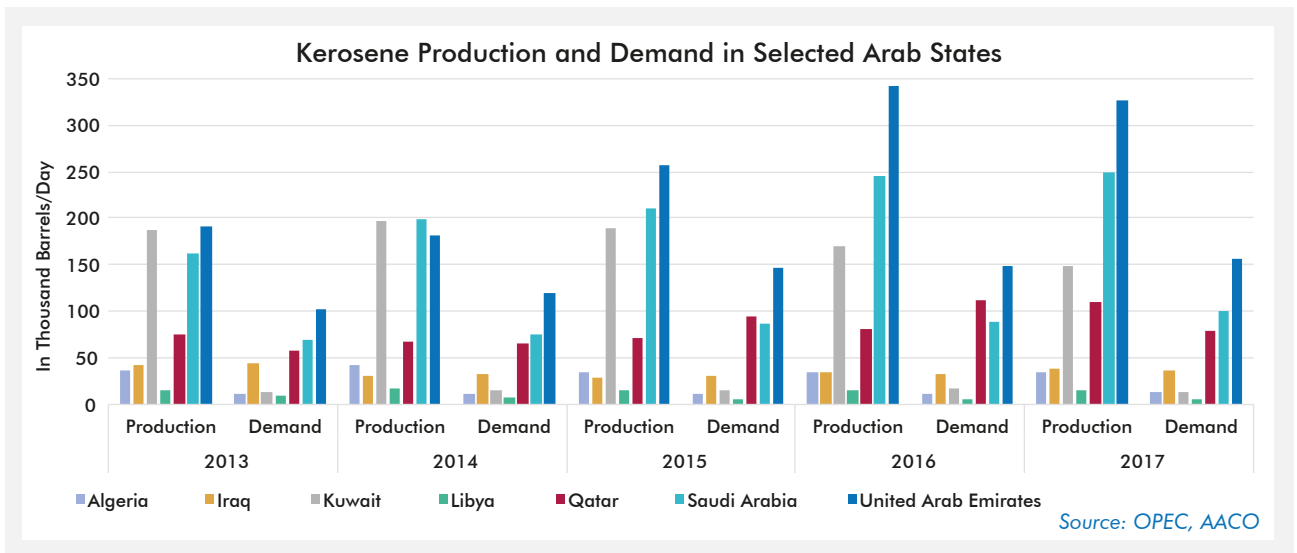
From a selected number of states in the Arab world, the UAE continues to be the largest producer and consumer of kerosene in 2017; however, Qatar witnessed the highest growth in the production of kerosene at 36.25% in 2017 over 2016, whereas, Saudi Arabia's demand growth for kerosene was the highest at 14.77% in 2017 when compared with 2016. The sharpest decline in the production of kerosene was in Kuwait at 12.43% in 2017 over 2016. At the demand level, Qatar decreased its consumption by 28.83% in 2017 when compared with 2016.

Kerosene Production and Demand at Selected Arab States in 2017 and Y-o-Y Growth

Source: OPEC, AACO
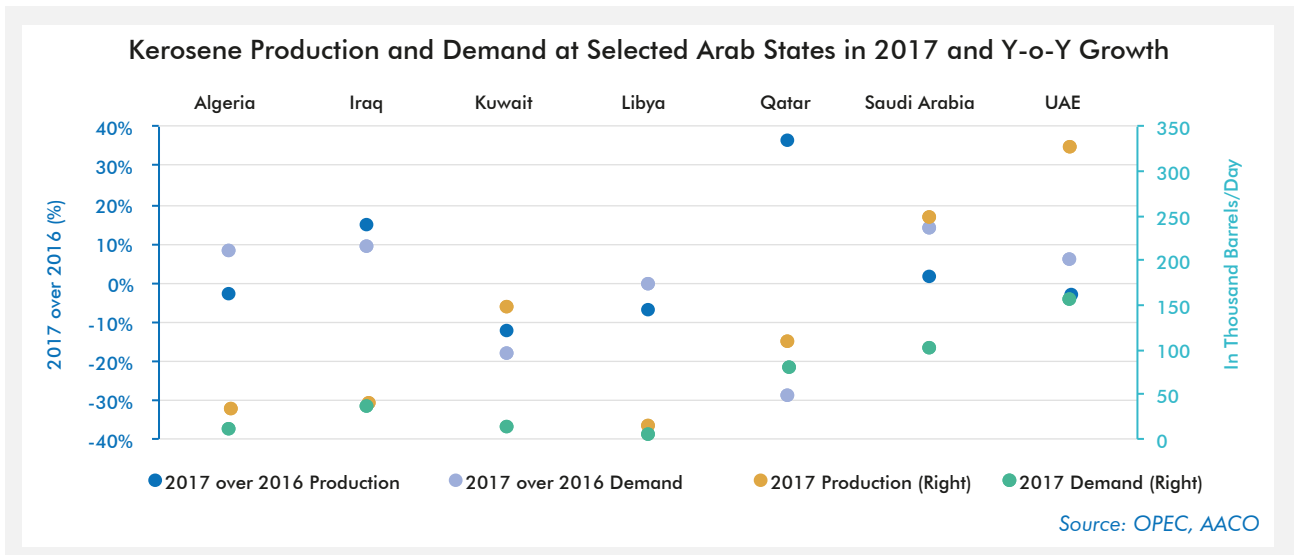
AACO's Fuel Project, which includes the Fuel Steering Board (FSB) and the Aviation Fuel Advisory Group (AFAG), provides a platform for the member airlines and the jet fuel industry stakeholders to spread awareness and ensure a safe, sustainable, and competitive aviation fuel industry in the world in general and in the Arab world in particular.

23

Business Technology

In an era where internet has become the backbone of our everyday life, and where the new generation culture has free access and transparency to anything they need, airline's distribution started to evolve from its current passive and technology-centric state to a more flexible, dynamic, and customer-centric environment. Hence, industry trends today are moving towards a transparent shopping experience. However, that is not enough since airline's customer behaviors are constantly changing, and airlines are limited in their capability to price, package products, and sell them across all channels while ensuring the right offers are targeted to customers at the right time.

Moreover, the world of the customer is rapidly changing through disruptive technologies that tend to respond to their needs. The advent of mobile, big data and artificial intelligence are revolutionizing the customer experience. Retail technology has changed people's lives as mobile virtual assistants point out nearby restaurants and shops, and guide people's purchasing choices based on their personal preferences, buying history and moods at different times of the day. Bots are interacting with social media conversations among friends and colleagues, suggesting locations to visit and products to buy while collecting data for tailoring individual retail experiences.

Gatekeepers such as Google and Facebook have heavily disrupted the travel distribution industry through their advertising models. They have the power to direct customers to particular players, whether airlines, hotels or travel agents. Therefore, the travel industry; airlines and technology providers, have to respond to these new trends by finding new tools, standards, technologies and advanced approaches, to help them enhance their distribution operations and their retailing process.

In comes Blockchain, the innovative technology which captured many people's attention. Blockchain is the technology that enabled the existence of cryptocurrency, which is a medium for trade, such as the US dollar, but is digital and uses encryption techniques to control the creation of monetary units and to verify the transfer of funds. In other words, Blockchain is a decentralized system that lets a group of computers maintain a ledger guaranteeing its integrity, and availability.

Considered one of the 'game changing'technologies, Blockchain proved to offer several business sectors the ability to build a radically better, immutable, auditable, and secure financial system.
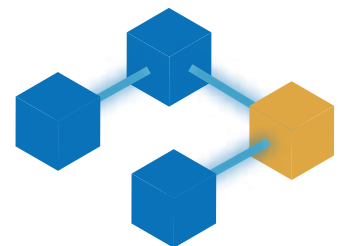
The airline industry took note of this new technology due to its unique properties and has been trying to research and find new ways to incorporate it in its own IT systems. Airline's financial and supply chain system can easily fit into Blockchain. Airlines can benefit from developing smart contracts with several data touch points including ticketing, loyalty, security, and even maintenance, which will reduce operational costs and build an interoperable financial system.

The prospective applications for the travel industry are numerous. Blockchain could significantly improve the way airlines handle traveler's identity today, making it simpler to navigate the airport. The technology is on the verge of transforming how loyalty schemes operate, making it much easier for travelers to redeem loyalty points across various providers. It can also improve baggage tracking by delivering baggage data records shared between different actors. Moreover, the ability to settle payments between a travel provider and travel intermediaries promises reduced cost and enhanced efficiency.

Blockchain technology remains at a very early stage in its development; Yet, this emerging technology holds tremendous promise to change the way we can 'exchange value' digitally.

AACO's Work

AACO continuously raises awareness of member airlines on all technological developments and provides a platform that gathers 3rd party providers and member airlines in order to provide them with cost effective, advanced solutions that are in line with their vision to provide the customer with added value services.

Distribution Agreement with Amadeus

A framework that allows participating member airlines to benefit from the intensive presence of Amadeus in their home markets and in return, the National Marketing Company (NMC) in each home market of the participating member airlines caters for the market needs while bringing customer-oriented distribution technology to the travel agents. In addition, that framework supports the participating airlines' vision for added value services to the customer and retail distribution. It also confirms airlines' commitment to indirect distribution and will drive economies of scale and technological efficiencies.

Technical Cooperation

▶ **Electronic Flight Charts Project**
The project complements the MoU AACO has in place with Jeppesen which covers paper-based flight charts. It aims at facilitating adoption of latest technologies, sharing experience and best practices, and enhancing flight efficiency.

▶ **Security Information Project**
The project aims at facilitating members' cooperation and access to relevant and timely information affecting their operations.

▶ The ERP Steering Board continues to work on the objectives of the ERP Project: Coordinate support between members, share experience and best practices, and promote cooperation between all stakeholders involved in emergency response planning.

▶ The MRO project continues to provide benefits to members in the engineering and maintenance domains as well as enhance their collaboration and facilitate sharing of experience and best practices amongst them.

Cooperation at Outstations

The Ground Handling Steering Board (GHSB) continues to promote and increase the level of cooperation between member airlines at Outstations in line with the Steering Board's objective, by providing the framework that allows member airlines to enhance the services they provide to the customers, and by spreading awareness related to new relevant technologies, services and regulations.

Human Resources

AACO Regional Training Centers' Performance (Amman and Cairo)					
2017			**Jan-Aug 2018**		
100 Courses	1,346 Trainees	139 Scholarships	56 Courses	695 Trainees	115 Scholarships
Savings for member airlines **USD 1,218,104**			**Savings** for member airlines **USD 481,000**		

Opening of the new office of AACO Regional Training Center in Amman

7 scholarships were secured from the European Aircraft Manufacturer ATR, on the Part-time Executive MBA program at Toulouse Business School specialized in Aerospace Management
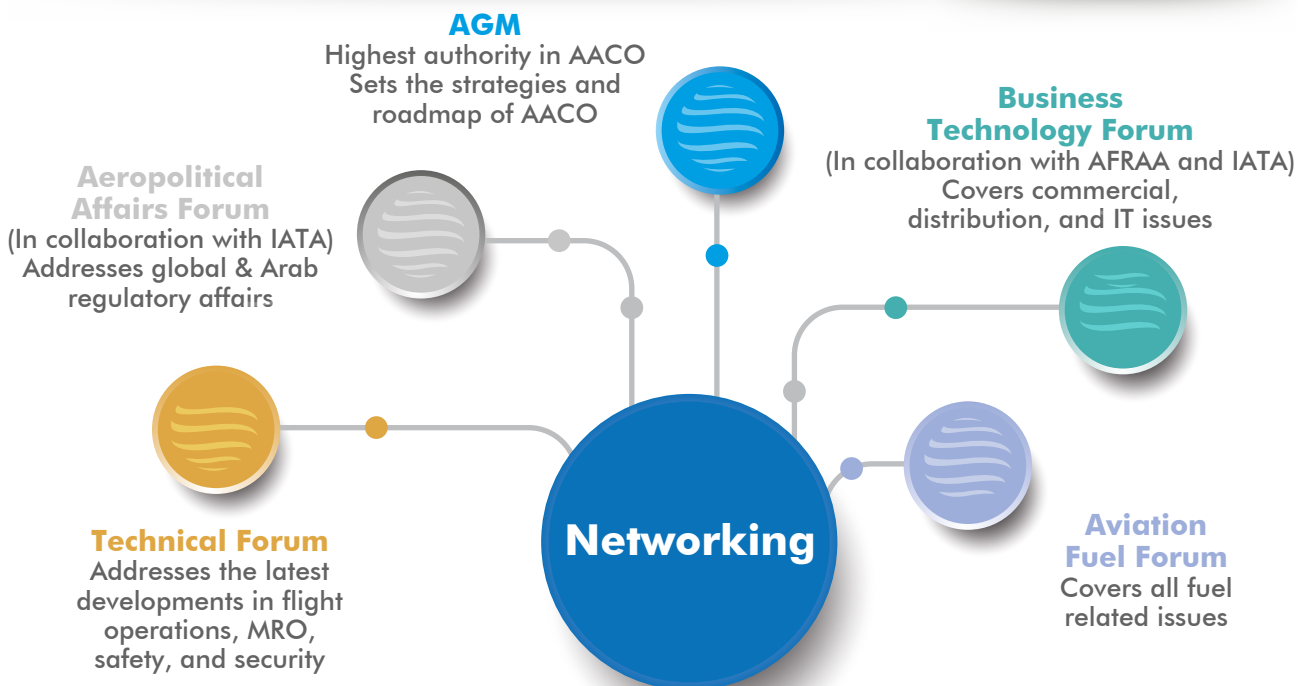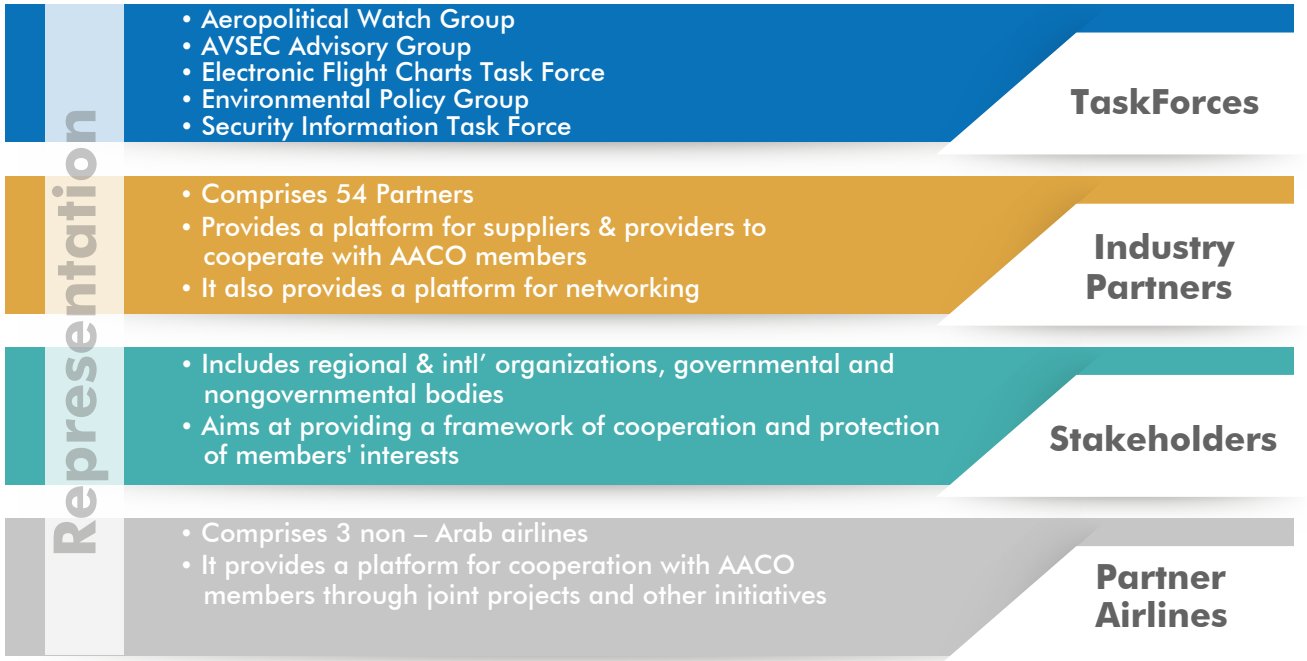
MoU with Naif Arab University for Security Sciences

Cooperation Agreement with Joramco Academy

AACO's Community, Partners, Forums, and Relations

In addition to work conducted under AACO joint projects included in the Effective Cooperation section, AACO works through Task Forces and Working Groups on issues of importance to member airlines, cooperates with regional and international bodies, non-Arab airlines, manufacturers and service providers, and other air transport stakeholders, offering a broad framework of cooperation for all concerned.

Representation

- Aeropolitical Watch Group
- AVSEC Advisory Group
- Electronic Flight Charts Task Force
- Environmental Policy Group
- Security Information Task Force

TaskForces

- Comprises 54 Partners
- Provides a platform for suppliers & providers to cooperate with AACO members
- It also provides a platform for networking

Industry Partners

- Includes regional & intl' organizations, governmental and nongovernmental bodies
- Aims at providing a framework of cooperation and protection of members' interests

Stakeholders

- Comprises 3 non – Arab airlines
- It provides a platform for cooperation with AACO members through joint projects and other initiatives

Partner Airlines

AGM
Highest authority in AACO
Sets the strategies and roadmap of AACO

Business Technology Forum
(In collaboration with AFRAA and IATA)
Covers commercial, distribution, and IT issues

Aeropolitical Affairs Forum
(In collaboration with IATA)
Addresses global & Arab regulatory affairs

Technical Forum
Addresses the latest developments in flight operations, MRO, safety, and security

Networking

Aviation Fuel Forum
Covers all fuel related issues

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Regulatory Update

Regulatory Update

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