الاتحاد العربي للنقل الجوي
الجمعية العامة الخمسون

AAC 50th AGM

Sharjah, 20 – 22 November 2017

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ANNUAL REPORT

2017

Arab Air Carriers' Organization
50th Annual General Meeting – Sharjah

20 NOV- 22 NOV 2017

Annual Report
Arab Air Carriers' Organization
50th Annual General Meeting – Sharjah

AACO 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 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.

AACO 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.

Strategy

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

Mr. Adel A. Ali
AGM Chairman

H.E. Eng. Saleh N. Al Jasser
Chairman of the Executive Committee

H.E. Eng. Saleh N. Al Jasser, Director General, Saudia
Mr. Adel A. Ali, Group Chief Executive Officer, Air Arabia
Mr. Safwat Musallam, Chairman & CEO, EgyptAir Holding Company
Mr. Peter Baumgartner, Chief Executive Officer, Etihad Airways
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 Priorities

SAFETY
To assist members in enhancing the safety of their operations through advocating the adoption of safety culture, addressing regional airspace deficiencies and capacity, 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.

CLIMATE CHANGE
To reduce aviation's climate change contribution through supporting ICAO's efforts to ensure the successful implementation of the global scheme and to join efforts to improve operational performance and to encourage manufacturers to deploy new technologies.

REGULATIONS
To advocate for policies and regulatory principles that are clear and balanced and that are adopted through a transparent method that includes adequate consultations with the relevant stakeholders.

AIRSPACE INFRASTRUCTURE
To promote and support enhancing the region's airspace infrastructure through enhancing the ATS route network, advocating civil/military collaboration and cross-FIR collaboration, fostering PBN implementation, and supporting the implementation of a regional ATFM mechanism.

COST
To assist member airlines in optimizing their operational environment which will enhance their best practices while rationalizing their cost through the Fuel Project, Distribution Project, MRO Collaboration Project, Cooperation at Outstations Project, Training and other areas.

CUSTOMER
To assist airlines in finding solutions that harness the new technological advancement which will enhance the customer travel experience in all touch channels and increase customer satisfaction as well as driving down their distribution costs.

AWARENESS
To provide the highest quality, cost effective training that virtually covers all aspects of the air transport Industry to maximize the performance of the human capital in the Arab region.
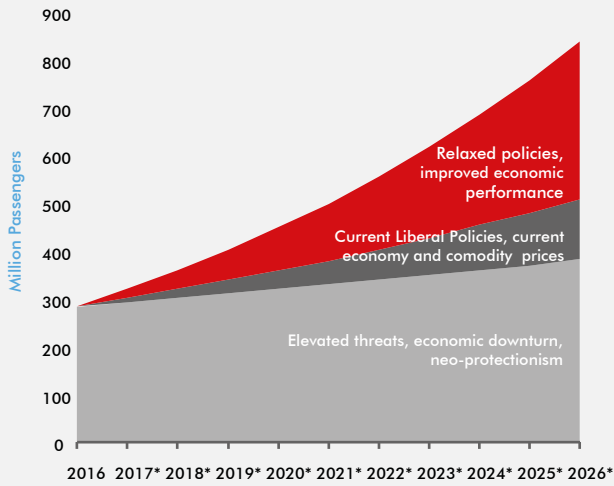
contents

Arab Market and AACO Members Travel Forecasts

Arab Air Transport Market Traffic Outlook

Million Passengers

Relaxed policies, improved economic performance

Current Liberal Policies, current economy and comodity prices

Elevated threats, economic downturn, neo-protectionism

2016 2017* 2018* 2019* 2020* 2021* 2022* 2023* 2024* 2025* 2026*

AACO Members Traffic Outlook

Million Passengers

Relaxed policies, improved economic performance

Current Liberal Policies, current economy and comodity prices

Elevated threats, economic downturn, neo-protectionism

2016 2017* 2018* 2019* 2020* 2021* 2022* 2023* 2024* 2025* 2026*
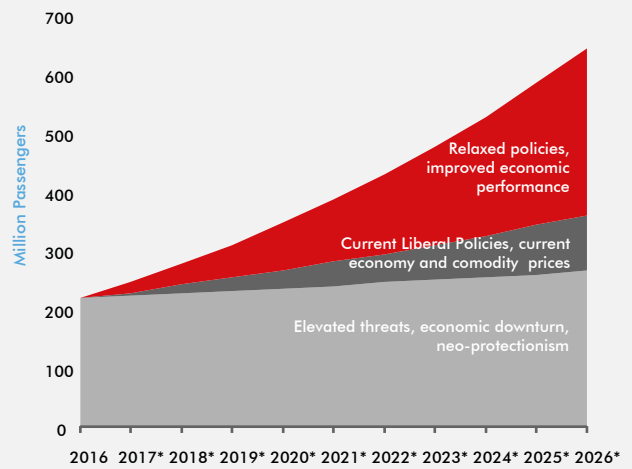
Air Travel Shifting East**

2006
10.5%
25.2%
4.8%
59.5%

2016
7.0%
35.3%
7.5%
50.2%

2026*
3.4%
41.5%
12.0%
43.1%

■ North America & Europe ■ Arab World
■ Asia-Pacific ■ Others
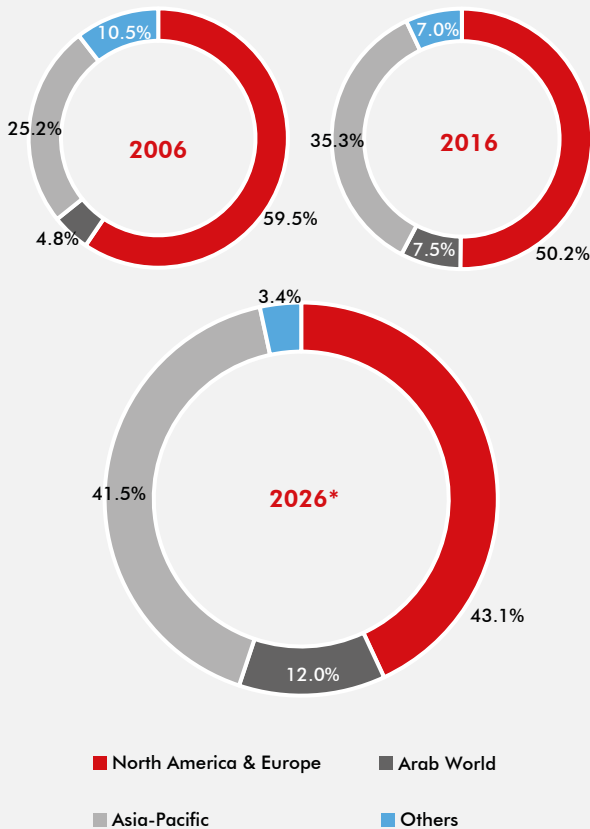
Fleet & Network: 2016/2026*

Aircraft	Destinations	Countries
1,334	421	126
2,424	457	142
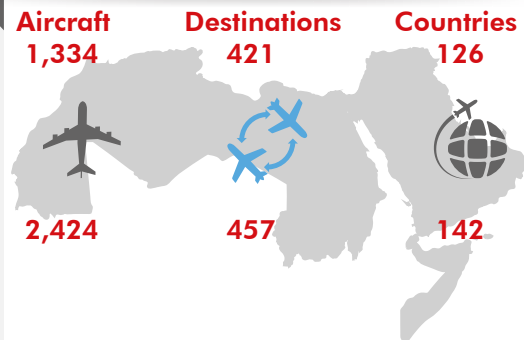
Cargo Tons Carried (millions)

2016
6.5

2026*
9.6

*Estimated
**Regions Share of Global Air Traffic in Terms of Number of Passengers

Source: IATA, SRS Analyser, AACO

Global Air Transport: Resilience and Growth

Global Air Transport Summary (2016)

3.8 Billion Passengers

10 Million Direct Jobs

7,124 Billion RPKs
8,870 Billion ASKs

**USD 2.7 Trillion Contribution to GDP**

80.3% Load Factor

Source: IATA, ICAO, AACO

Despite the weak economic performance across all regions in 2016, the global air transport market grew by 6.7% compared to 2015, where the industry recorded its highest growth since 2010.

As the demand for air transport continues to rise, global scheduled RPKs and ASKs grew by 7.38% and 7.43% respectively, leading to a very slight decrease in Passenger Load Factor of 0.04 percentage points. However, Global PLF remains robust at 80.3%.

Global Number of Scheduled Passengers & Growth

Billions

|	Number of Passengers (billions)	YoY Growth
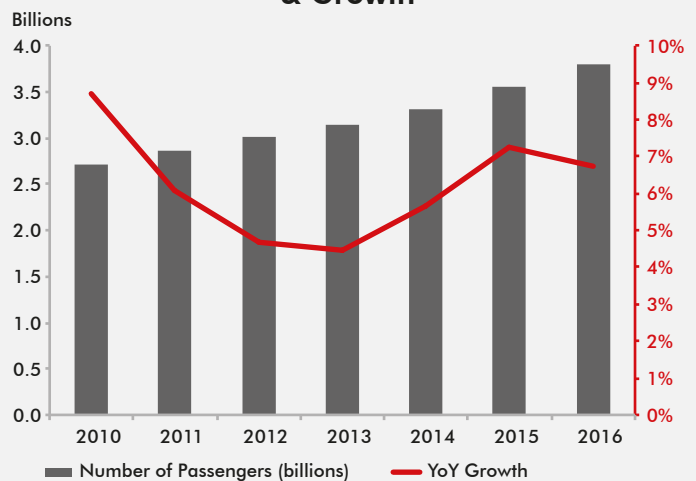
Source: ICAO

The Economy

Economic activity continues its feeble growth amid several pressure points affecting the global recovery. The first half of 2016 witnessed a weak activity mainly due to the UK Brexit vote, which pressured growth in the European Union, and the weak growth witnessed in the USA at the end of the inventory cycle. However, economic activity gained momentum in the second half supported by robust global demand coupled with solid trade and investment activity. The world GDP rose by 3.1% in 2016 and is expected to grow by 3.5% during 2017.

Year-on-Year Real GDP Growth

— World   — Advanced Economies   — Emerging & Developing Economies
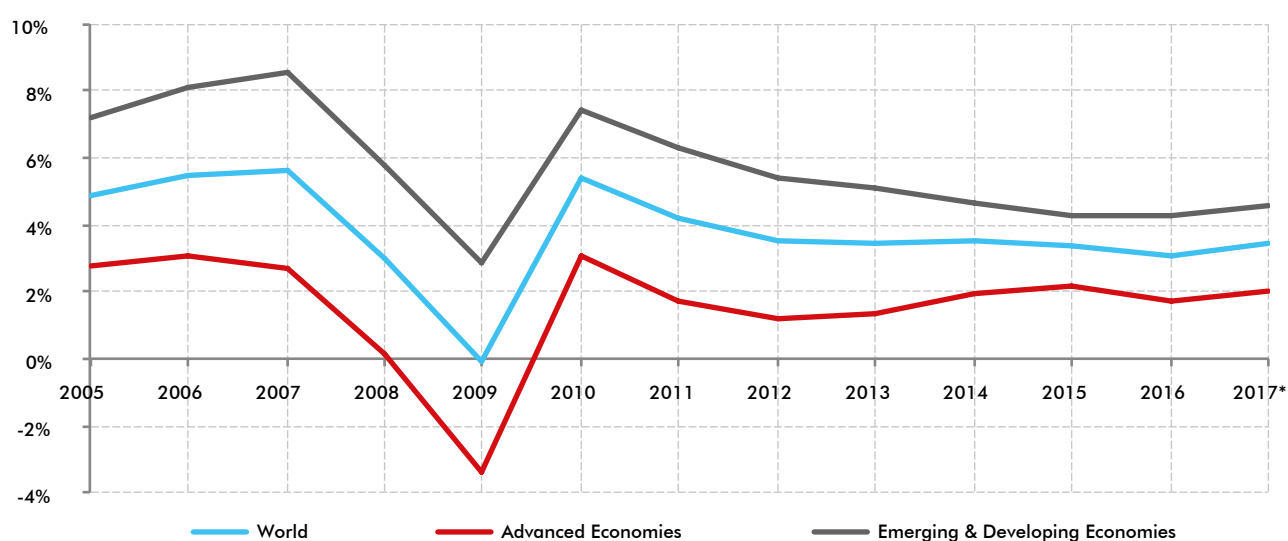
* Estimated

Source: IMF, AACO

The rebound in global demand supported by the oil production cuts in the second half of 2016 helped commodity prices recover, which eased the pressure on commodity exporters lifting headline inflation and reducing deflationary risks. However, core inflation remains subdued generally, and hence the risk of deflation remains an issue to be dealt with.

Activity across advanced economies remained weak in 2016; however, cushioned by the robust performance during the second half of the year, which is expected to continue into 2017. The second half of the year witnessed the beginning of a new inventory cycle in the United states. In addition, the US elections in November improved consumer confidence and financial markets performance, which somehow cushioned the effect of the weak performance during the first half of 2016.

After the good performance in 2015, the Euro area recorded a slowdown in economic activity growth in 2016. The Euro area is foreseen to grow at a similar pace in 2017, this modest recovery is expected to be supported by the cyclical recovery in manufacturing and trade; however, the uncertainty about the United Kingdom relation with the European Union is expected to weigh on activity.

On the other hand, economic activity growth in emerging and developing countries leveled at 4.3% in 2016 compared to 2015. However, activity remained mixed across regions and

individual economies. The increase in commodity prices has somehow supported commodity exporting economies, whereas different factors adversely affected performance in several countries.

Arab World Economic & Financial Indicators
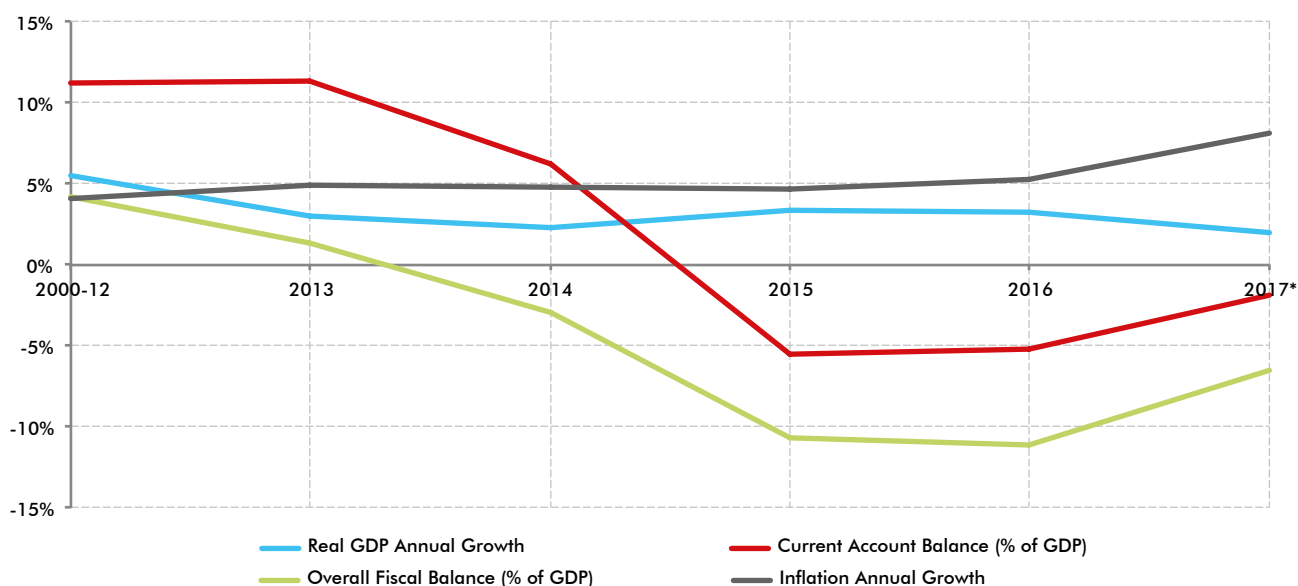
* Estimated

Source: IMF, AACO

Activity remained weak in the Arab world in 2016 especially in oil-exporting economies, were low oil-revenues are sending public accounts in deeper deficits. On the other hand, oil-importing economies are benefiting from low commodity prices to stimulate consumption and trade activities; however, conflicts and security concerns continue to weigh on their performance.

Inflation remains below levels in most Arab economies with some countries facing a serious deflation risk. As such, policies that promote domestic demand and consumption, and the economic cycle in general, should be urgently put in place in order to raise inflation to healthy targets.

International tourist arrivals grew in 2016 by 3.9%, reaching 1.235 billion tourists. Similarly, International tourists' receipts increased by 2.6% in 2016, reaching USD 1.22 trillion. In 2016, the tourism sector contributed by USD 7.6 trillion to the world economy (10.2% of global GDP), and supported around 292 million jobs.

Touristic activity in the Arab world recorded mixed results across individual countries. Lebanon and Oman witnessing double-digit growth in arrivals, and Algeria, Kuwait, and Dubai recording double-digit growth in receipts.

However, the decline in touristic activity in some countries especially Egypt, which recorded a decline of (42.5%) in arrivals and (56.4%) in receipts negatively impacted the overall growth levels.

Overall, in 2016 the region recorded 72.2 million tourist arrivals and 66.7 billion tourist receipts, representing a decline of (2.2%) and (0.6%) respectively over 2015.

The Market

Arab Air Transport Market Overview

In spite of the fragile economic performance and the challenges across the region, the Arab air transport market recorded a robust growth of 9.9% in 2016 over 2015, reaching around 284 million passengers.
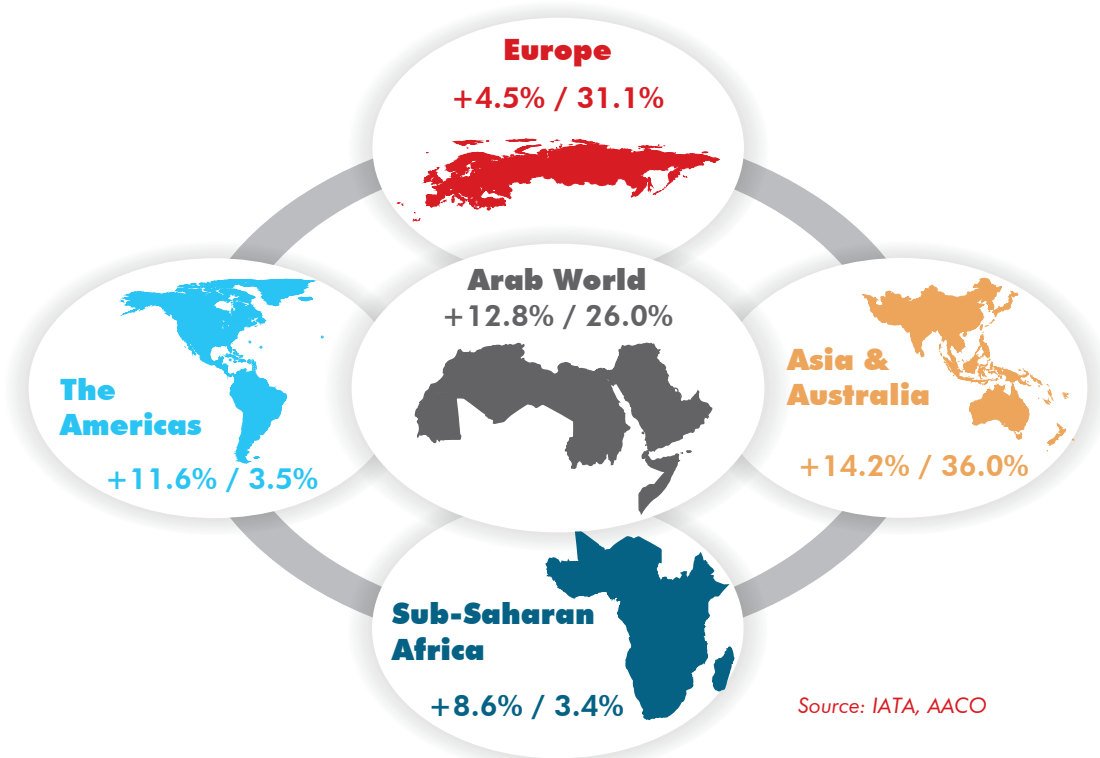
International passengers to/from and within the Arab world witnessed a double-digit growth of 10.4%, while domestic passengers within the Arab world increased by 5.5% over 2015 levels.

Arab Air Transport Market Passenger Traffic

Million Passengers

Legend: International, Domestic, Total Growth
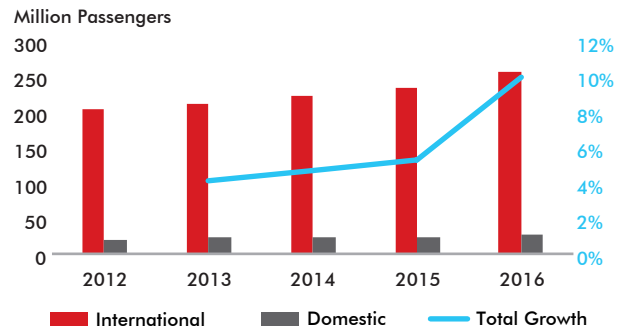
Source: IATA, AACO

Direct International Traffic Growth (2016 over 2015) / Share of Total Market

Europe +4.5% / 31.1%

The Americas +11.6% / 3.5%

Arab World +12.8% / 26.0%

Asia & Australia +14.2% / 36.0%

Sub-Saharan Africa +8.6% / 3.4%

Source: IATA, AACO

Similar to passenger traffic, Traffic to and from all regions in terms of RPKs recorded healthy growth rates in 2016, except for Europe which recorded a slight decline, due the appreciation of the Euro, associated with security concerns across specific countries.
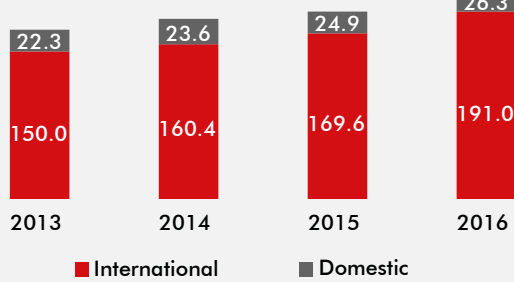
On the intra-regional level, traffic between North Africa and the GCC countries have led the region's growth by 20.2%, fueled by the rebound in tourism and compared to the very weak activity recorded in 2015. On the other hand, traffic between the Levant & Egypt and North Africa witnessed a decrease of (5.7%), mainly due to the sharp decrease in traffic between Egypt and Sudan.
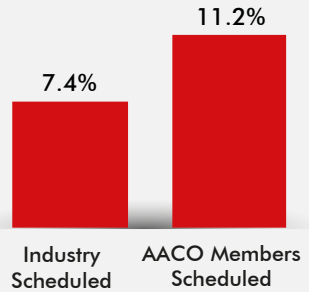
AACO Members in 2016

Passenger Operations

Million Passengers

Year	International	Domestic
2013	150.0	22.3
2014	160.4	23.6
2015	169.6	24.9
2016	191.0	26.3

■ International   ■ Domestic

26.8 Million Transit Passengers, +13.4% Growth over 2015

■ RPKs Growth

Industry Scheduled	AACO Members Scheduled
7.4%	11.2%

Cargo Operations

+2.6% Growth Over 2015

6.5 Tons of Cargo in 2016

2016

2015

6.3 Tons of Cargo in 2015

■ RTKs Growth

Industry Scheduled	AACO Members Scheduled
6.3%	7.3%
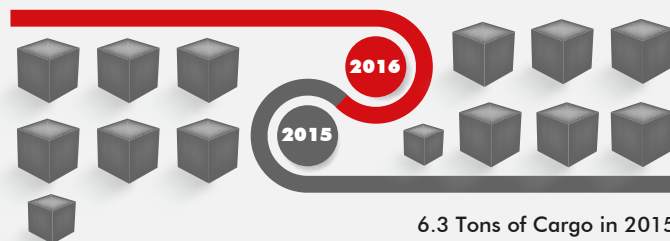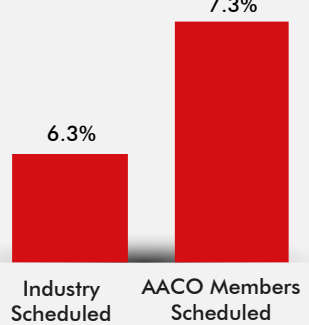
Fleet Development

1,334 Aircraft in Fleet, +9.4% Growth Over 2015

+9.4%
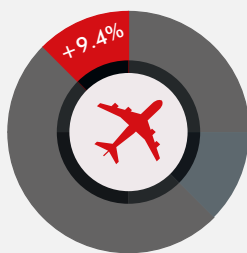
Fleet Average Age per Unit Aircraft: 7.3 Years

7.3 years

13.9 years

Average Age of Phased Out Aircraft: 13.9 years
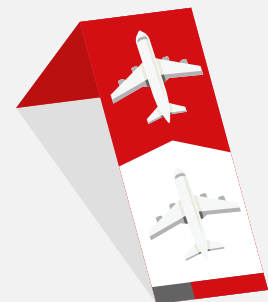
1,287 New Aircraft to be Delivered by 2035

Financials and Employment

Operating Profit: USD 1.03 Billion

Operating Margin: 1.7%

$

Total Employees (23 Reporting Carriers) 187,860

Source: AACO

10

Passenger Traffic

AACO member airlines recorded a remarkable growth in 2016, facing the headwinds of risks affecting the industry. In 2016, AACO members carried around 217 million passeng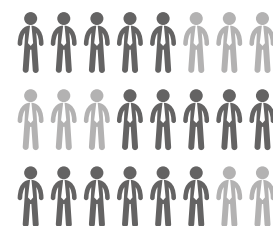ers marking a growth of 11.7% over 2015 levels. Passengers on international routes increased by 12.6% to around 191 million passengers, and traffic on domestic routes grew by 5.5% to around 26.3 million passengers.

AACO members' transit traffic increased by 13.4% in 2016 compared to 2015 reaching 26.8 million passengers, marking the fifth consecutive double-digit growth rate since 2012, emphasizing their role as global carriers connecting international hubs.

On the same front, member airlines recorded a growth in their Total RPKs and ASKs by 10.9% and 12.1% respectively in 2016. Consequently, AACO members' total PLF decreased slightly by 0.8 percentage points to 74.4%, down from 75.2% in 2015.

Cargo Operations

AACO members recorded a good growth in cargo traffic amid the slowest global trade activity since 2009. AACO members' FTKs grew by 4.8% in 2016 over 2015 levels, surpassing the global growth for the third consecutive year. In addition, member airlines' total RTKs and ATKs grew by 7.1% and 9.3% respectively in the same year.

Fleet Development

AACO member airlines increased their fleet count by 9.4% in 2016 over 2015 levels to reach 1,334 aircraft, through acquiring 214 (among which 94 are brand new) aircraft and phasing out 99 older ones maintaining a fleet average age of 7.3 years, which is considered one of the youngest fleets globally.

Among the acquired aircraft 57.0% were wide-bodies, 28.5% were narrow-bodies, 3.7% were regional, and 10.7% were freighters.

AACO members' order book as at 25 March 2017 anticipates the delivery at 1,287 new aircraft until 2035, with 56% of the future deliveries being wide-bodies, 42% Narrow-bodies, and 2% freighters.

AACO Members Fleet Composition & Deliveries by Size

	2016	Until 2035
	Regional , 76	Freighter, 25
	Freighter, 72	
	Narrow-body, 559	Narrow-body, 540
	Wide-body, 627	Wide-body, 722
	Fleet Composition	Deliveries
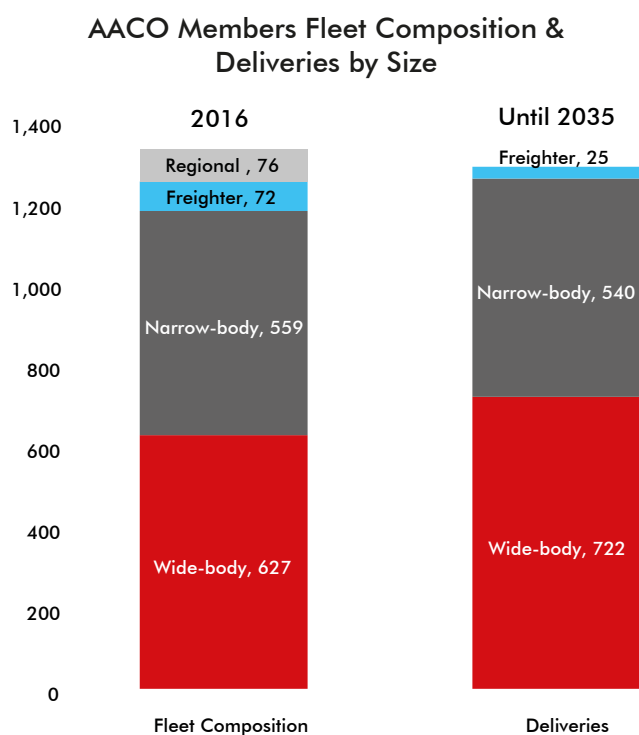
Source: Flight Fleets Analyzer, AACO

Financial Performance

AACO members closed their 2016 financial year with an operating profit of USD 1.03 billion and USD 1.92 billion in net profits, representing 1.7% and 3.1% in operating and net margins respectively. These numbers highlight the robust performance of AACO member airlines during times marked with security concerns and severe currency depreciation in several places around the globe, and a decrease in oil prices which affected business activities in the region.

Financial Results of AACO Members

Billion USD

	Operating Result	Operating Margin (right)	Net Result	Net Margin (right)
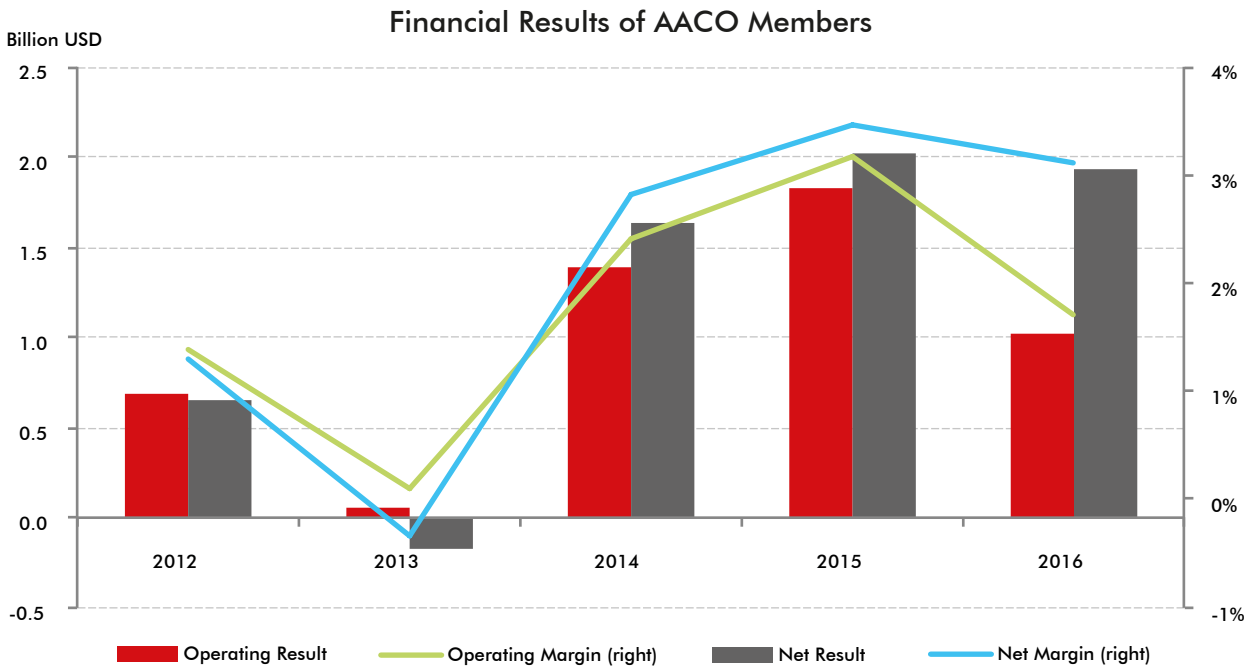
Source: AACO

Airports

Worldwide Airports Traffic Growth - 2016/2015

Source: ACI, AACO

In 2016, the air transport sector has once again proven its ability to adapt and recover from uncertainties affecting its operations, globally with worldwide airports passenger operations growing by 5.5% in 2016 over 2015 levels. Similar to 2015, the Middle east region led the global growth for the third year in a row in terms of passenger traffic at 9.4%, followed by Asia-Pacific at 9.0%, Europe at 5.0%, North America at 3.9%, Latin America and The Caribbean at 2.2%, and finally Africa witnessed a decline of (1.9%).
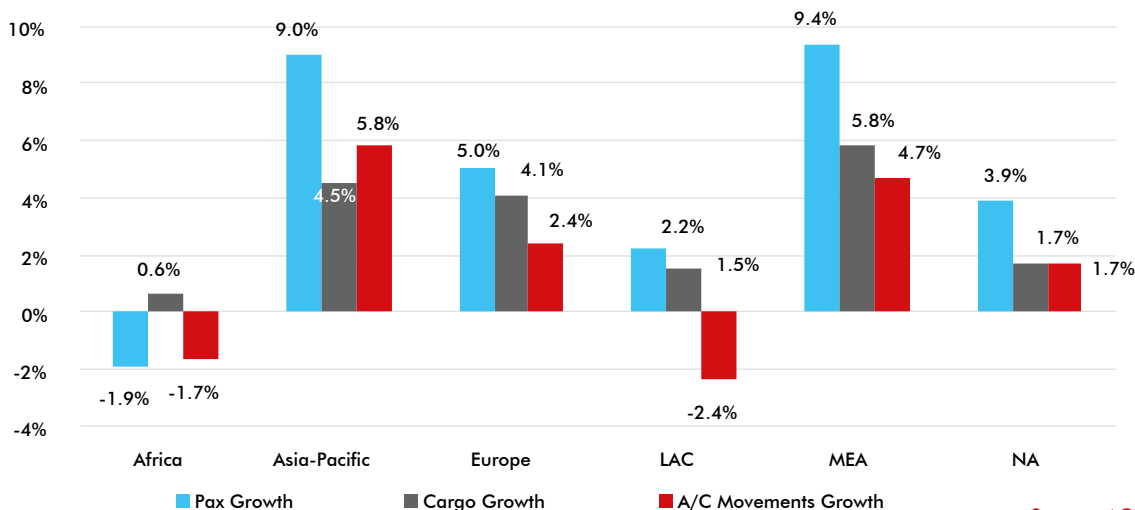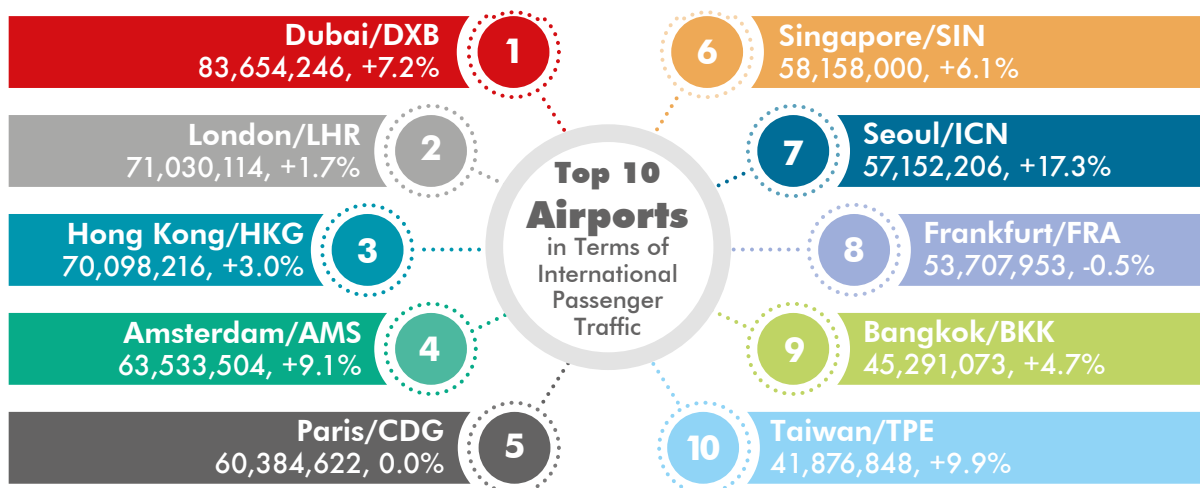
Air freight traffic remained weak in 2016, recording a sluggish growth of 3.5% over 2015. Similar to passenger traffic, the Middle East led the global growth at 5.8%, followed by Asia-Pacific at 4.5%, Europe at 4.1%, North America at 1.7%, Latin America and The Caribbean at 1.5%, and finally Africa at 0.6%.

Aircraft movements also witnessed a shy activity in 2016, growing at 2.3% over 2015 levels. Asia-Pacific topped the list at 5.8%, followed by the Middle East at 4.7%, Europe at 2.4%, North America at 1.7%. On the other hand, Aircraft movements witnessed a decline in Africa and Latin America & the Caribbean by (1.7%) and (2.4%) respectively.

Top 10 Airports in Terms of International Passenger Traffic

#	Airport	Passengers, Growth
1	Dubai/DXB	83,654,246, +7.2%
2	London/LHR	71,030,114, +1.7%
3	Hong Kong/HKG	70,098,216, +3.0%
4	Amsterdam/AMS	63,533,504, +9.1%
5	Paris/CDG	60,384,622, 0.0%
6	Singapore/SIN	58,158,000, +6.1%
7	Seoul/ICN	57,152,206, +17.3%
8	Frankfurt/FRA	53,707,953, -0.5%
9	Bangkok/BKK	45,291,073, +4.7%
10	Taiwan/TPE	41,876,848, +9.9%

Source: ACI, AACO

On airports level, Dubai Airport, DXB remained the world's busiest airport in terms of international traffic recording a growth of 7.2% in 2016 over 2015 reaching 83.65 million. Paris, CDG lost its position for Amsterdam, AMS, which grew by 9.1% reaching 63.53 million and occupying the 4th position globally. In addition, Istanbul, IST has lost its 10th position for Taiwan, TPE, which recorded a growth of 9.9% reaching 41.87 million.

Top 10 Arab Airports by Passenger Traffic, Cargo Handled, and Aircraft Movements

Airport	Code	Passengers	Growth
Dubai	DXB	83,654,246	7.2%
Doha	DOH	37,283,985	20.2%
Jeddah	JED	30,264,565	0.6%
Abu Dhabi	AUH	24,482,119	5.1%
Riyadh	RUH	23,684,562	5.1%
Cairo	CAI	15,881,646	1.4%
Muscat	MCT	12,032,211	16.6%
Kuwait	KWI	11,828,770	5.0%
Sharjah	SHJ	11,048,243	10.0%
Dammam	DMM	9,351,496	-0.6%

Airport	Code	Cargo (tons)	Growth
Dubai	DXB	2,592,454	3.5%
Doha	DOH	1,758,075	20.8%
Al Maktoum	DWC	897,998	0.8%
Abu Dhabi	AUH	813,169	-3.4%
Cairo	CAI	314,274	1.6%
Riyadh	RUH	295,702	-10.0%
Jeddah	JED	269,661	-62.4%
Bahrain	BAH	215,815	3.8%
Kuwait	KWI	195,846	4.8%
Muscat	MCT	162,015	20.4%

Airport	Code	Movements	Growth
Dubai	DXB	414,734	2.0%
Doha	DOH	281,042	12.7%
Jeddah	JED	218,717	2.8%
Riyadh	RUH	187,901	8.8%
Abu Dhabi	AUH	172,069	-0.4%
Cairo	CAI	153,981	3.4%
Kuwait	KWI	104,175	2.0%
Muscat	MCT	103,434	9.0%
Bahrain	BAH	101,345	0.7%
Dammam	DMM	90,258	6.4%

Source: ACI, AACO

Reporting Arab airports handled 340.6 million passengers in 2016, recording a growth of 4.9% over 2015. Overall, eleven Arab airports among the sample of thirty airports reported double-digit growth in 2016 over 2015, among which seven airports grew by more than 20%. On the other hand, eight Arab airports witnessed a decline in passenger numbers.

Similarly, Arab airports recorded healthy growth rates in cargo traffic and aircraft movements, recording growth rates of 5.0% and 2.7% respectively.
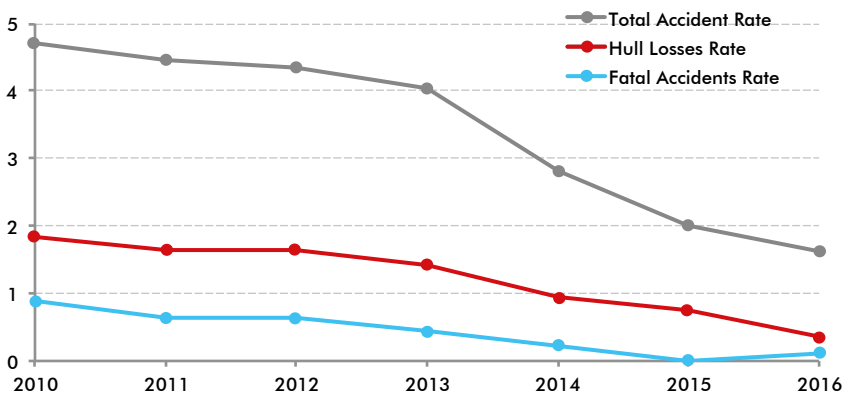
Focus on Industry Issues

SAFETY

	Total Accidents	Fatal Accidents	Hull losses	Fatalities
Global				
Average (2011-2015)	77.8	13.8	31.2	377
2015	68	4	18	136
2016	64	9	20	202
AACO Members				
Average (2011-2015)	2.4	0	0.8	0
2015	2	0	0	0
2016	4	1	2	62

Source: IATA, AACO

AACO Members Accident Trends
(5-year moving average, occurence per million flights)

Global Accident Trends
(5-year moving average, occurence per million flights)
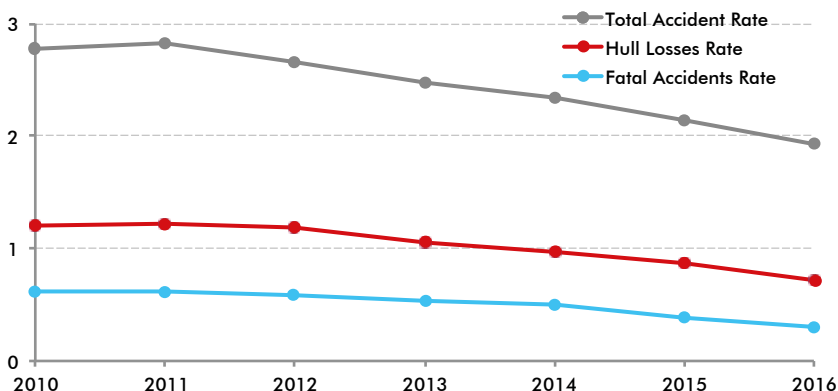
- In 2016, the aviation industry recorded 64 safety related accidents, nine of which were fatal, resulting in 202 casualties. In spite of the increase in the absolute number of fatal accidents and fatalities compared to 2015, the safety record of the aviation industry taken as 5-year average continues to improve in line with the increase in traffic, emphasizing the fact that air transport is the safest means of transportation.

15

- Runway excursion continues to be the most common type of accidents with 19% of total accidents. On the other hand, Loss of Control In-flight remains the most lethal accident type, accounting for 11% of total accidents, however responsible for 39% of fatalities.

- AACO member airlines recorded four accidents in 2016 including one fatal accident. In spite of the deterioration of the safety record compared to 2015, AACO members' safety trend continues to improve, highlighting member airlines' commitment to continuously improve the safety of their operations.

- Emergency Response Planning continues to be a priority for member airlines. In that regards, AACO ERP Steering Board works on coordinating assistance amongst member airlines, sharing information and best practices, and fostering collaboration between airlines and concerned stakeholders to raise crisis management capabilities in the region.

- Airspace congestion in some parts of the region is beginning to raise safety concerns. AACO continues its advocacy and work with regional and international stakeholders for ATM reform and to enhance the region's airspace infrastructure. Further details on AACO's work on airspace infrastructure is included in the Infrastructure section of this report.

SECURITY

Terrorism remains one of the most critical concerns on the global level

- The number of terrorist attacks increased by 14% over 2015.
- Ten new countries suffered from terrorist attacks: 29 in 2016 compared to 19 in 2015.
- Attacks targeting gatherings and private citizens comprised 51% of total global attacks.
- The most lethal method of attack in the Western hemisphere was using vehicles as improvised weapons, resulting in 52% of global fatalities.
- The Middle East remains the most active region for terrorism: 43% of total attacks.
- Terrorist attacks increased by 58% in the Middle East compared to 2015.

Major Terrorist Attacks on Civil Aviation in 2016:

3 Feb: Daalo Airlines Flight D3159	22 Mar: Attack on Brussels Airport	19 May: EgyptAir Flight MS804(suspected)*	12 June: Attack on Shanghai Airport	28 Jun: Attack on Istanbul Attaturk Airport

Accident still under criminal investigation

In addition to physical attacks, cyber security is becoming another priority in the air transport industry. Confirmed cyber attacks on aviation assets took place in Poland, Spain, Turkey and the USA, which resulted in information loss and flight delays. In that regards, the interconnected nature of aviation systems and data between airlines, airports, and service providers creates a combination of logical and physical infrastructure that is exposed to cyber threats and which requires combined global efforts to be safeguarded against unlawful interference.

In light of the increase of security concerns globally and in the region, the following developments took place in 2016/2017:

Major Global & Regional Aviation Security Resolutions & Frameworks 2016/2017

Global

Aviation Security

- UN Security Council Resolution 2309 on Aviation Security
- Development of ICAO Global Aviation Security Plan (GASeP)
- 15th amendment to Annex 17 became applicable in August 2017
- 16th Amendment to Annex 17 was developed and circulated for comments

Cyber Security

- ICAO 39th Assembly Resolution on Cyber Security
- Dubai Declaration on Cyber Security in Civil Aviation

Regional

Aviation & Cyber Security

- Riyadh Declaration on Aviation Security & Facilitation in the ACAC and ICAO MID Regions
- Sharm El Sheikh Declaration: Africa & Middle East Aviation Security Roadmap

AACO AVSEC Advisory Group continues to work collaboratively in addressing aviation security matters which affect member airlines. The group worked on the following issues in 2016/2017:
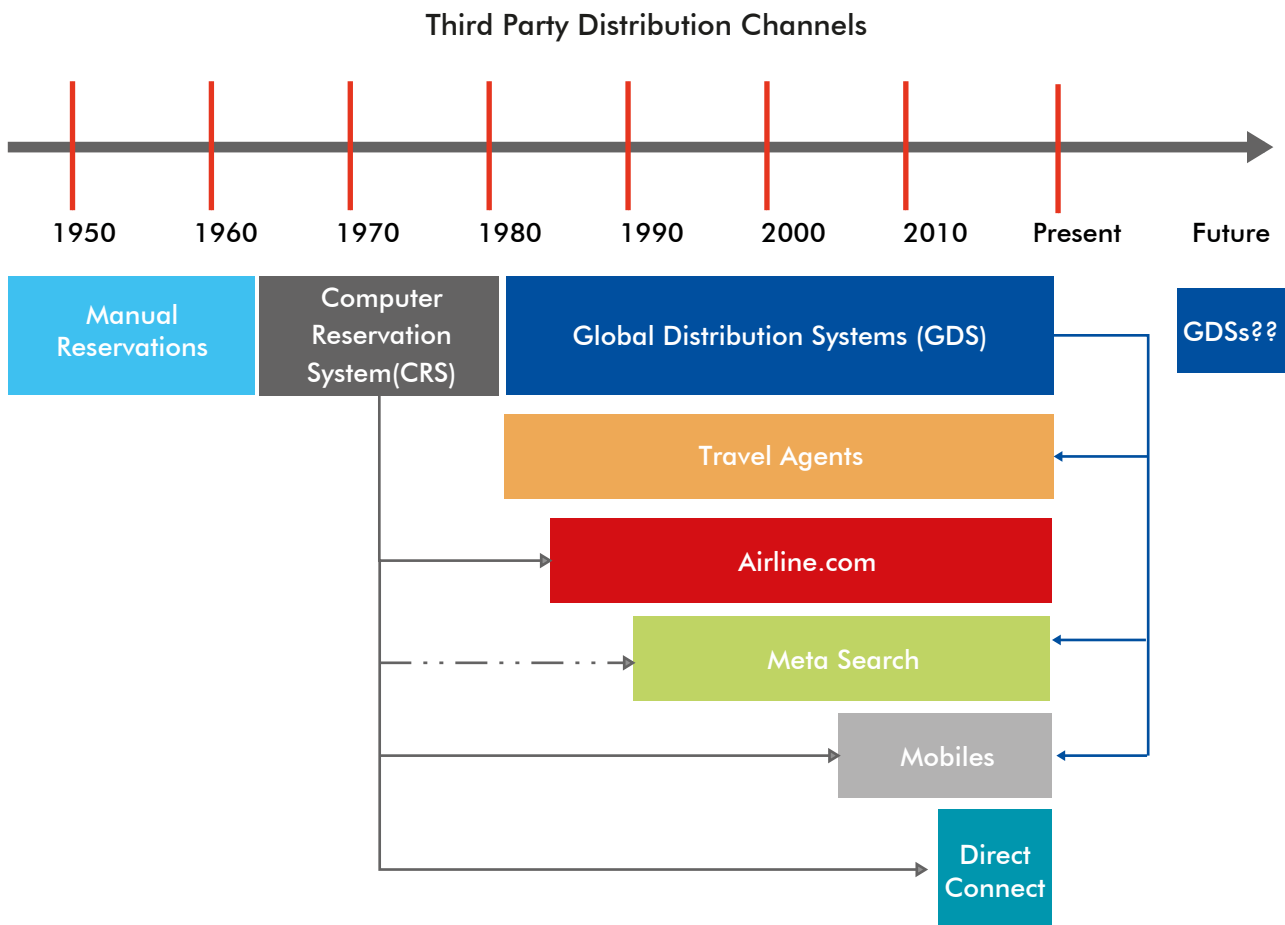
Work of AACO AVSEC Advisory Group

Information Sharing	• Foster information sharing among member airlines. • Continuously seek reliable information sources to enhance threat and risk assessment.
Riyadh Declaration	• Participation in the formulation of the declaration. • Support the development of a Regional Security & Facilitation Plan to implement the provisions of the declaration.
Unruly Passengers	• Advocacy Efforts for the endorsement of the Montreal Protocol 2014. • Worked in collaboration with AACO AeroPolitical Watch Group to respond to the Indian Proposed Regulation on disruptive passengers.
Portable Electronic Devices' Ban	• Advocacy on the global nature of aviation security and the need to develop global mitigation measures under ICAO for all threats. • Advocacy on the need for cooperation between concerned stakeholders to ensure sustainability and applicability of security measures developed by individual states.

INFRASTRUCTURE

- Being a critical infrastructure element to support the growth of the air transport industry, airspace enhancement is one of the highest priorities of the region.
- In spite of the ongoing implementation of national airspace development projects, the size of the region's individual Flight Information Regions (FIRs) necessitates a holistic and collaborative approach to airspace enhancement in order to deliver benefits to the aviation sector. In addition, the location of the region on the crossway of major global traffic flows requires close coordination and collaboration with adjacent regions to ensure harmonized and seamless aircraft operations.
- AACO continues to work closely with stakeholders on ATM and airspace capacity as stipulated in its Assembly resolutions which set member airlines' priorities in this area: enhancing the regional ATS route network, fostering the implementation of Performance Based Navigation, and the implementation of a Regional Air Traffic Flow Management mechanism.
- All stakeholders, including states, airlines, and international and regional organizations are mindful of the necessity to collaborate in order to enhance the region's airspace. AACO continues to support the below initiatives in line with its members' priorities:

Air Routes	Performance Based Navigation	Air Traffic Flow Management
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 Foce in order to:
Develop the Regional ATS Route Network based on Airlines' Requirements	Enhance Airspace Design Capabilities in the Region	Devise a Regional Air Traffic Flow Management Concept of Operations
Identify Priority Areas for Civil/Military Collaboration	Pool Resources to Develop Airspace Design Enhancements	Implement a Regional ATFM Mechanism

THE FUTURE OF DISTRIBUTION

Third Party Distribution Channels

| 1950 | 1960 | 1970 | 1980 | 1990 | 2000 | 2010 | Present | Future |

Manual Reservations

Computer Reservation System(CRS)

Global Distribution Systems (GDS)

GDSs??

Travel Agents

Airline.com

Meta Search

Mobiles

Direct Connect

Airlines produce soft products manifested by producing seats on airplanes for specific sectors. To sell this product, airlines started since the dawn of commercial aviation by selling tickets directly to customers then through travel agents when the service has expanded.

In order to secure that the capacity matches the demand, airlines started managing the inventory manually and through direct relationship with travel agents.

Advancement of technology and the advent of automation led airlines to automate their inventory management and hence reservation, ticketing, and departure control through Computer Reservation Systems (CRS). The next step for distribution was placing terminals for those systems with high value travel agents. Further advancement of technology allowed the creation of a totally new business model of technology companies that mirrors airlines' own reservation system through data centers for the use of travel agents. Thus, came the age of Global Distribution Systems (GDSs).

The 3rd party distribution through GDSs, though valued by airlines as an excellent tool to provide visibility of their products to the maximum number of customers, became a cost item which many airlines believe is too high. Moreover, the success of low cost airlines by avoiding 3rd party distribution all together, be that travel agents or GDSs, prompted airlines to seek ways to harness the same technology which has powered low cost airlines to achieve lesser costs of distribution.

Distribution Trends

Below we list the trends which have affected the distribution business:

- Legacy airlines, traditionally highly reliant on indirect channels, are keen to reduce the costs involved in distribution by switching to direct channels as much as they can and by negotiating lower fees with GDS.
- Low cost carriers are highly reliant on direct distribution model, whereas some are shifting to distribute through indirect channels to intercept high-yield business customers.
- The rate at which customers dependency on indirect channel vs. direct channel varies by region. Hence, some regions will be expected to remain bound to indirect distribution for more time as the internet penetration doesn't allow to achieve a predominance of direct distribution.
- GDSs have realized that they will not enjoy the controlling position they had. Yet they are trying to retain their role as gateway to business customers through diversifying extensively their business by focusing on the provision of IT systems to airlines and travel actors.
- The switch to direct distribution has proved to be harder than previously thought. Airlines found it difficult to grow their direct distribution further without increasing its cost.
- In the travel intermediaries' environment, there are two different situations: online travel agents are experiencing high growth while bricks and mortar travel agents are consolidating or changing their business model to niche or business travel agents.
- The whole travel industry chain is now more than ever motivated to adopt a customer-centered approach, meaning that individual customers' needs and wants will be one of the main determinant factors of airline distribution evolution.
- New entrants like Google, Amazon or Facebook have already entered the market with wide range of resources, competences and the fit to occupy a primary role in the travel distribution which is becoming increasingly digital all over the world. Yet they have decided not to play the game but rather benefit from the game by generating revenues from referrals.

AACO's Work

AACO manages the distribution affairs through its Future Distribution Strategies Task Force which was established in 2013 to follow up on the latest technological developments related to distribution techniques as well as providing the airlines with a platform to help in defining their vision for the future relationship with GDSs in view of the various trends impacting the distribution landscape.

The FDSTF held many meetings with the three GDSs to discuss their vision of that future relationship as well as their advancement and how can the future relationship respond to airlines' individual strategies which will always be focused on satisfying individual customer's needs and distributing airlines' products at the minimum cost possible.

REGULATIONS & POLICIES

Consumer Protection

International Civil Aviation Organization (ICAO)
ICAO Core Principles on Consumer Protection are a step in the right direction; however, they should include the following additional principles:

National and regional passenger rights regimes should avoid extraterritoriality in their scope	Regimes adopted by different states should be compatible as much as possible	Regimes to allow the share of liability between all stakeholders responsible for the occurrence of an inconvenience.

> In addition there needs to be a clear text in the ICAO principles that recognizes extraordinary circumstances where airlines would be exempt from paying compensation.

- ICAO Air Transport Regulatory Panel (ATRP) met in July 2017 and decided that it's too soon to introduce changes to the guiding material.
- This issue should be put on the table again in future ICAO ATRP meetings.

Arab Civil Aviation Commission
Work is still ongoing on the guiding material for consumer protection regulations which are being developed by Arab civil aviation authorities under the Arab Civil Aviation Commission umbrella and with the participation of AACO.

اللائحة
الاسترشادية لحماية المستهلك

Individual Arab States
- Passenger Rights regulations are expected soon in Egypt, Qatar, Jordan and the UAE.
- Saudi's General Authority for Civil Aviation revised its regulation for passenger rights and published the new regulation that included some improvements over the older version, following advocacy by AACO jointly with IATA and member airlines.

UNWTO
- The UNWTO is developing a convention on the rights and obligations of tourists and tourism service providers.
- There are concerns that this convention might conflict with existing air passenger rights regulations and conventions.
- AACO is jointly advocating with IATA to make sure that the convention does not conflict with existing international conventions on air passenger rights or existing country regulations and that it does not add undue burdens to airlines and ambiguity to tourists/ passengers.

EU Reg. 261/2004 on Air Passenger Rights

- While the EC proposal for the revision of EC Reg. 261/2004 is still blocked in the EU institutions, the arbitrary court rulings on what is considered as extraordinary circumstances under the current regulation have created unfair consequences to the airlines.
- AACO continues to advocate for clarity in the EU regulation and pushes for keeping the revision of the regulation high on the agenda of the EU institutions.

Unruly Passengers (MP14)

Montreal Protocol 2014:
This protocol brings in proper prosecution and enforcement powers for governments and airlines.

- According to IATA figures, almost 50,000 cases of unruly incidents were reported between 2007 and 2015.
- Egypt has submitted its accession to Montreal Protocol 2014 to ICAO in June 2017.
- Among the Arab states, **Jordan**, **Bahrain** and **Egypt** ratified the Protocol.
- AACO and IATA are jointly following up with Arab states' relevant ministers and civil aviation authorities urging for the ratification of this Protocol.
- In total, ten states have ratified the Protocol which requires 22 states to ratify it for it to enter into force.

Taxation

Based on IATA figures, in 2017, airlines and their customers are forecast to generate $123 billion in tax revenues (an increase from $118 billion in 2016). That's the equivalent of 45% of the industry's GVA (Gross Value Added, which is the firm-level equivalent to GDP) being paid to governments.

Tunis Convention (Mutual Exemption on Taxes & Charges)
Following seven meetings held by the Arab financial authorities, under the umbrella of the Arab League of States, with the participation of AACO to revise the Tunis Convention on the mutual exemption of taxes and charges applied on air transport between Arab states, the group finalized the revision end of February 2017.

The revised convention was adopted by the Council of Arab Transport Ministers on 22 October 2017 and will now be raised to the Social and Economic Council of the Arab League of States for adoption.

Market Access and Competition

Liberal Policies have brought benefits to the Consumer, the Economy, and the Airlines

Freeing market access and removing restrictions

lower prices and better service level

GDP — increased activity, productivity, growth and job creation

focus on providing the best services at the best prices and developing into institutions which depend on their attractiveness to the consumer instead of being his/ her only option.
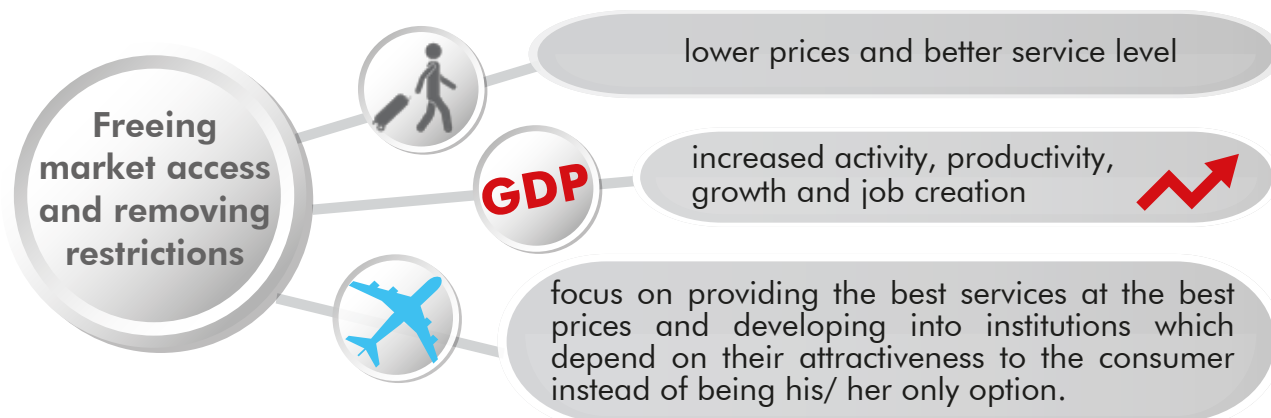
Developments on a Unilateral Level

In June 2017, the EC proposed a revision to EU reg. 868/2004.

1 The regulation would give the EC the right to open investigations in third countries.
2 The investigations are subject to the consent of the third country or entity but the EC would have the right to base its findings on available facts.
3 The proposed regulation covers a wide range of air transport practices and activities in third countries related to air navigation, airport facilities and services, fuel, ground handling, security, CRSs, slot allocation, charges and the use of other facilities or services etc…
4 Redressive measures could include financial penalties or suspension of air services.

In order to guarantee that instruments adopted by governments are not used as protection tools, the following needs to be in place:

1 In the relations between states, the bilateral processes and air services agreements need to be respected. Any instrument that undermines bilateral relations must not be encouraged.

2 Any instrument or provisions in agreements between states should be mutually accepted and should take into consideration the varying maturity levels, social and economic standards, and other differences between states and airlines.

3 Any instrument should be fair and balanced and does not discriminate against a certain airline or group of airlines based on their varying cost bases and different structures of ownership.

4 States should refrain from undermining other states' sovereignty in their regulations.
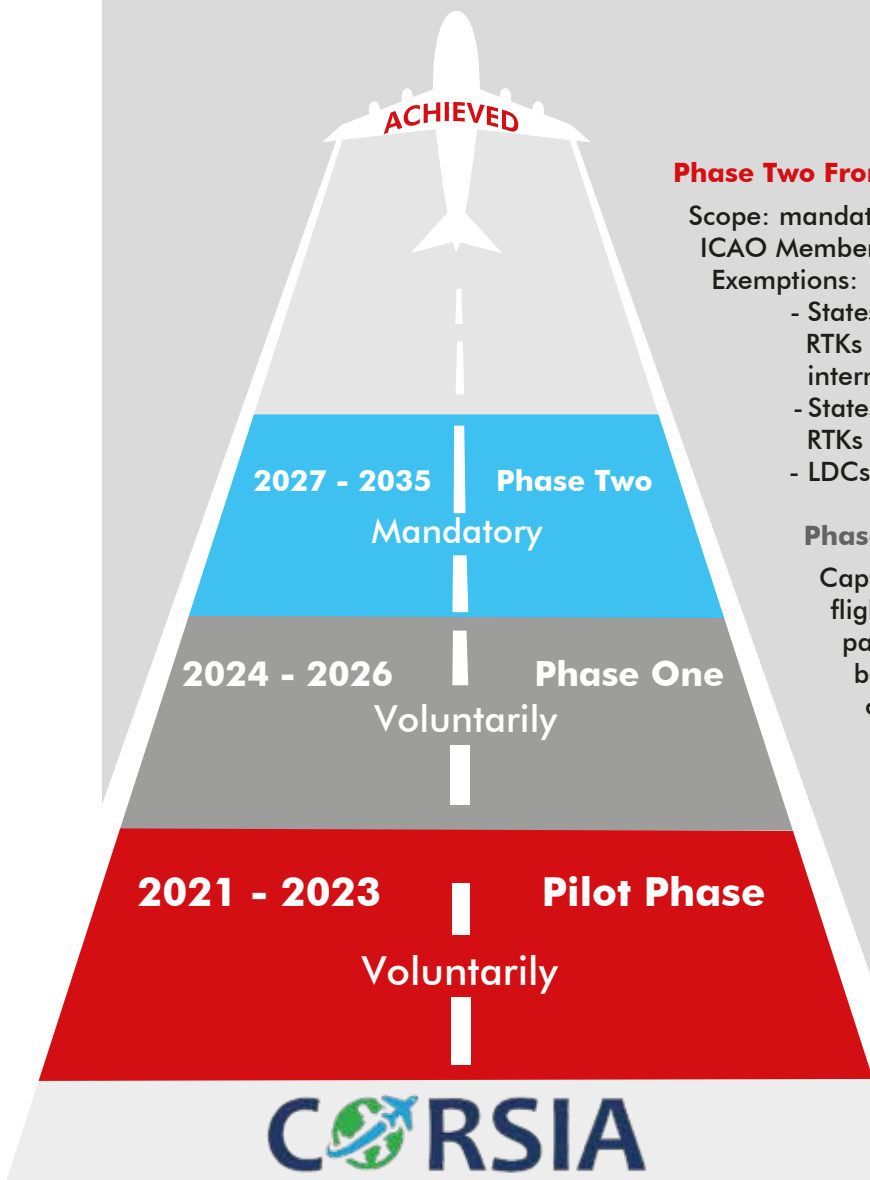
CORSIA

The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) is the global scheme to offset international emissions as of 2021 compared to 2020. CORSIA is one element of a basket of measures to address & mitigate the environmental impact of aviation (operational, technical, & infrastructure development).

CORSIA Implementaion Mechanisms

Emission Baseline Calculation	Global Monitoring, Reporting & Verification System	Standards & Recommended Practices (SARPs)	Consolidated Central Registry

- **ALL** airlines are required to submit an emission Monitoring Plan by September 2018.
- **ALL** airlines are required to do Monitoring, Reporting, and Verification (MRV) of their emissions for the years 2019 and 2020 for ICAO to set the baseline.
- **ALL** airlines are required to do Monitoring, Reporting, and Verification (MRV) of their emissions on a yearly basis as of 2021.

ACHIEVED

2027 - 2035 **Phase Two**
Mandatory

2024 - 2026 **Phase One**
Voluntarily

2021 - 2023 **Pilot Phase**
Voluntarily

CORSIA

Phase Two From 2027 - 2035

Scope: mandatory to all operators and applies to all ICAO Member States
Exemptions:
- States with individual share of international RTKs in 2018 < 0.5% of total global international RTKs
- States that have a cumulative share of RTKs > 90%
- LDCs, SIDS, LLDCs

Phase One From 2024-2026

Captures all emissions from international flights between states that opt to participate in the scheme on voluntary basis. This includes 72 states plus any other state which might opt to participate.

Pilot Phase From 2021-2023

Captures all emissions from international flights between states that opt to participate in the scheme on voluntary basis. This includes 7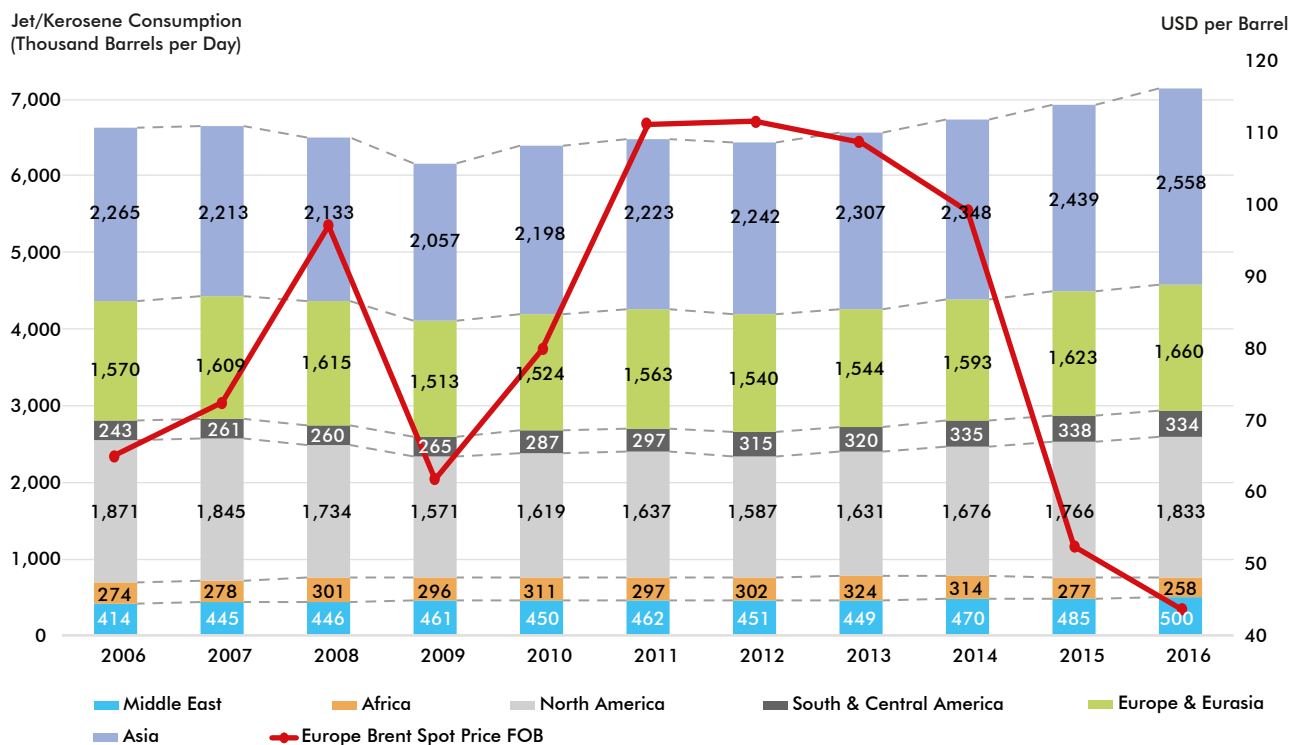2 states plus any other state which might opt to participate representing 87.7% of the total international aviation activity.

Effective Cooperation

FUEL PROJECT

Jet/Kerosene Consumption and Yearly Average Spot Price of Brent Crude

Jet/Kerosene Consumption
(Thousand Barrels per Day)

USD per Barrel

Source: International Energy Agency, BP Statistical Review of World Energy

- The US Energy Information Administration anticipates that global consumption of jet fuel in 2040 will reach 9.4 million barrels per day, which is 36% more than the consumption levels of 2016. The increase in consumption levels is mainly driven by the trend of urbanization and higher income levels, especially in developing countries.

- In 2016 the Brent oil price averaged USD 43.7 per barrel, down from USD 52.3 per barrel in 2015, recording its lowest yearly average since 2004. Despite low oil prices, jet fuel procurement remains one of the biggest expenses for airlines.

- AACO established the Fuel Project in 1999; the project comprises the Fuel Steering Board (FSB) and the Aviation Fuel Advisory Group (AFAG). Today, the FSB gathers 25 member airlines. Moreover, a large number of fuel companies work within AFAG to spread awareness and ensure a safe and sustainable aviation fuel industry in the world in general and in the Arab world in particular. Within its mandate, AFAG organized the 8th Aviation Fuel Forum and a couple of workshops in Casablanca in October 2017. Furthermore, a course on fuel quality assurance was conducted in collaboration with AACO RTC.

TECHNICAL COLLABORATION

In addition to AACO ERP Steering Board and AVSEC Advisory Group activities discussed in the safety and security sections of this report respectively, technical collaboration among member airlines includes the following three activities:

- **Memorandum of Understanding with Jeppesen:**
  AACO has an MoU with Jeppesen covering standard flight charts.
- **Memorandum of Understanding with Kenyon International:**
  AACO has an MoU with Kenyon International covering the services provided by the organization.
- **MRO Collaboration Project:**
  - AACO launched the MRO Collaboration Project in 2013. Eight member airlines participate in the project.
  - The project identified nine collaboration initiatives to be implemented in phases. Members are currently implementing the purchasing and vendor audits initiatives.
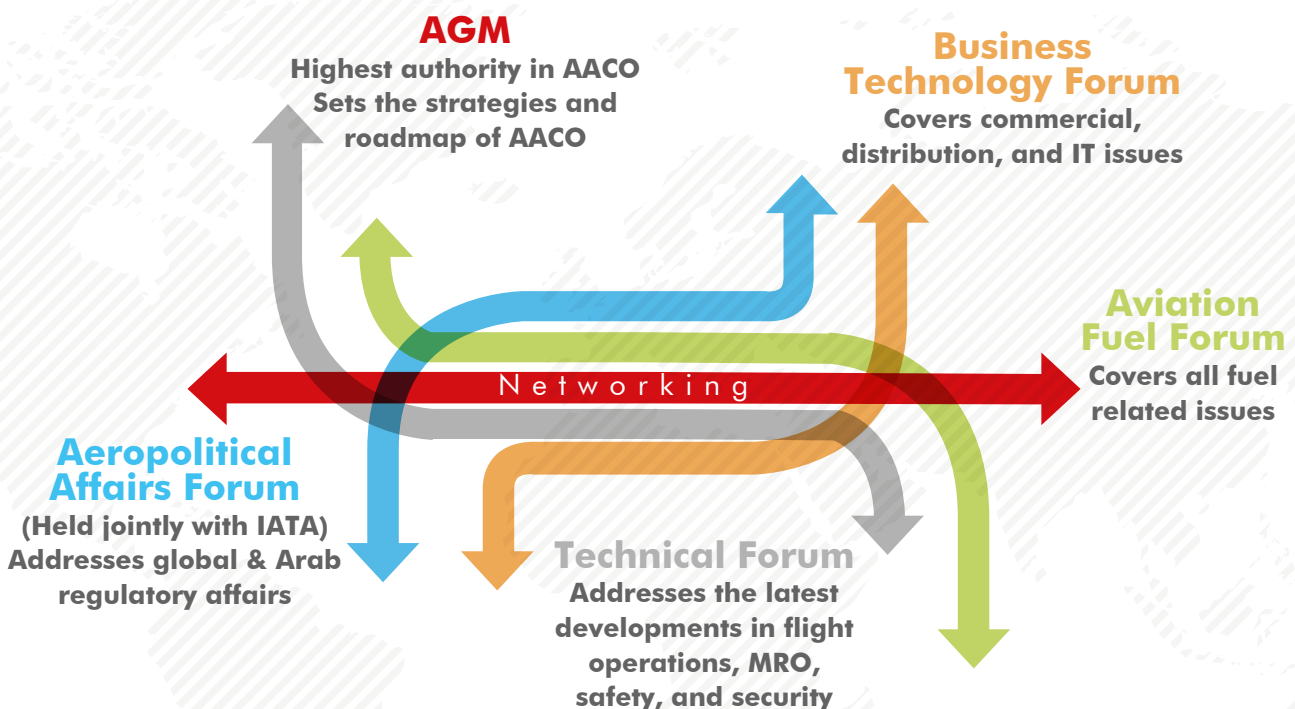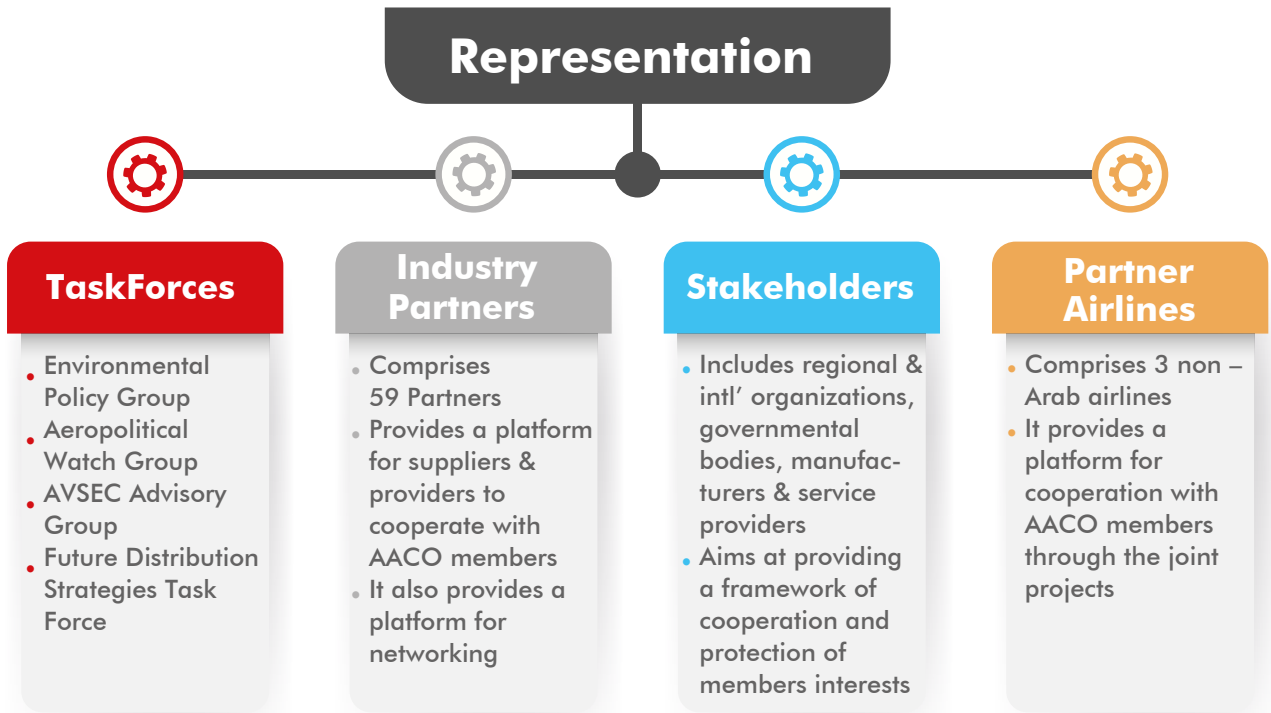
COOPERATION AT OUTSTATIONS

- In line with its objective of promoting and increasing the level of cooperation between member airlines at outstations, the Ground Handling Steering Board provides the framework that allows member airlines to enhance the services they provide to their customers. Throughout the years, member airlines were able to enhance the level of services at many airports including: Istanbul and 20 other Turkish airports, Rome, Amsterdam, London Heathrow Terminal 4, Kuala Lumpur, Vienna and Addis Ababa.

- Moreover, the Ground Handling Steering Board aims at spreading awareness related to new technologies, services and regulations to ensure the sustainability of member airlines' operations with the highest quality of services given to the consumer.

HUMAN RESOURCES

- In 2016, AACO Regional Training Center (RTC) held 94 courses attended by 1,300 trainees, with an increase of 17.6% compared to 2015.
- AACO RTC achieved savings in training costs for Arab airlines estimated at USD 899,824.
- AACO provided 175 scholarships for member airlines.
- In collaboration with Concordia University and ICAO, AACO RTC conducted the 11th AVSEC PM Program hosted by Etihad Airways.
- For the ninth consecutive year, AACO RTC secured 5 scholarships from the Aircraft Manufacturer ATR on the Part-Time Executive MBA Program at Toulouse business school.
- AACO RTC has successfully signed a new education partnership with McGill University in Montreal. This partnership offers educational development for AACO members.
- AACO RTC signed a partnership MoU with Qatar Civil Aviation Authority that includes organizing training programs for the development of human resources and the preparation of qualified cadres in the air transport industry.

AACO Community, 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

TaskForces
- Environmental Policy Group
- Aeropolitical Watch Group
- AVSEC Advisory Group
- Future Distribution Strategies Task Force

Industry Partners
- Comprises 59 Partners
- Provides a platform for suppliers & providers to cooperate with AACO members
- It also provides a platform for networking

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

Partner Airlines
- Comprises 3 non – Arab airlines
- It provides a platform for cooperation with AACO members through the joint projects

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

Business Technology Forum
Covers commercial, distribution, and IT issues

Aviation Fuel Forum
Covers all fuel related issues

Networking

Aeropolitical Affairs Forum
(Held jointly with IATA)
Addresses global & Arab regulatory affairs

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

AACO PUBLICATIONS

Annual Report

AATS

Every
365
Days

E-PUBLICATIONS

Every
90 Days

Every
90 Days

Every
60 Days

Every
7 Days

Every
30 Days

Regulatory Update

Safe & Level

The Nashra

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