ANNUAL REPORT

10 - 12 November
2021

Arab Air Carriers' Organization

54th Annual General Meeting – Qatar

Annual Report
Arab Air Carriers' Organization
54th Annual General Meeting

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.

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.

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.

AACO Executive Committee

H.E. Mr. Akbar Al Baker
Chairman of the AGM

Mr. Mohamad A. El-Hout
Chairman of the Executive Committee

Mr. Mohamad A. El-Hout, Chairman - Director General, Middle East Airlines
H.E. Mr. Akbar Al Baker, Group Chief Executive, Qatar Airways
Capt. Amr Abuelenein, Chairman & CEO, EgyptAir Holding Company
Mr. Tony Douglas, Group Chief Executive Officer, Etihad Aviation Group
Mr. Bander Almohanna, Chief Executive Officer & Managing Director, flynas
Mr. Abdelhamid Addou, Chairman & Chief Executive Officer, Royal Air Maroc
H.E. Eng. Ibrahim Abdul Rahman Al Omar, Director General, Saudia
Mr. Khaled Chelly, Chairman and CEO, Tunisair

OPERATIONAL SAFETY
To assist members in maintaining the safety of their operations through raising awareness on the latest safety regulatory requirements, advocating the adoption of safety culture, contributing to capacity building, and fostering collaboration among airlines in emergency response planning.

BIOSAFETY
To cooperate with governments and stakeholders for clear and harmonious biosafety air travel measures that are based on a scientific assessment of risk of transmission of COVID19, and on guidelines issued by the World Health Organization and the International Civil Aviation Organization.

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

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

CLIMATE CHANGE
To mitigate the impact of international aviation's emissions on climate change through supporting the efforts of ICAO to ensure successful implementation and development of its environmental short, medium and long-term goals, and to join efforts to improve operational performance, waste management and promote R&D in alternative fuel.

TECHNOLOGY
To encourage relevant stakeholders to work towards having travel processes digitized in one platform or under one standard which allows the integration of passengers' travel and health data with the airport biometrics, and to call upon governments to speed up the use of advanced biometrics technologies on security, customs, and passport control points.

AIRSPACE INFRASTRUCTURE
To promote and support infrastructure reform in air traffic management and airports in order to alleviate congestion in the airspace and at airports, improve operations, and contribute to carbon footprint reduction.

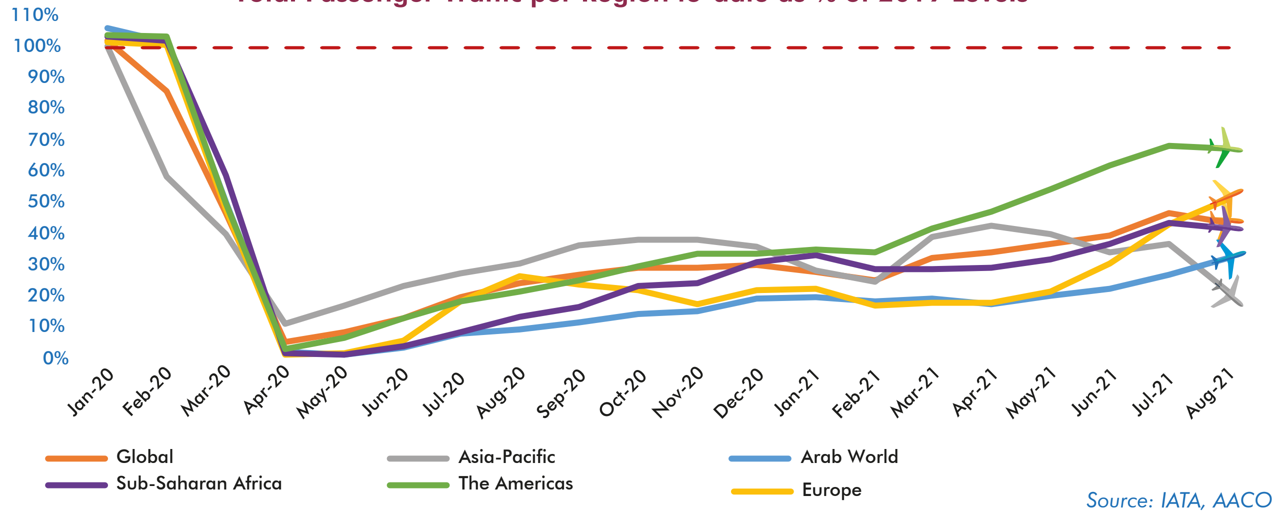
COST
To assist member airlines in optimizing their operational environment, promote best practices while rationalizing their cost through cooperative activities, within the boundaries of competition and anti-trust laws.

AWARENESS & CAPACITY BUILDING
To provide networking opportunities through specialized forums to maximize the performance of the human capital in the Arab region and to ensure communication between all relevant aviation stakeholders, and to resort to electronic platforms when needed for virtual networking and learning in a cost-effective and high-quality manner covering most aspects of the air transport industry.

Table of Contents

Progress of the Industry's Recovery in 2021, Expected Financial Results, and Expected Time for Full Recovery to Pre-crisis Levels (2019)

Recovery Tracker per Region:
Total Passenger Traffic per Region to-date as % of 2019 Levels

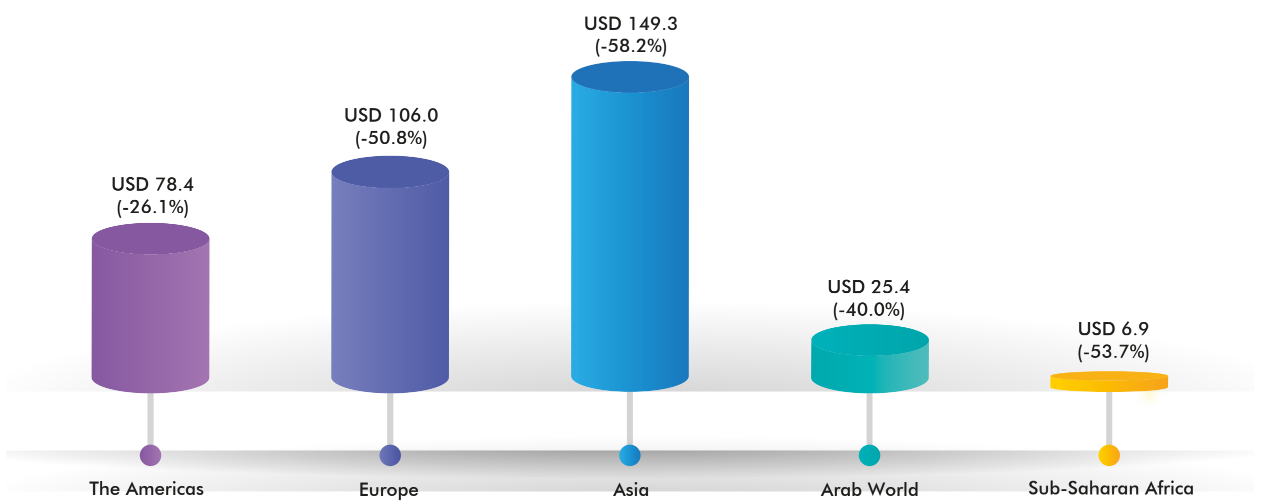


Source: IATA, AACO

2020: Government Support as % of Airline Losses
2021: Government Support as % of the Difference in Revenues between 2021 and 2019

2020	47.6%	34.7%	24.1%	21.9%	14.9%
2021	25.4%	7.5%	4.1%	0.7%	17.2%

Difference in Revenues in 2021 compared to 2019 per region (Billions, % drop in 2021 compared to 2019)



Source: AACO and Various Sources

Expected Time Needed for Travel Markets to Recover to Pre-COVID-19 Levels (2019) Based on Two Forecast Scenarios:

SCENARIO ONE

01

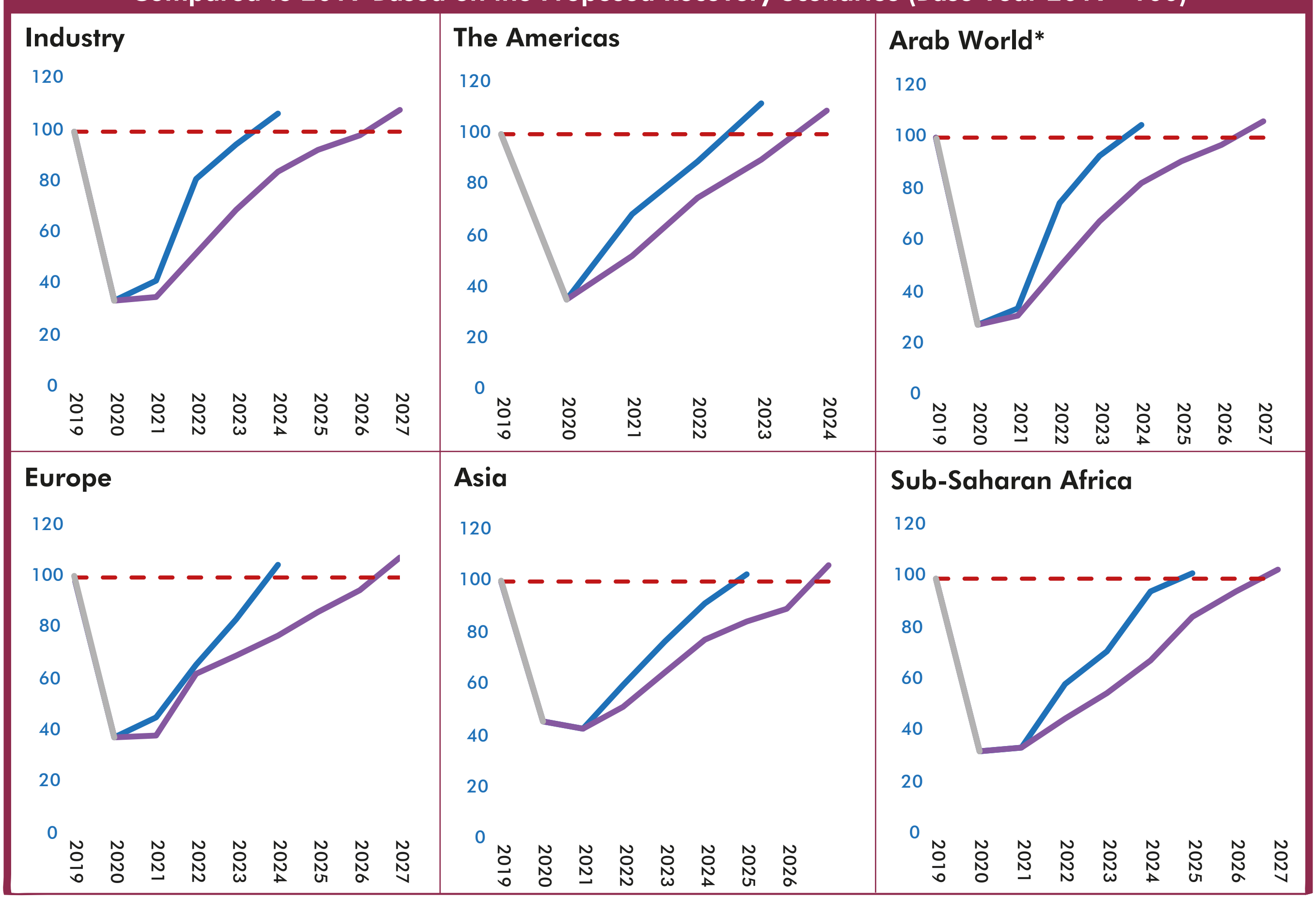
Recovery of passenger traffic (globally and for the Arab airlines) to pre-pandemic levels occurs in 2024, assuming economic recovery at different speeds in different major markets, and better government support, steady inoculation in major population centers concerned (which is currently the case), and states applying more harmonious biosafety risk-based measures, as per international guidelines.

SCENARIO TWO

02

A new spike of COVID-19 infections globally (caused by the emergence of new virus strains), a slowdown in economic recovery, states re-instating travel restrictions, and widespread inoculation to be delayed until the end of 2023 affected by supply constraints. This might delay traffic recovery until 2027, both globally and for the Arab airlines.

Estimated Yearly Changes in Passenger Traffic Measured in RPKs for the Industry and per Region Compared to 2019 Based on the Proposed Recovery Scenarios (Base Year 2019=100)

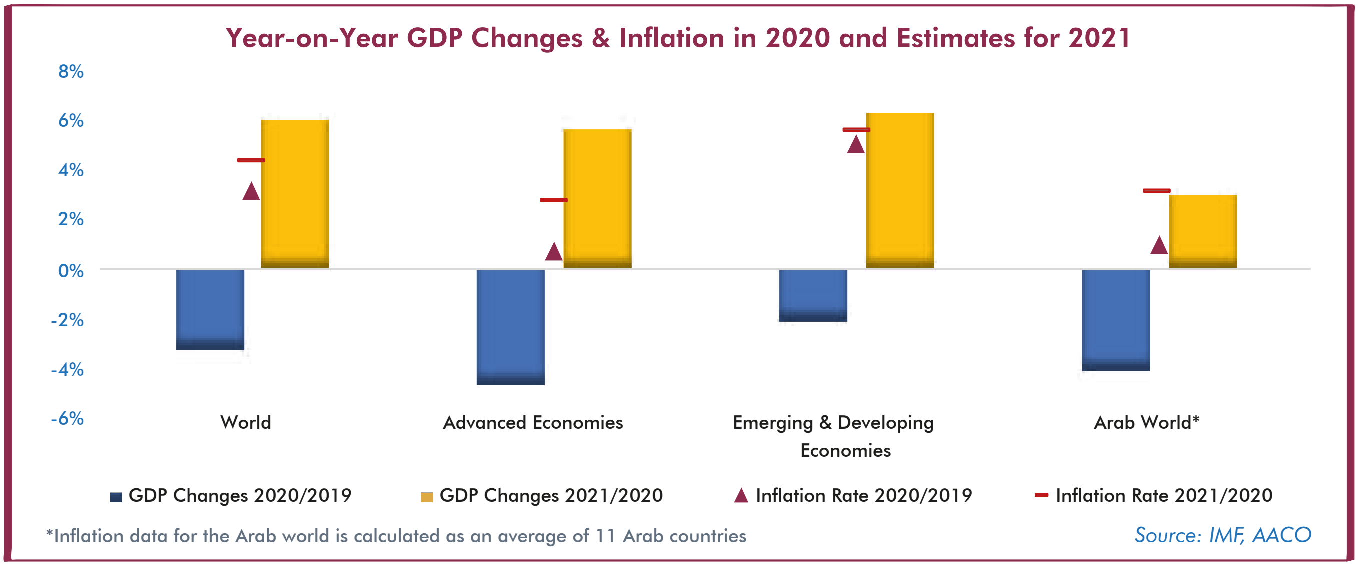


* Data reflects estimated traffic for Arab airlines

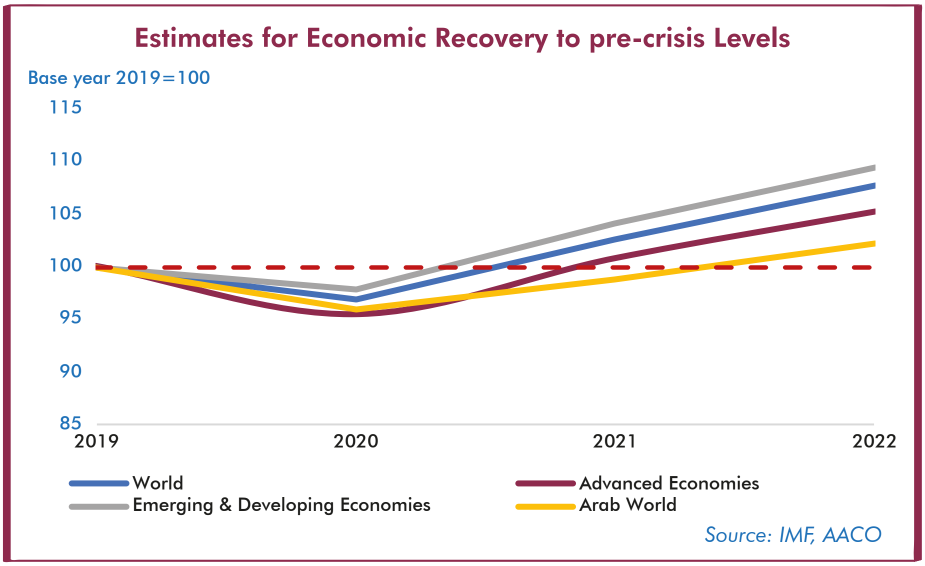
Source: AACO and Various Sources

The Economy

The Impact of COVID-19 on the Economy & Estimated Recovery Time (Global and Regional)

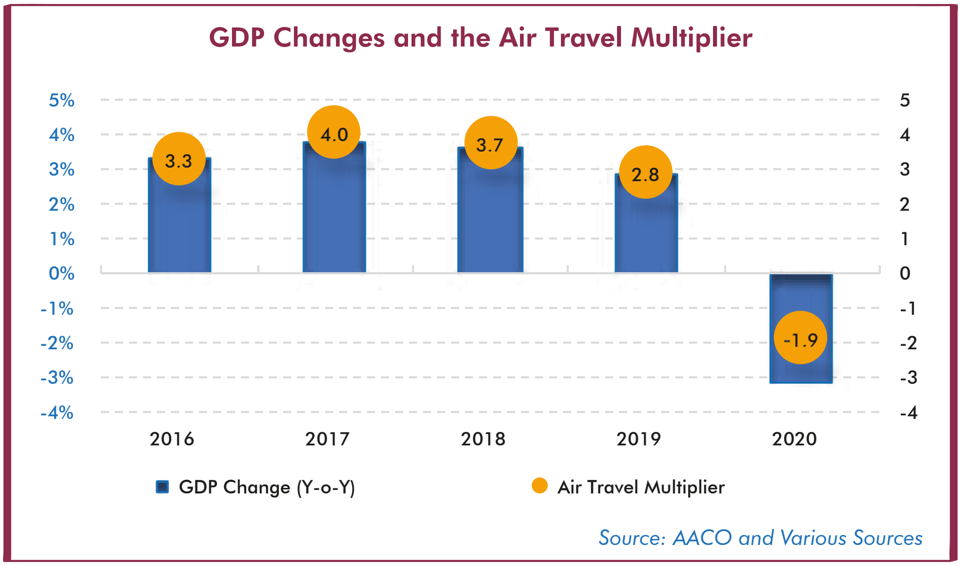


2020 witnessed the worst economic crisis since the Great Depression in 1929. The timing of the crisis was very delicate as the global economy was still suffering the consequences of the trade war between the U.S. and China and elevated geopolitical tensions. On top of that, the crisis triggered nationwide lockdowns, bringing business activity to a complete stop. As a result, **global GDP shrunk by 3.2% in 2020 compared to 2019**. Despite the generous fiscal support packages enacted by advanced economies, the group's GDP **declined by 4.6% in 2020 compared to 2019**, followed by the **Arab world declining by 4.1%**, and finally emerging and developing economies' **GDP declined by 2.1%**. It is worth mentioning that the decline in economic output of emerging and developing economies was cushioned by the expansion of **China's GDP by 2.3% in 2020 compared to 2019**.



Based on the data indicators collected until 1 October 2021, the global economy is estimated to **recover to pre-crisis levels by the end of 2021 (see left chart)**, which is mainly driven by a vaccine-related resumption of business activity, mainly across advanced economies. **As for the Arab world**, output losses caused by the crisis in 2020 have been larger than in other countries due to the region's reliance on oil exports and the services industry (mainly travel and tourism). Therefore, **economic recovery to pre-pandemic levels is not expected before 2022**.

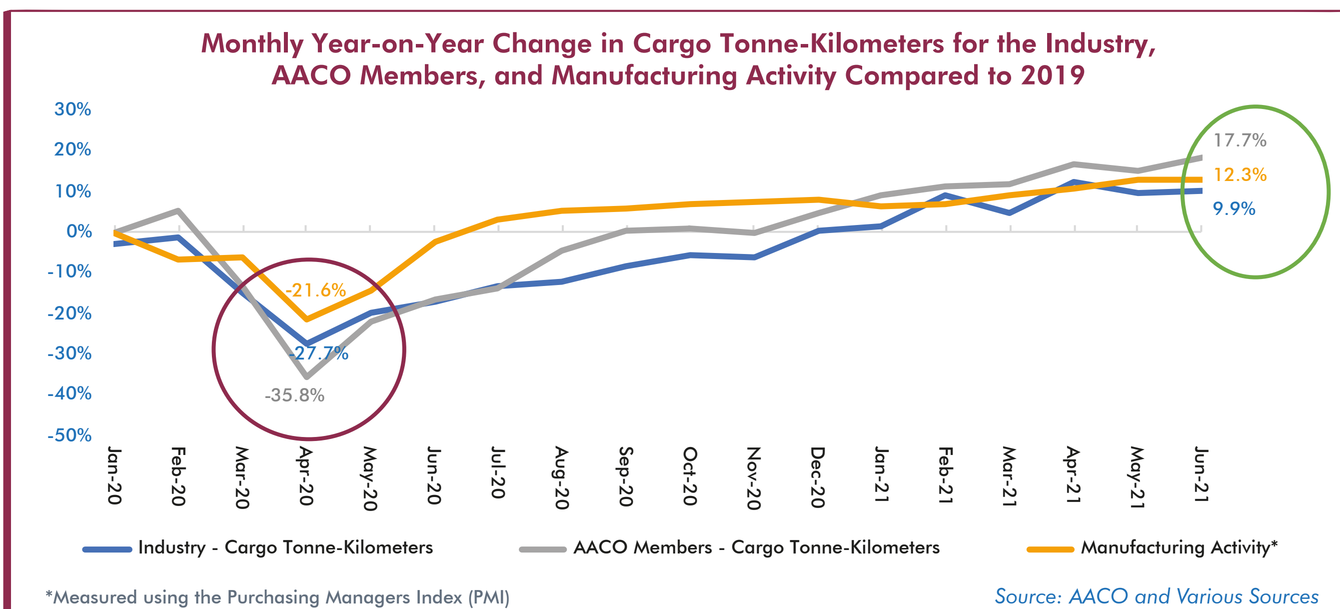
Changes in the Economic Multiplier of Aviation



The COVID-19 crisis not only affected the airline industry in terms of decline in passenger traffic and revenue losses, it also had repercussions on the effectiveness of the sector to generate added value to other sectors. **In 2017, air travel demand grew by 8.0% measured in RPKs driving the economic multiplier of aviation to reach 1:4**. That number descended gradually in 2018 and 2019 reflecting a slowdown in economic and travel demand growth at the same time.

Looking at 2020, with the significant drop in airline revenues amid weak travel demand, **the economic multiplier of aviation turned negative to reach -1.9**. The multiplier is expected to improve in 2021 with the increase in airline revenues, but will possibly remain negative reflecting weak economic and social conditions.

Trade and Cargo Updates

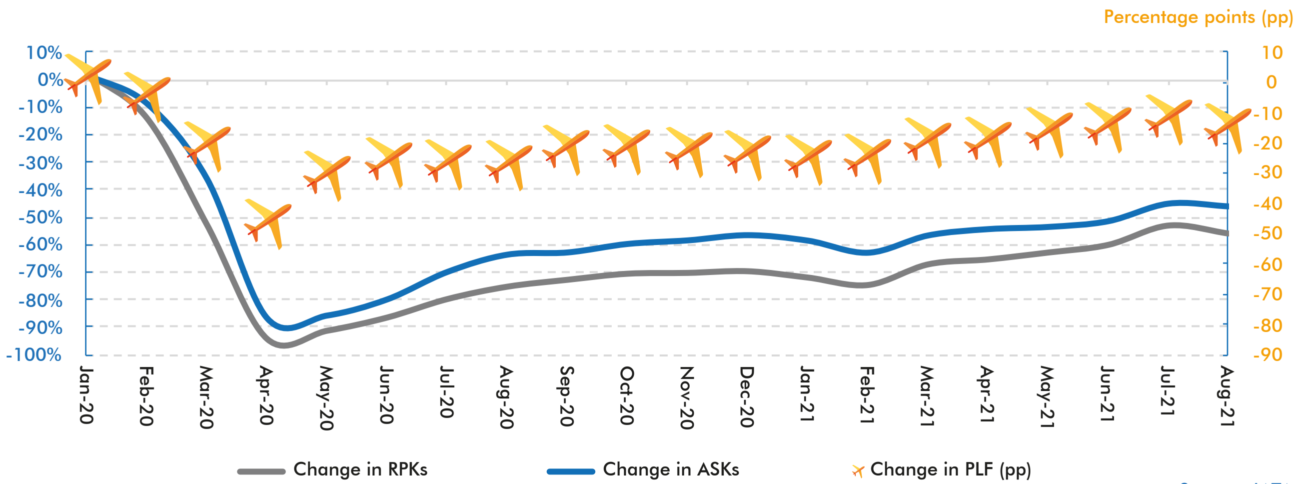


Similar to passenger traffic, trade and air cargo operations took a significant hit due to the spread of COVID-19. However, **the impact was short-lived** and mainly concentrated between March and May, followed by a V-shaped recovery. Overall yearly decline in **2020 compared to 2019 reached 9.1%**, the largest decline since the global financial crisis in 2009. Similarly, AACO members' Cargo Tonne-kilometers (CTKs) **declined by 8.2% in 2020 compared to 2019**. In 2021, trade and air cargo activity (for both the industry and AACO members) exceeded 2019 levels, where AACO members registered a **double-digit increase in June 2021** compared to June 2019 (see above chart).

Travel & Tourism

Impact of COVID-19 on Air Travel Demand and Estimated Recovery Time (Global and Regional)

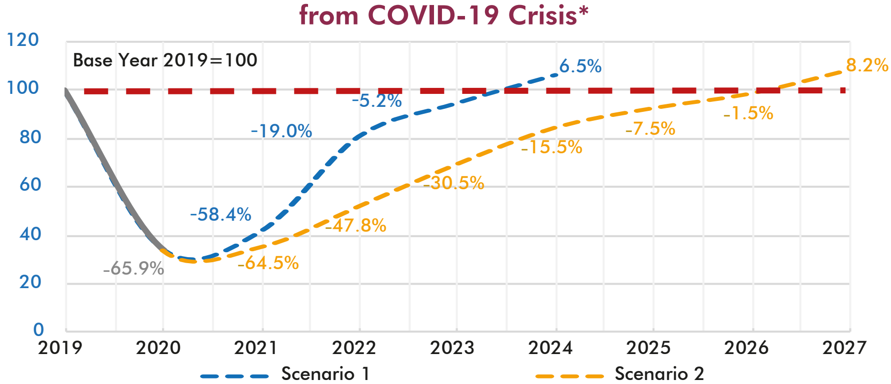
Monthly Year-on-Year Changes in Global Total Passenger Traffic (RPKs), Seat Capacity (ASKs), and Passenger Load Factor (PLF) for the Industry compared to 2019



Source: IATA

In 2020, the aviation industry witnessed its worst crisis since the first flight took off in 1914. The COVID-19 pandemic resulted in border closures and restrictions on mobility leading to a decline in **global passenger traffic measured in RPKs and available seats measured in ASKs by 65.9% and 56.7%**, respectively when compared to 2019. Furthermore, the absolute number of passengers **dropped by 60.2%**, reaching 1.8 billion passengers, a number that is almost equivalent to 2003 passenger traffic levels. In the first half of 2021, **RPKs and ASKs dropped by 66.7% and 56.4%**, respectively, when compared to the same period in 2019, mainly affected by the fragmented travel measures, restrictions applied on international travelers in some countries, the emergence of new COVID-19 variants, and slow vaccination campaigns in major travel markets.

Estimates of Time for Recovery of Global Traffic from COVID-19 Crisis*

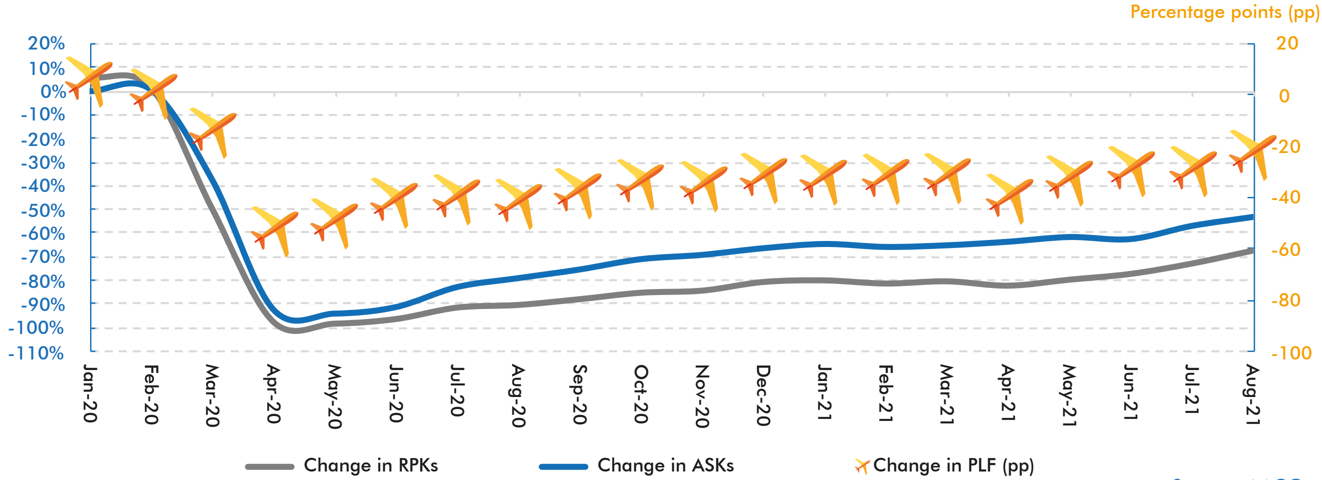


*Data points compared to base year 2019, dotted lines represent estimates

Source: AACO and Various Sources

As for the time needed for the airline industry to recover from the COVID-19 crisis in terms of passenger traffic (measured in RPKs), we have developed two recovery scenarios. **Based on Scenario 1, recovery of global traffic to pre-pandemic levels occurs in 2024**, assuming economic recovery at different speeds in different major markets, and better government support, steady inoculation in major population centers concerned (which is currently the case), and states applying more harmonious biosafety risk-based measures, as per international guidelines. However, if we witness a new spike of COVID-19 infections globally (caused by the emergence of new virus strains), a slowdown in economic recovery, states re-instating travel restrictions, and widespread inoculation delayed until the end of 2023, affected by supply constraints, **Scenario two is most likely to occur. This might delay traffic recovery until 2027**.

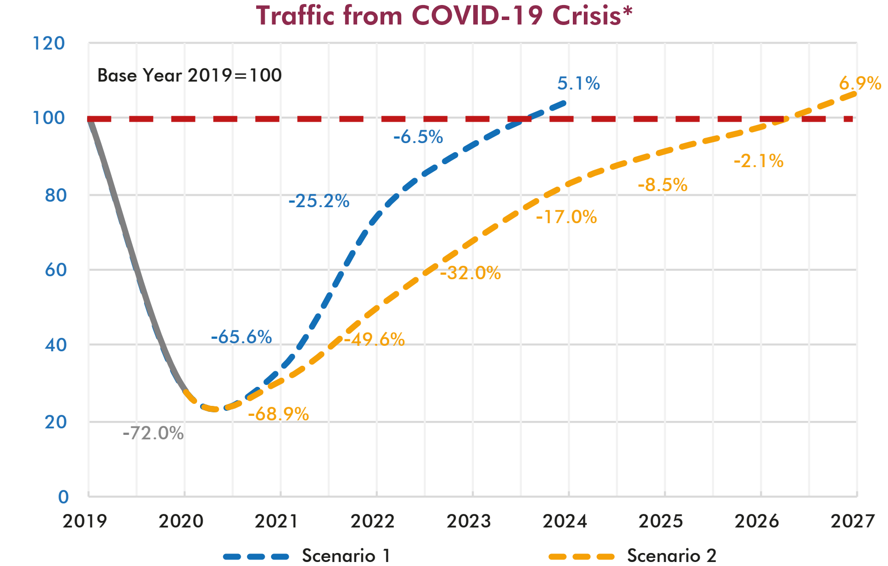
Monthly Year-on-Year Changes in AACO Members' Total Passenger Traffic (RPKs), Seat Capacity (ASKs), and Passenger Load Factor (PLF) for AACO Members compared to 2019



Source: AACO

AACO members' passenger operations took a hit even bigger than the industry due to the pandemic. Passenger traffic measured in **RPKs and seat capacity measured in ASKs declined by 72.0% and 63.5%, respectively, in 2020 compared to 2019**. In H1-2021, despite the decrease in COVID-19 cases and easing of border restrictions in some countries, AACO members' **passenger traffic dropped by 80.0% compared to H1-2019**, reflecting weak passenger demand on international routes where travel health requirements are highly weighing on travel demand, unlike domestic markets (especially in the U.S. and China), which are witnessing a strong recovery.

Estimates of Time for Recovery of AACO Members' Traffic from COVID-19 Crisis*



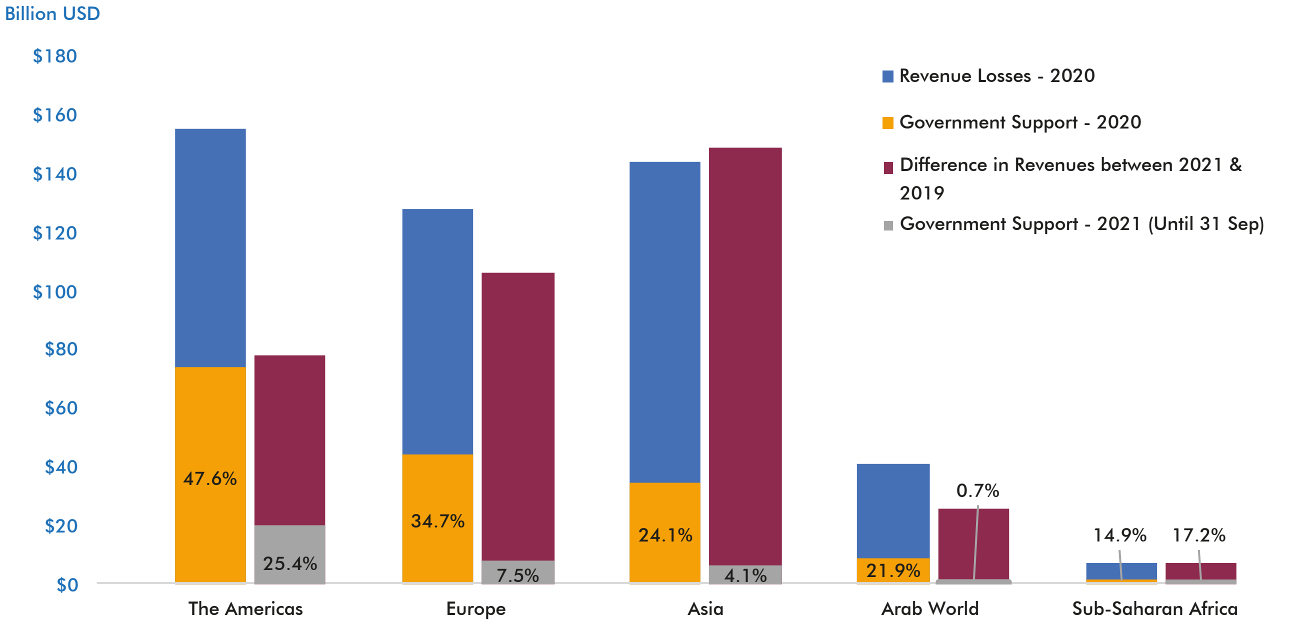
*Data points compared to base year 2019, dotted lines represent estimates

Source: AACO and Various Sources

As for the estimates of time for recovery of AACO members' passenger traffic to pre-crisis levels (2019), assumptions similar to the global traffic were applied on AACO members' reported data. Based on Scenario 1 (discussed earlier), **AACO members' traffic recovery to pre-pandemic levels might occur in 2024**. As for Scenario 2 (assumptions discussed earlier), **traffic recovery can be delayed until 2027**. It is worth mentioning that the **recovery trend of global traffic is better than that of Arab airlines** due to the recovery of domestic demand in major travel markets, mainly China and the United States.

Financial Performance of the Industry and AACO Members

Loss of Revenues of Airlines Versus Confirmed Government Support in 2020 & 2021 (Until 31 September 2021)



Labels represent government support as percentage of airline losses

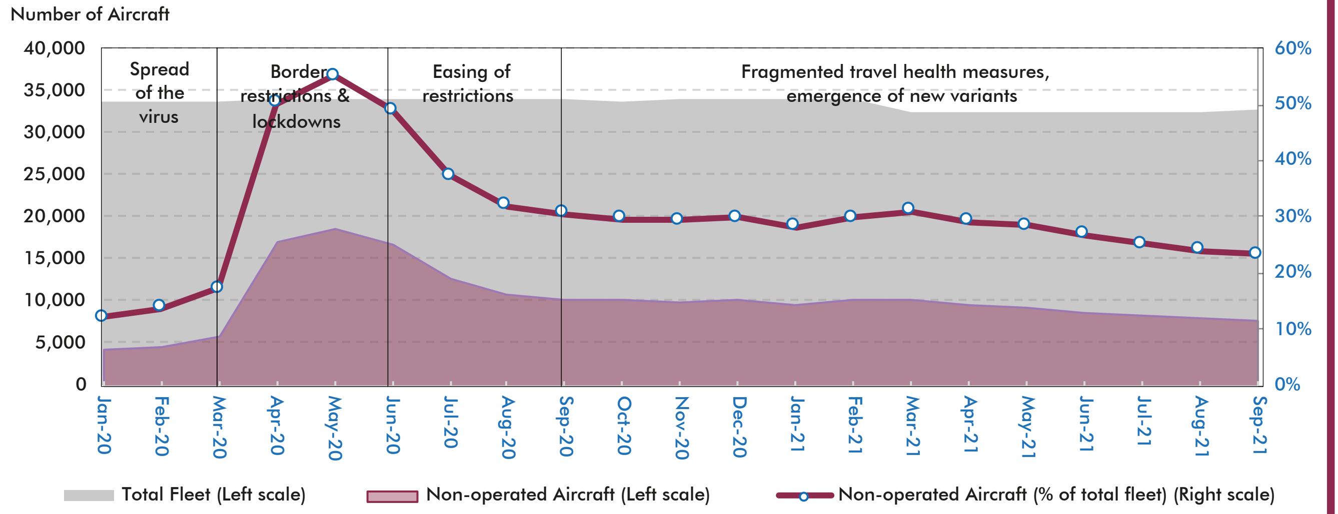
Source: Ishka Global, IATA, AACO

In 2020, airline revenue losses reached USD 465 billion, with an operating margin of -28.2%. Globally, airlines received a total of **USD 163.3 billion in government support**. Most of the support provided to airlines globally in 2020 was in the form of **debt (50.4%), grants (27.0%), Equity (17.1%), and other forms of support (5.5%)**. In order to cover the gap, airlines had to raise capital through loans from other external sources, increasing the total amount of debt to **USD 220 billion by the end of 2020**. As for 2021, the industry is expected to record **total revenues of USD 472 billion, which is USD 366 billion less than total revenues of 2019**, and with the limited government support, only amounting to **9.7% of the total revenue differences**, airlines remain at risk of bankruptcy. As for the Arab airlines, numbers are also pointing to liquidity shortages. In 2020, Arab airlines recorded an **operating margin of -38.9% and overall revenue losses that reached USD 41.1 billion**, with overall government support reaching 21.9% of total losses. This percentage declined to less than 1% when looking at estimates until 31 September 2021.

The increased level of debt coupled with weak demand in 2021 so far is putting further pressure on airlines' liquidity, leaving many at risk of bankruptcy if they did not receive enough support in the form of grants or long-term loans, especially in regions where government support is limited. For example, U.S. Airlines **benefited from USD 87 billion in government support, representing 73.0% of their total operating losses in 2020**.

Fleet Status (Global and Regional)

Global Fleet Status

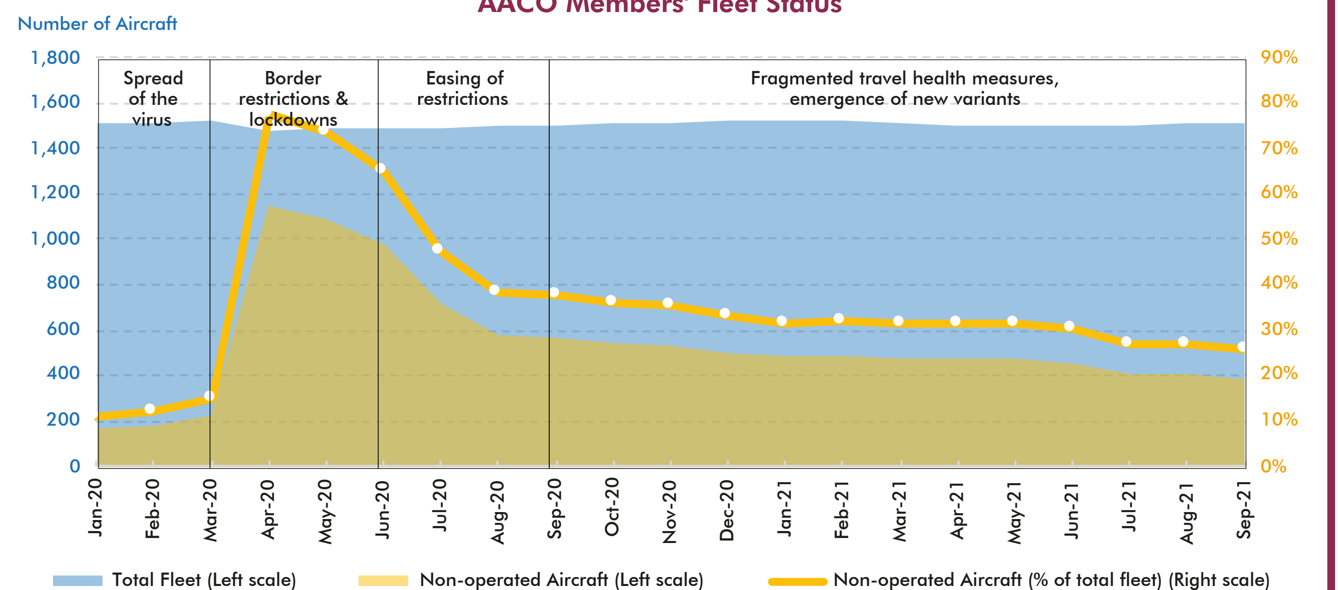


*Data is as of the first week of each month, aircraft having a maximum take-off mass of less than 9,000 kg (20,000 lbs) are not included

Source: Cirium Fleets Analyzer, AACO

Between April and May 2020, as the pandemic fiercely invaded countries around the world, air travel activity nearly stopped. During that period, the number of non-operated aircraft exceeded 50% of the global fleet. As countries started easing border restrictions during June 2020, more aircraft were activated to be used in passenger and cargo operations. **In July 2020, the number of non-operated aircraft represented 37.3% of the global fleet, and this share decreased to 23.3% in September 2021**.

AACO Members' Fleet Status



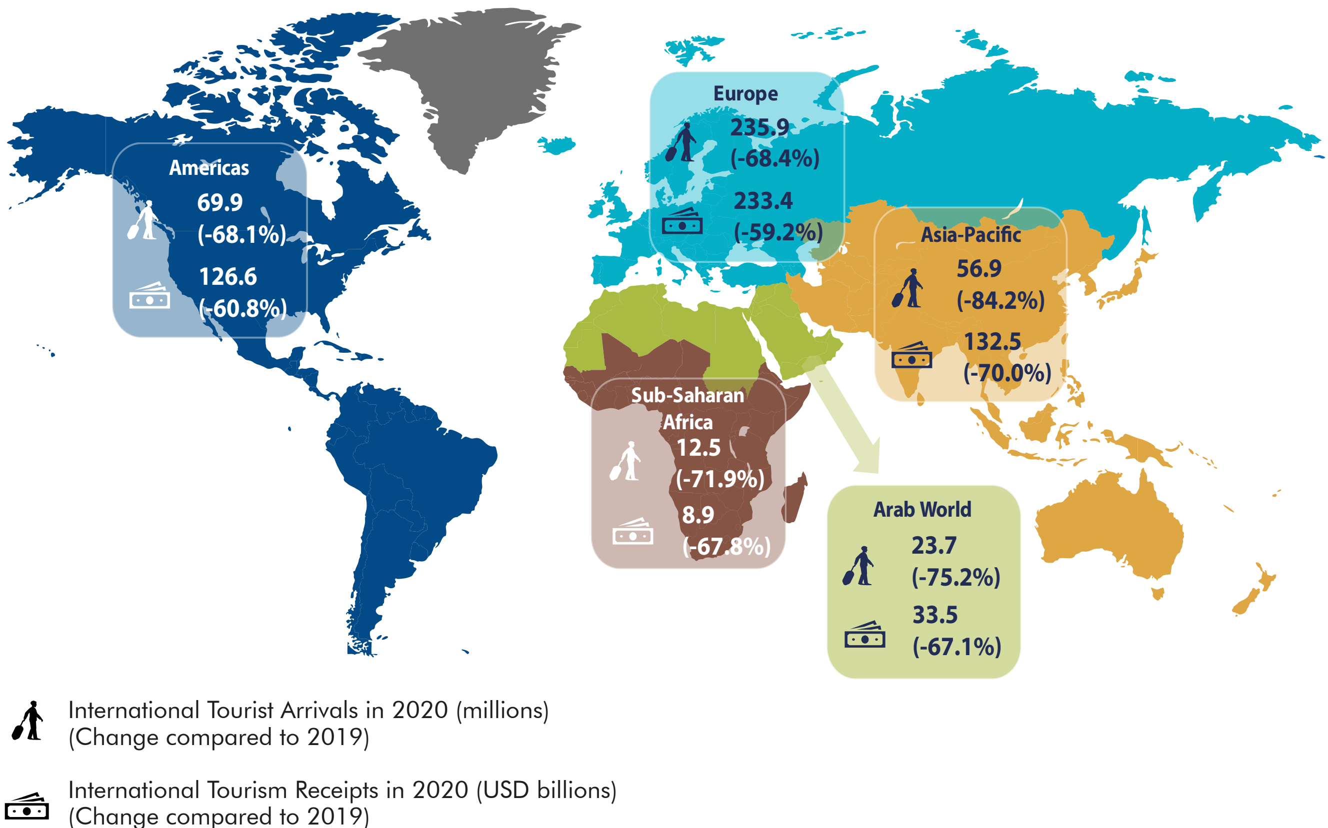
*Data is as of the first week of each month, aircraft having a maximum take-off mass of less than 9,000 kg (20,000 lbs) are not included

Source: Cirium Fleets Analyzer, AACO

Similarly, the total number of non-operated aircraft for AACO members is still above the share recorded in 2019. In September 2020, the share of non-operated aircraft from total fleet **reached 25.5% compared to only 11.0% registered in January 2020 before the crisis**. It is worth mentioning that in 2019, the number of **in-service wide-body aircraft was 29.3% higher than narrow-body aircraft, and in 2020 that gap decreased to reach only 18.3%**. This shows that AACO members are applying fleet utilization strategies to match the changes in demand levels.

Tourism Updates (per region)

International Tourist Arrivals and Tourism Receipts per Region in 2020



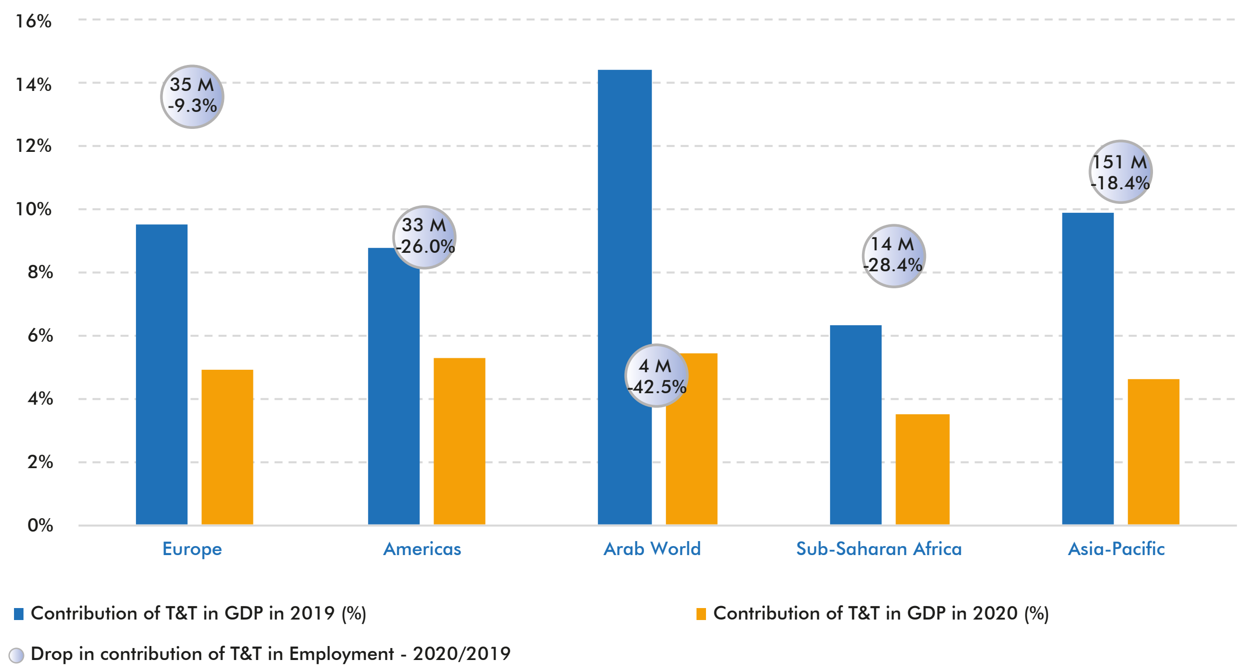
Source: UNWTO, AACO

In 2020, the tourism sector was also affected by the consequences of COVID-19, mainly affecting economies that are heavily reliant on tourism. Regions such as Asia-Pacific and the Arab world took the biggest hit from the pandemic (see the above figure). Globally, international tourist arrivals and international tourism receipts dropped **by 72.8% and 63.5%, reaching 399 million arrivals and USD 535 billion in receipts**, respectively, in 2020 compared to 2019. **As the decline in tourist arrivals outpace the decline in tourism receipts, the average spending per tourist declined from USD 1,000 to USD 746, which will add further pressure on revenue streams collected from tourism activity**.

Despite the positive sentiment of a near recovery of the tourism sector as vaccination roll-out started in 2021, the emergence of the delta variant and its rapid spread around the world forced governments to reinstate border restrictions. **Therefore, the number of international tourist arrivals dropped by 85.4% in the first five months of 2021, compared to the same period in 2019, indicating that tourism is still far from recovering**.

Changes in Travel and Tourism Contribution in the Economy

Impact of COVID-19 on the Contribution of Travel and Tourism in the Economy (per region)



Labels represent: Jobs supported by T&T in 2020, Drop in contribution to jobs in 2020/2019

Source: AACO and various sources

The Travel and Tourism (T&T) sector took the biggest hit from COVID-19 in 2020. The sectors' contribution in Global GDP dropped from **10.4% to 5.5% globally and from 14.4% to 5.4%** in the Arab world. Consequently, the number of jobs supported by the T&T sector globally dropped by **18.5% to reach 272 million jobs, down from 334 million** in 2020. As for the Arab world, the number of jobs supported by the sector decreased by **42.5% to reach around 4 million** in 2020 compared to 2019. The significant drop in jobs supported by T&T in the Arab world compared to the world is due to the fact that employees who are still on job support schemes were removed from the job losses number.

As mentioned in the previous pages, travel demand and tourism activity will need some time to go back to 2019 levels. **Consequently, the travel and tourism sector will not recover to pre-crisis levels in terms of employment and GDP contribution anytime soon**.

Dealing with COVID-19 from an Aeropolitical Perspective

As it is evident in the previous section of this report, air transport and tourism were the hardest hit by the impact of COVID-19 pandemic.
Before the pandemic, the Travel & Tourism sector contributed by 10.4% of global GDP. In 2020, this dropped to 5.5%.
Air transport supports all other sectors of the economy. It is a global sector that is facing a global crisis; hence, global solutions were necessary to ensure that the sector and consequently the economy would recover in the fastest way possible while managing the health risks of the COVID-19 pandemic.
Scientific and medical updates, global biosafety travel guidelines, governments' approach to air transport, and the consumers' perspective on air travel in association with the pandemic, all dictate the progress of recovery of air travel demand.
Below are the latest updates and AACO's work in those critical areas.

Science and Medical Update

- COVID-19 Vaccines rollout started end of 2020.
- So far around 44% of the global population is inoculated.

- New COVID-19 variants have been emerging.
- New waves of infection happened throughout the world.

COVID-19 is turning into an endemic which may stay with us for several years until enough percentage of the population of the world is inoculated to achieve herd immunity.

Science has proven that, with the biosafety measures taken by aviation stakeholders, the risk of transmission of the virus is almost non-existent in air travel processes, and the overwhelming exposure to the virus is not caused by air travel but rather by social behavior.

Global and Regional Air Travel Biosafety Guidelines

Guidelines for air travel biosafety measures by the World Health Organization (WHO) and the International Civil Aviation Organization (ICAO) under the umbrella of ICAO Council's Aviation Recovery Taskforce were published and updated when needed.

The fourth edition of ICAO CART's guidelines was published in October 2021.

The guidelines and recommendations were based on new developments at the medical and scientific levels and on the experience gained since the beginning of pandemic.

Harmonized approach to facilitate international travel and entry of fully-vaccinated and recovered passengers

Emphasis that vaccination should not be a mandatory requirement for travel

Guidance on testing strategies

Guidance on vaccination practices

Testing, recovery, vaccination evidence should be issued in an internationally interoperable format. This could be based on the WHO International Certificate of Vaccination or Prophylaxis (ICVP)

Percentage of immune persons was added as one of the elements to assess risks

Resolution by the Arab League's Economic and Social Affairs Council:
In the Arab region, the Arab League's Economic and Social Affairs Council adopted a declaration of general principles for a criterion on biosafety travel measures and the mutual recognition of vaccination certificates between states based on the joint guidelines by ICAO and the WHO. This follows collaborative efforts by concerned organizations in the region, namely; the Arab Tourism Organization, Arab Civil Aviation Organization, AACO, and IATA.

Consumers' Perspective on Air Travel and COVID-19

The public is ready to travel and feels safe with vaccination, testing, and air travel biosafety measures. Travelers require transparency and harmony in states' requirements for air travel.

- COVID -19 will not disappear, and we need to manage its risks while living and traveling normally.
- Aircraft are thoroughly cleaned and disinfected, and that the air quality on a plane is as clean as an operating room.
- They will not travel if there's a chance of quarantine.
- Support globally standardized COVID-19 certifications.
- Border closures should end as testing and vaccine capacity increases. These seem unnecessary as imposing them has not contained the virus.

Source: Survey by IATA & Rockland Dutton

Pillars for Faster Recovery of Air Transport

AACO has worked at the individual, regional, and global levels, under the directives of its AGM, the recommendations of relevant working groups of its membership, and in cooperation with partner organizations and associations in order to support the recovery of air transport from this unprecedented crisis. The following factors have been identified as enablers of a faster recovery for the sector which were the basis of AACO's work in this area:

01 Speed of Economic Recovery

Global economic recovery is mainly tied to vaccination campaigns. The faster the economy recovers the speedier air travel goes back to normal. The other way also applies.

02 Inoculation Rates

Wider and faster inoculation rates play a major role in the recovery of the sector. The higher the vaccination rate the lower is the risk of transmission of the virus and more trust by governments to ease restrictions on air

03 Transparency in Measures

When adopting travel procedures, governments need to be transparent about the criterion followed and involve aviation stakeholders in discussions leading to measures implemented on air transport.

04 Harmony in Biosafety Measures

States need to apply harmonious biosafety risk-based measures as per the guidelines of ICAO & WHO, while easing up travel restrictions.

05 Recognition of Certificates

Health certificates issued by countries need to be recognized by other states. Dialogue and talks between states to reach mutual recognition is essential.

06 Financial Support to the Sector

Air transport is a major contributor to economic development. Airlines and other aviation entities need to receive more financial support to be able to sustain their operations and play their role of connecting the world.

07 Air Services Agreements

Existing air services agreements should be the basis for opening travel with any other country. When establishing Public Health Corridors as temporary measures, air services agreements should be the base of these corridors.

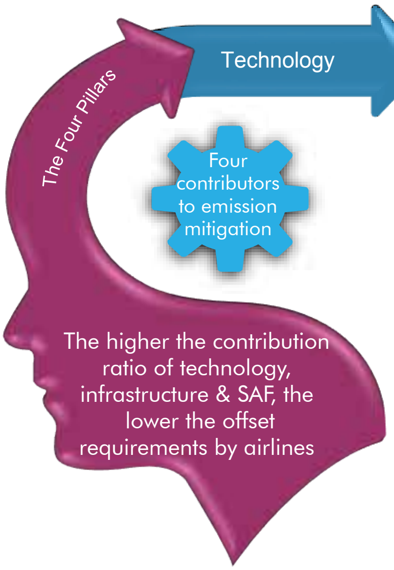
08 Technology

Stakeholders, including governments, need to work towards having travel processes digitized in one platform which allows the integration of passengers' travel and health data with thier biometrics.

Aviation and Climate Change

Setting the Scene

- Climate Change has stayed high on the agenda of the world even when the world is facing its most extreme crisis due to the spread of the COVID-19 virus.
- The aviation industry is under enormous pressure to set a more ambitious long-term goal than achieving half of 2005 emissions by 2050, as several countries and airlines have announced reducing their own emissions to zero net levels between 2035-2050.
- Climate Change is of a global nature, and it needs global unified solution. The aviation industry recently adopted a collective target to achieve net-zero carbon emissions by 2050. Similarly, Arab airlines will be announcing the 2050 long-term environmental target as a joint responsibility for all stakeholders in civil aviation.
- On the other hand, green taxation on the aviation industry is proliferating, while unilateral market-based measures are re-emerging, such as the proposed changes of the EU Emissions Trading Scheme that includes in its proposed scope international flights that are also under the scope of CORSIA.



When the industry's environment targets were agreed upon by the governments of the world under ICAO umbrella, it was based on having all aviation stakeholders contribute to those targets. That includes governments, fuel suppliers, technology partners, airlines, and airports under a basket of measures for reaching the environmental targets of the industry.

The Scene After 5 Years of adopting CORSIA

States' Commitment to CORSIA: 107 states will participate in CORSIA starting January 2022 compared to 88 states that participated from January 2021.

Airlines are monitoring, reporting, and verifying their emissions as of 2019. Airlines have since then prepared and sent their MRV reports to their respective states whom in turn compiled those reports into aggregated ones and submitted to ICAO.

Carbon offsetting has started in 2021 based on a baseline* of the year 2019.

*ICAO Council has changed the baseline from the average of 2019-2020 to 2019 (for the pilot phase 2021 – 2023) due to the halt of aviation operations in most countries of the world in 2020 due to the COVID-19 pandemic.

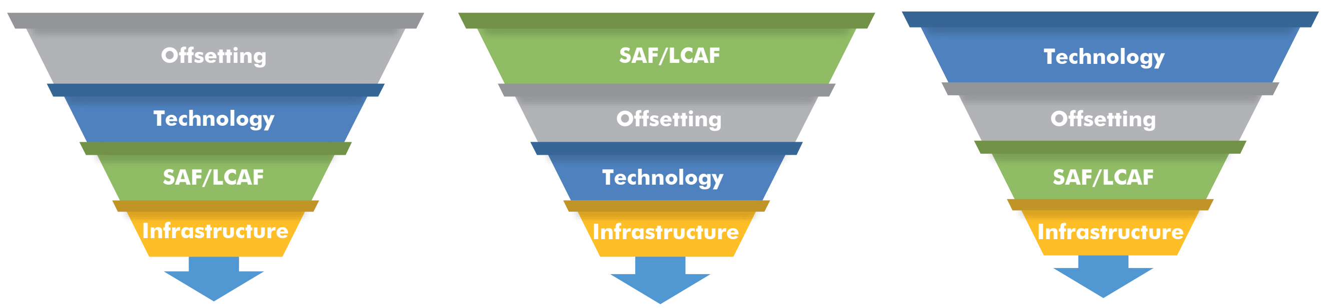
The landscape after 11 years of adopting the basket of measures to achieve civil aviation's climate change goals

- SAF/LCAF not commercially available yet, with a patchwork of national mandates for SAF
- Technological advancements are still in the experimental phase lacking necessary developments for long-haul operations
- No Infrastructure developments
- Unilateral market-based measures on the rise
- More taxation on aviation under the climate change banner

Aviation's Environmental Long-Term Goal

A long-term goal is expected to be high on the agenda of the civil aviation world at ICAO's Assembly in 2022. The aviation industry will be able to mitigate international carbon emissions in 2050 based on three scenarios for the contribution of the stakeholders, namely: technology partners, fuel suppliers, governments & airlines.

Scenario 1 Incremental Contribution	Scenario 2 High SAF Contribution	Scenario 3: High Technology Contribution



We used the following assumptions in order to assess the impact on the airlines if other stakeholders did not join in with carrying the responsibility of the aviation environmental long-term goal.

Scenario 1	Scenario 2	Scenario 3
• Incremental technological improvement • Slow deployment of SAF/LCAF • No infrastructure development	• High contribution of SAF/LCAF at what cost? • Incremental improvement of technology • No infrastructure development	• Technology to deliver 42% • SAF/LCAF to deliver moderate contribution • Offsetting requirement is moderate

The results are for each of the above assumptions

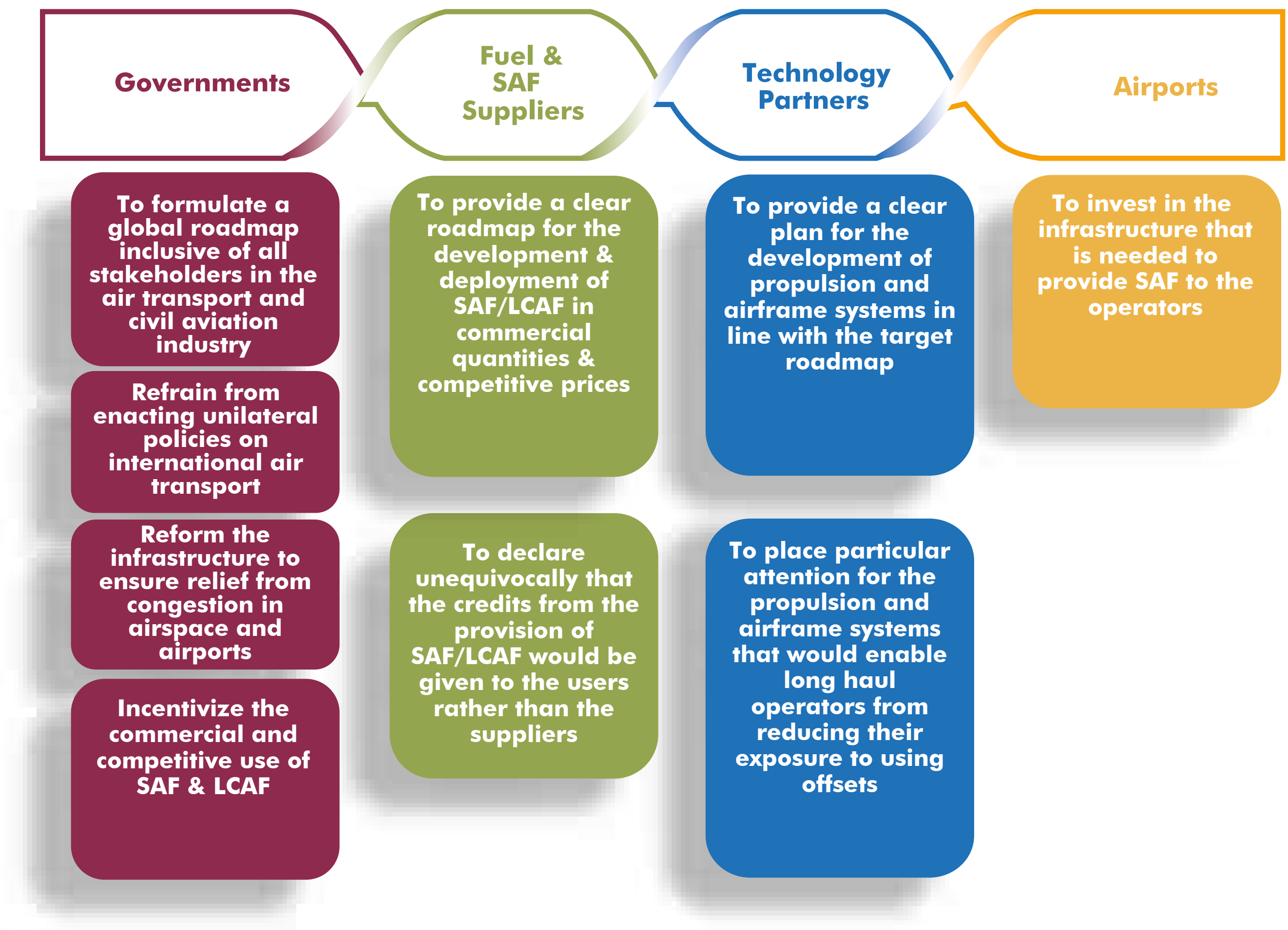
Scenario 1	Scenario 2	Scenario 3
• Offsetting will be the major contributor to the target • Much higher cost / suppressed demand • Lower contribution to economic growth	• Moderate offsetting requirements • Higher cost until SAF/LCAF reaches crossing point with fossil • Lower growth / Impact on economy	• Moderate offsetting requirements • Higher cost until SAF/LCAF reaches crossing point with fossil • Lower growth / Impact on economy

However, there will always be challenges that will add additional burden on the airlines

Challenges

Unilateral measures	Taxation	Double counting	High offsets	Accreditation & certificates	Government support	Investment in other pillars

What is Needed to Reach the Aviation Environmental Long-Term Goal



AACO's Work

- AACO continues to support its members airlines' commitment of carrying out their responsibilities in the fight against climate change.

- AACO continues to advocate that market-based measures (MBMs) should not be applied unilaterally and that international aviation carbon emissions should not be accounted for more than once.

- AACO members established a Sustainable Aviation Fuel Task Force with a mission of increasing awareness of the members on SAF/LCAF related issues; following up on developments; and developing actions as necessary.

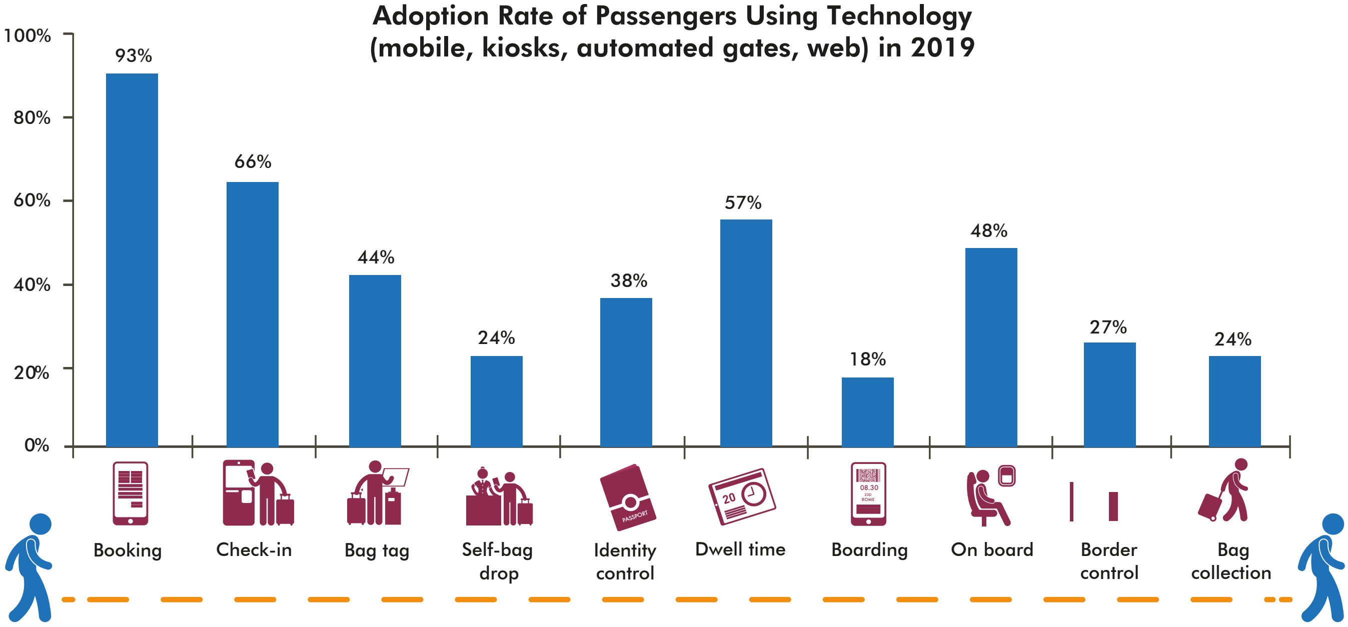
- AACO Environmental Policy Group and Aeropolitical Watch Group continue to collaborate to bring awareness to members on latest climate change developments, advocate for the engagement of all aviation stakeholders in reaching aviation climate change goals, and engage with those stakeholders, including governments where necessary.

Digitizing Air Travel

Consumers across the board now expect fully digitized processes in all aspects of life, including air travel, which will benefit airlines and the entire air travel ecosystem. Once processes are digitized, they will primarily lead to the removal of bottlenecks, resulting in a smoother passenger traffic flow, easier interaction with travelers, and faster processing times, all of which will increase customer satisfaction rates and, as a result, customer loyalty.

Passengers want a touchless experience at every stage of their journey. As shown in the graph below, the results of a survey conducted by SITA of passengers from 27 countries across the Americas, Asia, Europe, the Middle East, and Africa, representing more than 75 percent of global passenger traffic, clearly demonstrate the passenger adoption rate of technology.

Adoption Rate of Passengers Using Technology (mobile, kiosks, automated gates, web) in 2019



Source: SITA Passenger IT Insight 2020

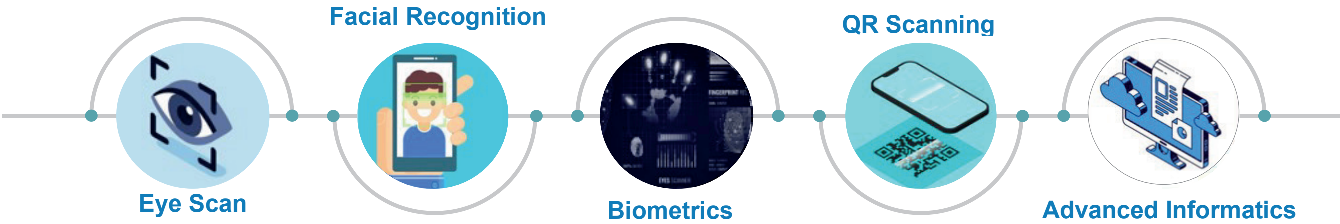
Impact of the Pandemic

With the airline industry slowly recovering, the importance of passenger safety was greater than ever due to the ongoing complications caused by the Covid-19 pandemic. Digitization was identified as a key enabler to handle the pandemic by minimizing touching and thus containing the spread of the virus, as well as to a faster restart and recovery by digitizing the services offered by all stakeholders.

Many travel stakeholders have shifted to contactless payment options, online booking, and virtual boarding passes to reduce the need for passengers to interact with staff and surfaces, and some airports have taken this a step further by incorporating biometric technology. Providing a completely contactless experience for passengers will allow them to feel confident while traveling while also providing airlines with a more efficient way of checking-in passengers.

Benefits of Touchless Technologies

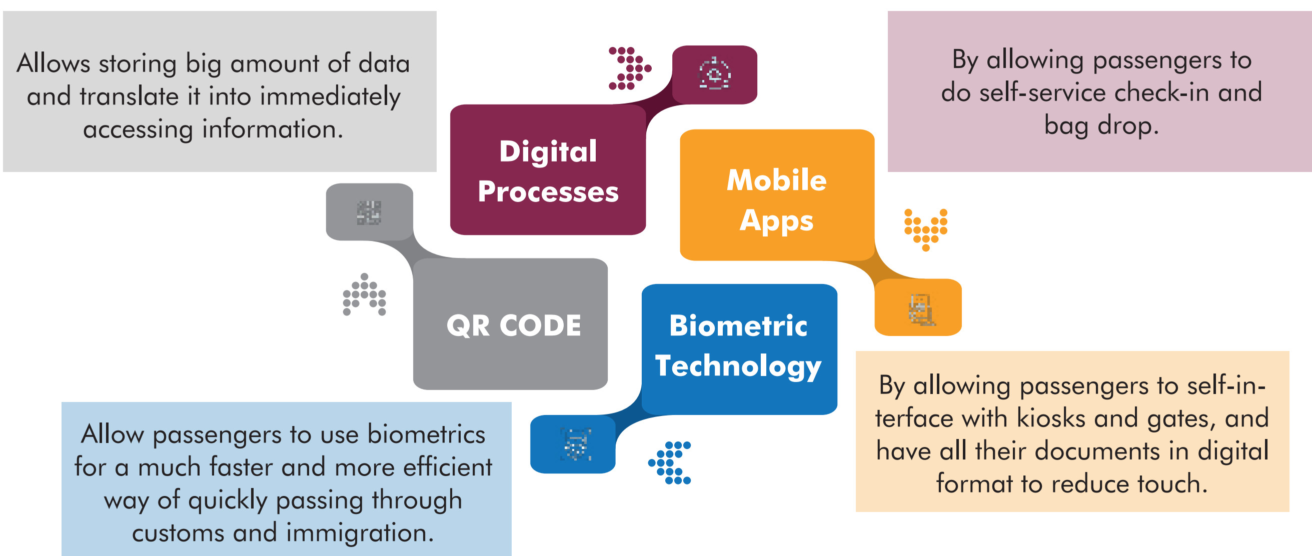
The Different Types of Touchless Technology



Technological advancements currently being used to improve air travel processes.

Touchless technologies are used in air transport in two ways: digital services, which convert manual processes into digital ones, and biometrics, which use body measurements and calculations related to human characteristics for authentication, identification, and access control. These two have a wide range of applications and uses, and they provide numerous benefits to the entire ecosystem.

Although the road to a comprehensive digital transformation in air travel appears long, we are on the right track, and what is now required is the rapid adoption and implementation of that transformation in a broader and, most importantly, harmonized manner.



Where are we now and what is still missing

- The current pandemic has accelerated technological conversions to touchless processes.
- Many governments and airlines have adopted digital health and travel apps on their own.
- IATA launched its Travel Pass app, which covers a wide range of travel processes.
- Those conversions are being implemented by airlines and airports individually and, in some cases, collectively.
- However, we are still a long way from saying that traveling is a hassle-free experience.

- Despite the adoption of technological conversions, there are bottlenecks and a lack of adoption by immigration authorities.
- Travelers must be able to complete all processes using a single application.
- Using digital identities to ensure that travelers move smoothly and safely across all touch points.
- Interoperability, Global Standards & Framework, and Biometric Data Privacy are critical success factors for a single digital identity.

The only way to accomplish this is for governments, immigration authorities, airports, and airlines to work together.

Effective Cooperation and Awareness

The challenges that the current pandemic has put before AACO member airlines has triggered the importance of raising members' awareness on the developments of its impact on air transport globally and in the region and the effective cooperation between member airlines through the work of AACO's steering boards, task forces and working groups. AACO also continued using the e-environment that is highly needed during the pandemic through using the e-learning platform by AACO's Regional Training Center and hosting relevant virtual webinars.

Working under the Umbrella of AACO's Steering Boards, Task Forces, and Working Groups

AACO's groups held virtual meetings throughout the year where each group identified the areas of focus within its scope of expertise in order to tackle issues related to the pandemic itself as well as other industry issues that have a direct effect on member airlines. Below is a brief of the issues that were identified by the various groups and which were the basis of AACO's joint work with the airlines throughout the year.

Aeropolitical Watch Group

The Aeropolitical Watch Group continued to work on the pillars for the recovery of air transport from COVID19 by collaborating to communicate with decision makers in Arab countries, namely finance ministers, transport ministers, and health ministers to advocate for regulatory, biosafety and financial policies that ensure a smooth recovery of the air travel sector while managing COVID-19 risks.

The group called for harmonious and risk-based biosafety air travel measures that rely on recommendations by the World Health Organization and the International Civil Aviation Organization. Advocacy work was also done on a regional level, under the umbrella of the League of Arab States, in cooperation with relevant regional organizations, and on a global level in collaboration with relevant international organizations.

Environmental Policy Group

The Environmental Policy Group advocated the need to continue using 2019 as a baseline for the remaining periods of CORSIA similar to what was adopted for the first pilot phase since ICAO has announced the first periodic review of the scheme and the baseline amongst other issues will be subjected to that review.

On the other hand, and with the increasing pressure put on the airline industry to adopt a more ambitious environmental target for aviation, the group emphasized its commitment to climate change and their will to mitigate aviation's emissions emphasizing that achieving aviation's environmental long-term goal should be the joint responsibility of all stakeholders in civil aviation and have identified what is needed in order to achieve the zero net emissions.

Moreover, and on the issue of national states initiatives, the group identified the extraterritoriality aspects in the proposed EU fit for 55 legislations and agreed to conduct an advocacy campaign with ACAO, IATA and the Arab Civil Aviation authorities highlighting the potential broader impact of those legislations.

Emergency Response

The work of the ERP group was mainly focused on updating the ERP manual with the new capabilities and the contact directory. Additionally, the group focused on the importance of sharing experience among member airlines and with other industry stakeholders, and this was fulfilled by holding several webinars with industry stakeholders.

As part of AACO's mandate to enhance safety and ensure awareness and preparedness of member airlines, AACO and several other industry stakeholders, are working together to issue a comprehensive booklet that acts as guidance material for the proper execution of ERP operations during the COVID-19 crisis and possible future scenarios which are similar.

Aviation Security (AVSEC Advisory Group)

As a proactive approach to tackle unruly behavior by passengers, the AVSEC Advisory Group continued to monitor the trends in unruly behavior and share best practices that can be beneficial for member airlines. In addition, the group continues to work on developing guidance material to mitigate cyber threats.

Engineering & Maintenance

The Engineering & Maintenance groups continued to work actively on two initiatives. The first one is the Loans and Exchanges initiatives where the team has finalized the Materials Support Agreement, which will be signed by interested carriers at AACO 54th AGM. The second initiative is the Purchasing initiative, where the team is doing the necessary preparations to launch a new tender in 2021 after freezing the initiatives' activities in 2020 due to COVID-19.

Human Resources

AACO Human Resources Development Steering Board transferred some of AACO Regional Training Center's classroom courses to e-learning modules, which were conducted through a virtual e-learning platform. The Board has intensified its efforts to conduct a series of training courses using virtual classrooms/e-learning platform on health measures and implementation processes. The Board also called for collaboration with aviation medical professional organizations to conduct virtual training on several topics related to COVID-19.
The AACO Regional Training Center (RTC) continued to provide support to human resources capabilities of aviation personnel in the region. In 2020, the center held 67 courses, attended by 906 trainees and five free workshops and webinars attended by 370 participants. 119 scholarships were granted from the RTC to member airlines in addition to securing 2 scholarships from the European Aircraft Manufacturer ATR for the Part-time Executive MBA program with specialization in Aerospace Management at Toulouse Business School.

AACO Amadeus Steering Board

AACO Amadeus Steering Board identified that the future travel landscape will heavily rely on technology, especially in the area of touchless technology. The group called for having the right technology to cope with the new requirements of biosafety.

Fuel Project

The Fuel Steering Board monitored the impact of the COVID19 pandemic and worked on the recovery process on fueling operations. In addition, AACO's Aviation Fuel Advisory Group raised awareness on jet fuel updates through various modes of networking and communication.

Sustainable Aviation Fuel Task Force

AACO established the Sustainable Aviation Fuel Task Force to increase awareness of the members on SAF related issues; follow up on developments; and develop actions as necessary.

Ground Handling

The Ground Handling Steering Board monitored how the handling market changed due to the severe impact of the crisis on ground operations and worked on cooperation initiatives to mitigate that impact.

Webinars and Forums Jointly Organized by AACO and Partners Throughout the Year

30 March, 2021

AACO / IATA MENA Aeropolitical Forum

Building Resilience in Times of Disruption

27 September, 2021

AACO & IATA Business Technology Forum

A Needed Paradigm Shift… Making Travel Easier, Hassle-Free & Simple

5-6 October, 2021

AACO's 10th Aviation Fuel Forum

De-Carbonization of Aviation

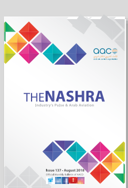
Webinars:

Several webinars were held with AACO Industry Partners to showcase innovative solutions or solutions that assist members in the recovery of the current situation.

Publications

AACO Annual Report

Arab Air Transport Statistics "AATS"



The Nashra

Regulatory Update

Fuel Bulletin

Safe & Level

Weekly Web News

TopView

Analytical Reports on the Impact of COVID19 and AACO's Strategy & Priorities in Supporting the Recovery of Air Transport

Last updated on October 28, 2021

Sponsored by

SITA

Production and Supervision: AACO Secretariat General

الإتحاد العربي للنقل الجوي

aaco 54th AGM

الجمعية العامة الرابعة والخمسون

10 - 12 November 2021 - Doha - Qatar

85 Anis Nsouli Street, Verdun
P.O.Box: 13-5468
2044-1408 Beirut – Lebanon
Tel: +961 1 861 297/8/9
Fax: +961 1 863 168
www.aaco.org