Annual Report

Arab Air Carriers Organization

46th Annual General Meeting – Qatar

Vision

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

Mission

To serve the Arab airlines, represent their common 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.

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 enhances the 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 Traceable synergistic targets (SMART) that serve its objectives.

AACO Executive Committee

H.E. Mr. Akbar Al Baker
AGM Chairman / Chairman of the Executive Committee

H.E. Mr. Akbar Al Baker, Chief Executive Officer, Qatar Airways
Mr. Mohamed Salah Boultif, President and Chief Executive Officer, Air Algerie
Mr. Driss Benhima, Chairman and Chief Executive Officer, Royal Air Maroc
Mr. Tim Clark, President, Emirates Airline
Mr. James Hogan, President & Chief Executive Officer, Etihad Airways
Mr. Mohamad A. El-Hout, Chairman & Director General, Middle East Airlines
Capt. Hossam Kamal, Chairman & Chief Executive Officer, EgyptAir Holding Company
H.E. Eng. Khalid Almolhem, Director General, Saudia

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It is very befitting to convene the Arab Aviation Summit for the Future, AACO 46^{th} AGM, in one of the most dynamic hubs of the 21^{st} century- Doha, and be hosted in the home-base of one of the most dynamic airlines of the world, Qatar Airways. Indeed if there was a manifestation for the role of the air transport industry as a lever and a catalyst for economic development, then you can find it here in Qatar and in the neighboring states of the region. This role is especially true in a region with multifaceted attractions, pro-investment economic environment, young population, expanding middle class, and a geographical expanse where alternative modes of transport are almost nonexistent and extremely tedious to use. For these very reasons, the potential for growth in the Arab region is significant.

In addition to the great potential in the Arab world's travel market, the location of this region is unparalleled as it sits at the center of the globe's population, continuing its long established heritage of being the crossroad of trade and movement for the whole world. Advancements in the technology of airframe and engines have allowed airlines in the region to provide a true global network to a customer who has evolved to become savvier, more affluent, more discerning and better equipped through advancements in communication technologies.

But location and technology are not the reasons why Arab airlines are popular among customers. A discerning customer is more sensitive to value for money than to price. The demand on Arab airlines has shown healthy growth even at times of economic hardship. The obvious reason is that the customer finds greater value for his or her money traveling with the region's airlines. The Arab airlines were able to complement their home markets' attractiveness, the locations of their home-bases, their strive to control costs and hence their competitive pricing, with a superior level of service in order to reach out to the global customer with a high quality value proposition which provides that customer with a delightful travel experience rather than a mere transport one.

However, the above qualities cannot continue to deliver the optimal opportunity for growth unless they are evolving in tandem with the development of the infrastructure of the region. Here again there is a success story however not totally complete. While airports' development is still moving apace, the signs of shortage in airspace capacity are beginning to become alarming. Governments in this region understand very well the added value their air transport sectors are providing to sustainable economic growth. Now, there needs to be a greater focus on expanding the airspace capacity and reforming the region’s air traffic management systems lest it becomes Achilles’ heel for the continuous growth of air transport in the region.

The Arab air transport market is expanding in spite of the unstable situation in a number of Arab countries. Traffic within the Arab world, and with Europe and

Asia represents the backbone of the Arab air transport market. At the regional level, the two major travel markets are still within the Arabian Peninsula and within the North Eastern Arabian region. As for Arab airports' traffic, it continues its growth, it scored in fact the highest growth rate in the world by increasing 13% in the volume of passenger movement and 4.3% in cargo. Dubai International Airport is steadily moving towards the coveted number 1 in the world by international traffic.

The same success story is also evident in the growth of Arab airlines' traffic. The expansion of the Arab network and the increase of frequency to incumbent destinations also provided Arab airlines with double digit growth in 2012. This expansion was by no means providing any overcapacity. In fact both our passenger and cargo load factors have grown proving that the deployment of capacity was very well placed in meeting market potential.

In the quest of Arab airlines to provide customer delight, our fleet is continuously acquiring newer aircraft and retiring older ones. This has resulted in an average fleet age of 7.2 years which is the youngest in the world, also delivering a byproduct of environmental friendliness.

Arab airlines did not achieve these growth results at any cost. In spite of the high fuel prices, costing our member airlines 12.2% in 2012 more than 2011, member airlines delivered a good overall operating and net profits in 2012. Some of our member airlines reached a very healthy double digit profit to revenue ratio while some others are still bogged down with handicaps that are mostly beyond their control.

The potential for growth in the Arab world cannot be achieved unless some of the Arab governments use a more liberal approach towards market access. The conservative approach by some of the states in the Arab world may perhaps be rooted in the fear from imbalance between the competitive weights of the airlines. Such conservatism should not be a strategic policy of any state. Damascus Convention provides economic regulations and safety nets that can alleviate concerns of the believers in the conservative policy while also providing the Arab travel market with new growth opportunities which hitherto are very much untapped.

While the Arab Air Carriers Organization calls for liberalization in the region and while some Arab countries actually embrace liberalization with other regions of the world, we see disturbing ideas coming out from the same corners who have created, with the United States, the whole concept of liberalization of air transport. The European Union announced a new policy for external relations. This policy adopts a dual approach: On the one hand it calls for the expansion of the comprehensive agreements (Open Skies) with neighboring states and other selected key partners, while on the other it retrenches in a protectionist cocoon with regards to the GCC airlines citing the impact on the better competitiveness of the GCC airlines and airports as opposed to airlines and airports in Europe. The story of Arab aviation with Europe has always been a story of partnership and cooperation. Many Arab airlines were actually established by European airlines. Arab airlines have codeshares, cooperative agreements, and even some stake holding in European airlines. European hardware, systems and services are overwhelmingly present with Arab airlines. The legacy of cooperation, dialogue and understanding should not be replaced by narrow minded policies of protectionism. The bridges between Europe and the Arab world are very strong and we believe that they will continue to be so. Unfortunately, the calls for protectionism are expanding into the cradle of liberalization: The United States of America. Applying a policy when it is good for me and reversing it when it is good for me and the other is not a reasonable policy. We hope that the torch of liberalization which was lit in the United States is not extinguished because of short term narrow interests.

The global posture of the Arab airlines is also delivering value to the customer in the rest of the globe as it expands in Sub Saharan Africa, South America and North Asia. This global posture is coupled with the appropriate focus on the strategic priorities. It goes without saying that safety was, is and will always be our members' number one priority. Security has the same priority. Arab airlines work very closely with the industry and other stakeholders to achieve the highest safety and security levels. Environment is one of the strategic priorities of the airlines in the region. In addition to delivering environmentally friendly products to the customer, Arab airlines worked intensely within AACO and in complete cooperation with IATA in order to pave the grounds for a successful ICAO assembly in 2013. The IATA AGM resolution of 2013, on the subject, was the result of thorough deliberations which lasted almost 2 years. The IATA AGM resolution on climate change represents the industry's commitment and roadmap for addressing the mitigation of greenhouse gas emissions from civil aviation. AACO congratulates IATA for its leadership in uniting the industry on such a major and complicated issue. AACO is also working very closely with IATA on a number of other aeropolitical and strategic issues. At the forefront of those aeropolitical issues is the proliferation of consumer protection regulations which are adding tremendous burden, both administratively and financially, on airlines without equivalent benefit for the consumer. Another strategic issue we are working with IATA on is the NDC initiative. AACO strongly believes that the consumer has the right to see in details what he or she is buying. This right is being hindered now by the dated technology used by GDSs. AACO always believed that GDSs are our partners in providing the customer with the best service. An integral component of that service should be the transparency of the product. IATA NDC standards would provide that transparency to the customer at all touch points. These standards enable the airlines to be more competitive by de-commoditizing their products' displays. They provide the customer with real-time visibility of the choices he or she has in buying the travel product. They also provide our travel management partners the opportunity to serve their customers with a much better value added service rather than selling a commoditized product as is the case today. Finally, these standards provide our partners, the technology providers, with the ability to harness the energy of modern technology in staying at the forefront of innovation and creativity in the most dynamic travel and tourism industry.

On the internal level, the Arab Air Carriers Organization continues its work in a multitude of fields based on the objectives set by the AGM and the guidance and directives of the Executive Committee and the CEOs of our member airlines to whom I wish to present my gratitude and appreciation on my behalf and that of the team members of AACO. AACO is striving to deliver value added services to its member airlines and be a true representative of their interests at the regional and global levels. I hope we were successful in being up to your expectations, as we continue to be proud in serving you.

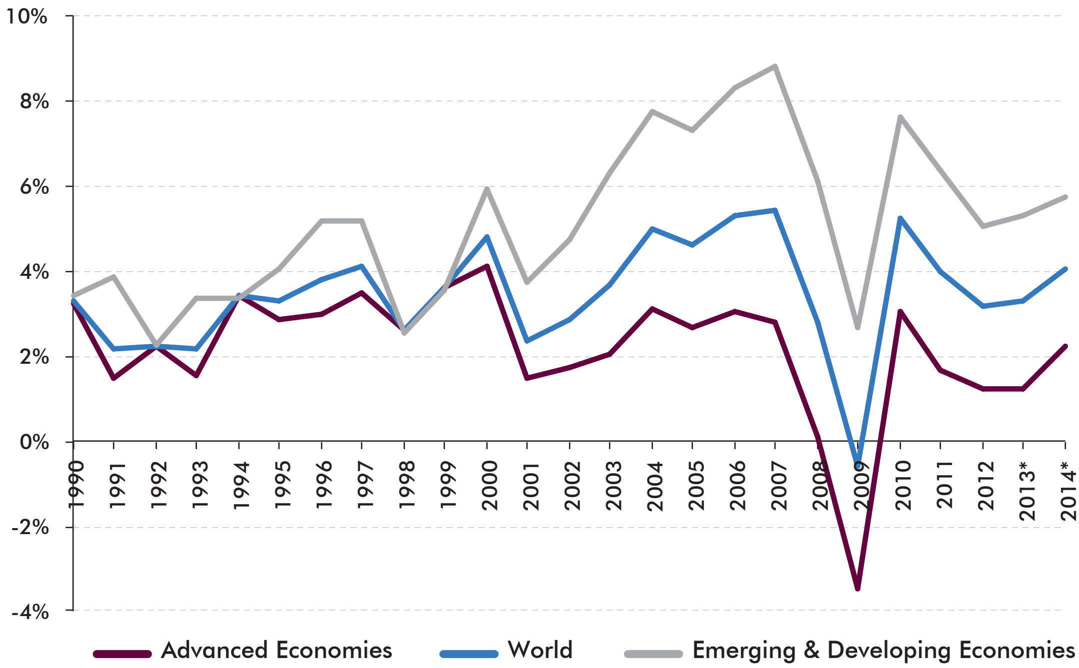
Abdul Wahab Teffaha

Secretary General

THE ECONOMY

In 2012, the global economy was still undergoing its recovery at different speeds, fueled by the remarkable growth in emerging economies; hindered however, by a weak performance in advanced economies. Overall, Global GDP growth slowed down in 2012 over 2011 to 3.2%, down from 3.9% in 2011 over 2010. Global economic growth is expected to make a slight increase in 2013 over 2012 to 3.3%.

Fig. 1 Year-on-Year Real GDP Growth



* Estimated

Source: AACO, IMF

Commodity prices fell in the second quarter of 2012, and have risen since then as a result of supply constraints and a stronger demand. GDP growth remained fragile in advanced economies, reaching 1.2% in 2012 down from 1.6% in 2011.

Global economic recovery is mainly hindered by the weak performance of the Euro area and its spillovers

The Euro area is still suffering the spillovers of the sovereign debt crisis that began early 2010. Although critical crisis risks have been reduced, output growth will remain subdued in the foreseeable future. The Euro area's GDP contracted by 0.6% in 2012 over 2011, and is expected to further contract by 0.3% in 2013 over 2012. Economic growth in the United States remained fragile in 2012, growing by 2.0% and is expected to decelerate to 1.9% in 2013. Japan's GDP grew by 2.0% in 2012, and its growth is expected to drop to 1.3% in 2013.

Emerging and developing countries recorded a 5.1% GDP growth in 2012, down from 6.4% in 2011. This slowdown was due to lower commodity prices, in addition to financial instability in the Euro area. It is expected that GDP growth in emerging and developing economies will witness a slight increase in 2013 to 5.3%, mainly due to the rebound in commodity prices.

GDP growth of the Arab world was good overall

Economic growth in the Arab world was good during 2012, recording a 4.8% growth in GDP, which is estimated to slow down to 3.1% in 2013. Oil-importers recorded a GDP growth rate of 1.9% in 2012, down from 2.2% in 2011. On the other hand, Oil-exporters' GDP growth scored 5.7% in 2012, and is expected to decelerate to 3.2% in 2013 as a result of the slow-down in oil production in response to weaker global demand.

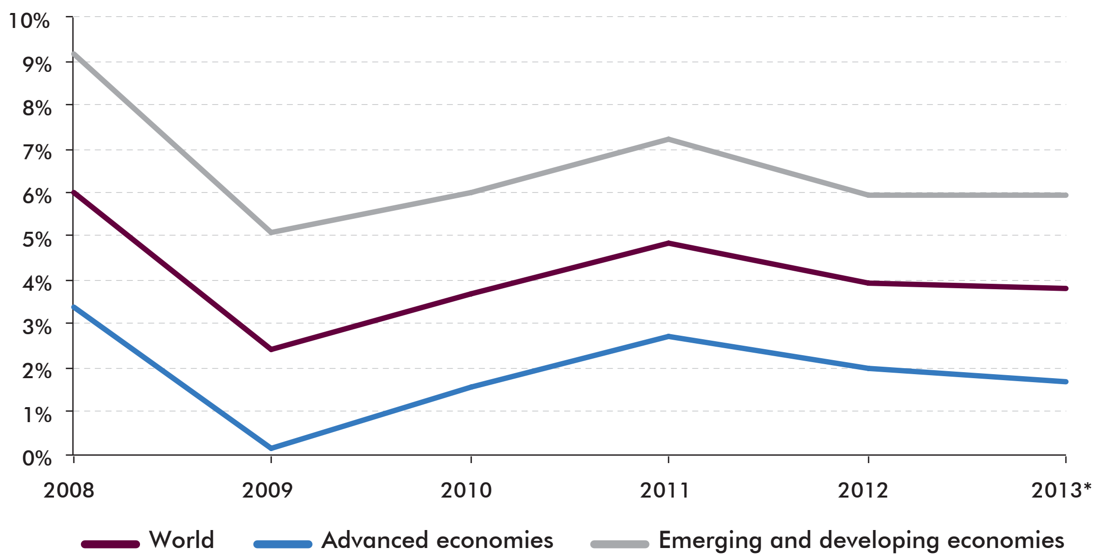
In advanced economies, unemployment rates remain high: In the Euro area, the unemployment rate witnessed an increase, reaching 12.3% in 2012. Similarly, the United States' unemployment rate recorded 8% in 2012. The situation in Japan was not as bad as in the US and the Euro area, where the unemployment rate recorded 4.4% in 2012 and is expected to decline to 4.1% in 2013.

Global Inflation has fallen to 3.9% in 2012 down from 4.8% in 2011 as a result of the weak economic performance and hence softer demand. In the United States, the inflation rate will decline from 2.0% in 2012 to 1.8% in 2013; similarly the Euro area's inflation will witness a drop from 2.3% in 2012 to 1.5% in 2013. In contrast, Japan's inflation rate is expected to rise above zero in 2013. In the Arab world, the inflation rate recorded an alerting 10.7% in 2012 and is expected to decrease to 9.5% in 2013.

Inflation is alarming, reaching 10.7% in the Arab world

Fig. 2

Yearly Inflation



* Estimated

Source: AACO, IMF

The number of tourists worldwide surpassed the one billion mark for the first time

The tourism sector expanded in 2012. Global international tourist arrivals increased by 4% to 1,035 million in 2012, up from 995 million in 2011. Emerging economies topped the list in international tourist arrivals recording a growth rate of 4.3%, while advanced economies recorded a growth of 3.8% in 2012. The direct contribution of tourism to global GDP in 2012 was USD 2,065 billion; equivalent to 2.9% of global GDP, and is expected to rise by 3.1% to USD 2,120 billion in 2013.

Air transport is an important catalyst for international tourism, as it provides a unique global network that connects the globe. To illustrate, in 2010, 51% of international tourists flew to their destinations. In that year, air tourism contributed by USD 762 billion in economic activity which translates to 1.2% of global GDP, and which is equivalent to 39.5% of the contribution of the tourism sector in the global economic output.

The direct relationship between air transport and several economic elements creates an economic multiplier that has a larger impact on the economy. According to an IATA/Oxford Economics study in 2010, aviation's global economic impact (direct, indirect, induced and catalytic effect on tourism) was USD 2.2 trillion which is equivalent to 3.5% of world GDP, in addition to supporting 56.6 million jobs worldwide.

Air tourism contributed by 1.2% to Global GDP, representing 39.5% of the total contribution of the tourism sector

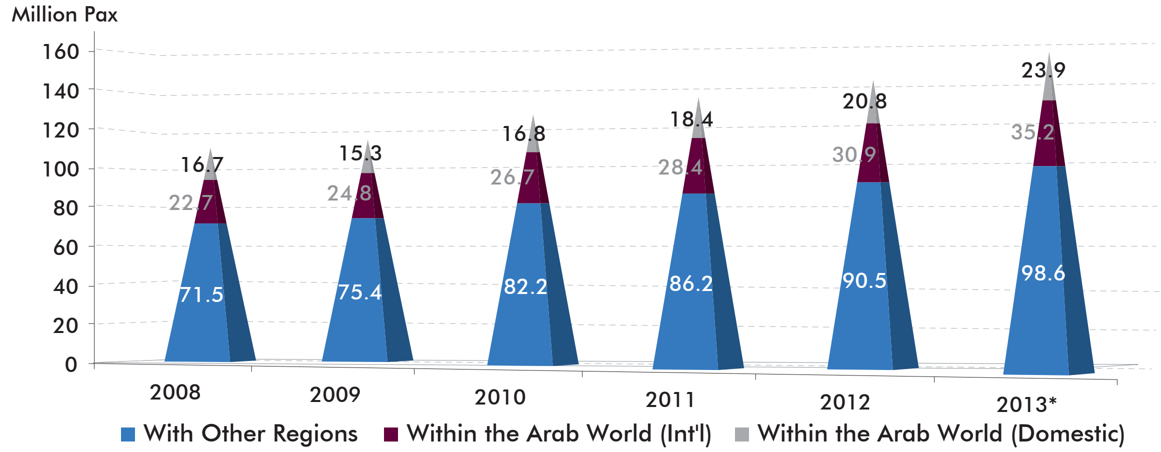
In the Middle East region, air transport employed directly in 2010 around 0.4 million people and generated around USD 28.6 billion of the region's GDP. However, the total economic impact of air transport in the region (direct, indirect, induced and catalytic tourism) was USD 129 billion in economic activity, and the support of 2.7 million jobs.

THE ARAB AVIATION MARKET

TRAFFIC: PASSENGER NUMBERS AND GROWTH

In spite of the negative effect of the recessionary environment in Europe, and benefiting from less instability in the region, the Arab air transport market continued to expand in 2012, growing by 6.9% compared to 2011. The number of passengers to, from and within the Arab world reached around 142 million passengers compared to 133 million in 2011. And with the return to stability in several air transport markets in the region, we expect an increase of 11.0% in the number of passengers traveling to, from and within the Arab world in 2013 over 2012.

Fig. 3 Arab Air Transport Market Passenger Numbers

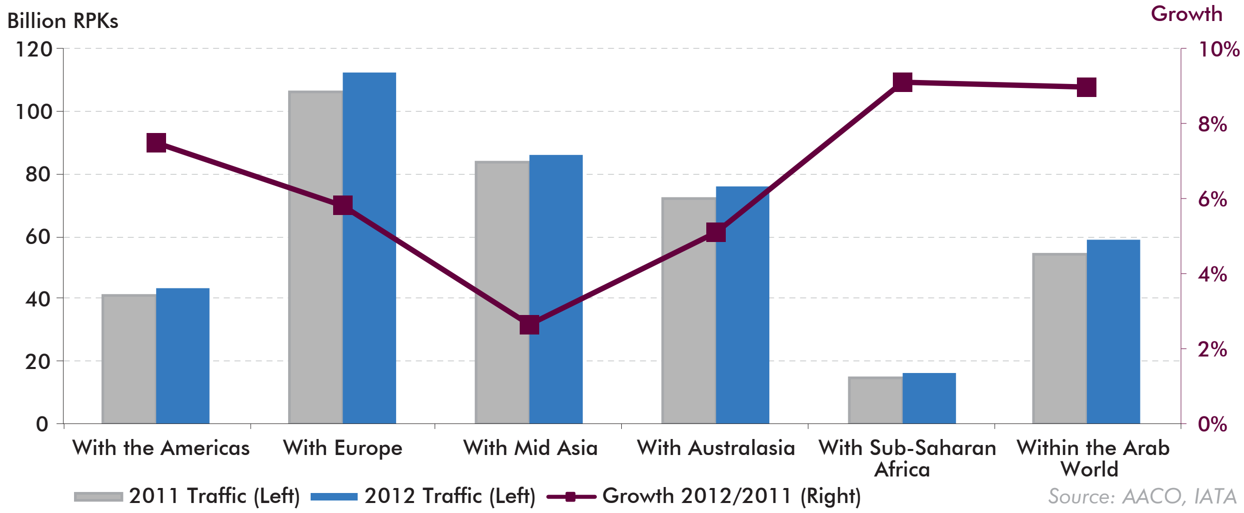


* Estimated

Source: AACO, IATA

Passenger numbers to and from the Arab world recorded a growth of 5.0% in 2012 compared to 2011. Passenger traffic to and from the Arab world is forecast to grow by 9.0% in 2013 compared to 2012.

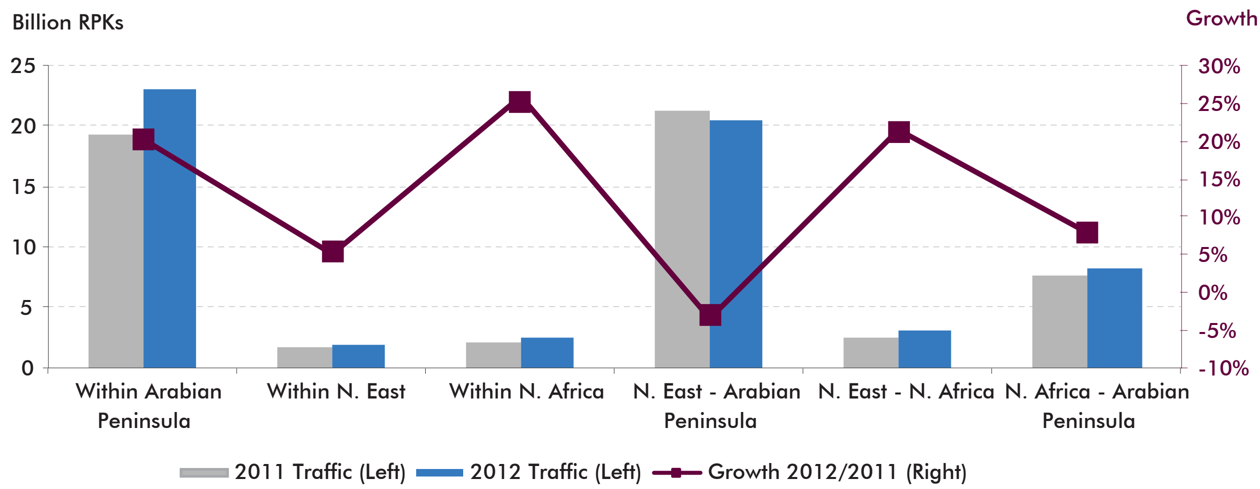
Fig. 4 Arab Travel Market Regional Traffic and Growth



Source: AACO, IATA

Passenger numbers within the Arab world recorded a growth of 10.4% in 2012 compared to 2011, with international traffic within the Arab world growing by 8.8%, and domestic traffic increasing by 12.7%. Passenger traffic within the Arab world is forecast to grow by 14.4% in 2013 compared to 2012.

Fig. 5 Arab Travel Market Intra-Regional Traffic and Growth



Source: AACO, IATA

INFRASTRUCTURE

Development of Airports

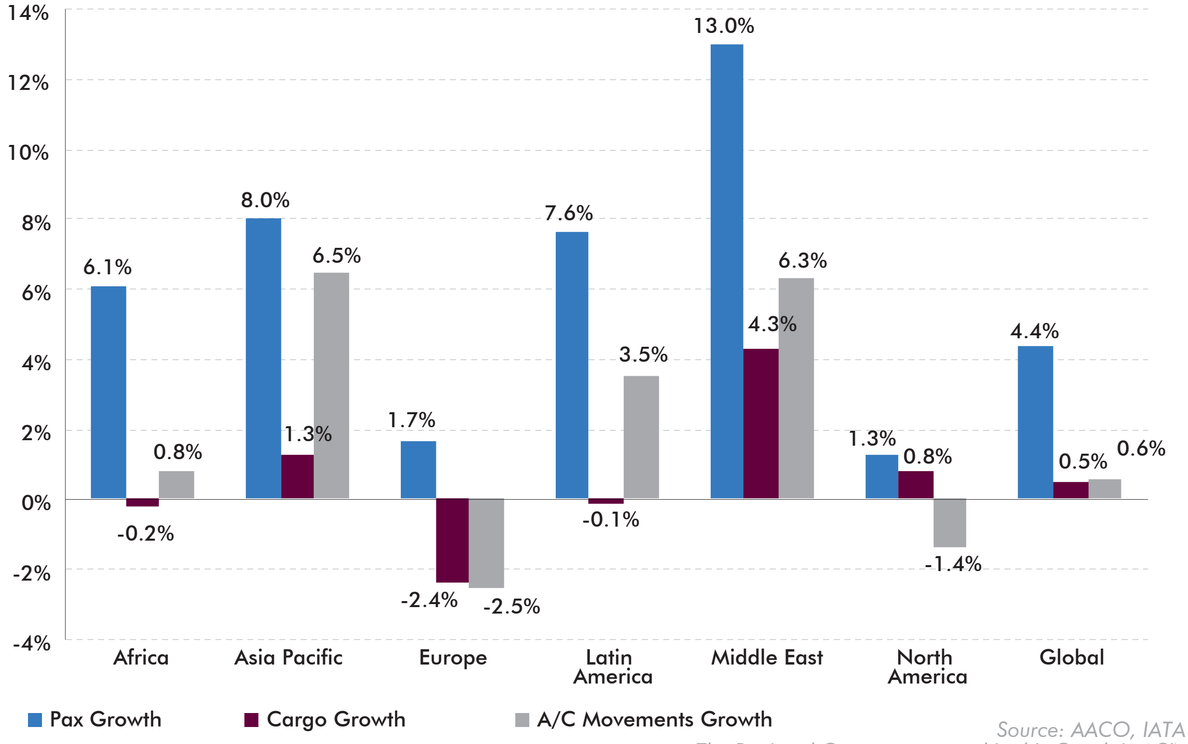
Airports' Traffic

- According to Airports Council International, the gloomy economic environment in Europe severely affected the global growth in cargo and aircraft movements in 2012; however passenger traffic remained somehow resilient due to the plausible performance of developing economies' airports. Overall, passenger traffic at world airports grew by 4.4% in 2012 over 2011 to 5.7 billion passengers, and cargo and aircraft movements grew during the same period respectively by 0.5% and 0.6%, reaching 92.5 million tonnes and 79 million aircraft departures.

- Looking at regional patterns, the Middle East led the growth in passenger and cargo traffic, and came second in aircraft movements' growth after Asia Pacific airports. Europe on the other hand, recorded the steepest decline in cargo and aircraft movements growth, and recorded the second lowest growth in passengers after North America.

Fig. 6

Worldwide Airports Traffic Growth - 2012/2011

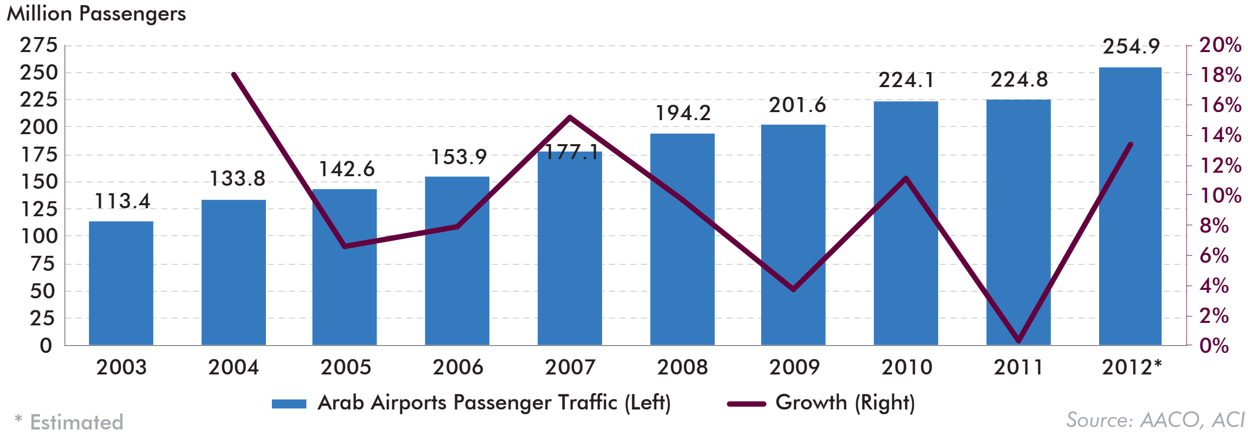


Source: AACO, IATA
The Regional Geostructure used in this Graph is ACI's

- Looking at Arab airports' ranking in 2012, Dubai airport overtook Denver, Frankfurt and Hong Kong airports to become the 10th global airport worldwide in terms of total traffic, and 2nd in terms of international passengers after surpassing Hong Kong and Paris, growing by 13.2% over 2011. In addition, it ranked 6th worldwide in terms of total cargo handled, and 3rd in terms of international cargo handled. Doha airport advanced to the 24th position from the 28th last year in terms of international passengers, and maintained its 18th position in terms of international freight handled with a growth rate of 4.5% over 2011. On the other hand, Jeddah airport topped the list of top fastest growing airports with over 15 million passengers, growing at 23.3% over 2011. Doha, Riyadh, and Dubai airports ranked 3rd, 7th and 8th respectively on that list with respective growth rates of 17.0%, 14.6% and 13.2% over 2011. In addition, Abu Dhabi, Riyadh, Doha and Dubai airports respectively ranked 2nd, 3rd, 19th and 21st on the top 25 fastest growing airports handling over 250 thousand metric tonnes of cargo, growing respectively by 17.6%, 15.9%, 4.5% and 3.9% over 2011.

Fig. 7

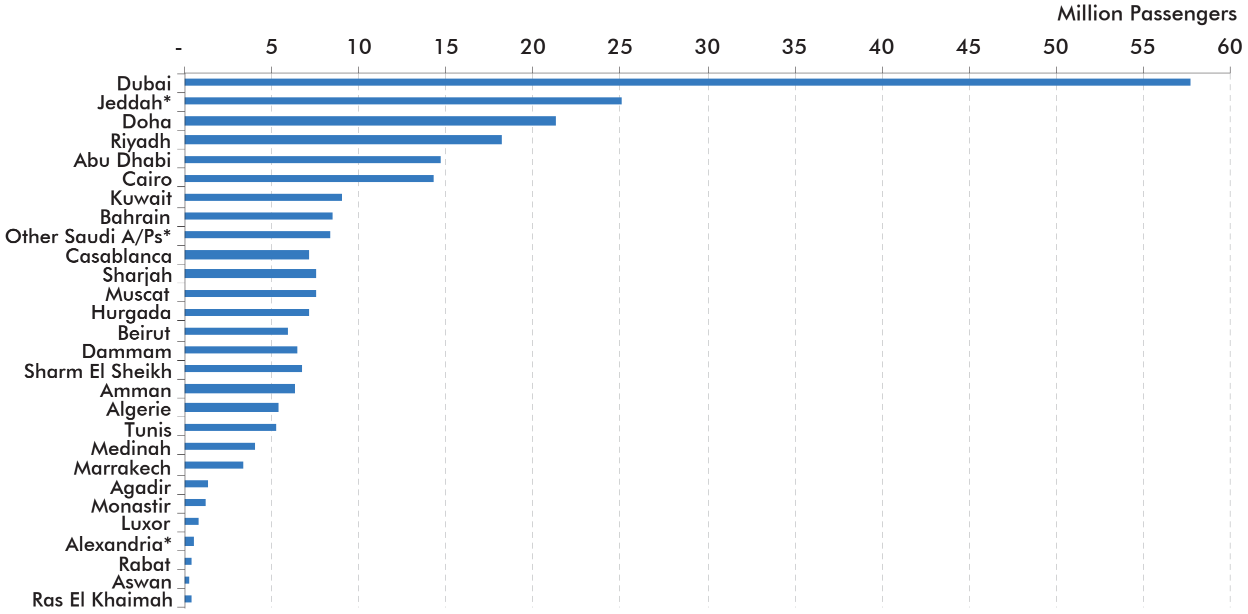
Passenger Numbers and Growth at Most Arab Airports



* Estimated

Source: AACO, ACI

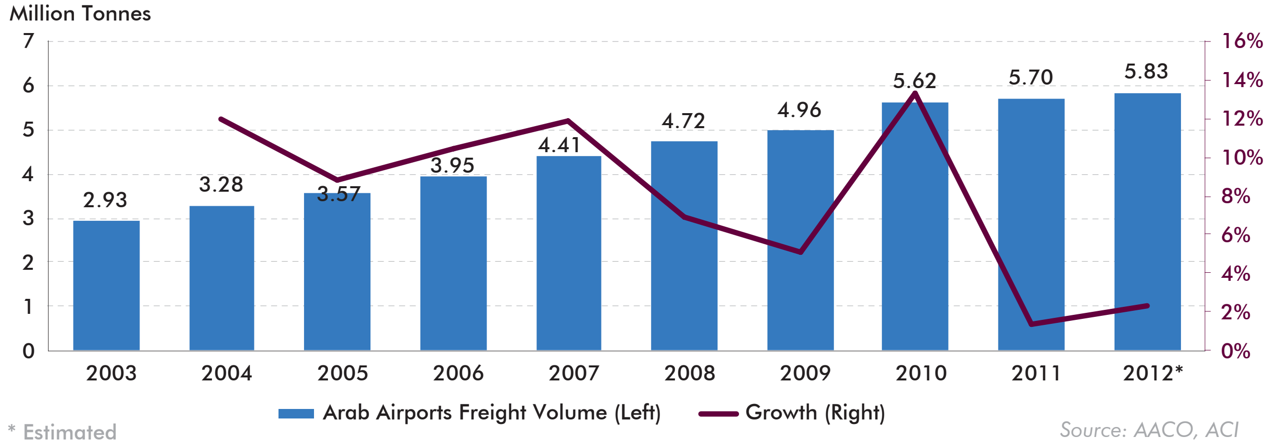
Fig. 8 Number of Passengers at Most Arab Airports in 2012



* Estimated

Source: AACO, ACI

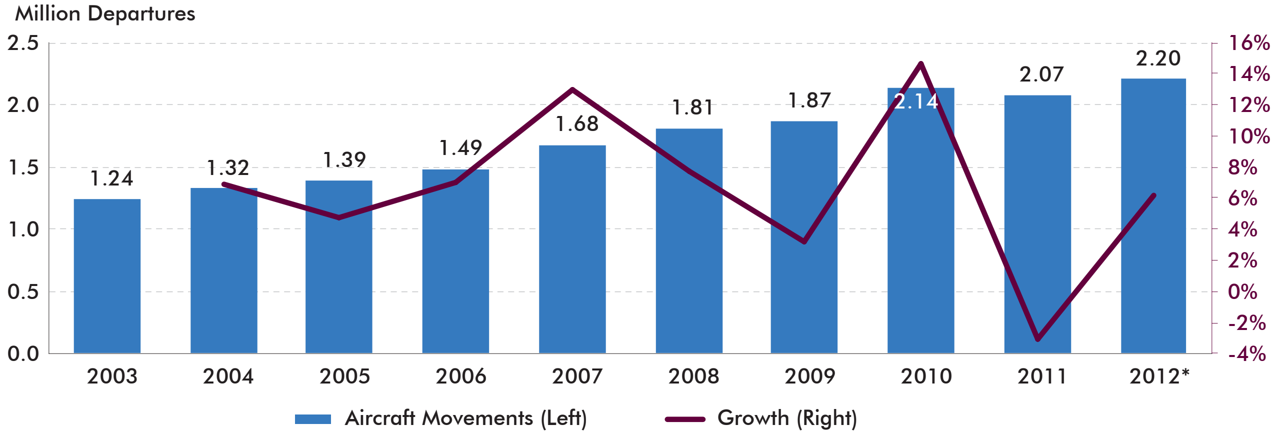
Fig. 9 Cargo Volumes and Growth at Most Arab Airports



* Estimated

Source: AACO, ACI

Fig. 10 Aircraft Movements and Growth at Most Arab Airports



* Estimated

Source: AACO, ACI

Expansion Plans

Airport development projects in the region are estimated to cost more than USD 65 billion

- With traffic growing exponentially at Arab airports, where the number of passengers has doubled during the last 10-year period, and with governments in the region seeing the benefits of air transport as a strategic lever for economic growth, the expansion plans which were launched in the past years continue at full momentum towards completion.

- Those projects are taking place in the UAE, Kingdom of Saudi Arabia, Qatar, Kuwait, Oman, Egypt, Bahrain, Jordan and Tunisia. The estimated cost of those projects is in excess of USD 65 billion, with more than 90% of that cost channeled to airports in the UAE, Kingdom of Saudi Arabia, Qatar and Kuwait.

- In addition, the new airports/terminals do not only aim at increasing capacity, they are however re-inventing themselves around consumers' experience and implementing state-of-the-art solutions to attract and retain passengers:
  - Abu Dhabi new terminal complex will be larger than 7 million square feet and may become the tallest terminal building in the world. In addition, it will include a museum to promote the cultural diversity of the city and attract transiting passengers to come back and visit.
  - The New Hamad International Airport in Doha will house the longest runway in Western Asia which is just 150 meters shorter than the longest commercial runway.
  - Dubai Airports won the Best Passenger Assistance Initiatives award at the latest Future Travel Experience Awards for its dedication to simplifying the airport experience across a number of key passenger touch points. Among the initiatives that have been implemented at Dubai International Airport are multi-lingual virtual assistants, a simplified way finding system across all terminals, and interactive Information Zones offering information on airport facilities and directions to boarding gates. Dubai International Airport is also the first airport in the world to offer direct access to the boarding gate from First and Business Class lounges in the A380-dedicated Concourse A. In addition, Dubai International Airport is aiming at becoming next year the largest airport in the world in terms of international passengers.
  - All those airports are implementing state-of-the-art facilities - be it specially designed runways or tiered bridges - to accommodate the Airbus A380 - the world's largest passenger aircraft.

Airspace Management

Additional attention is required to airspace management in the region

- With the growth in Arab airlines' traffic and the massive expansion plans at Arab airports – which are expected to offer an aggregate capacity of around 400 million passengers per year by 2020 – come airspace capacity challenges.

- Airspace is a finite resource and hence it is imperative to be used efficiently to be able to accommodate the expected growth in civil aviation in the region.

- However, the region still suffers from serious ATM deficiencies that can be summarized in:
  - Fragmentation of air space due the multitude of military restricted no-fly zones, in addition to lack of collaboration in civil and military air traffic management which hinders the implementation of flexible use of airspace.
  - Concentration of traffic on the few existing routes regardless of the new traffic flows.
  - Upgrading and developing infrastructure requires investments in capital and human resources and thus needs time to take place; therefore, waiting until the current air space becomes saturated should not be an option.

- In order to tackle these deficiencies, several studies were conducted in the region by all stakeholders (i.e. AACO, ACAC, CANSO, IATA and ICAO).

- An important regional initiative which is working on the issue is the Middle East ANSP & Airspace User Stakeholder Engagement (MEAUSE) Workgroup.

Several collaborative efforts are trying to gather stakeholders in order to address the deficiencies in ATM

- MEAUSE began as a CANSO Workgroup; however, along with partnership between CANSO and IATA, it evolved into a regional platform that gathers all airspace suppliers and users in order to foster collaboration amongst them. The Annual MEAUSE Conference, which usually takes place in November in Amman, is a 'working event' uniting experts and decision makers to track progress, work on joint solutions and agree actions and targets.

- MEAUSE is result and implementation oriented. Until, the MEAUSE members have accomplished the below jointly agreed targets and continue to work on regional solutions:
  1. Publishing the 'CANSO-IATA ME Guide Customer Relationship Management' and organization of CRM-Seminars.
  2. Facilitation of a CRM Pilot Project (Jordan Civil Aviation Regulatory Commission) and proposing a Middle East Roll-out which will start in November 2013.
  3. Facilitation of an A-CDM Pilot Project (in support of ICAO ASBUs) which is taking place at Jeddah airport.
  4. ANSP – Airline coordinated Surveys in cooperation with ICAO MID office. Findings and recommendations of those surveys will be fed into regional implementation plans.
  5. Drafting a framework for a regional consultation mechanism which will be implemented after the conference taking place in November 2013.

- In addition, another CANSO initiative that developed into a regional one is MIDRAR (Middle East Regional Airspace Review). The group includes participation form the Middle East states, IATA, ICAO, ACI, ANSPs, airports and airspace users. In addition it includes non-CANSO members and non-IATA members so that all suppliers and users can participate with their input and requirements.

- The first phase of MIDRAR work was to conduct a review of the current situation, identify the challenges and provide solutions to those challenges. That first phase was completed, and the group came out with the following initiatives:

- South Qatar Peninsular: The aim is to reduce congestion in the Muscat, Bahrain and Emirates FIRs to the north of the Qatar peninsula (or the 'Bahrain hotspot') by relocating some of the traffic (through new/additional routes) to the south of the peninsula and into the north-eastern part of the 'Empty Quarter'.
- Western Gulf: The second initiative builds on the 'limited' new route structure proposed in the first initiative and make further use of the 'Empty Quarter'. It aims at optimizing some of the North-West/South-East routes, potentially utilizing airspace in the Muscat, Bahrain, Emirates, Jeddah, and even up to the Amman and Cairo FIRs if necessary.
- Access to North-East FIRs: The third initiative aims to open up and make use of airspace in the north-east of the Middle East region to further increase capacity and provide more optimum routings. Furthermore, it aims to equip the region with the necessary operational concepts if this airspace becomes available and make use of it as soon as possible.
- FIR harmonization: This initiative is intended as an overarching action that seeks to coordinate and, where possible, prioritize national projects to ensure that there is an overall gain to the region.
- Programme oversight and management: This initiative will provide the appropriate oversight and programme management functions to ensure the effective implementation of the MIDRAR programme.

- Another issue that requires immediate attention in the area of airspace management is human resources, and specifically air traffic control officers. ICAO forecasts that the shortage in the region for ATCOs is 65 officers per year beyond the full utilization of training capacity available in 2010 (i.e. if no training capacity is added over 2010's, then a full use of that capacity will still incur a shortage of 65 officers per year until 2030). Accordingly, investment in human capital is imperative to adequately cater for the growth in traffic.

Urgent focus on Air Traffic Controllers' supply is required

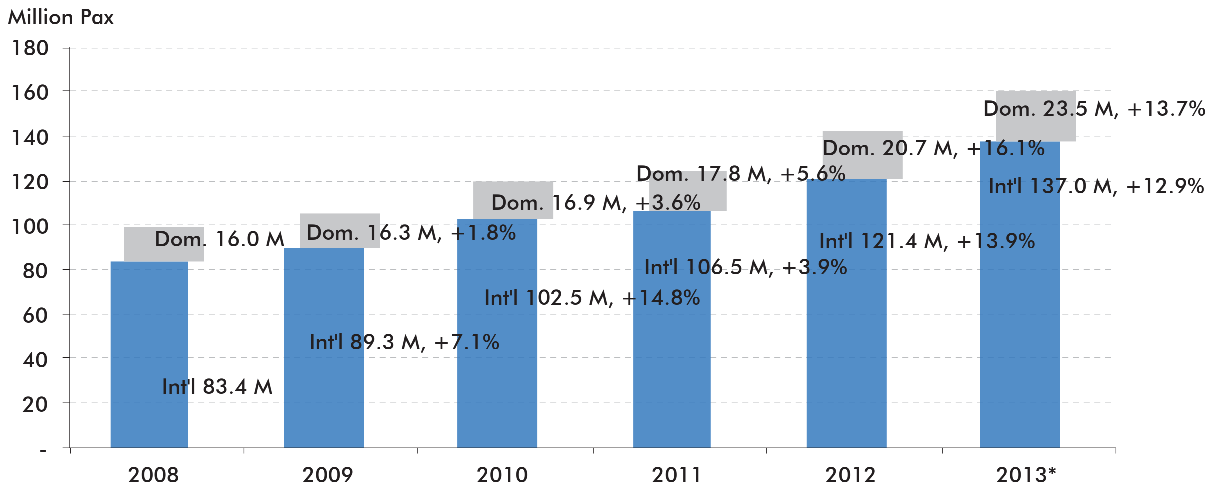
ARAB AIRLINES

Operations

Demand

- The total number of passengers carried by AACO members reached 142.1 million passengers in 2012, an increase of 14.2% over 2011. We estimate that the number of passengers carried by member airlines will increase by 12.9% in 2013 over 2012 to reach 160.4 million passengers.

Fig. 11 Number of Passengers on Most AACO Members



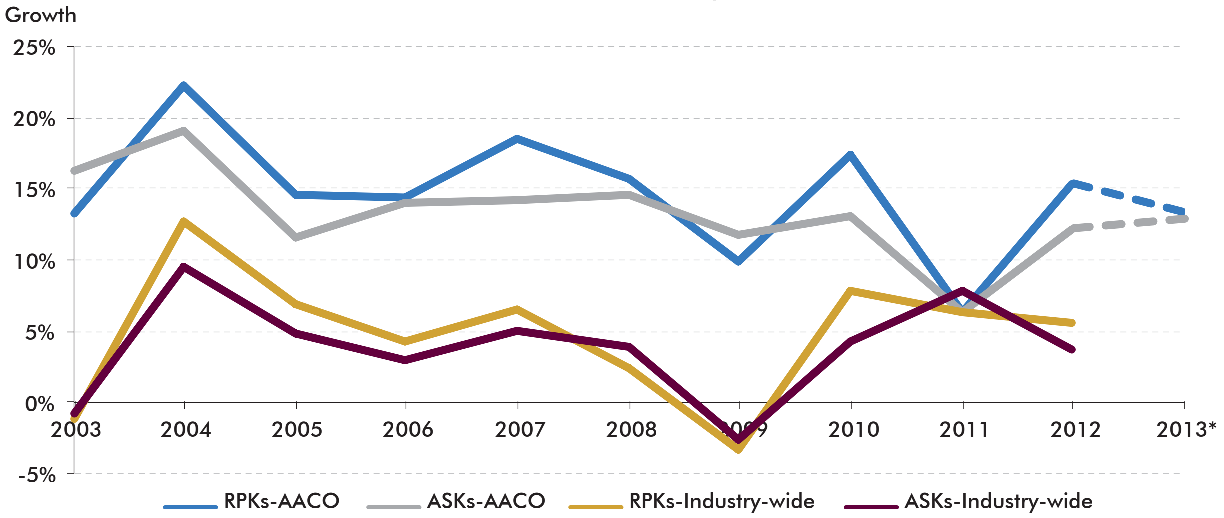
** Estimated* *Source: AACO*

- Member airlines recorded an increase of 15.8% in 2012 in Scheduled RPKs compared to 2011. The global growth in scheduled RPKs for the same year was 5.3% compared to 2011. Overall, total RPK growth of AACO member airlines in 2012 was 15.4% (including scheduled and charter operations). We estimate a traffic growth of 13.3% in 2013.

Capacity

AACO members witnessed a growth rate of 12.9% in 2012 in scheduled ASKs over 2011, while the global growth for the same period was 4.2%. Total ASK growth recorded at member airlines in 2012 was 12.2% over 2011. AACO carriers are estimated to post a growth of 12.9% in ASKs in 2013 in line with new aircraft to be delivered and demand growth.

Fig. 12 Yearly Change in Scheduled RPKs and ASKs for AACO Members and the Industry



** Estimated* *Source: AACO, IATA*

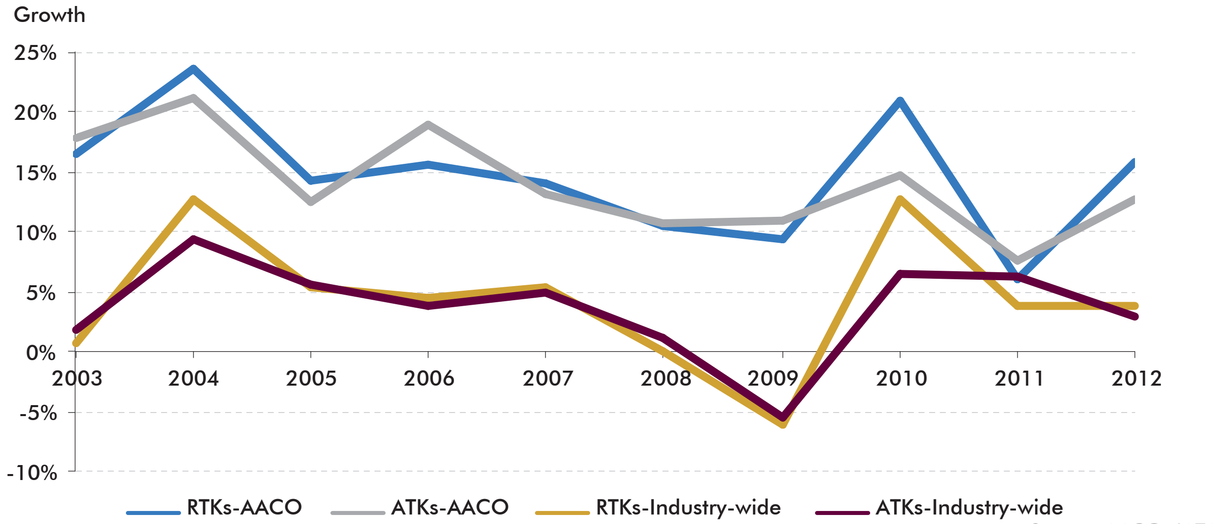
Passenger Load Factor

Passenger Load Factor of AACO member airlines increased by 2.0 percentage points in 2012 to 76.1%, as capacity increase lacked behind the growth in demand.

Cargo Operations

AACO member airlines recorded a growth of 15.8% in 2012 in RTKs compared to 2011. AACO members also witnessed a growth of 12.7% in ATKs. Consequently, AACO carriers' Weight Load Factor increased by 1.7 percentage points to 62.8%.

Fig. 13 Yearly Change in RTKs and ATKs for AACO Members and the Industry

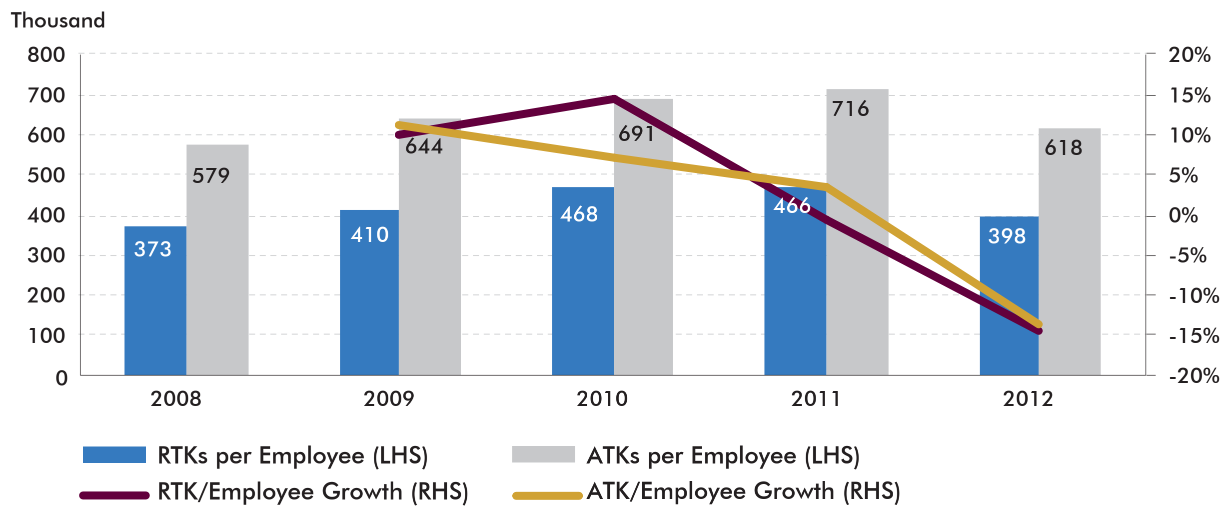


Source: AACO, IATA

Employees and Productivity

Staff counts at AACO members increased by 8.1% in 2012 over 2011. The internal conflicts in some countries in the region had a negative effect on employee productivity and efficiency, where employees' productivity reached 398 thousand RTKs per employee; a decrease of (14.6%) over 2011 levels, and 618 thousand ATKs per employee; a decline of (13.7%) over 2011. The global growth in productivity scored 1.7% and 2.0% in terms of RTKs per employee and ATKs per employee respectively. It is worth mentioning that reporting carriers exceeded the global results in absolute terms as IATA reported an average of 381 thousand RTKs per employee, and 574 thousand ATKs per employee.

Fig. 14 AACO Members' Staff Productivity



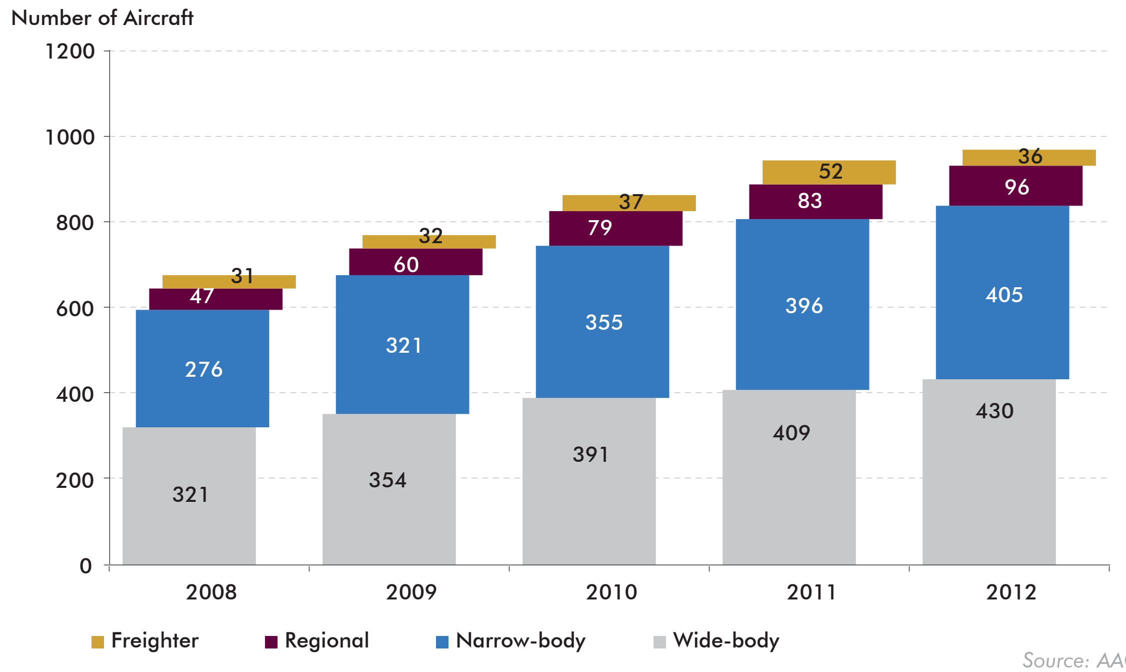
Source: AACO

Fleet

- AACO member airlines took delivery of 123 aircraft in 2012, including 53 brand new aircraft, and 70 older ones. On the other hand, member airlines phased out 96 aircraft from their fleet during the same year. Accordingly, AACO member airlines' fleet count increased to 967 aircraft by the end of 2012, compared to 940 aircraft at the end of 2011.

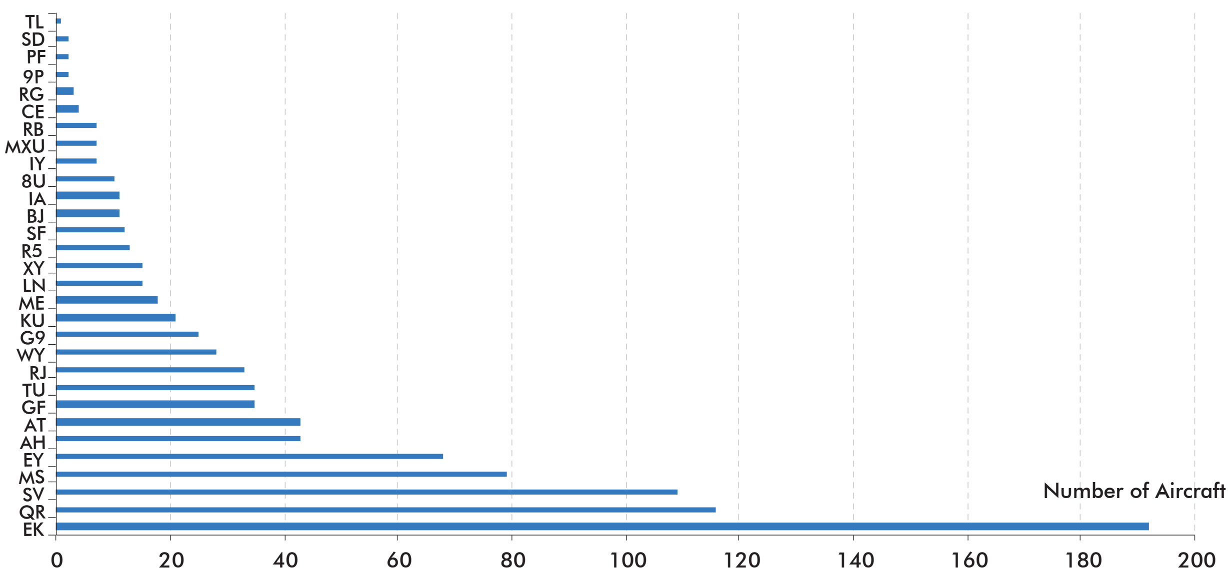
- With the new deliveries, AACO member airlines' fleet composition was 44% Wide-body aircraft, 42% Narrow-body aircraft, 10% Regional aircraft and 4% Freighters.

Fig. 15 AACO Members Commercial Fleet Composition by Aircraft Size



Source: AACO, ACAS

Fig. 16 Individual AACO Members Commercial Fleet in 2012

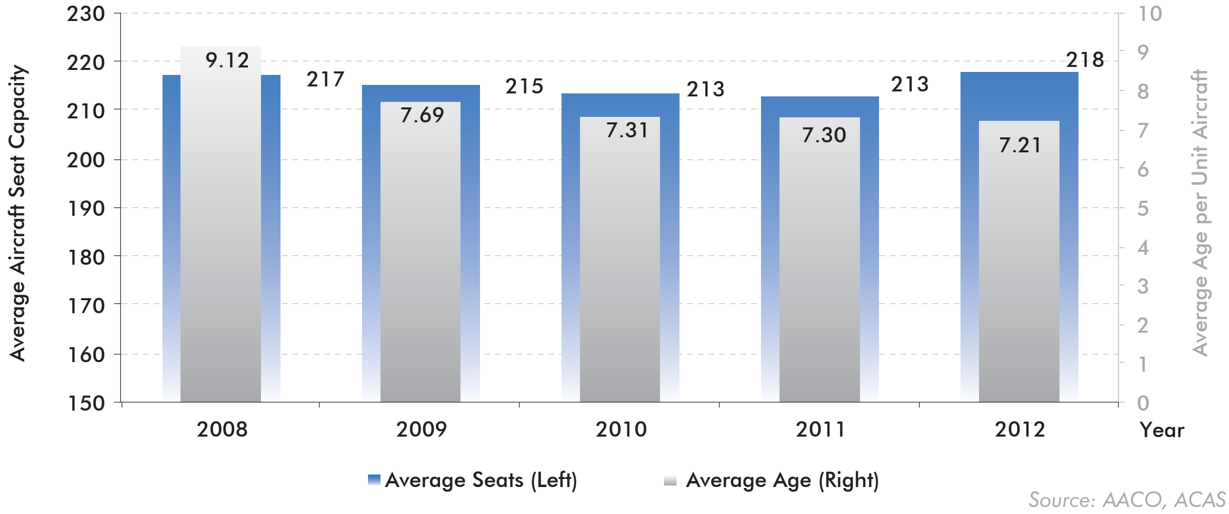


Source: AACO, ACAS

- The average age of the new aircraft added to member airlines' fleet was 2.6 years, whereas the average age of the withdrawn aircraft was 14.6 years. Accordingly, AACO members' average age per unit aircraft decreased by (0.3%) over 2011 fleet to 7.21 years, highlighting the efficiency of member airlines' fleet in terms of cost per seat, and underlying the environment-aware culture that AACO airlines are adopting and promoting. On the other hand, the average seat per passenger aircraft of member airlines increased by 2.3% over 2011 levels, reaching 218 seats per aircraft.

Fig. 17

AACO Members' Commercial Fleet Average Age & Average Seat Capacity per Unit Aircraft

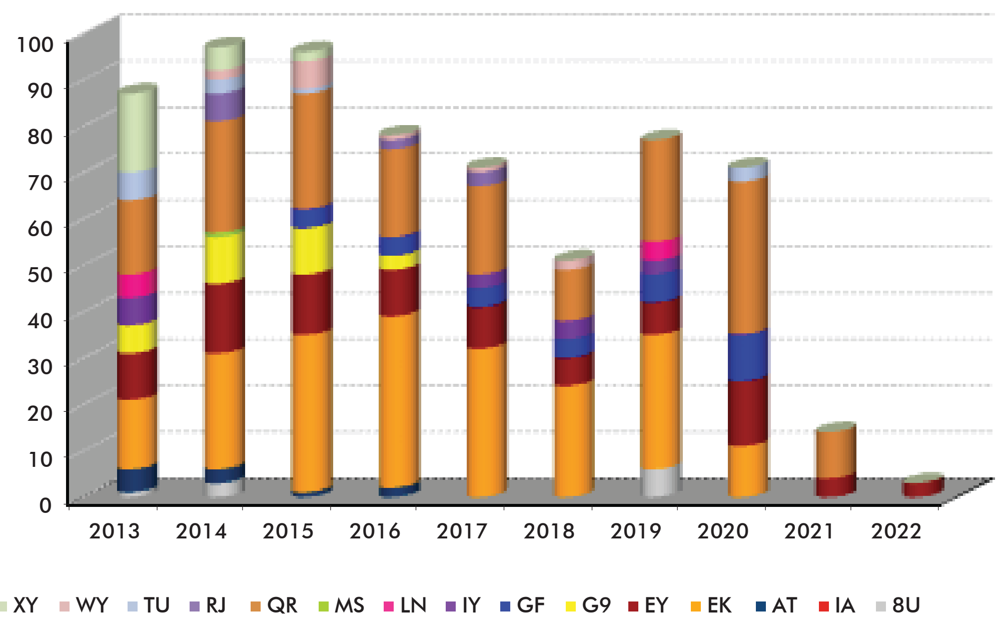


Source: AACO, ACAS

AACO member airlines are scheduled to receive 663 aircraft until 2027, among which 91 aircraft are scheduled for delivery in 2013.

Fig. 18

Number of New Commercial Aircraft Expected to Join AACO Members' Fleet (As at 3 Jan 2013)



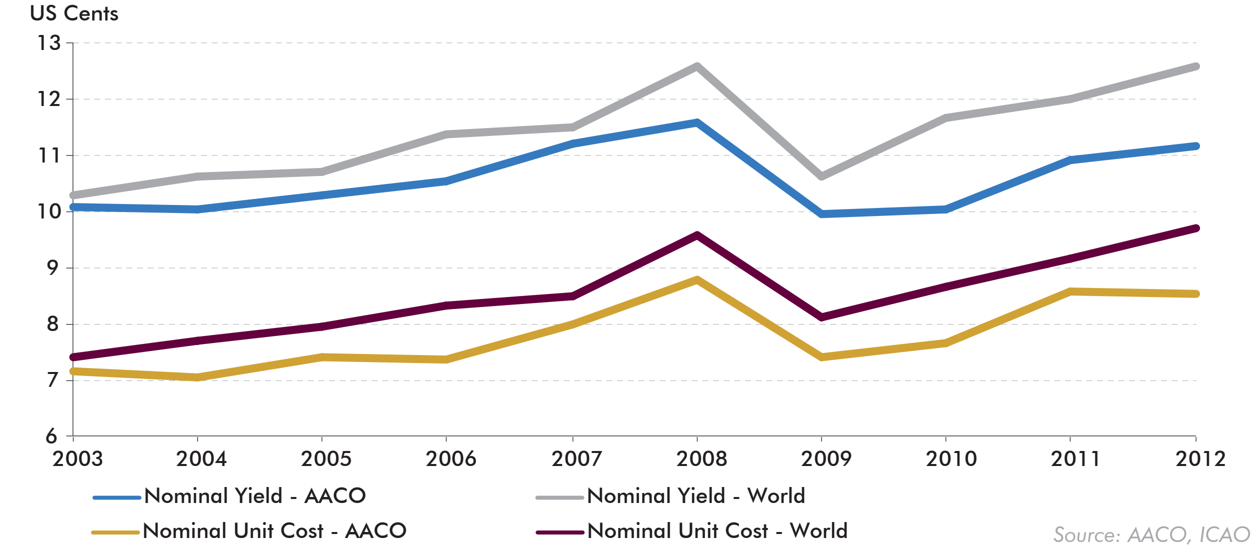
Source: AACO, ACAS

Financial Performance

Yield and Unit Cost

Passenger Yield of 13 member airlines increased by 2.3% in 2012 as a result of the increase in traffic and revenues. On the other hand, the restructuring process at some reporting member airlines resulted in a decrease in operating expenses and hence in the aggregate Unit Cost of reporting carriers by (0.3%). As a result, AACO members' Passenger Break-even Load Factor decreased by 2 percentage points to 76.5%.

Fig. 19 Gobal and AACO Members' Yield and Unit Cost

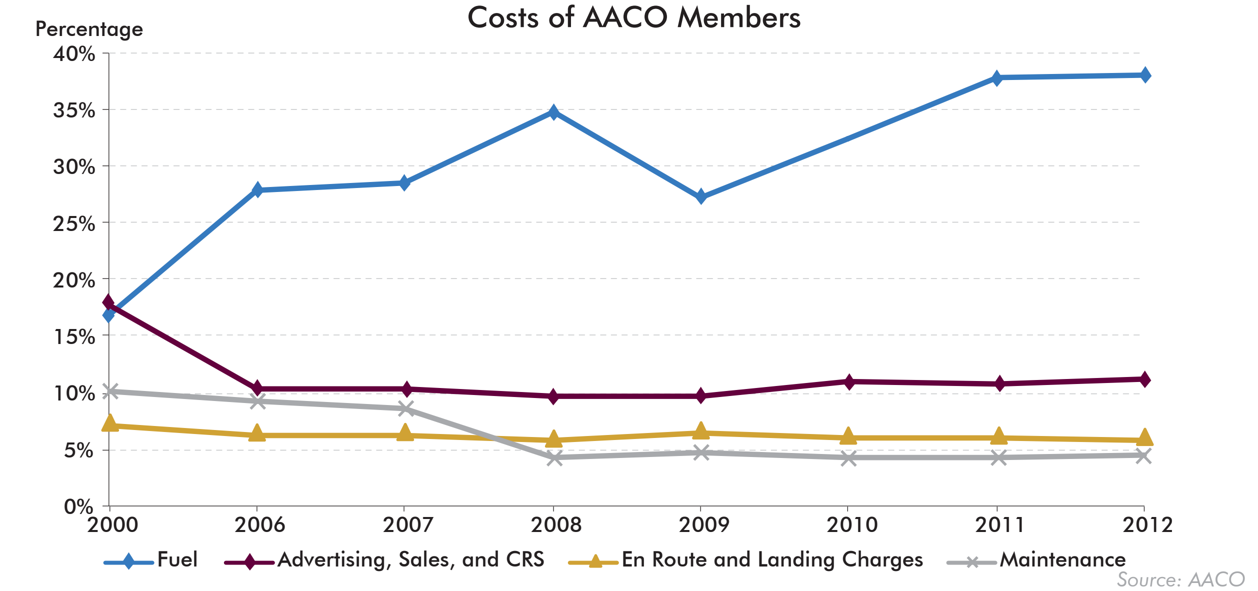


Source: AACO, ICAO

Changing Cost

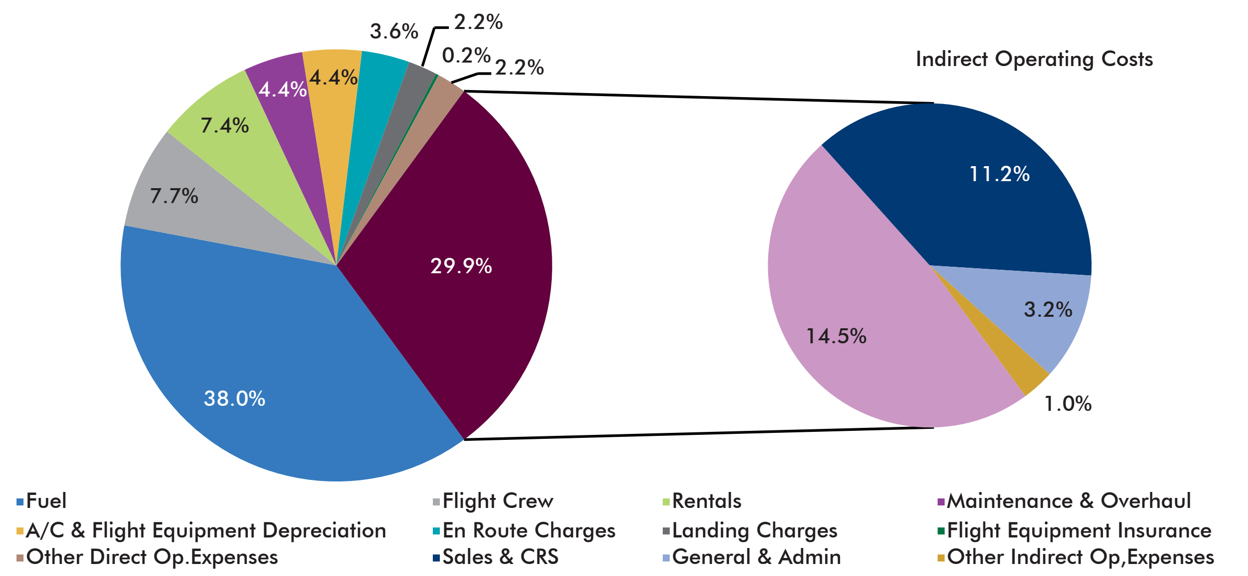
Jet fuel prices somehow stabilized in 2012, with prices increasing on average by 1.6% over 2011, however it continued to top airlines' expenses list. Reporting member airlines spent 12.2% more on jet fuel in 2012 compared to 2011 which is mainly attributed to operations' expansion. Accordingly, jet fuel expenses contribution in operating expenses increased marginally by 0.1% to 38% of reporting carriers' operating costs. On the other hand, the restructuring process at several reporting member airlines, especially in optimizing their work-force resulted in a decrease in total operating expenses of member airlines by (12.5%) over 2011 levels.

Fig. 20 Contribution of Some Operating Cost Components in the Total Operating Costs of AACO Members



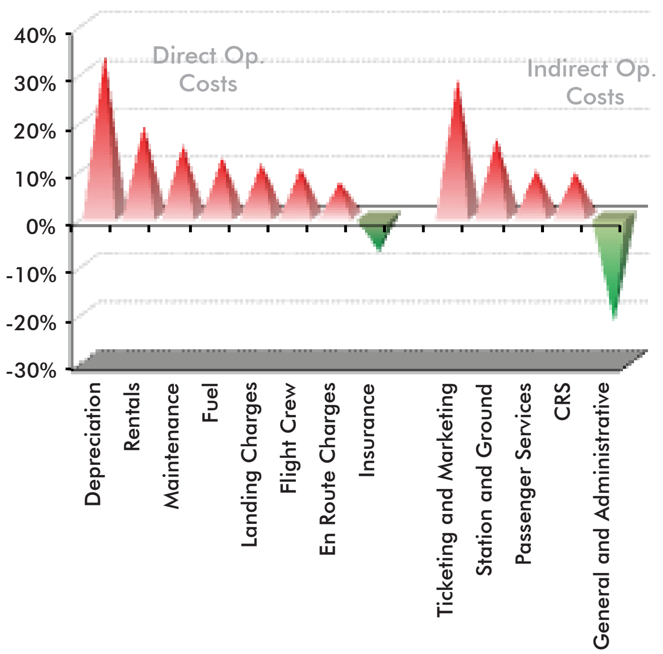
Source: AACO

Fig. 21



Source: AACO

Fig. 22

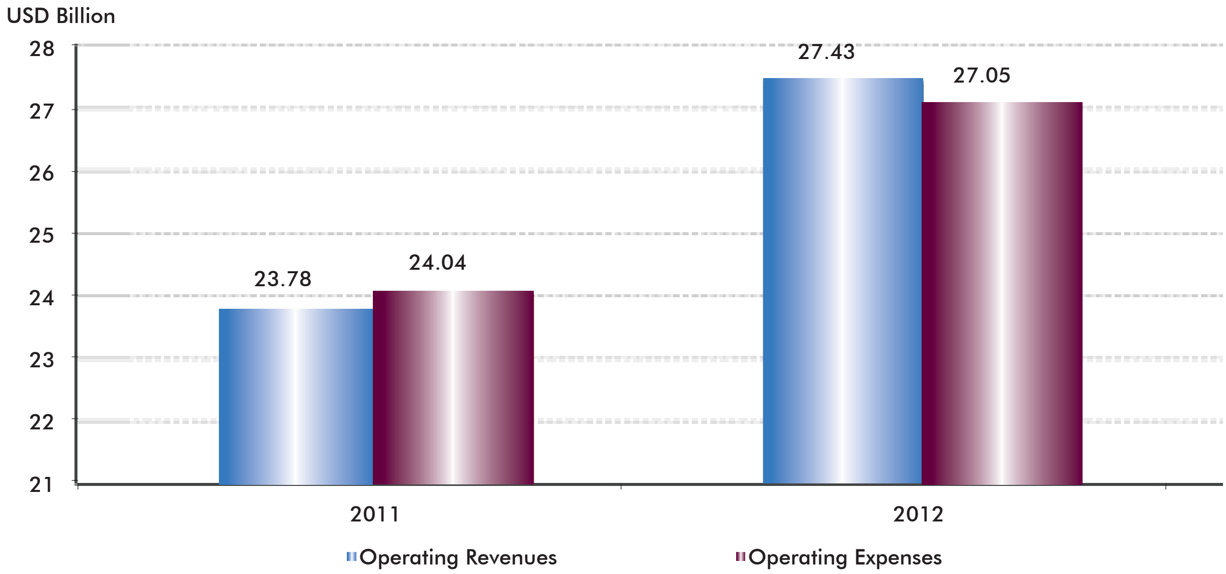


Source: AACO

Financial Results

Reporting AACO carriers' aggregate operating revenues increased by 15.4% in 2012 over 2011. On the other hand, airlines' operating expenses declined by (12.5%) during the same period. Consequently, reporting members recorded an operating profit of USD 377.0 million, and a net profit of USD 398.5 million. Within those numbers, the highest profits reported by a reporting member airline were USD 773.6 million, and the deepest losses incurred by a reporting carrier were USD 444.6 million.

Fig. 23 Comparison of Operating Revenues and Operating Costs for Some AACO Members



Reporting carriers: AT, BJ, EK, G9, KU, LN, ME, R5, RJ, SM, TU,WY and XY

Source: AACO

ARAB AIRLINES & THE WORLD

THE ARAB WORLD

States

- Most Arab states look at the aviation sector as a driver for the economy, hence states have invested in air transport infrastructure and worked on an array of bilaterals with countries around the globe to open trade and tourism opportunities.

- On one hand, some Arab states have opted for adopting unilateral Open Skies policies. Such states are: Bahrain, Kuwait, Lebanon, Oman, and the UAE. In addition, a number of Arab states have signed a large number of open skies accords with non-Arab states. On the other hand, restrictions on intra-Arab market access and airlines' ownership and control are hindering the huge potentials that the sector has. Market access in the region is bound by bilaterals mainly covering 3rd and 4th freedoms of traffic rights, while there's a small number of 5th freedom rights granted.

Most Arab States look at aviation as a driver to the economy; however, progress is slow when it comes to liberalization

- Although the instrument to overcome such barriers for growth exists, using this instrument has proven to be a challenge over the years. The implementation of the Damascus Convention of 2004, that is a MultilateralAgreement for the liberalization of Air Transport in the Arab world, is still very limited in spite of taking effect since 2007. So far, the Convention was ratified by 8 Arab states, namely: Lebanon, Jordan, Syria, Palestine, Oman, Yemen, United Arab Emirates and Morocco.

- The Convention covers fundamental principles of liberalization that include market access, ownership and control of airlines, and fair competition. In particular, it calls for the following:
  - Market Access: Liberalized within first five Freedoms
  - Fair Competition:
    - States to ensure their policies, practices & laws conform to international agreements
    - Seeks to harmonize competition provisions at multilateral level
    - Non-Discrimination between air carriers
    - Anti-Dumping Policies
    - Anti-Trust Rules
  - Ownership & Control of Carriers: Airlines to be owned by state or nationals or a number of states party to the agreement.

- In spite of the arbitrary implementation of the Damascus Convention and the restrictions on market access and cross-border investments, the strong economic growth, non-maturity of the Arab markets, the young population of the region, the Arab world geographic location, the low labor costs, and the high quality of services provided by Arab airlines have all contributed to marking the Arab market on the aviation map as one of the markets with the biggest opportunities for business and growth.

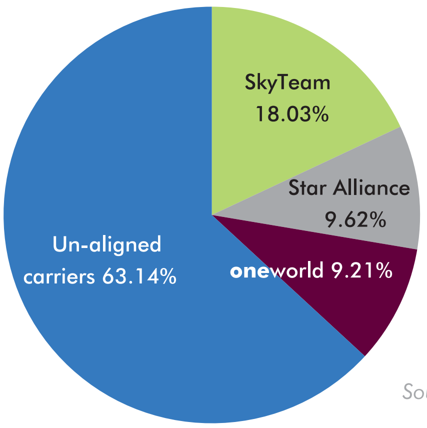
Airlines

- Most Arab governments stick to national ownership and control of airlines.
- Few Arab airlines are totally or partially owned by the private sector; some of these have their shares traded in the financial markets like Air Arabia, Royal Jordanian, Jordan Aviation, Nouvelair, and others.
- The low cost model is gaining momentum in the region crowned by the success stories of Air Arabia and flydubai; however, restrictions on market access and cross-border ownership and control have hindered this model from achieving its full potential in the region. The low cost business model has seen huge success stories in the EU and the US aided by the intra open skies policy which helped airlines implementing this model build massive networks on short haul routes.
- Airlines in the region, like their peers in other regions, have found in cooperation with other airlines a tool to expand and to overcome regulatory constraints stalling their growth.
- Cooperation in-between Arab carriers is mostly limited to codeshare agreements.
- Starting 2007, airlines from the region started acceding to global alliances with Royal Jordanian entering **one**world, followed by EgyptAir in 2008 which acceded to Star Alliance, then Saudia and Middle East Airlines that joined Skyteam in 2012. In October 2012, Qatar Airways was invited to join **one**world alliance and has recently announced that they will officially join the alliance on 30 October 2013. Below is a figure on the capacity share of the global alliances in the Arab aviation market, assuming Qatar Airways is a member of **one**world:

Arab Airlines have found in cooperation with other airlines a tool to expand and to overcome regulatory constraints

Fig. 24

Arab World Capacity Share by Alliance - August 2013*



*Assuming QR is a member of **one**world

Source: AACO, Innovata FlightMaps Analytics

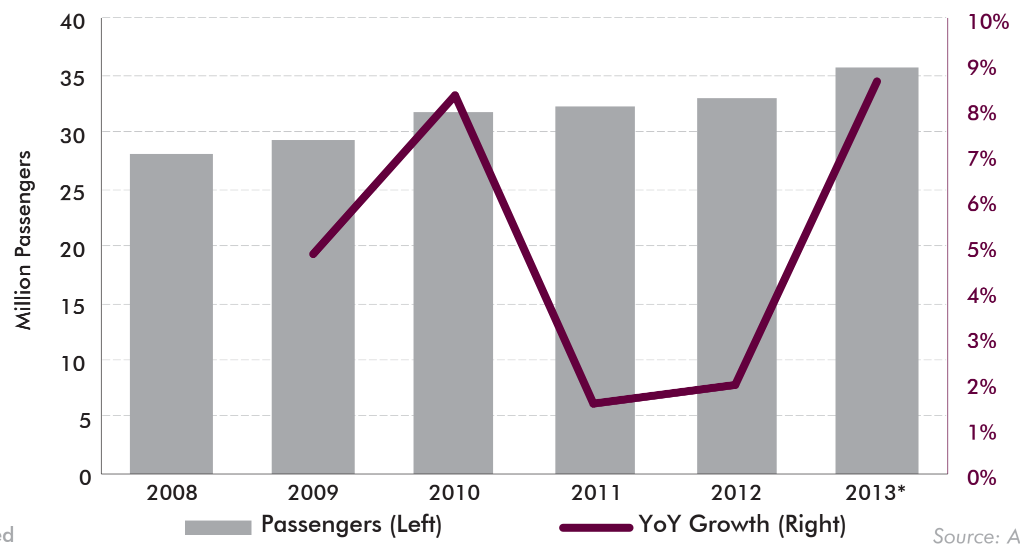
- Other Arab carriers remain independent of alliances' membership; rather they strike partnership deals in various forms with global players. More details on such partnerships with carriers from other regions of the world are included in "Synergies" in the next Section.

Arab World and the EU

Traffic

The number of passengers traveling between the Arab world and the EU in 2012 reached around 32.8 million passengers, representing 23.91% of the Arab air transport market. Traffic between the Arab world and the EU has witnessed continuous growth over the past years. In 2012, passengers number increased by 1.9% compared to 2011 and is expected to grow by 8.6% in 2013 compared to 2012.

Fig. 25 Number of Passengers Between the Arab World and the European Union

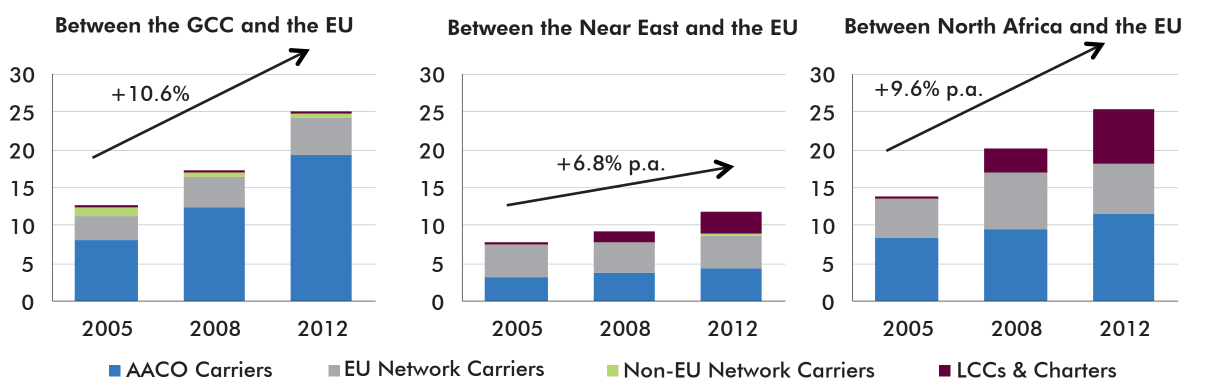


* Estimated Source: AACO, IATA

Capacity

- According to Innovata and Seabury Analysis, total capacity deployed in the EU air transport market has grown approximately 5% annually over the last 10 years.
- Capacity deployed between the Arab world and the EU has increased by 82.3% from 2005 to 2012 with an average annual increase of 9.1%, based on AACO and SRS Analyzer data.
- The below graph shows the capacity deployed between the EU and sub-regions of the Arab world between 2005 and 2012.

Fig. 26
Capacity Deployed between the Sub-regions of the Arab World and the EU (Million Seats)*

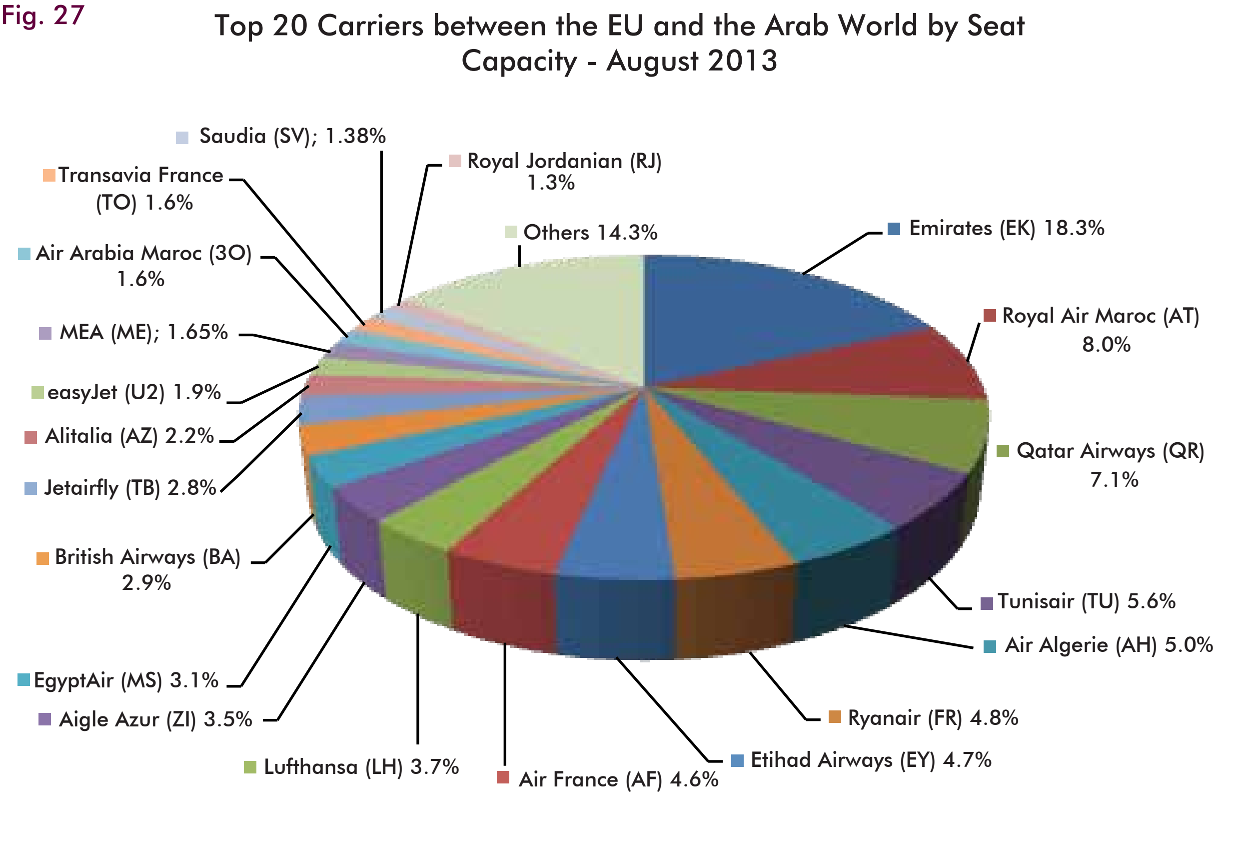


** AACO Carriers data does not include Air Arabia in the chart between the GCC and the EU and Nouvelair in the chart between North Africa and the EU - Those carriers' data is included respectively in the LCCs & Charters in each chart*

Source: AACO, SRS Analyzer

- The below graph shows the distribution of capacity deployed between the EU and the Arab world in August 2013.

Fig. 27



Source: AACO, Innovata's FlightMaps Analytics

Synergies

- EU network carriers have developed strategies to cope with increasing competition from LCCs on the short haul and non-EU carriers on the longer-haul markets. These carriers joined alliances, entered partnerships and/or signed an array of anti-trust immunity agreements mainly with US based airlines and some North-East Asia airlines.

The story of Arab aviation with Europe has always been a story of partnership and cooperation

- **EU Alliance Members as at August 2013**

Fig. 28

Source: AACO, Alliances' Websites

In August 2013, aligned EU carriers offered around 40 million seats, of which around 28% were by ***one****world EU members, 31% by SkyTeam and 41% by Star Alliance.*

- In mergers, EU carries mostly maintain the operating identity and management staff of both carriers. Synergies generally focus on economies of scale and some redundant route capacity.
- For example, Air France and KLM operate under two different AOCs and separate top managements. Lufthansa's fully owned subsidiaries (SWISS, Austrian, and Germanwings) are run independently.
- Some major EU carriers have also opted for establishing low cost subsidiaries as key tools to recover profitability on the short-haul markets; for example, Transavia of Air France – KLM, Germanwings of Lufthansa, and Iberia Express of Iberia.
- In synergies with the Arab carriers, such processes are mostly limited to partnerships (mainly codeshares and synchronization of frequent flyer programs) with some Arab airlines acquiring equity shares in EU carriers. Perhaps, the most famous are the Etihad/Air France-KLM partnership, Etihad's stakes in Air Lingus (2.99%), Airberlin (29%) and the latest move of acquiring 49% stake in Serbia's JAT Airways (considering that Serbia is preparing for accession to the EU in 2014), in addition to Emirates' partnership with TAP Portugal, while Qatar Airways sold its 35% stake in Cargolux at the beginning of 2013.

Regulatory Environment & Relations

General Regulatory Environment

- On the internal level, although we witnessed the deregulation of the European aviation market since 1997, in parallel, a flood of aviation related regulations was introduced, which has resulted in adding cost to EU carriers and all other carriers operating to EU airports.
- On the external level, the EC has sealed major open skies agreements with global partners. Key agreements were with the US, Canada, Morocco and Jordan. The agreements with Morocco and Jordan are comprehensive agreements part of the EU policy to bring in neighboring countries into the EU Common Aviation Area.
- The EC as well continues its work on signing horizontal agreements with partner countries, hence, removing the nationality restrictions in the bilaterals between EU Member States and third countries.
- In September 2012, the EC published an update on its external aviation policy which was adopted by the Council and the Parliament.

EU External Aviation Policy

- The EC published a Communication on 27 September 2012 on the EU External Aviation Policy.
- In December 2012, the EU Council adopted the proposed policy.
- In July 2013, the European Parliament approved the suggested policy.
- The new policy touches upon relations with various Arab states; each with a tailored approach. Among other issues, the policy calls for the following:
    - To reach comprehensive EU-level agreements with all neighboring countries by 2015 in order to open new market opportunities for European airlines and release some of the congestion at European airports.
    - To engage in a dialogue with Gulf countries with a view to enhancing transparency and fair competition.
    - To develop a template for a "fair competition clause" for inclusion in air services agreements with partner countries;
    - To revise or replace Regulation 868/2004 concerning protection against “subsidization” and “unfair practices”.
- The European Commission is in final talks with Tunisia to reach a comprehensive agreement like the ones with Morocco and Jordan.
- The EC as well initiated a call for a collective dialogue with GCC states, and the kick-off meeting of the dialogue is expected to be held in November 2013.

More details and AACO’s activities related to the EU-Arab aviation relations and the dialogue between the EU and GCC states are included on page 56.

The Calls for Protectionism in the EU are unfortunately expanding into the cradle of liberalization: The United States of America

Proposal for New Measures for Air Passenger Rights

- The European Commission announced on 13 March 2013 a proposed package of air passenger rights measures.
- The proposal has some positive points and other negative ones.

- The major positive points include an explanation of extraordinary circumstances, compensation on delays is now based on the length of the journey, and in case of massive disruptions , the EC set a time limitation on an airline's obligation to provide care.
- The main negative aspects include the provision that delay is to be considered at final destination, diversions are considered as delays or cancellations, partial ban of the no show policy, and some issues in the rerouting provisions.
- The EC proposal is currently going through the co-decision procedure between the European Parliament and the Council. The official positions of the Council and Parliament are expected by the end of 2013, noting that so far both institutions are tightening the regulation even further, adding more burdens and confusion. The EU institutions aim for an adoption before the next EP elections in May 2014.

New measures for air passenger rights: a number of positive points however, portions of burdensome and impractical provisions

Passenger Rights regimes are a major topic at ICAO level due to the proliferation of unilateral regimes in this area. On the other hand, airlines incur high costs due to such regimes which, in most cases, impose unfair liabilities and penalties to airlines. This issue is detailed in following parts of the Annual Report.

Progress on EU Airports Package (Slots, Ground Handling, Noise)

- In November 2011, the EC proposed a package of measures that consists of three legislative measures concerning slots, ground handling and noise. Since then, the package has been going back and forth between the Council and the Parliament.
- The European Parliament voted on 12 December 2012 on the proposed "airports package". In its vote the Parliament gave strong support for the Commission's proposals on slot allocation as well as noise restrictions. The Parliament referred the proposals on ground handling back to the Parliamentary Committee for further consideration.

The issue lies in the scarcity of slots at EU airports

- In April 2013, the Parliament adopted updating the ground handling directive and announced that they will start talks with the Council to find a comprehensive agreement on the airports package.
- Analysts do not expect any progress before July 2014.

Getting the needed slots at congested European airports has proven to be a challenge for many airlines; hence the importance of lobbying for carriers' interests in the proposed slots regulation, which in some areas could lead to favoring EU carriers over other carriers. More details and AACO's work in this area are detailed on page 56.

Arab World and North America

Traffic

The number of passengers traveling between the Arab world and North America in 2012 reached around 3.7 million, representing 2.7% of the Arab air transport market. In 2012 the number increased by 6.4% compared to 2011 and is expected to increase by 8.5% in 2013 compared to 2012.

Fig. 29

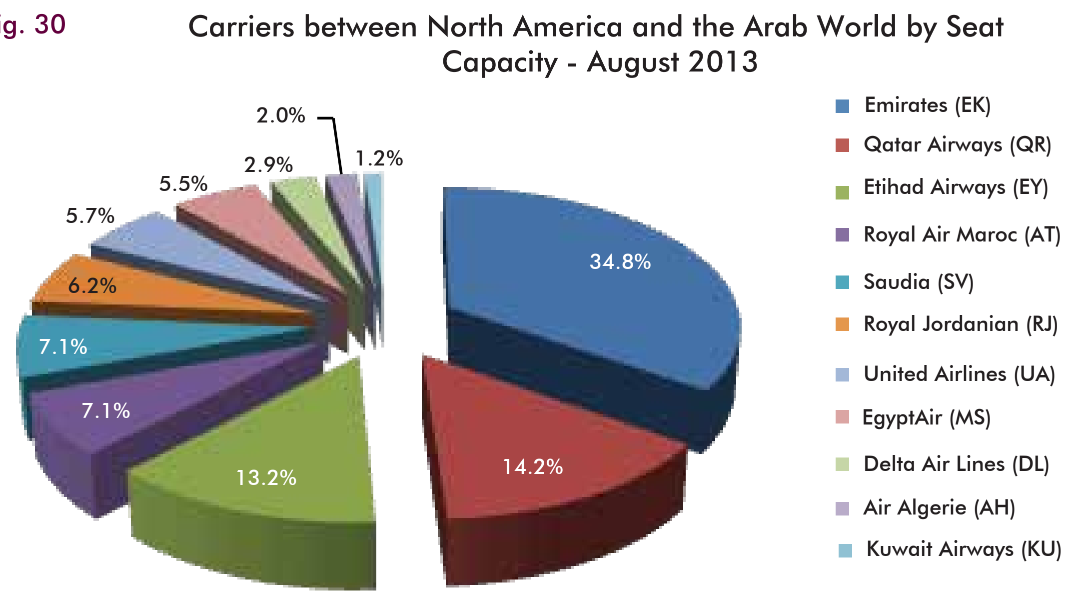
* Estimated

Source: AACO, IATA

Capacity

- According to data by Innovata and Seabury Analysis, North America total based capacity has grown by 5% in total between 2005 and 2012. The market was deeply affected by the economic crisis of 2008-2009 that resulted in a decrease of 8% in capacity during that period. Moreover, the big mergers between US carriers over the years have resulted in capacity optimization. Between 2006 and 2011, the fastest growing market from North America was the Arabian Gulf-North America market which has recorded a constant growth of 108% and 41% p.a. for North American and Gulf Carriers respectively. About 8,000 annual seats were offered by North American carriers in 2006 vs. more than 300,000 in 2011.
- The number of seats deployed between North America and the Arab world increased by 447% between 2005 and 2012 with an average annual growth of 29%, based on AACO & SRS Analyzer data.
- The below graph shows distribution of carriers between North America and the Arab world by seat capacity in August 2013

Fig. 30



Source: AACO, Innovata's FlightMaps Analytics

Synergies

> **Synergies between North American carriers and Arab airlines have so far been limited to codeshare arrangements and cooperation within global alliances**

- Various external factors like the economic recession and volatile fuel prices have forced US carriers to adjust their business models. Some carriers opted for consolidation and merger to improve revenues through more robust route networks and in order to realize greater operational efficiencies, whereby, a wave of consolidation began in 2005 including 5 of the 10 biggest US carriers.
  - In 2005, US Airways merged with America West Airlines
  - In 2008, Delta merged with Northwest
  - In 2010, United merged with Continental
  - In 2013, American and US Airways are expected to merge, awaiting regulatory approvals.
- North American mergers are usually executed as a full integration of branding, ticketing, airport services, FFPs, and air services, including labor cuts. Merged airlines act as one company once the merger is complete.
- North American Carriers have as well entered into many anti-trust immunity arrangements on transatlantic routes, and this year a new joint venture was introduced between Delta and Virgin Atlantic where Delta acquired 49% stake of Virgin Atlantic from Singapore Airlines. The alliance is to be launched in January 2014. Following this, nearly 80% (Flightglobal/Innovata data) of transatlantic capacity would be priced and marketed by primarily only three clusters: American, British Airways, Finnair and Iberia; Delta, Alitalia, KLM and Virgin Atlantic; and United Airlines, Air Canada and Lufthansa. It's worth adding here, that Emirates has gained authority to operate between Milan and New York, and started operating the route on 1 October 2013 and based on Flightglobal data, it recently came to light that the carrier has the authority to operate between the UK and the USA if it chooses to do so.

- **North American Alliance Members as at August 2013**

Fig. 31

Source: AACO, Alliances' Websites

- In August 2013, aligned North American carriers offered around 64 million seats, of which around 18% for **one**world, 33% for SkyTeam and 49% for Star Alliance.
- US Airways and American are merging this year and will keep American's name and retain its **one**world alliance membership, where US Airways will withdraw from Star Alliance.

- Synergies between North American carriers and Arab airlines have so far been limited to codeshare arrangements and cooperation within global alliances. During the past year, Etihad Airways added a codeshare agreement with Air Canada, and Qatar Airways codeshared with Jetblue and American Airlines.

Regulatory Environment and Relations

- The US Airline Deregulation Act in 1978 removed government control over fares, routes and market entry. Accordingly, the airline industry became market-driven.
- Since 1990, the US has concluded numerous "Open Skies" agreements, including with Jordan, UAE, Bahrain, Oman, Morocco, Qatar, Kuwait, and Saudi Arabia.
- As in the EU, the US has on the other hand bombarded the airlines with a bunch of regulations that are mostly consumer-oriented. Since 2009, consumer regulations have increased airline costs by USD1.7 billion annually. US Consumer Rules III is expected to be issued in 2014.

Consumer protection regulations have increased airline costs by USD1.7 billion annually

- Federal Bankruptcy Law, Chapter 11, became a strong tool in airline restructuring that prevents big airlines from failing. The last of the carriers to file for Chapter 11 was American Airlines.
- In 2013, US officials have approved a new US airport security measure that would see all non-US residents being fingerprinted before they could fly home.
- As well last year, the FAA announced that it is increasing the qualification requirements for first officers.

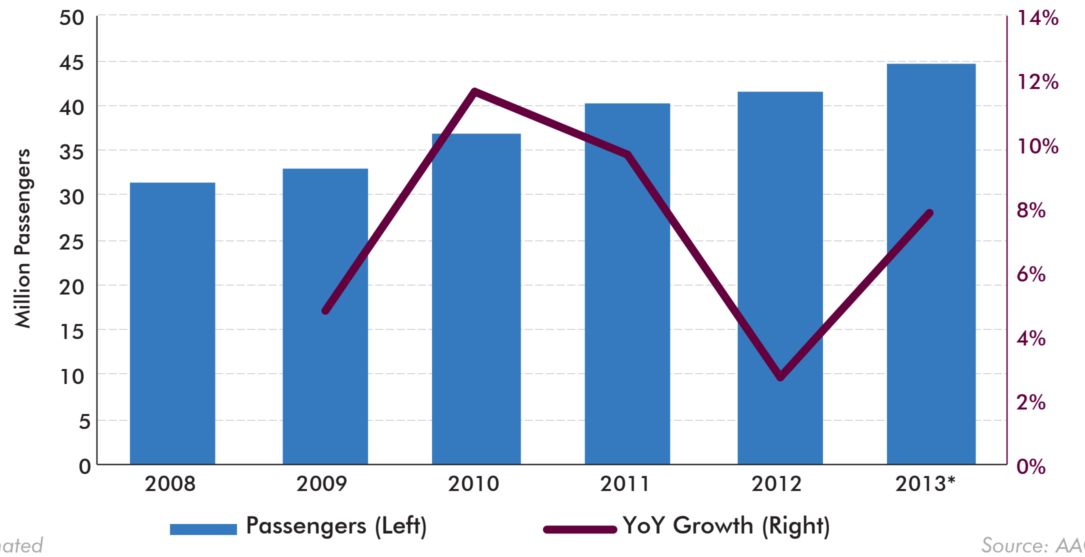
Arab World, Australia and Asia

Traffic

The number of passengers traveling between the Arab world and Asia & Australia in 2012 reached more than 41 million, representing 29.1% of the Arab air transport market. In 2012 the number increased by 2.7% compared to 2011 and is expected to increase by 7.8% in 2013 compared to 2012.

Fig. 32

Number of Passengers Between the Arab World and Asia & Australia



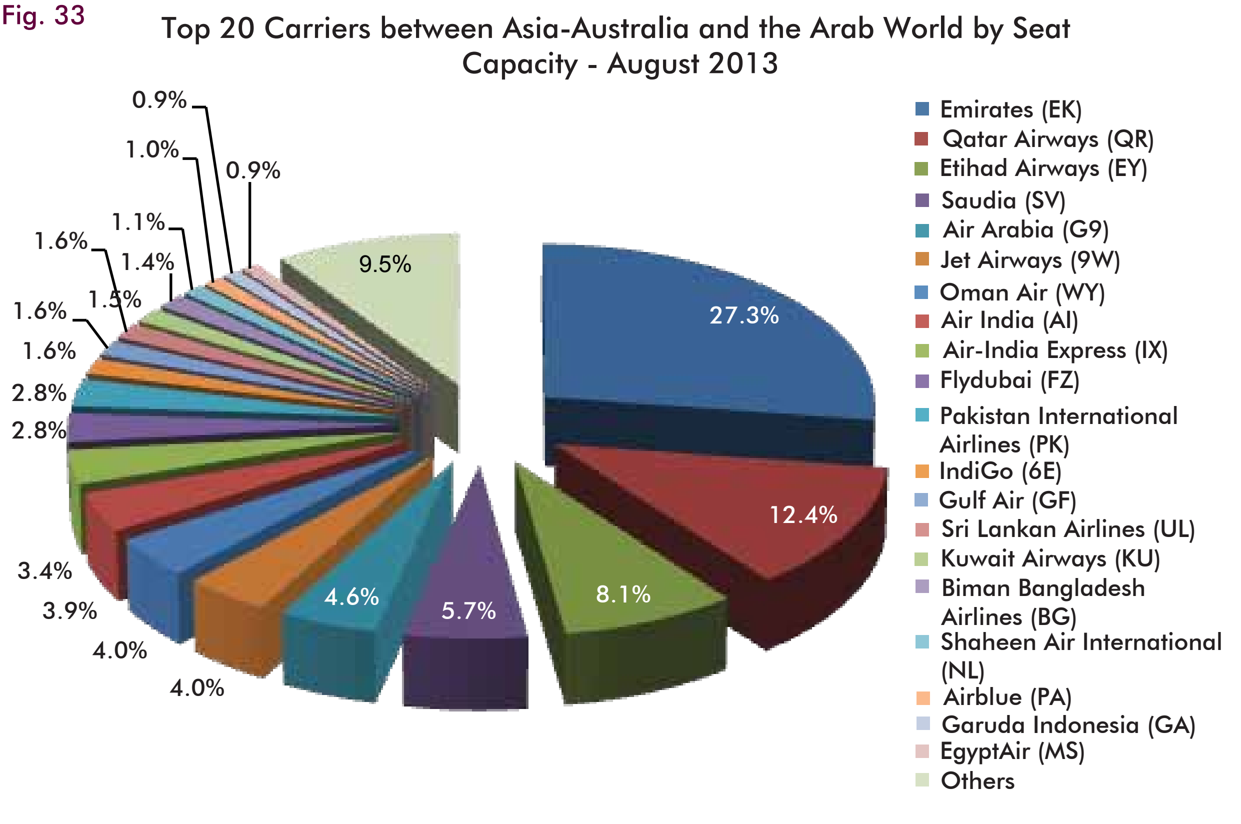
* Estimated

Source: AACO, IATA

Capacity

- The number of seats deployed between Asia & Australia and the Arab World increased by 126.4% between 2005 and 2012.
- Below is a figure that shows the top 20 carriers between Asia & Australia and the Arab World by seat capacity.

Fig. 33



Source: AACO, Innovata's FlightMaps Analytics

Synergies

- Asia and Australia is a very big and diversified region where socio-economic, political and geographical environments are not homogeneous and same applies for the state of air transport in the different parts of the region.
- Common factors affecting operations of carriers in that part of the world include natural crises like tsunamis, earthquakes and health pandemics including Bird Flu and SARS. Business threats include increasing competition from LCCs and competition on intercontinental routes coming from Arab carriers; hence, the need for more flexible and adaptive business models.
- Around 18 carriers from the region have joined one of the three global alliances and many others are in the process of joining, in addition to many other partnerships and equity investment arrangements.
- Perhaps the most prominent partnership for the region last year was between Australia's Qantas and UAE's Emirates. The partnership is a wide-ranging joint venture on flights between Australia and Europe through Dubai.

Perhaps the most prominent partnership for the region last year was between Australia's Qantas and UAE's Emirates

- While Emirates partnered with Qantas, Etihad has long since invested in Virgin Australia with a shareholder stake that reached 13.41% in September 2013 and has recently gained approval to increase to 19.9%.

- In India, Etihad was the first foreign airline to invest in an Indian carrier after it gained approval to acquire 24% of Jet Airways' shares.
- Last year as well, Qatar Airways signed a codeshare agreement with Bangkok Airlines, and Royal Jordanian codeshared with Sri Lankan Airlines.

- **Asia and Australia Alliance Members as at August 2013**

Fig. 34

Source: AACO, Alliances' Websites

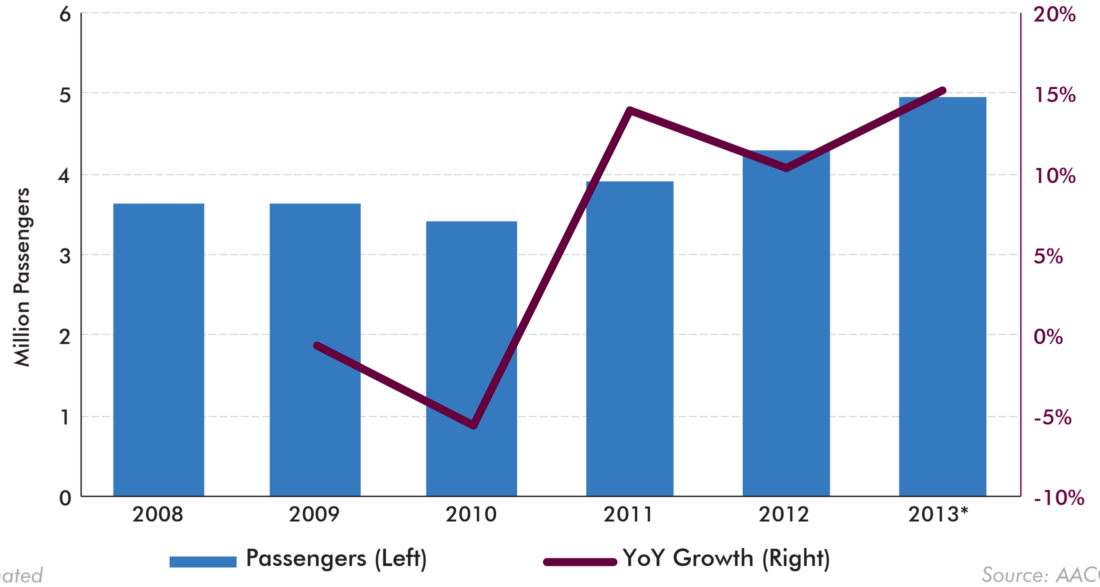
*In August 2013, aligned carriers of Australia & Asia offered around 64 million seats, of which around 20% for **one**world, 42% for SkyTeam and 38% for Star.*

Arab World and Sub-Saharan Africa

Traffic

The number of passengers traveling between the Arab world and Sub-Saharan Africa in 2012 reached around 4.3 million, representing 3.1% of the Arab air transport market. In 2012 the number increased by 10.3% compared to 2011 and is expected to increase by 15.1% in 2013 compared to 2012.

Fig. 35 Number of Passengers Between the Arab World and Sub-Saharan Africa



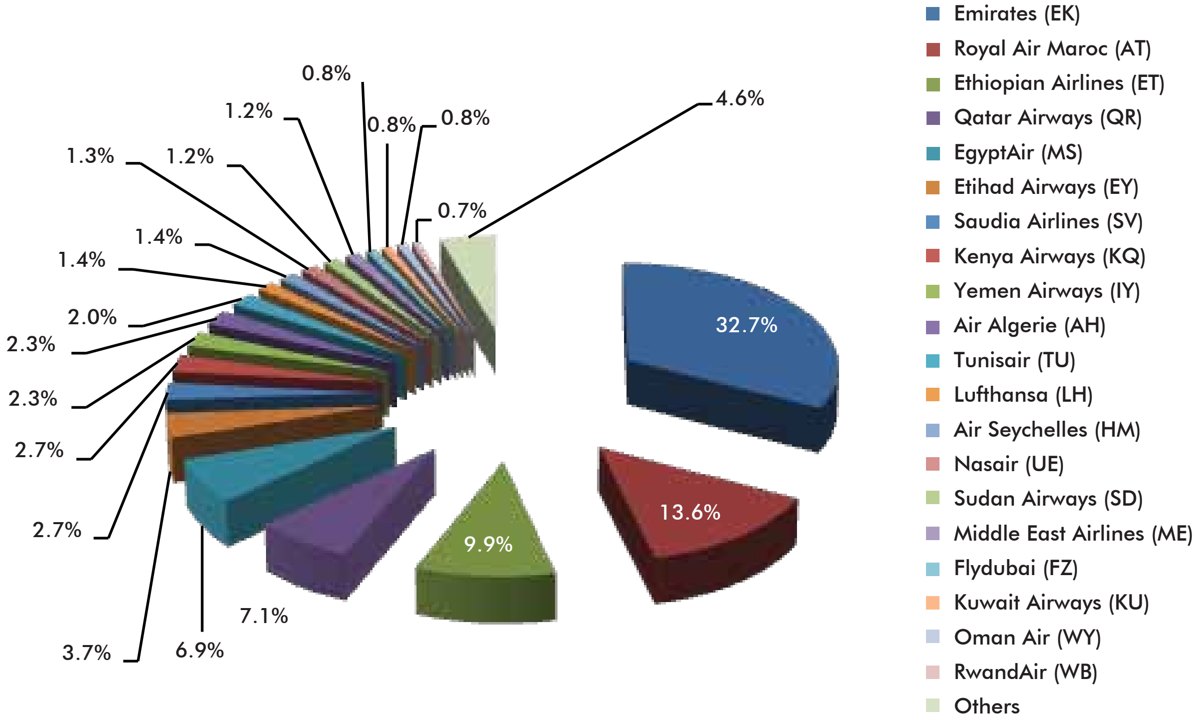
* Estimated

Source: AACO, IATA

Capacity

- Sub-Saharan Africa total based capacity has grown by 54.7% between 2005 and 2012 with an average annual growth of 6.5%.
- The number of seats deployed between Sub-Saharan Africa and the Arab world increased by 134% between 2005 and 2012 with an average annual growth of 13.1%.
- The below graph shows distribution of carriers between Sub-Saharan Africa and the Arab world by seat capacity in August 2013:

Fig. 36 Top 20 Carriers between Sub-Saharan Africa and the Arab World by Seat Capacity - August 2013



Source: AACO, Innovata's FlightMaps Analytics

Synergies

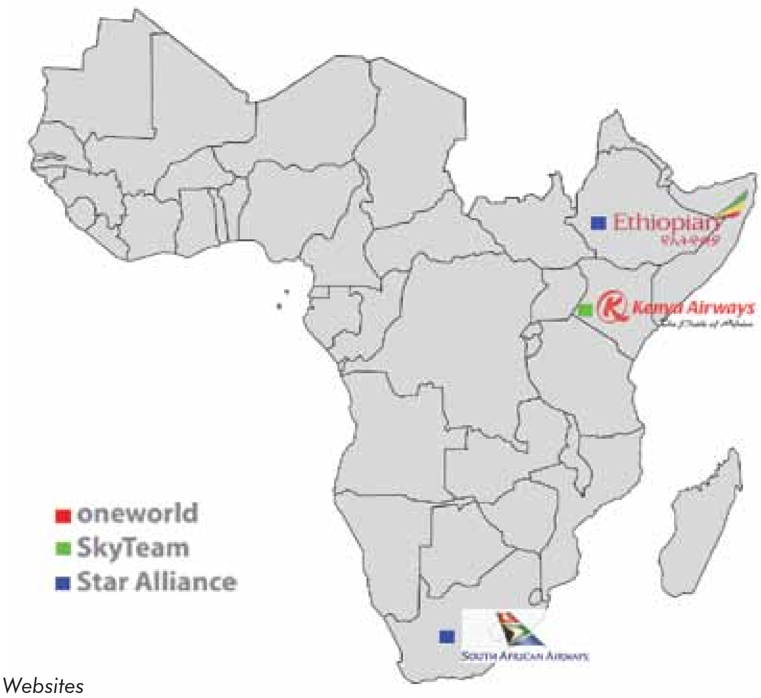
- Sub-Saharan Africa is the smallest of the world regional in terms of aviation. Links on intra-regional routes are minimal compared to links with third countries; in spite of a big need for air transport in the region triggered by vast distances between cities and weak road and rail infrastructure.

Barriers to market liberalization and restricted cross-border ownership and control rules have prevented carriers from consolidating and merging

- Political and economic instability hindered the growth of the region's aviation sector hence resulting in missing out on a key ingredient of economic growth.
- Major carriers of the region have established hubs; Ethiopian Airlines in Addis Ababa, Kenya Airways in Nairobi, and South African Airways in Johannesburg.
- Barriers to market liberalization and restricted cross-border ownership and control rules have also contributed to decrementing the role of aviation in the region and have prevented carriers of the region from consolidating and merging in order to achieve economies of scale. The three majors Sub-Saharan African carriers however have each joined a global alliance as follows:

- **Sub-Saharan Africa Alliance Members as at August 2013**

Fig. 37



Source: AACO, Alliances' Websites

*In August 2013, aligned Sub Saharan carriers offered around 7.68 million seats, of which around 12.4% for **one**world, 27.2% for SkyTeam and 60.4% for Star Alliance.*

- The Arab carriers have expanded in Sub Saharan Africa over the years. The first link was by Emirates that expanded into Nairobi and Johannesburg in 1995.
- Part of the traffic carried by the Arab carriers continues to China that has become Sub Saharan Africa's major trading partner.
- In synergies with Arab carriers, those are mostly limited to codeshares. Recently, Etihad Airways and Kenya Airways struck a new codeshare agreement. Etihad as well has acquired 40% of Air Seychelles.

GLOBAL ISSUES IMPACTING THE BUSINESS PRIORITIES

SAFETY

2012 was the safest year on record for civil aviation

- 2012 was the safest year for air transport on record. It witnessed a decrease in the number of aircraft accidents globally by 18.5% over 2011, and a 31.8% decrease in the number of fatal accidents. In addition, the number of fatalities decreased by 14.8% over 2011 levels.
- The financial impact as a direct outcome of safety improvements were plausible: Flightglobal estimated the cost of hull losses in 2012 at USD 829 million, a decrease of 30.3% and 39.5% over the estimated cost respectively in 2011 and 2010.

Global	Western-built Aircraft Accidents	Eastern-built Aircraft Accidents	Western-built Aircraft Hull Loss Rate (per Million Sectors) - Jet and Turboprop	Western-built Aircaft Fatal Accidents	Eastern-built Aircaft Fatal Accidents	Fatalities
2008	95	14	1.18	16	7	502
2009	78	12	0.78	14	4	685
2010	74	20	0.78	14	9	786
2011	75	17	0.66	12	10	486
2012	62	13	0.20	3	12	414

Source: IATA Safety Report

- Similar to previous years, the most common type of accidents remained Runway Excursions (28% of total accidents). Loss of Control In-Flight (LOC-I) accidents, although rare (around 1% of total accidents) were responsible for more than 60% of fatalities.
- The improvement in aviation safety is fueled by the strong collaboration in that area between all stakeholders which are working on regional and global levels to implement the ICAO Global Aviation Safety Plan (GASP) and the ICAO Global Aviation Safety Roadmap (GASR).

New ICAO Annex to the Chicago Convention on Safety to emphasize commitment to air transport safety

- On the regulatory level, the ICAO Council adopted in February 2013 a new Annex to the Chicago Convention of International Civil Aviation dedicated to Safety Management (Annex 19). The new annex consolidates existing provisions related to State Safety Programmes (SSP) and Safety Management Systems (SMS) into one annex, which will contribute to the evolution of proactive safety strategy. However, much work still needs to be done in that area on the state level: According to the latest data from ICAO USOAP (Universal Safety Oversight Audit Programme), which tracks states' effective implementation of safety oversight systems, the global average of effective implementation is only 61%, and the area with the highest average effective implementation (Airworthiness) recorded 72%.

- Looking at the Arab world, the overall number of accidents in the region in 2012 declined by 40% to 3 accidents in total, among which one was fatal. The accidents recorded involved one ferry flight (Saudia from MED to JED), one passenger flight (Syrian Arab Airlines in mid-air collision with military helicopter), and the fatal accident involved a Sudanese government chartered aircraft from Alfa Airlines in Sudan.

AACO members reported zero accidents in international commercial operations in 2012

- However, and in spite of this improvement, the region still suffers from drawbacks in safety management and regulatory oversight (only eight Arab states scored averages above the ICAO USOAP's effective implementation global average of 61%) which require urgent attention from all stakeholders.

Arab World	Total Number of Accidents	Number of Hull Losses	Number of Fatal Accidents	Fatalities
2008	10	5	5	59
2009	8	4	2	158
2010	5	2	2	109
2011	5	3	0	0
2012	3	1	1	32

Source: IATA Safety Report

SECURITY

- Although 2012 did not note any critical aviation security incident, work is still undergoing to strengthen security approaches in response to the incidents that took place during the past couple of years.

Airlines are contributing by USD 8 billion to the global cost of security

- In that regard, and on the regulatory level, ICAO expedited the adoption of security Standards and Recommended Practices which were included in the 13th amendment to Annex 17 to the Chicago Convention. The latest amendment includes provisions related to the implementation of supply chain security systems, common baseline security measures for both passenger and cargo aircraft, and streamlined procedures for identifying security high-risk cargo and mail. In addition, the amendment features a revised comprehensive Standard for the screening of persons other than passengers. The new amendment became applicable in July 2013.
- In addition, ICAO AVSEC Panel agreed on a new mandate for its Working Group on Air Cargo Security which requests the group to draft practical principles to enhance security at the global level, in addition to working closely with international entities in order to better align cargo security policies, standards, measures and guidance material.
- Moreover, ICAO and the World Customs Organization (WCO) agreed to collaborate more intensely on specific priorities related to cargo security and facilitation.
- However, and in spite of those developments, implementation of security regulations on national levels still lacks behind. The second cycle of ICAO Universal Security Audit Programme (USAP), which audited in total until the end of 2012 163 states and 1 Special

Administrative Region, on the implementation of the critical elements of an aviation security oversight system, reported that the level of implementation of Quality Control Obligations reached only 51.8% among audited states, followed by the level of implementation of Resolution of Security Concerns at 58.5%. On the other hand, the level of implementation of Aviation Security Legislation reached 85.6% among audited states.

- In parallel, the industry continues to work with regulators on initiatives to enhance and optimize air transport security, such as risk-based approach to passenger security, mutual recognition of security measures which leads to one-stop security for transiting passengers, and supply-chain cargo security.
- In addition, and although security is mainly the role of governments, airlines are contributing to those costs to improve their operations' security. According to IATA, this area is costing airlines and their passengers USD 8 billion annually, among which 38% are spent on fraud & theft prevention, audits and emergency planning, 28% on passenger operations security, and 20% on aircraft protection.

CLIMATE CHANGE

Introduction

- Year after year the environmental concern and the need to find a global solution to address climate change and the effect of aviation emissions rise in the minds of all stakeholders. Aviation and the environment became one of the essential strategic issues on the agendas of both airlines and governments.
- The issue of the Environment was first discussed in 1992 with the Rio Earth Summit which led to the agreement of the UNFCCC giving rise to the Kyoto Protocol. Kyoto Protocol has recognized ICAO as the global instrument to purse the mitigation of greenhouse gas emissions from international aviation.
- ICAO in its 36th Session addressed the negative impacts caused by engine emissions on the environment at a local as well as global level stressing out that a comprehensive approach is needed to manage aviation's environmental impacts.

ICAO 38th Assembly is a pivotal milestone on aviation and climate change

- States' interest was not high at the time. There wasn't a strong commitment towards achieving that comprehensive approach, until a time when the EU took the initiative to include aviation in its ETS. With that the EU succeeded in putting this issue on top of the priority list of the industry. Yet the EU failed to gain support due to the scheme's extraterritoriality which led to threats of trade war.
- The past year witnessed many milestones from various stakeholders, all trying to achieve a global solution yet in a manner that serves their interests but no tangible outcome was achieved. 2013 is a pivotal year, many developments took place and the grounds towards progress for a possibility of having a global agreement on aviation and the environment is now fertile.

Key Milestones

Outcome of COP 18

The United Nation Framework Convention for Climate Change (UNFCCC) held its 18th Conference of the Parties in Doha –Qatar from 26 November to 8 December 2012. No major outcome of that COP except that it agreed again that the second commitment period of the Kyoto Protocol will last 8 years, starting in January 2013 and lasting until 2020, when the new agreement outlined in the Durban Platform is due to enter into force. The key sticking point remains the issue of common but differentiated responsibilities (CBDR). Developing nations emphasized that when addressing aviation under ICAO, CBDR should be a major element in those discussions.

Environmental Measures by States

EU

- In view of the political opposition and the threat of a trade war, the EC announced in November 2012 that it will stop the clock on the EU ETS on international flights (to/from the EU) until the close of the ICAO General Assembly to
- be held in September 2013, to help in facilitating an agreement on Market Based Measures at the 38th ICAO Assembly.

Restart the clock would restart the trade war

- It is very unlikely to re-implement the full scope of the EU ETS as the political reasons that pushed the European Commission to stop the clock on the EU ETS on international flights and the threat of a trade war will return if the European Commission decided to re-implement its ETS.
- The EC has come to accept that reaching an agreement on a single global MBM is not possible at this coming Assembly of ICAO and that a detailed roadmap is needed to be developed for adoption by the 2016 Assembly.

USA

- The US position is that it is firmly committed to reducing harmful carbon pollution from civil aviation both domestically and internationally but not through unilateral schemes as the EU ETS which it strongly opposes.
- In spite of the EC announcement that it will stop the application of its ETS on international flights for one year, the US Senate approved a Bill which prevents U.S. carriers from complying with the requirements of the EU ETS.
- The US position was always supportive of having a global solution under ICAO.
- June of this year, President Obama launched an action plan that references the role the United States is playing at ICAO in reaching a comprehensive global approach on international aviation emissions. That plan was welcomed by the EU.

Proliferation of States Measures

- States' awareness towards the need to mitigate emissions is growing. Yet, there is no uniformity in the approach of measures applied. Some are planning to have a national ETS, while others applied or will apply a tax.

- The danger lies in the multiplicity of measures and proliferation of taxes being applied on aviation under the environmental banner.

A table showing the different measures by States is available on page 52.

Airline Industry

- The airline industry is committed to controlling its environmental impact.
- Aviation is responsible for 2% of manmade carbon emissions.
- The airline industry adopted a four-pillar strategy consisting of technology, infrastructure, operational improvements and market based measures; that same strategy was ratified by States.
- In 2010, IATA AGM adopted a resolution setting out three ambitious targets. However, these targets cannot be achieved without the support of the governments by reaching a global agreement to encourage emissions reductions in order for the industry to be able to attain the 2nd target which is carbon-neutral growth from 2020.

IATA 69th AGM resolution unites the industry on CNG 2020 measure

- For the past 18 months, the airline industry worked extensively in order to try to put in place the design elements and how to operationalize the carbon neutral growth and allocate the individual responsibility of that collective target.
- In 2013, IATA AGM endorsed a resolution on the strategy of implementation of the aviation carbon neutral growth from 2020.
- That resolution provides governments with a set of principles on how they could establish procedures for a single global market-based measure (MBM) and integrate a single global MBM as part of an overall package of measures to achieve CNG2020.

ICAO

ICAO secretariat was tasked by its Assembly to undertake work to develop a framework for market-based measures (MBMs) in international aviation and to continue to explore feasibility of a global MBM scheme.

Framework for Market Based Measures

- The Council established a high-level group of policymakers to look at and develop a framework to implement all of the four pillars, but with an emphasis on market-based measures.
- The group has been requested to conclude discussions before the ICAO Council meeting in June 2013 and ahead of the 38th ICAO Assembly in September 2013.
- Unfortunately, the high level group could not reach a concrete outcome and hence the Council assumed this task.
- The group discussed the scope of the framework and exchanged various views trying to align positions of States. However, the discussions were hindered by whether there should be mutual consent in-between states applying MBMs and what is the geographical scope for implementation.

Single Mechanism for Market Based Measures

- ICAO Council evaluated the 3 options proposed by the experts group namely: global

mandatory offsetting, global mandatory offsetting complemented by a revenue generation mechanism, and a global emissions cap and trade system, and recognized that these options are feasible and can contribute to achieving ICAO's environmental goals.
- The Council has not yet decided on any option as more analysis is needed to develop more concrete conclusions.
- All stakeholders are aware that agreeing on a single global market based measure cannot be achieved during the 38th Assembly as a roadmap with clear elements for the design of the scheme and a time table for its introduction should be adopted first.
- The economic measure should complement operational, infrastructure and technical measures for aviation to be able to reduce its emissions. Hence governments should adopt strategies to accommodate that.
- Harmonizing the divergence of positions between developed and developing states is not an easy task. The major design elements of the global MBM hindering the agreement are:

  - Allocation of emission responsibilities
  - Non-distortionary means of taking the special circumstances and respective capabilities of states within the design of a global MBM
  - Harmonization of monitoring, reporting and verification system
  - Administering the global MBM
  - Offset or emission trading scheme
  - The timetable and legal mechanism to introduce the global MBM.

No full agreement expected before 2016

The coming Assembly of ICAO will determine what will happen with respect to states reaching an agreement on the nature of the framework of market based measures and if airlines will be faced by proliferation of different measures prior to 2020. If different measures were applied by states then that will be an issue after 2020 as the global MBM should overtake States' national or regional measures and be designed in a way that reduces the administrative compliance procedures for operators. Moreover, many ideas are being discussed now within ICAO with regards to the geographical scope of implementing an MBM by a state or a group of States. The talk is about national airspace with the application of certain exemptions on routes of low activity and the de minimis exemption at which many states have already filed reservation.

CNG 2020 is only a gap filler

AIRLINES' RESPONSIBILITIES TOWARDS THE CONSUMER

Overview

- The airline industry has always pushed for a uniform and workable system for carriers' liabilities towards the consumer.
- It started with the Warsaw Convention in 1929, Hague Protocol in 1955, then Additional Protocol 2 + Montreal Protocol 4, and last the Montreal Convention of 1999.
- In spite of the existence of such global conventions, the variations in acceding to the conventions and the proliferation of multiple consumer rights regulations have resulted in confusion and unfair treatment in some cases to passengers and airlines.

Montreal Convention 1999

- Adopted in 1999 by ICAO, entered into force in 2003.
- MC99 provides a modern, uniform and workable system for carrier liability in cases of:
  - death or injury to passengers
  - delay, loss or damage to baggage
  - delay, loss or damage to cargo
- The Montreal Convention established a modern, fair and effective regime to govern airline liability to passengers and shippers on international flights; however, only 54% of Parties to the Chicago Convention have ratified it, leaving in place a complex patchwork of liability regimes.

Universal adoption of MC99 will deliver wide-ranging benefits to passengers and shippers

- Universal adoption of the Montreal Convention as the single universal liability regime for international carriage by air will deliver wide-ranging benefits to passengers and shippers and provide greater certainty to the airline industry on the rules governing their liability.
- **Benefits to Passengers:** Sensible and fair rules for death and injury, makes available full compensation, ends arbitrary limits, Loss to baggage and delay simplified, Indexed limits/thresholds, Consumer friendly – can claim in five jurisdictions, and Allows immediate assistance payments.
- **Benefits to Cargo:** Unbreakable limit for cargo, MC99 permits substitution of airway bills by other means preserving a record of carriage.
- **Benefits to Governments:** Universal ratification of MC99 ensures that citizens are covered by a fair and modern liability regime wherever they are flying in the world. MC99 also gives Governments the opportunity to support economic growth by enabling the use of electronic documents in the air cargo supply chain.

Work at ICAO

- The air transport conference ATConf6 held in March 2013 recommended that ICAO goes about consumer rights issues in the following manner:
  - ICAO should continue to monitor consumer protection developments and to play a leadership role in developing policy guidance, taking into account the interests of States, the industry, air travellers and other aviation stakeholders.
  - ICAO should, in particular, develop, in the short term, a set of high-level non-prescriptive core principles on consumer protection which strike an appropriate balance between protection of consumers and industry competitiveness.
- ICAO was also asked at ATConf6 and the 38th Assembly to urge states to ratify the Montreal Convention of 1999.
- Consumer Protection issues are on the agenda of the 38th ICAO Assembly, whereby there are many calls to especially develop a set of core principles for states to follow when developing consumer rights regimes.

EVOLUTION OF CUSTOMER CENTRICITY

- Similar to any other business, airlines' objective is to be profitable, which involves on one side increasing revenue, and hence retaining previous customers and acquiring new ones.
- Although airlines were mavericks in retaining customers when they invented brand loyalty through their Frequent Flyer Programs, the combination of technology constraints through legacy systems and the complication of the business itself resulted in a stagnation of the innovation in this area and in the response to consumer evolving needs.

Innovation in customer management stagnated, especially on the conventional indirect channel

- Airlines use a combination of the two available distribution models to present their products to customers: direct and indirect channels. The indirect channel consisted of distributing airline products to travel agents through agreements with Global Distribution Systems (GDSs), and the direct channel consisted of directly reaching the consumer through airlines' websites and their ATO/CTOs.
- However, the revolution in technology and in consumer empowerment resulted in a consumer who is more tech-savvy and sophisticated. The consumer of today is able to instantly reach any information he/she requires, and to make choices by identifying her/his needs and base her/his decisions on information presented and even on reviews of other consumers. This consumer would choose the product that suits her/his personal needs rather than choosing the product based on what was presented to him/her by an intermediary. And hence this elevated the air transport industry to a global business rather than a local one.

Customers are now more technology oriented

- In addition, this revolution has resulted in consumers increasingly using search engines and meta-searches which is putting a lot of pressure on conventional Online Travel Agents (OTAs). A Google study found that more than 79% of travelers found search engines "extremely" or "very" useful. The reason behind this rise is that consumers require a simple, fast, seamless and fun search/book experience. In addition, search engines and meta-searches support native language search that is not currently available neither on OTA nor on airlines' websites, and which allows the consumer to search by asking the computer questions using her/his own spoken language as if asking another human being.
- Moreover, the spread of mobile devices allowed consumers to access information more frequently and across several platforms. A study revealed that currently 8% of the world's internet traffic is on tablet computers; another study targeted at searches for air travel found that in 2012 more than 60% of travel-related searches started on a smartphone or a tablet computer.
- Airlines responded to the evolution in the behavior of consumers by competing in differentiating their product offerings (seats, meals, entertainment, airport lounges, meet&assist, limousine services, etc…) and introducing ancillary products. However,

revenues from those products (i.e. ancillary revenues) constituted a shy 5% of the industry's revenues in 2012.

- However, all these innovations were offered to a "generic" consumer, i.e. targeted to the general traveling public without touching on the needs of individual consumers. The evolution in technology and consumer behavior requires airlines to move from mere air travel service providers to retailers. Retailing doesn't only involve ancillary revenues, it involves rather up-selling and cross-selling. In order to be able to do that, airlines need to know their customers and understand their needs on the individual level, which is at the core of the retailing philosophy. Once the customer is understood, airlines will be able to target that customer with products and recommendations that suit her/his shopping behavior, hence increase the probability of consumers buying their products.

Airlines need to move from distribution to retailing

- Moreover, airlines need to tap the new distribution possibilities that spawned from this evolution: mobility, and mobility here does not refer to mobile phones, it refers however to all devices which the consumer can use to book and buy airline products on the go, i.e. smartphones, tablets and even laptops. An example would be Amadeus published data on EgyptAir's mobile bookings which increased from 0% to 7% of the total bookings of the airline within the first seven months of mobile-enabling its website.
- The concept of mobility introduced a new concept in air transport marketing, which is digital branding and Omni-channel: in order to be able to appeal to the consumer, airlines need to develop a presence at all consumer touch points, and that presence needs to be transparent and consistent across all those touch points, and across all devices the consumer may use to access the information presented.
- Another distribution medium that needs to be innovated is the indirect channel. The indirect channel today consists of a green screen on which the travel agent receives airline fares from GDSs for an archaic pricing query. In line with the rise in consumer sophistication, airlines have put significant investments in order to differentiate their products and hence appeal to the increasingly demanding customer. However, the indirect channel does not currently have the capability to display those differentiated products and hence present a hindrance to airlines' ability to broadcast the value of their products to the consumer using that medium.

NDC standard is an enabler for the indirect channel to catch pace with the direct channel in terms of innovation and product differentiation

- In order to cater for change, IATA launched a new initiative called NDC "New Distribution Capability" that targets the indirect channel. The aim of this initiative is to develop a standard for data transmission between airlines, technology providers, and travel agents using XML (which is the internet language). This will allow the transmission of digital content through that channel, and hence will allow airlines to offer the innovations for consumers using that channel. In addition, and since the new standard will have the internet as the communication infrastructure, all the innovations that occurred in the direct channel will be possible to replicate to the indirect channel, hence consumers using that channel will be have the capability to ask for customized recommendations and offers, airlines in return will be able to better know their customers, accordingly act as true retailers.

- The technology constraints hindering the evolution of "air transport retailing" is now solved, again with the evolution in technology: Big Data analytics, new PSSs, Business Intelligence and cloud computing are making retailing possible in the air transport industry. According to SITA IT Trends survey 2013, more than 60% of responding airlines indicated that they have major IT investment programs in the next 3 years in passenger mobile service, Business Intelligence solutions, and CRM (Customer Relationship Management)/Personalization. In addition the survey estimates that by 2016:
  - 59% of passengers will use the internet, mobile or kiosks for check-in.
  - 10.3% of total airline sales will be made through mobile (which represents USD 70 billion), up from just below 3% today.
  - 75% of airlines will offer tickets, airline services (seat reservation, lounge, priority boarding etc..), travel services (i.e. car hire, insurance, etc…) and baggage fees via mobile applications.

Airlines need to employ technological advancements to build real customer centric solutions that enable moving air transport to a retail business

- Therefore, in order to sustain its global offering, the air transport industry needs to move away from today's distribution model to tomorrow's distribution landscape which will consist of one integrated distribution channel with several branches (including web, mobile, meta-search, OTAs, conventional Travel Agents, Airline ATO/CTOs), which offers a seamless, consistent and unified retail experience to consumers at all touch points and across all platforms.

FAIR COMPETITION

- The Chicago Convention Preamble states that international air services should be established "on the basis of equality of opportunity".
- Liberalization has fostered competition between air carriers. Enhanced competition, in turn, has led many carriers to consider consolidation as a means by which to achieve economies of scale and to respond to consumer demands for global networks. Hence, the importance of ensuring fair competition amongst operators and in consolidation arrangements in a liberalized market has increased. States have introduced a multitude of regulations to ensure fair competition, including anti-trust immunity rules by which regulators scrutinize mergers and acquisitions to make sure they bring benefits to the consumer and do not create a monopolistic situation. Regulators have also introduced state aid rules for airlines and airports to ensure all players in the market have fair and equal opportunities.

Fair competition should not be approached as one size fits all

- In this area, ICAO's ATconf6 recommended that:
  - States, taking into account national sovereignty, should develop competition laws and policies that apply to air transport. In doing so, States should consider ICAO guidance on competition.
  - States should give due consideration to the concerns of other States in the application of national and/or regional competition laws or policies to international air transport.

- States should encourage cooperation among national and/or regional competition authorities, including in the context of approval of alliances and mergers.
- The Conference as well recommended to ICAO to develop a compendium of competition policies and practices in force nationally or regionally.
- ICAO also to continue to monitor developments in the area of competition in international air transport and update, as necessary, its policies and guidance on fair competition through the Air Transport Regulation Panel (ATRP).
- The recommendations of ATconf6 are on the agenda of the 38th ICAO Assembly, in addition other working papers related to liberalization and fair competition were submitted by some states to reflect their views.
- However, fair competition should not be approached as one size fits all. Disparate historical development of air transport and regional requirements dictate different speeds and principles be applied by regulators while addressing the fair competition issue.

CAPETOWN CONVENTION

General Overview

- The Cape Town Convention on International Interests in Mobile Equipment, or Cape Town Treaty is an international treaty intended to standardize transactions involving movable property. The treaty creates international standards for registration of contracts of sale (including dedicated registration agencies), security interests, leases and conditional sales contracts, and various legal remedies for default in financing agreements, including repossession and the effect of particular states' bankruptcy laws.
- Three protocols to the convention are specific to three types of movable equipment: Aircraft Equipment (aircraft and aircraft engines; signed in 2001), railway equipment (signed in 2007) and space assets (signed in 2012).
- The Protocol (which applies specifically to aircraft and aircraft engines) took effect on 1 March 2006 when it was ratified by 8 countries: Ethiopia, Ireland, Malaysia, Nigeria, Oman, Panama, Pakistan, and the United States.
- The aircraft Protocol (officially: Protocol to the Convention on International Interests in Mobile Equipment on matters specific to aircraft equipment) was signed immediately with the treaty and is the only protocol that currently entered into force. The International Registry of Mobile Assets established to record international property interests in the aircraft equipment covered by the treaty is located in Ireland. Mediation cases for leasing disputes are to be heard in the High Court of Ireland.

Benefits for the Aviation Industry

- Because the Cape Town Convention reduces creditor risk, airlines of all sizes will be able to access cheaper finance when purchasing aircraft, jet engines or

An opportunity to access cheaper finance when purchasing aircraft, jet engines or helicopters

helicopters. Discounted financing will also be available for purchases of second hand aircraft which will help smaller regional airlines upgrade and maintain their fleet.

Ratifications /Accession

- 47 states have ratified/acceded to the Convention so far. The latest was Canada in December 2012 effective April 2013.
- In the Arab world, Jordan, Oman, Saudi Arabia, and the UAE are party to the Convention. AACO is working with ACAC to support the accession to this Convention by the remaining Arab states.

THE BURDENS

FUEL

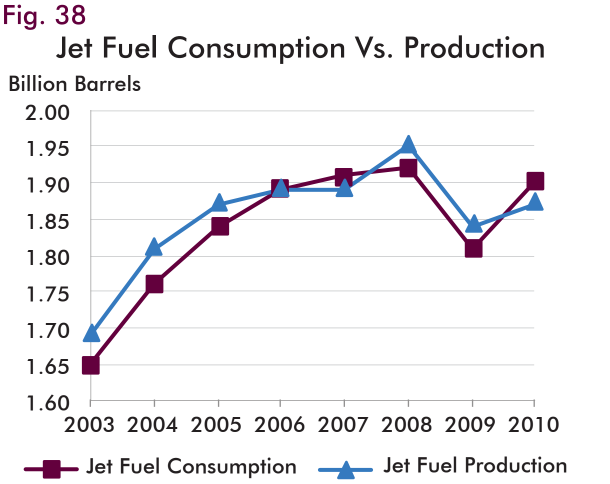
Jet Fuel is the highest operational cost for an airline, as it represents 33% of the operational costs as a world average. The main factors deciding jet fuel prices in different markets are:

- The price of crude oil is the main factor impacting the Jet Fuel price, as it constitutes more than 80% of the aviation jet fuel price at the refinery
- The supply and demand capacity/balance at different markets
- Seasonal supply demand changes
- Refinery production capacity, shutdowns and maintenance schedules
- Fuel quality specifications
- Local state and national government regulations, taxes and excise
- The costs to transport fuels
- USD exchange rate
- Competition in local wholesale and retail market

Major Developments Driving Jet Fuel Prices Globally during the Last Decade:

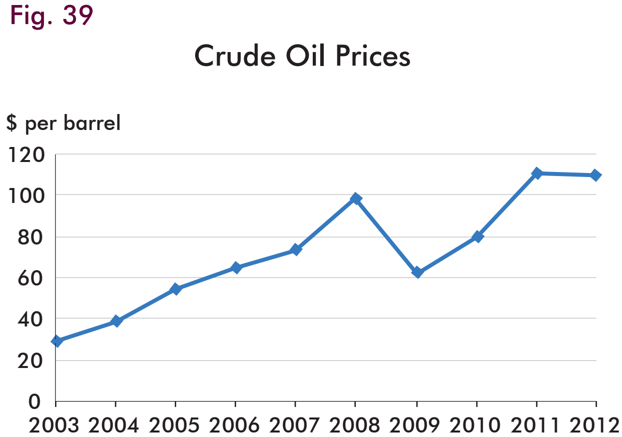
- Demand on Jet Fuel grew during the past few years reaching 1.9 billion barrel in 2010 driven by the economic growth in developing countries.
- The global financial crisis in 2009 caused a dip in Jet fuel demand. Afterwards demand rose again to pre-crisis levels.
- Crude Oil in 2009 dipped to reach USD 60/barrel. This decrease was caused by the global financial crisis. In the consecutive two years prices along with the consumption trespassed pre-crisis levels.
- Increased demand on derivatives caused a sharp increase in crude oil prices to reach USD 111/Barrel in 2011.

Fig. 38



Source:www.indexmundi.com

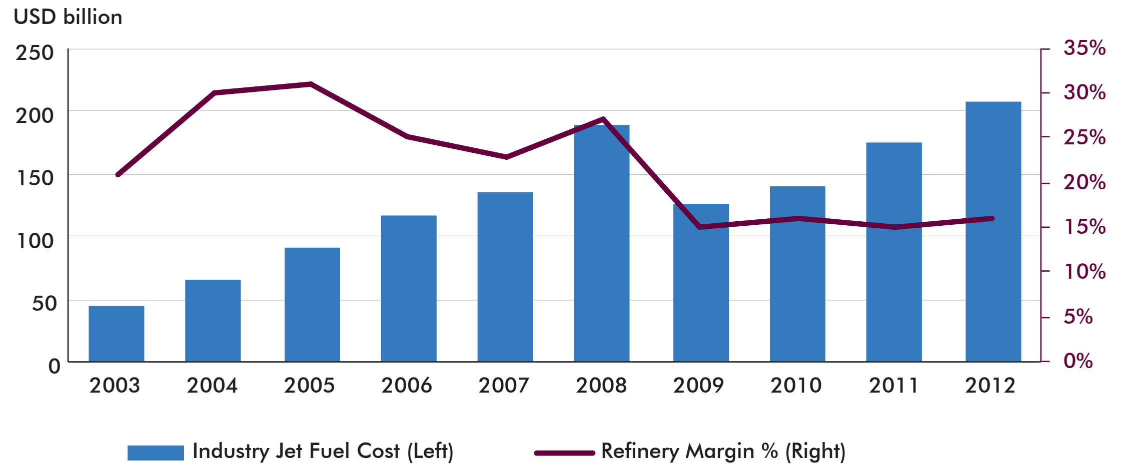
Fig. 39



Source:www.indexmundi.com

- In 2012, some refineries in Europe and in the US East faced closure.
- South Korea is the largest middle distillates producer and jet fuel exporter in Asia. Their refineries shifted from heavy oil production to middle distillates Asia output of Jet Fuel would shade the shortage coming from Europe and US East Coast.
- Such alterations will let the market depend more on imports and will lead to an increase in competition amongst countries exporting this product.
- Changing refineries' capacity will let the market be more vulnerable to Fuel prices fluctuation
- The refinery margins or what is called the crack spread in the oil industry varies year over year as shown in the below graph, affected by the developments that occur between supply and demand, the refinery production capacity, shutdowns and maintenance schedules etc…

Fig. 40 Refinery Margin from Industry Jet Fuel Cost



Source: IATA Economics

TAXES

By now it has become common knowledge that taxes imposed on airlines and their customers have a detrimental effect to the benefits that the airlines bring to the consumer and consequently to the economy as a whole. Nonetheless, we see that several states do not yet see the adverse effect that the increase in taxes has on their economy. Taxes are imposed on the sale and use of air transportation, fuel, property, equipment, and sometimes on income, development aid, environment and climate change, and tourism expansion. Below are some of the latest examples:

Several states do not yet see the adverse effect that the increase in taxes has on their economy

Africa

- Nine countries in the region have followed the example of France and implemented duties on air travel to fund the fight against HIV/AIDS, malaria, and tuberculosis. The latest country to implement such a tax was Chad, in March 2013.

Austria

- The Austrian Air Travel Levy had been slightly reduced by 12.5% (short haul) and 25%

(mid-range) as of 1 January 2013. Long haul travel remains unchanged at €35 per passenger. The tax however was expected to be removed following the introduction of the EU ETS.

Australia

- The passenger movement charge (PMC) increased to AUD 55 (USD 50.66) in 2012, adding 3.5% to cost of travel to Australia. The removal of this addition would add a 2.5% boost to air travel, which should be equal to AUD 1.7 billion (USD 1.5 billion) and 17,000 jobs.

Canada

- The fuel tax in Ontario, Canada is costing airlines USD 52 million annually.

Chad

- Chad introduced three new taxes. An environmental tax of USD 1.30 per departing passenger, a solidarity tax levied on all departures that ranges from USD 1 to USD 20 depending on class of travel and destination, in addition to a special tax to combat AIDS in the country.

Germany

- The German Air Transportation Tax (ATT) was slightly reduced by 6.27% starting 1 January 2012 as a result of the introduction of EU ETS. However this as well was supposed to be abolished following the introduction of the EU ETS.

Jamaica

- Tourism taxes and charges have doubled recently in Jamaica, costing air passengers an extra USD 22 million annually.

United Kingdom

- UK Air Passenger Duty (APD) witnessed yet another increase in 2013, which will cost the UK economy USD 459 million per annum in lost GDP. A recent study conducted by PwC highlights that the abolition of the APD in the UK will result in 0.45% GDP boost in the first 12 months.

United States of America

- In its 2014 fiscal budget, the White House is pushing for new taxes on the airline industry that would increase taxes on airline customers and airlines by 29%, adding another USD 5.5 billion to their USD 19 billion annual tax burden.

More taxes and charges imposed on aviation under the environment banner are detailed on page 52.

OVER-REGULATION

Overregulation in aviation has put lots of constraints on the potential of the business.
There is a number of unilateral regimes related to security requirements, licensing, consumer rights, environment, slot allocation, and others that are adopted by different states from around the world overburdening the airlines with diversified compliance requirements to the multitude of uncoordinated regimes that are not mutually recognized between the various states.
Below are four of the areas in which over-regulation has added burdens, confusion and extra costs to the airlines:

...In Environment

- Air transport is a catalyst for growth, a vital channel for world trade and tourism and a major global employer. Nearly 57 million jobs and USD 2.2 trillion in global GDP is supported by aviation. However, there is an environmental impact for aviation.

- ICAO and its member states as well as the industry are looking into ways of addressing that impact. The solution is to have a harmonized single global market based measure in place and negotiations are still not finalized. Yet there exist uncoordinated, costly and ineffective policy application as governments implement unilateral measures.
- The table below indicates the current announced MBMs that (may) cover aviation indicating that the proliferation of unilateral policies has already started. Governments are known to have little incentive to change embedded policies, which will affect and make it difficult to have a single global approach.

MARKET-BASED MEASURE	Scope
Europe ETS	Covers 30 European States. Currently applies to domestic aviation
New Zealand ETS	Started in 2010. National operators can opt in or pay tax.
UK APD	Departure tax, applies to all operators on all flights (international & domestic)
Germany Air Passenger Tax	Departure tax, applies to all operators on all flights (international & domestic)
Ireland Air Travel Tax	Departure tax, applies to all operators on all flights (international & domestic)
Australia Carbon Tax	Applies to all operators (domestic)
Norway Carbon tax	Applies to all operators (domestic)
Austria Carbon tax	Departure tax, applies to all operators on all flights (international & domestic)
US Fuel tax	Applies to US operators (domestic)
China Fuel Tax	Applies to all operators (domestic)
Japan Fuel Tax	Applies to all operators (domestic)
Mexico Fuel Tax	Applies to all operators (domestic)
Switzerland Kerosene Tax	Applies to all operators (domestic)
Australia Fuel Tax	Applies to all operators (domestic)
Canada Fuel Tax	Applies to all operators (domestic)
Brazil Fuel Tax	Applies to all operators (domestic)
Brazil Guarulhos Environmental Tax	Announced in 2010 but being challenged in court
Peru Selective Tax (ICS)	Announced for 2009 but postponed until 2016
South Africa Carbon tax	Announced for 2012 but postponed. Inclusion of domestic aviation likely
Australia ETS	Starting in 2015. Covers domestic flights
South Korea ETS	Announced for 2015. Inclusion of domestic aviation likely
China ETS	Shanghai pilot schemes started in 2013. Covers 6 major airlines. Six more pilots to follow
Japan ETS	Started in 2008. Airlines included on voluntary basis. Re-launch in 2013 put on ice
Mexico ETS	Announced. Inclusion of domestic aviation possible
India ETS	Mandatory energy efficiency trading scheme, starting in 2014. Inclusion of domestic aviation possible
Thailand ETS	Announced for 2014. Inclusion of domestic aviation possible.
Vietnam ETS	Announced for 2018. Inclusion of domestic aviation possible

...In Border Control Data

- In order to enhance their border control capabilities, several governments require airlines to provide them with passengers' data prior to arrival in the form of API (Advanced Passenger Information) and/or PNR (Passenger Name Record).
- API and PNR contain different data elements, come from different airline IT systems, and are used by different agencies for different tasks: API is used by immigration, customs, and security and is about passengers' identities, whereas PNR is about the passenger's travel reservation and can be useful to customs, law enforcement and security agencies to help identify contraband, smuggling, and assist in risk assessment.
- API and PNR requirements increased exponentially during the last period: in the early 2000's, five governments had API requirements, another five were considering such requirements, and four governments had PNR requirements. Today, 49 governments have API requirements in place with another 10 considering such requirements, and 16 governments have PNR requirements with another 29 considering those requirements.

Governments should use existing standards for API and PNR requests to avoid adding on airlines additional burdens which do not provide any additional security benefits

- In order to comply to data requirements and assist governments in their security functions, airlines have invested heavily in systems that collect, format and transmit API and PNR data to requesting governments.
- Although global standards for the collection and transmission of that data exist, many governments have their own data requirements that are not aligned with those global standards, and with no obvious security benefit. Those requirements are putting a heavy financial burden on airlines: Any non-standard element must be programmed manually with comprehensive testing between the airline and the governments' systems. The cost per airline system per program for an additional data element is USD 50,000 on average. Therefore, the development of a new transmission approach can cost an airline millions of dollars.
- The latest example of deviation from global standards is the plan of the Russian government to include overflying passengers' data to their API and PNR requirements, which will create a heavy burden on airlines overflying the country, again with no added security benefit.
- Another example would be the requirement of the government of Mexico for a dual-window transmission scheme. As that information is used by several agencies for different security functions, the government of Mexico requested different data to be sent to two agencies in the country. This will add another burden of cost and complication to the airlines. In that regards, it is paramount that states adopt a single-window process whereby a single agency receives airlines' data and then is responsible for sharing that information with other agencies.
- Moreover, some governments are funding the investment in systems to receive the data from airlines by charging users a passenger-based fee that is used to fund the IT systems needed to receive API and PNR data from airlines. Airlines have already accomplished their end by bearing the cost development in IT systems and the cost of data transmission.

Neither airlines nor their passengers are to be charged for governments' development of systems used to receive API & PNR data

On the other side of the line, governments should be responsible for the cost of development needed to receive that information once transmitted, and it is not up to the airlines to pay for such software. In addition, as that data is required for state general security activities (border control, security, intelligence), ICAO clearly states that civil aviation should not be charged for any costs in relationship to those states' national general security functions.

...In Consumer Rights

The proliferation of consumer protection regulations are adding tremendous burden on airlines without equal benefits to the consumer

- In spite of having global conventions that standardize the rights of passengers, unilateral regulations are developed and adopted by various states that do not mutually recognize nor coordinate such regulations. Around 55 jurisdictions have some form of aviation-specific passenger rights regime; 30 of these have introduced regimes in the past seven years, with several more preparing to do so. This has resulted in detrimental consequences for airlines and consumers alike, such as passengers' inconvenience, reducing choice (as airlines might choose not to operate to destinations where compensations are required to be very high), increasing cost for passengers (as airlines might increase the price of the ticket if they do not apply the overbooking policy due to high denied boarding compensations). and increasing cost for airlines and the industry as a whole due to sometimes double claims under different jurisdictions and of course the cost incurred by the airlines in cases of extraordinary circumstances which are not properly recognized by most regimes.
- To cite a specific example we look at EU Regulation 261/2004: Amendments to the passenger rights regulation in the EU is currently going through the co-decision procedure between the European Parliament and the Council. A final decision is expected by the end of 2013. The final version of the regulation is not clear yet, however in the documents being discussed there are many provisions that would result in unfair treatment to carriers and confusion in the implementation, such as:
  - Delays are to be considered at the final destination: this could seriously damage interlining, could be unfair to the operator of the shorter haul sector in a connecting flight, and could result in confusion as to which regime would two adjacent passengers benefit from in the second part of the journey. This also indicates that the regulation could have extra-territorial application.
  - Diversions are considered as cancellations: which could trigger a cost issue in the decision of diverting thus compromising safety.

Industry efforts are gaining momentum towards reducing the damage resulting from the proliferation of passenger rights regimes. Such efforts are undertaken by IATA, AACO and other regional airline associations at ICAO level and on bilateral basis with individual states.

...In Slots Allocation

Following the increase in demand on travel over the past years, growth has outpaced infrastructure development in many cases including major global hubs; hence, the importance of efficient management of airports and slots.

The airline industry has developed a set of global guidelines for the management and allocation of airport slots to ensure the most efficient use of congested airport infrastructure; however, some regulators deviate from the guidelines by developing local rules that can have huge unintended and negative consequences for airlines, their customers and the environment.

Some states deviate from the global guidelines for the management and allocation of slots

- To cite some examples: China, Brazil, and Mexico diverge or are working on slot allocation regulations that could diverge from the Worldwide Slots Guidelines (WSG) in areas such as global timelines and response times to slot requests, 80/20 rule and others.
- In Europe for example, the proposed slots allocation regulation, part of the Airports Package, contains a new Entrants rule that gives priority for new entrants operating intra-EU services which significantly reduces the number of slots available to non EU carriers from the slots pool. Originally there was an industry objection to changing the slots regulation as the problem in slots allocation in Europe is the scarcity of slots due to congestion at airports and not in the regulation itself.

AACO ACTIVITIES

AEROPOLITICS

Aeropolitical Watch Group (AWG)

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

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

Dialogue between the Arab World and the EU

- This has been one of the top priorities of AACO during the past year following the EC Communication on the EU External Aviation Policy – Addressing Future Challenges, which was published end of 2012.
- In the Communication, the EC states that it plans to open a dialogue with the Gulf States to enhance transparency and fair competition, while the EC plans to reach EU-level comprehensive agreements with neighborhood countries by 2015.
- AACO and the AWG met with the EC end of last year and discussed the communication and then followed the meeting with a Response Document to the EC Communication that was sent to the Commission.
- Earlier in 2013, the EC requested to open a dialogue with the GCC States collectively.
- Since then, AACO's AWG has worked on preparing a set of guiding principles for the dialogue and have suggested an action plan for the authorities to take into consideration on how to go about the initiative by the EC.
- An experts' team for GCC states was established based on a decision by the GCC Ministerial Council with an objective to prepare for the dialogue with the EC. The team gathered experts from GCC CAAs and GCC airlines.
- The kick off meeting for the dialogue is expected to be held this November.
- The dialogue and negotiations are being followed up under AACO's AWG umbrella on the airlines' side.

Engagement with the EC on Proposed Passenger Rights Regulation

Following the proposal by the EC to amend EC Regulation 261/2004, AACO AWG reviewed the proposal and AACO submitted comments on the proposal citing the various provisions that could result in confusion, extra-territoriality, and unfair treatment to airlines.

Engagement with the EC on Proposed Slots Regulation

AACO communicated with the relevant EU institutions the AWG concerns regarding some provisions in the slots allocation regulation. In particular AACO highlighted to the EU that the New Entrants rule as stipulated in the proposed regulation gives priority for new entrants operating intra-EU services which significantly reduces the number of slots available to non EU carriers from the slots pool. As per the proposal, a carrier having less than 9 slots on intra-EU routes is eligible for new entrant status, while a carrier needs to have less than 5 slots on other routes to be eligible for new entrants' status.

AACO is also cooperating with IATA in lobbying for changing such provisions in the final versions, noting that the original stance of AACO, IATA and a number of airline associations was that the slots issue in the EU is not in the current slots regulation; it rather is in the congestion and lack of available slots at EU airports; however, after the EC proposed the airports package, lobbying efforts shifted to ensuring that any new regulation is fair and non-discriminatory.

Lobbying for the ratification of the Montreal Convention 1999

AACO is cooperating with IATA to lobby with states for the ratification of the Montreal Convention 1999, and has communicated with the four Arab states that did not yet ratify urging them to do so and highlighting the wide benefits of joining the convention.

Awareness and Forums

- AACO held an Aeropolitical Forum in coordination with IATA and under the kind sponsorship of Emirates Airline on 10 April 2013 in Dubai. The forum was attended by more than 120 representatives from Arab and regional airlines, Arab Civil Aviation Authorities, and other government institutions.
- AACO conducted an Aeropolitical workshop presented by Gates & Partners at AACO regional training center in Amman. The workshop tackled EU Competition Laws and compliance to these laws.

ENVIRONMENT

Environmental Policy Group

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

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

- **Environmental Policy Developments:** The EPG followed up on the environmental developments on the global level with regards to the current discussions taking place at ICAO and amongst states in order to try to reach an agreement. The EPG discussed the various positions of states related to having a global single solution and stressed the fact that there is a risk in governments applying multiple designs and different measures which will increase the burden on airlines. The EPG also stressed that economic measures should be a gap filler and should not be applied without governments finding a solution to infrastructure development, technology development and enhancement of airline operations which will all result in better managing aviation emissions. The EPG also emphasized that any global solution should take into account that they are still immature airlines and are still developing. Hence; special circumstances and respective capabilities should be considered.

- **Carbon Neutral Growth Strategy beyond 2020:** The EPG is following up on IATA's Carbon Neutral Growth Strategy, where AACO and some of the members have participated in IATA's Climate Change Task Force meetings tasked to develop a mechanism for implementing the CNG 2020 to ensure that it takes into account Early Movers and Fast Growth treatment. The collective work resulted in the IATA resolution which was endorsed in Cape Town and which included all the elements which were agreed by the EPG and AACO Executive Committee, including early movers concept, and high and fast growth adjustments.
- **Stop the Clock on EU ETS:** The EPG followed up on the EC announcement in November 2012 to stop the clock on international flights to and from non-European countries until the close of the ICAO General Assembly in 2013. That decision was based on the encouraging results of the ICAO Council discussions. The EPG recognized the fact that it is unlikely that the ETS comes back in full scope due to the political and strong pressure by opposing states which threatened of a trade war. The ETS however, might be back, depending on the final outcome of the ICAO Assembly in different scope.
- **EU ETS Adherence:** The EPG continued to work on complying with the requirements of the EU ETS with regards to intra EU flights by monitoring, reporting and verifying their emissions and those operating intra EU flights have surrendered back in April of this year the equivalent certificates.

FUEL

Fuel cost continues to represent the biggest expense of the airlines around the world. Hence minimizing the exposure to that cost is a primary task that AACO member airlines continue to pursue in order for them to be able to offer the customer the best competitive prices. That was the reason why AACO Fuel Project was established in 1999. This project which is run and overseen by a steering board representing all of the project participants has delivered benefits to the project carriers in a number of fields.

- The Fuel board convenes a biennial Fuel Forum which brings together buyers and suppliers to discuss the technical aspects of fuel delivery and all matters which improve the safety of operations in that field and indeed of airlines' operations at large.
- The Fuel board contributes in members' strive towards rationalizing fuel costs in a way which is totally in line with AACO's compliance with competition laws.
- The Fuel board deals also with locations that are of monopolistic nature, and tries to achieve results with the suppliers concerned that are of benefit to all of the operating airlines in such locations.
- The Fuel board also works on raising the awareness amongst airlines about instruments to maximize the capabilities of the fuel managers in such complex issues like Fuel Hedging and Fuel Purchasing Management.

- This is also translating and updating an updated version of Fuel Inspection and Specification Guide Manual.

The members of this project are: Air Cairo, Air Algerie, Air Arabia, Afriqiyah Airways, Egypt Air, Gulf Air, Jordan Aviation, Kuwait Airways, Libyan Airlines, Middle East Airlines, Oman Air, Qatar Airways, Royal Jordanian, Saudia, Sudan Airways, Syrian Arab Airlines, Tunis Air, Yemen Airways, and Trans Mediterranean Airways.

DISTRIBUTION

Current Situation

- Distribution constitutes a fairly high portion of airlines' operating costs which has led airlines to try to minimize cost in this area in all ways possible. More than 60% of worldwide bookings are still done via that channel (Travel Agents) and nearly 75% of bookings of Arab airlines are done via the travel agents. In 2012, 2.3% of AACO members' operating expenses were for distributing through the GDSs; that's more than USD 620 million of cost (for 13 members). AACO has recognized the importance of rationalizing the cost of member airlines in distributing their content since the beginning of the 1990s and has entered since then in 5 agreements with different Global Distribution Systems for distribution in the home markets of AACO participating carriers which has resulted in major distribution cost cuts without affecting the free competition environment of this channel. The latest deal signed was between Amadeus and 13 member carriers in 2009 for a term of 10 years. Three other members have signed with Sabre bilaterally, and two with Travelport.
- AACO airlines as well have invested heavily in selling their services via the direct channels by developing high end websites, which are now mostly available on mobile devices, including smartphones, tablets, etc…

Planning for the Future

- With the advancement of technology and the sophistication of customer needs, the need has arisen for more tailored services to be provided to the customer through the IATA NDC "New Distribution Capability" initiative.
- Planning for the future of distribution, AACO established a taskforce that is mandated to look into the future of distribution by studying all available channels; possible future channels and best practices in order to have more revenue generating tools with maximum reach to customers at all touch points.

More details about the evolution in technology and IT in this area are available on page 44.

SAFETY

Current Situation

- AACO is closely working alongside all stakeholders in the framework of ICAO Middle East Regional Aviation Safety Group (MID-RASG) and is part of the group's Regional Steering Committee (RSC-MID). The group is working on enhancing safety in the region in line with

ICAO's Global Aviation Safety Plan, with the aim to reduce the number of safety incidents by identifying Safety Enhancement Initiatives and developing Detailed Implementation Plans to those initiatives. In addition, the group works on enhancing State Safety Programmes development and implementation.

- Moreover, AACO has been following up on all regulatory issues that affect its member airlines, such the developments in the EU Safety Assessment of Foreign Aircraft (SAFA) programme.

SECURITY

- As a result of the political situation in several Arab countries, security risks are rising and are requiring the urgent attention of member airlines to manage the risks associated with the instability in the region. Accordingly, collaboration initiatives were put on hold.
- On the regulatory level, AACO continues to provide awareness to its member airlines on security developments affecting their operations, such as the EU ACC3 requirements, the developments in the API and PNR requirements of states.
- On the other hand, and recognizing the need for trained personnel to achieve security objectives, AACO has been providing its member airlines' personnel with security training, beginning with basic security training and several intermediate security courses, up to the globally recognized ICAO AVSEC PMC (Aviation Security Professional Management Course) which is offered in collaboration with ICAO, Emirates Group Security and Concordia University in Montreal.

MAINTENANCE, REPAIR AND OVERHAUL

- AACO launched the MRO Collaboration Project during AACO 45th AGM. The collaboration project comprises seven member airlines, namely Air Algerie, EgyptAir Holding Company, Emirates, Kuwait Airways, Middle East Airlines, Qatar Airways and Saudia.
- The project, which is strategic to the project carriers, began with a consultancy study to investigate collaboration opportunities. ICF SH&E conducted the study, and identified nine collaboration initiatives: inventory pooling, joint purchasing, line maintenance, loans & exchanges, pooling spare engines and APUs, work exchange & shared shops, GE90 shipping, training and vendor audits.
- The project was launched with the collaboration in Line Maintenance.

MARKET INTELLIGENCE

- AACO follows up on market intelligence data and tools in line with its strategy to provide the best solutions for member airlines while ensuring optimization of costs. In addition, AACO follows up on developments in that area and invites providers of such solutions to present their systems to member airlines at AACO meetings and forums alongside the updates on Pax-IS.

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

GROUND HANDLING

- AACO's project for Cooperation at Outstations aims to address all matters relating to the services and facilitation at outstations with focus on ground handling services, in order to improve the quality of the services provided to Arab airlines and to control costs while improving the general contractual terms in full adherence to competition laws.
- AACO Ground Handling Steering Board (GHSB) followed up this year on the latest developments at outstations and evaluated the current projects in Turkey and Rome.
- The board also discussed the amendments made on EC Directive 96/97/EC and agreed to follow up on this issue due to its high importance to board members.

TRAINING AND HUMAN RESOURCES DEVELOPMENT

- The number of trainees in 2012 reached 988 trainees in the 63 training courses which were conducted as follows:
  - 16 scheduled courses attended by 218 participants.
  - 42 in-house courses attended by 708 participants.
  - 5 extra courses attended by 62 participants.
- In spite of the relatively low number of courses held, AACO RTC was able to achieve good savings for Arab airlines for the year 2012.
- AACO member airlines used 88 scholarships in 2012.
- The 2nd group of students for Masters in Air Transport Management program that is conducted in cooperation with Helwan University graduated in March 2012.
- The third group of Saudia students finished their Air Transport Management Diploma in cooperation with the American University in Cairo, which has been coordinated at the request of Saudia as part of the Future Pioneers program.
- AACO cooperates with IATA for their Authorized Training Centers..
- AACO cooperates with ATR for the part time executive MBA program in 2012.
- AACO conducted the AVSEC PMC in collaboration with ICAO, Emirates Group Security and Concordia University in September and December 2012.
- In 2013, the demand for AACO RTC courses is relatively lower compared to previous years. The reason for this may be the unstable political situation in the Arab world, which

affected the aviation industry. This is manifested in the number of in-house courses and the number of participants enrolling in the scheduled courses this year as the number of trainees during the first half of 2013 reached 446 trainees through 38 training courses as follows:

- 12 scheduled courses attended by 140 participants
- 24 in-house courses attended by 293 participants
- 2 extra courses attended by 13 participants

- AACO signed a contract with EgyptAir to hold a Diploma in Human Resources for its employees and the program started in August 2013.
- AACO will conduct the 8th AVSEC PMC in collaboration with ICAO, Emirates Group Security and Concordia University between 29 September and 19 December 2013.

PUBLICATIONS

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

AACO Annual Report

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

AATS – Arab Air Transport Statistics

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

3D Insight "AACO Quarterly Bulletin"

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

TopView

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

The Nashra - Industry's Pulse & Arab Aviation

The Nashra is AACO's official monthly bulletin that is distributed electronically in the English language. For a more interactive experience to the readers, The Nashra was re-designed in 2013 and became available also in digital format (E-Magazine) on mobiles, tablets, and PCs. The Nashra is a monthly recap of aviation in the Arab world on a regional and International level. The main issues covered in The Nashra includes:

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

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

Regulatory Update

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

Safe and Level

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

Weekly Web News

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

Fuel Bulletin

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

RTC Catalogue

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

FORUMS AND RELATIONS

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

AACO Community

AACO provides cooperation and networking opportunities amongst 30 member airlines, more than 53 industry partners, and 3 partner airlines which are non-Arab airlines partners to AACO. Industry partners gather a variety of companies that are involved in the aviation industry in various ways and forms.

AACO provides specialized forums for the AACO Community, in addition to AACO's Annual General Meeting. The list of specialized forums is listed here below:

- Aeropolitical Forum- Held annually in cooperation with IATA.
- Business Technology Forum- Covers commercial, distribution and IT issues.
- Technical Forum- Covers safety, security, maintenance and all technical issues.
- Fuel Forum- All fuel related issues.

AACO Relations

AACO coordinates and lobbies with IATA and regional associations for the common interests of member airlines.

AACO communicates with ICAO, EC, US DoT, Arab Transport Ministers, and Civil Aviation Authorities to lobby in favor of AACO airlines and for the benefit of the Arab air transport industry as a whole.