

**Annual Report**  
Arab Air Carriers' Organization  
**49<sup>th</sup> Annual General Meeting – Casablanca**  
28 NOV- 30 NOV 2016

Casablanca  
الدار البيضاء  
الإتحاد العربي للنقل الجوي  
الجمعية العمومية التاسعة والأربعين  
QAC 49<sup>th</sup> AGM  
28 November - 30 November 2016



# Annual Report

## Arab Air Carriers' Organization

### 49<sup>th</sup> Annual General Meeting – Casablanca

*Last year we celebrated the golden jubilee of AACO where in the preparation for that, AACO has put in place a structure for its future work, taking into account the growing role of the Arab air transport sector and the continuous expansion and development of its member airlines which resulted in shifting the center of gravity for international aviation into the Arab region. Hence, our annual reports till then reflected thorough write-ups and analyses to showcase AACO's progress.*

*You will notice that this year's annual report is different than the previous years in form and substance. The annual report in its revamped format, identifies the priorities and the scope of AACO's work in order to cater for the growth and development of its member airlines. The Annual Report will be leaner, more visual and containing crisp information that are relevant to the Arab air transport industry. Still, deeper information will be electronically available on a number of topics which are included in the report.*

*I hope you will find the new format more useful than the previous one, and that you will enjoy going through this year's annual report. I am also sure that the hospitality of Royal Air Maroc and its professional team will render your stay in Casablanca both useful and pleasant.*

*We will always be proud to serve you.*

Abdul Wahab JEFFAHA



Secretary General

#### **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 enhance members' best practices.
- To provide forums for members and for industry partners to enhance the knowledge base.
- To reflect the positive image of The Arab Airlines Globally.

#### **Strategy**

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



**Mr. Abdelhamid Addou**  
AGM Chairman



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

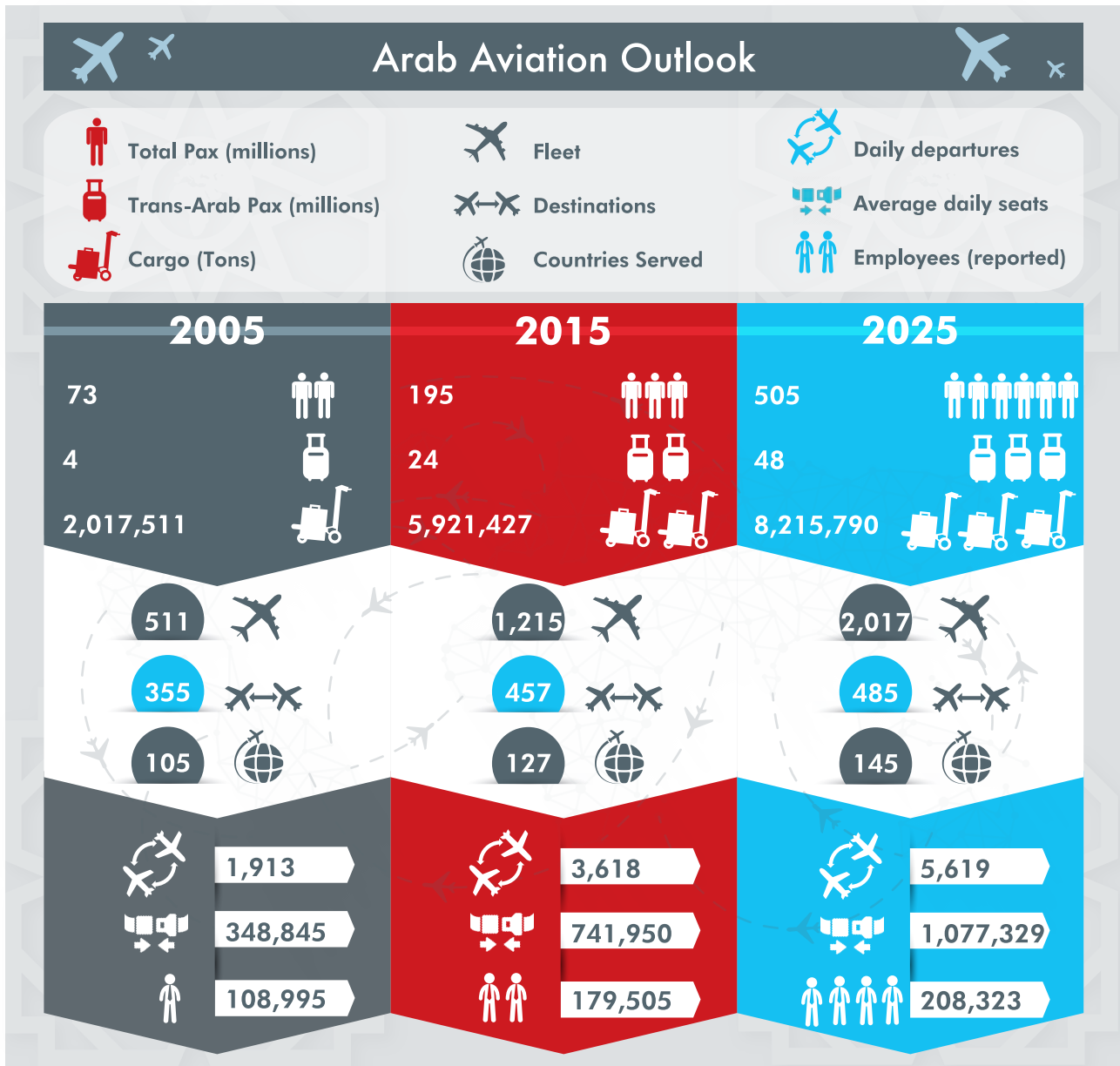
H.E. Mr. Akbar Al Baker, Group Chief Executive, Qatar Airways  
 Mr. Abdelhamid Addou, Chairman & Chief Executive Officer, Royal Air Maroc  
 Mr. Mohamed Abdou Bouderbala, Chairman & Chief Executive Officer, Air Algerie  
 Mr. Adel A. Ali, Group Chief Executive Officer, Air Arabia  
 Mr. Safwat Musallam, Chairman & CEO, EgyptAir Holding Company  
 Sir Tim Clark, President, Emirates Airline  
 Mr. James Hogan, President & Chief Executive Officer, Etihad Aviation Group  
 Mr. Mohamad A. El-Hout, Chairman/Director General, Middle East Airlines  
 H.E. Eng. Saleh N. Aljasser, Director General, Saudia





# Contents

<b>Arab Aviation Outlook</b> .....	4
<b>AACO Priorities</b> .....	5
<b>The Economy</b> .....	6
<b>The Market</b> .....	8
<b>Members</b> .....	10
<b>Airports</b> .....	13
<b>Industry Issues</b> .....	16
<b>Safety</b> .....	16
<b>Security</b> .....	17
<b>Airspace Infrastructure</b> .....	18
<b>The Customer</b> .....	19
<b>Regulations &amp; Policies</b> .....	21
<b>Climate Change</b> .....	26
<b>Effective Cooperation</b> .....	28
<b>Fuel Project</b> .....	28
<b>Technical Collaboration</b> .....	29
<b>Distribution Deals</b> .....	29
<b>Cooperation at Outstations</b> .....	30
<b>Human Resources</b> .....	30
<b>AACO Community, Forums, &amp; Relations</b> .....	31
<b>AACO Publications</b> .....	32



### Shifting in Center of Gravity

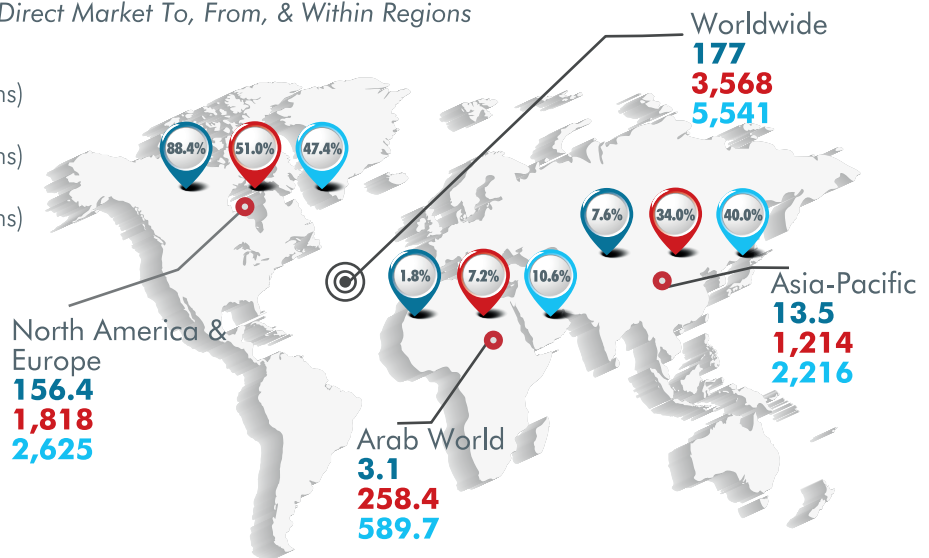
Number of Passengers in Total Direct Market To, From, & Within Regions

**1965** (Millions)

**2015** (Millions)

**2025\*** (Millions)

#### Share of Total



\* Estimated



## SAFETY

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



## CLIMATE CHANGE

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



## AIRSPACE INFRASTRUCTURE

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



## REGULATIONS

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



## AWARENESS

To provide the highest quality, cost effective training that virtually covers all aspects of the air transport industry to maximize the performance of the human capital in the Arab region, and to provide proper forums for interaction between stakeholders about latest industry innovations.



## CUSTOMER

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



## COST

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



## SECURITY

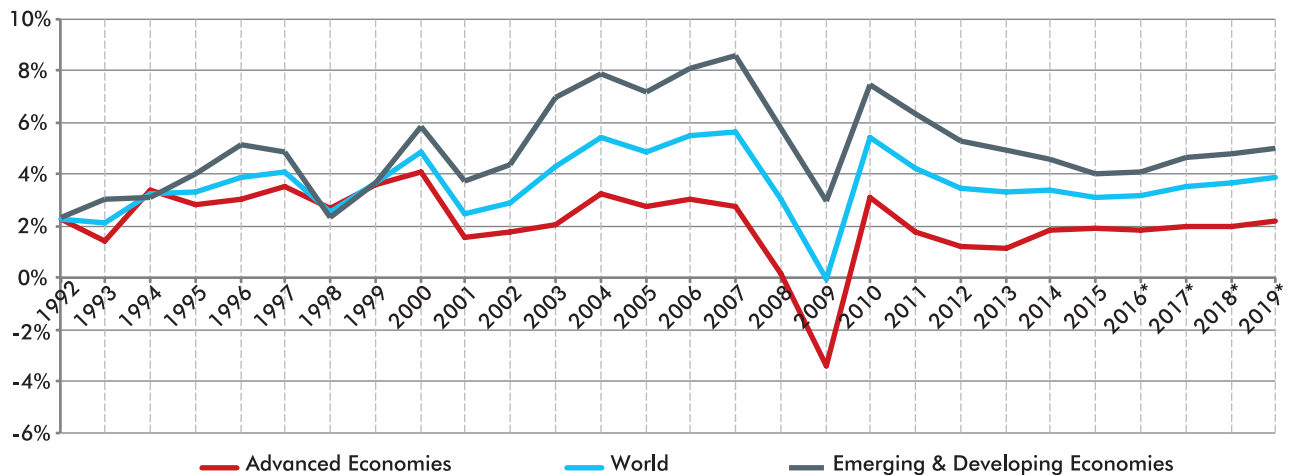
To provide a platform to share information and risk assessments, address emerging threats, contribute to capacity building, and promote and support collaboration among all stakeholders in aviation security.



## The Economy

The world economy is still struggling to recover from the 2008 global financial crisis, with efforts to emerge from the crisis held back by a multitude of geopolitical factors. According to the International Monetary Fund, the slowdown in economic activity in emerging and developing economies continues to weigh on the global recovery amid weakening commodity prices, global trade, and investment capital flows. The world GDP rose by 3.1% in 2015, down from 3.4% in 2014. Economic activity is expected to remain modest in 2016, recording a growth of 3.2%.

Year-on-Year Real GDP Growth



\* Estimated

Source: IMF, AACO

Oil prices dropped in 2015 by 47.2% due to the wide gap between demand and supply. Prices are expected to decrease further in 2016, reflecting strong supply facing a relatively soft demand.

Economic activity in advanced economies remains fragile in general in 2015, poised by the spillovers of the weak performance in emerging and developing economies. The United States marked a stable growth in 2015, where weak investment in the non-oil sector was cushioned by strong domestic demand. The US GDP grew by 2.4% in 2015 and is projected to remain the same in 2016.

Economic activity picked up in the Euro area as domestic demand strengthened and exports accelerated as a result of Euro depreciation. The Euro area GDP grew by 1.6% in 2015, up from 0.9% in 2014. Positive growth is expected to continue in 2016 supported by low energy prices.

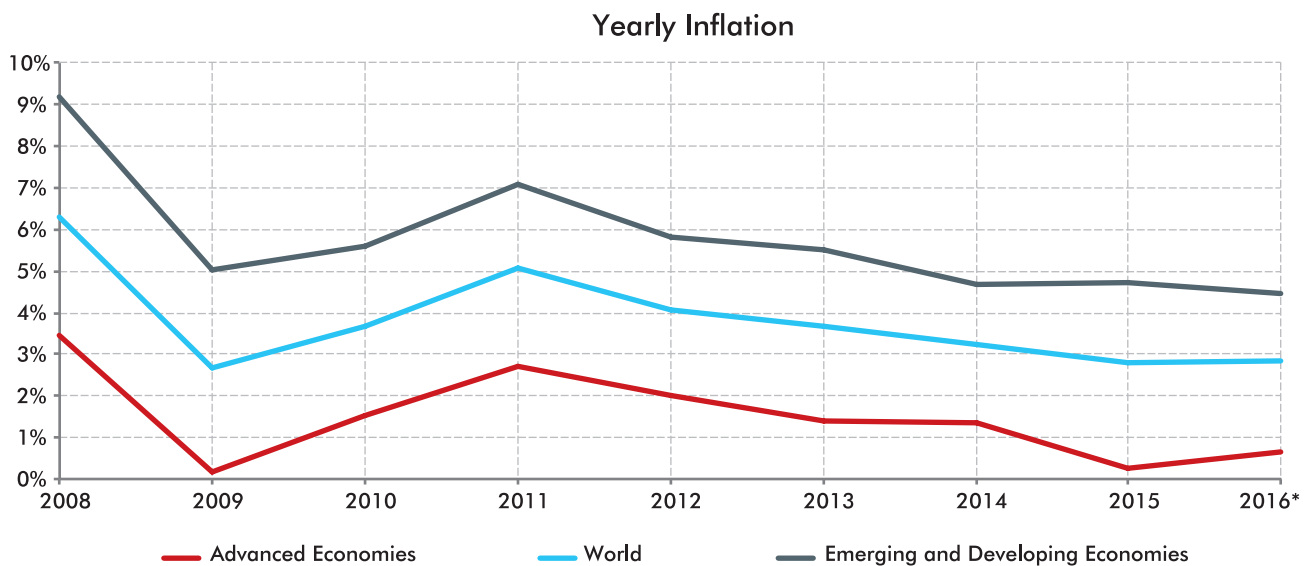
On the other hand, and although on the high side of growth, activity in emerging and developing economies decelerated for the fifth year in a row in 2015, affected by lower revenues from commodity exports, weak global trade, and decelerating investment capital flows. GDP grew by 4.0% in 2015, down from 4.6% in 2014, and is expected to record 4.1% in 2016.

Arab world GDP grew by 2.8% in 2015, up from 2.2% in 2014. This growth is mainly owed to non-oil exporting economies benefiting from low oil prices and less fiscal drag.

Public revenues of Arab oil exporting economies declined significantly in 2015 as a result of the plunge in oil prices. Current account of GCC countries have fallen into a deficit reaching USD 13.3 billion in 2015 and is expected to reach USD 91.0 billion in 2016. As a result, economic activity of Arab oil-exporting countries grew by 1.9% in 2015, down from 2.7% in 2014.

On the other hand, Arab oil-importing countries benefited from low oil prices, resulting in higher private consumption and good trade activity. GDP grew by 3.7% in 2015, up from 2.4% in 2014. However, growth is expected to slowdown in 2016 to 3.0%, affected by the geopolitical tensions in the region.

Global inflation remains at controlled levels in 2015, reflecting the weak economic activity, modest wage growth, and lower commodity prices. Global inflation decelerated to 2.8% in 2015, down from 3.2% in 2014, and is expected to record the same rate in 2016. Similarly, inflation in the Arab world was moderate in 2015, recording 4.6% in 2015, down from 4.8% in 2014.



\* Estimated

Source: IMF, AACO

International tourist arrivals increased by 4.6% in 2015, recording a total of 1.186 billion tourists. Advanced economies drove this growth, with international tourist arrivals growing by 5.0%, while emerging and developing economies witnessed a growth of 4.1%. The direct contribution of tourism to global GDP in 2015 was USD 2.23 trillion (3.0% of total GDP), and is expected to rise to 4.2% of global GDP in 2016. In addition, tourism directly supported around 108 million jobs in 2015, and is expected to increase that number by 2.1% in 2016.

International tourist arrivals in the Arab world decreased by (1.0%) in 2015 compared to 2014, reaching 70.1 million as a result of the slowdown in economic activity and the geopolitical unrest. Tourism contributed to the Arab world GDP in 2015 by USD 72.4 billion, and directly supported around 6 million jobs.



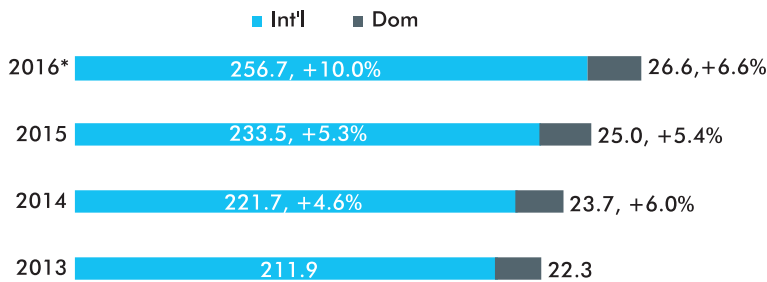
## Arab Air Transport Market Overview

Air Transport continues to play a crucial catalytic role in the sustainable economic development of the Arab countries. In 2015, the sector's contribution to the Arab GDP reached 7.3% (including direct, indirect, induced, and tourism catalytic effects), which accounted to USD 204.6 billion.



Moreover, the Arab aviation market supported a total of 3.5 million jobs representing around 1% of the total Arab world population.

### Million Passengers



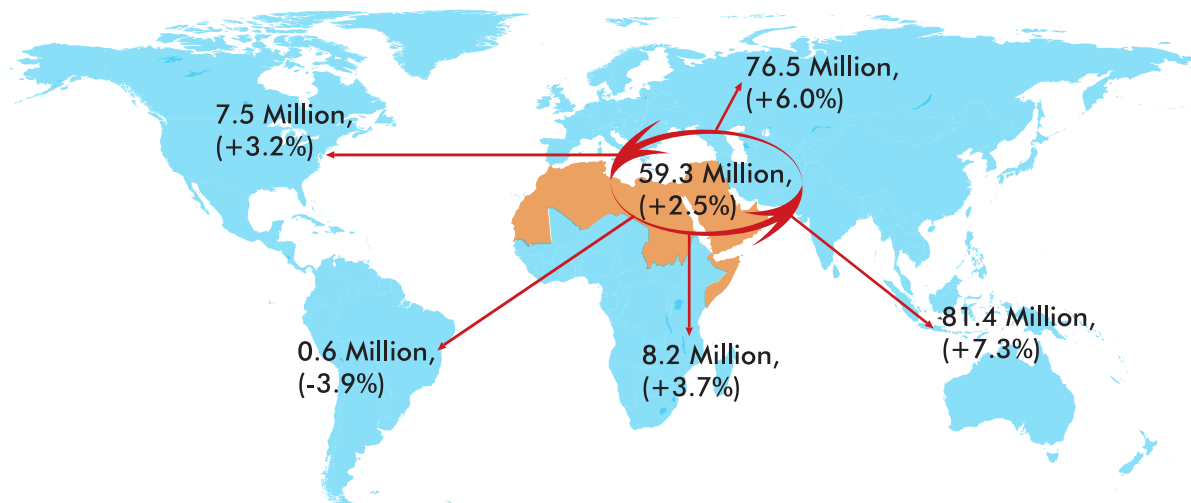
\* Estimated

Source: IATA, AACO

In spite of the multitude of regional pressure points, the Arab air transport market grew by 5.3% in 2015 over 2014, reaching around 258 million passengers. International passengers to/from and within the Arab world grew by 5.3% in 2015, while domestic passengers within the Arab world increased by 5.4% over 2014 levels.

Looking at international traffic flows, traffic between the Arab world and Asia & Australia represented 34.9% of total traffic, followed by traffic with Europe at 32.8%, and international traffic within the Arab world at 25.4%. On the other hand, traffic between the Arab world and the Americas, and between the Arab world and sub-Saharan Africa represented the lower share of 3.5% each.

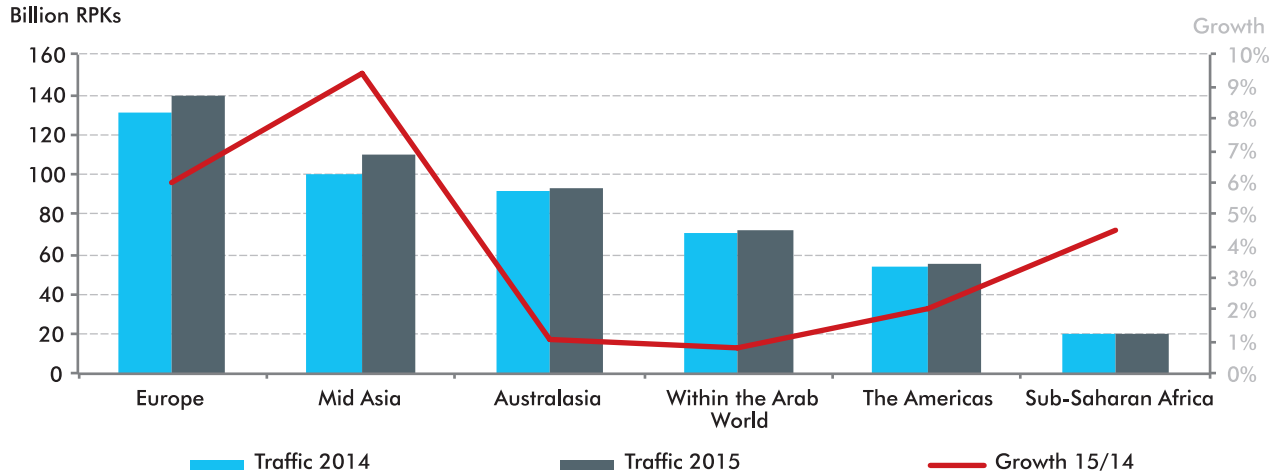
### Direct International Traffic & Growth 2015/2014



Source: IATA, AACO

Reflecting the growth in passenger traffic, the Arab air transport market grew in terms of RPKs by 4.0% in 2015 over 2014 level. Looking at the inter-regional level, passenger numbers in terms of RPKs between the Arab world and Mid Asia scored the highest growth in 2015 over 2014, reaching 9.4%, as opposed to traffic within the Arab World that grew by 0.8%.

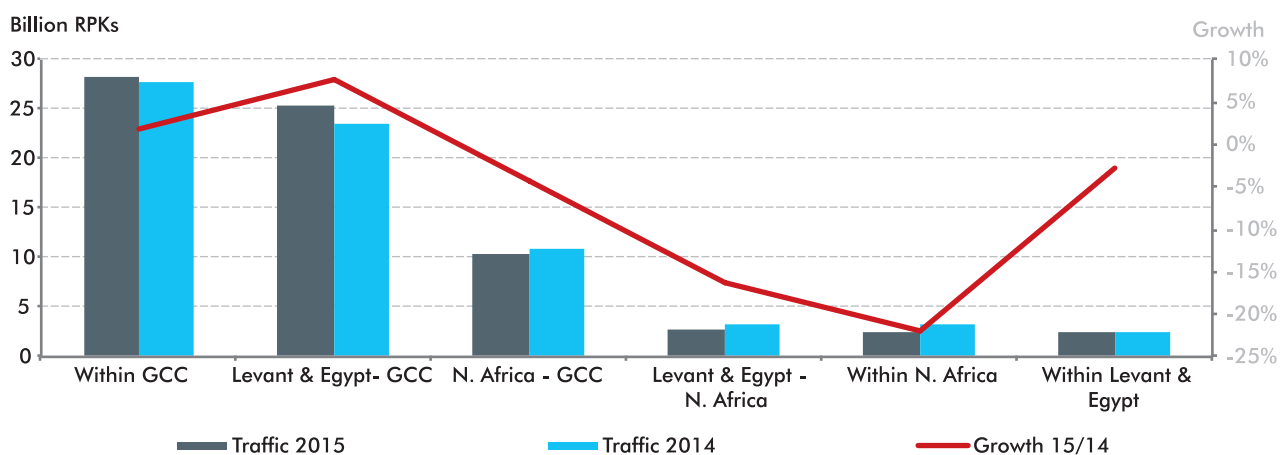
### Direct Total Arab Travel Regional Market Traffic (RPKs) & Growth



Source: IATA, AACO

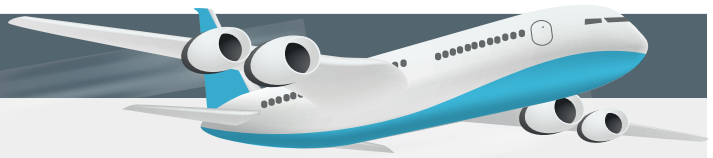
On the other hand, elevated socio-economic events continue to weigh on the intra-regional traffic. Traffic between Levant & Egypt and the GCC countries have led the region's growth at 7.6% fueled by the VFR (Visiting, Friends & Relatives) and refugee traffic, while traffic within North Africa recorded the steepest decline by (21.9%) due to the conflict in Libya and the fragile situation in Tunisia.

### Direct Arab Travel Intra-Regional Market Traffic (RPKs) & Growth

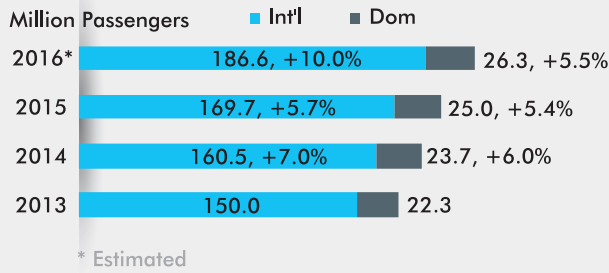


Source: IATA, AACO

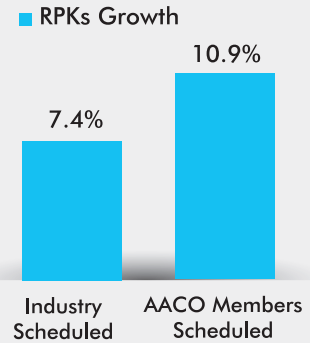
## AACO Members in 2015



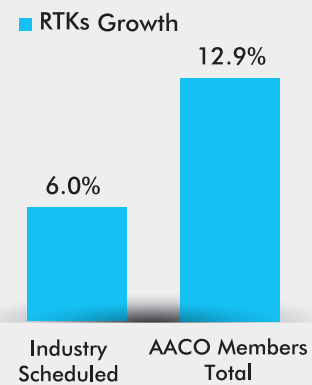
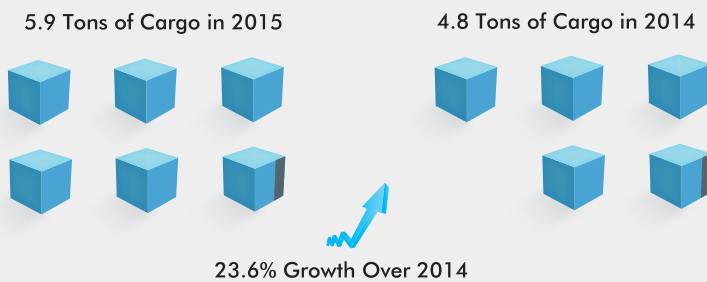
### Passenger Operations



23.6 Million Transit Passengers, 16.4% Growth Over 2014

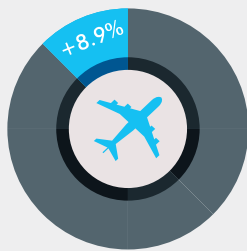


### Cargo Operations



### Fleet Development

1,215 Aircraft in Fleet, +8.9% Growth Over 2014



Average Age of Newly Acquired Aircraft: 2.7 years



Average Age of Phased Out Aircraft: 13.4 years



1,385 Aircraft on order as at Jan 4, 2016

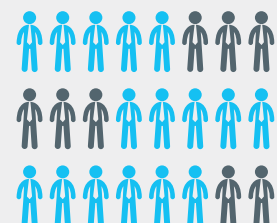
### Financials and Employment

Operating Profit  
USD 1.9 billion



Operating Margin  
3.2%

Total Employees (19 Carriers)  
179,505



## Passenger Traffic

Mirroring the good performance of the Arab air transport market, AACO members carried 195 million passengers, representing a growth of 5.7% over 2014 levels. Passengers on international routes increased by 5.7% to around 170 million passengers, and traffic on domestic routes grew by 5.4% to around 25 million passengers. AACO Members are expected to post a growth of 9.4% in 2016 in terms of passenger numbers.

Highlighting their established role in connecting worldwide destinations, AACO members' transit traffic increased by 16.4% in 2015 compared to 2014 reaching 23.6 million passengers, emphasizing their footprint as global carriers connecting the world.

Member airlines recorded an increase of 10.9% in 2015 in scheduled RPKs, which is almost 1.5 times the global growth. In line with the receipt of ordered aircraft, AACO members increased their scheduled ASKs by 12.7% which led to a decrease in members' PLF by 1.1 percentage points to 74.8% in the same year.

## Cargo Operations

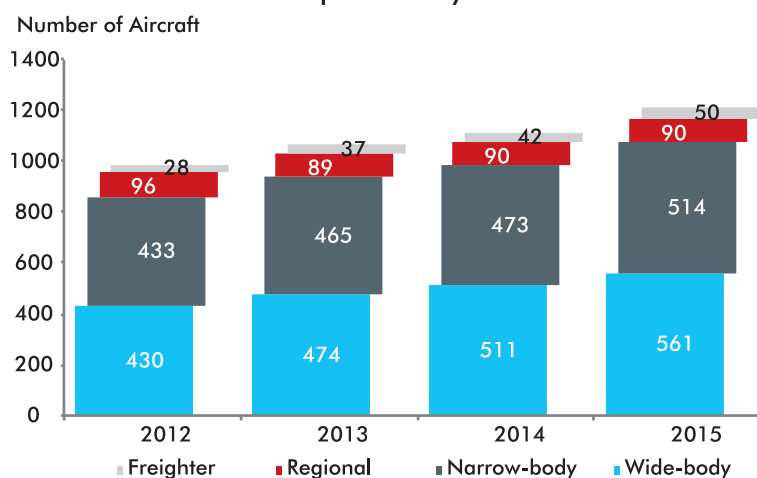
Despite the fragile economic situation in the region and the weak global trade activity, AACO members' cargo traffic recorded a remarkable increase of 19.4% in terms of FTKs, leading the global growth for the second consecutive year. AACO members' total RTKs grew by 12.9% in 2015 over 2014, and total ATKs increase by 11.7% in the same year. Consequently, AACO members Weight Load Factor increased by 0.7 percentage points in 2015 over 2014 levels, recording 65.2%, up from 64.5% in 2014.

## Fleet Development

Looking at fleet expansion, AACO members increased their fleet count in 2015 by 8.9% over 2014 levels to 1,215 aircraft through acquiring 148 aircraft and phasing out 49 older ones. Individual fleet data shows that five AACO members reduced their fleets, whereas twenty-six AACO members maintained or expanded their fleets.

Among the 148 acquired aircraft, 48.6% were wide-bodies, 39.2% were narrow-bodies, 5.4% were regional, and 6.8% were freighters. On the other hand, 44.9% of the 49 aircraft that were phased out were wide-bodies, 34.7% narrow-bodies, 16.3% regional aircraft, and 4.0% freighters. The aggregate average age of the aircraft introduced into service in 2015 was 2.7 years, whereas the average age of the phased out aircraft was 13.4 years.

AACO Members Commercial Fleet Composition by Size

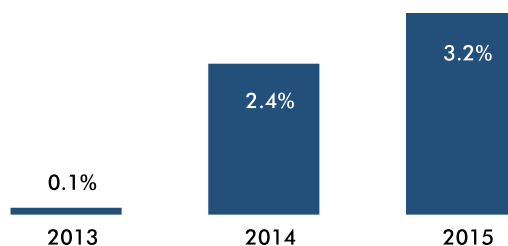


Source: ACAS, AACO

## Financial Performance

AACO members' operating revenues decreased by (3.8%) in 2015 compared to 2014 levels, to USD 58.2 billion. This decrease comes as a result of pressure on yields from socio-political factors and from the negative impact of the drop in oil prices on corporate and governmental travel. However, the drop in jet fuel costs and the focus on cost optimization cushioned the impact on revenues with operating expenses decreasing by (5.3%) to USD 56.4 billion, and hence AACO members recorded an aggregated operating profit of USD 1.9 billion, which represents an operating margin of 3.2%.

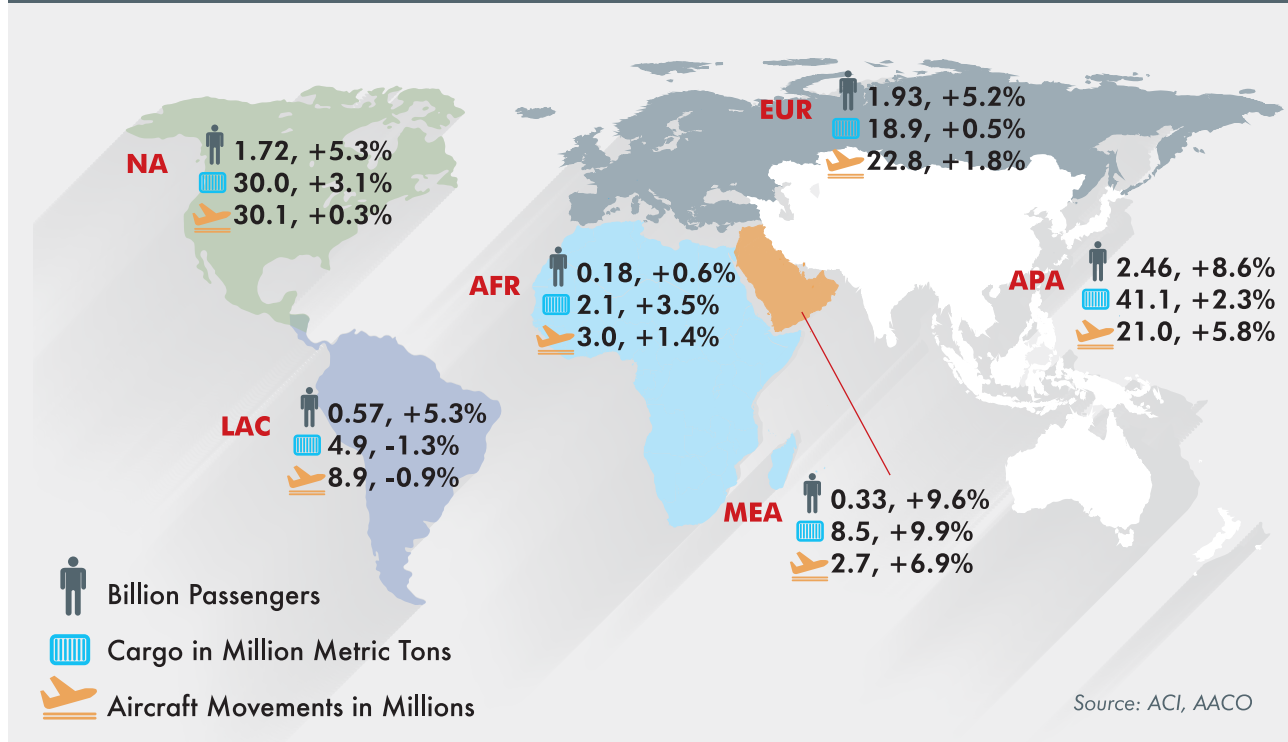
Operating Margin of Reporting Carriers



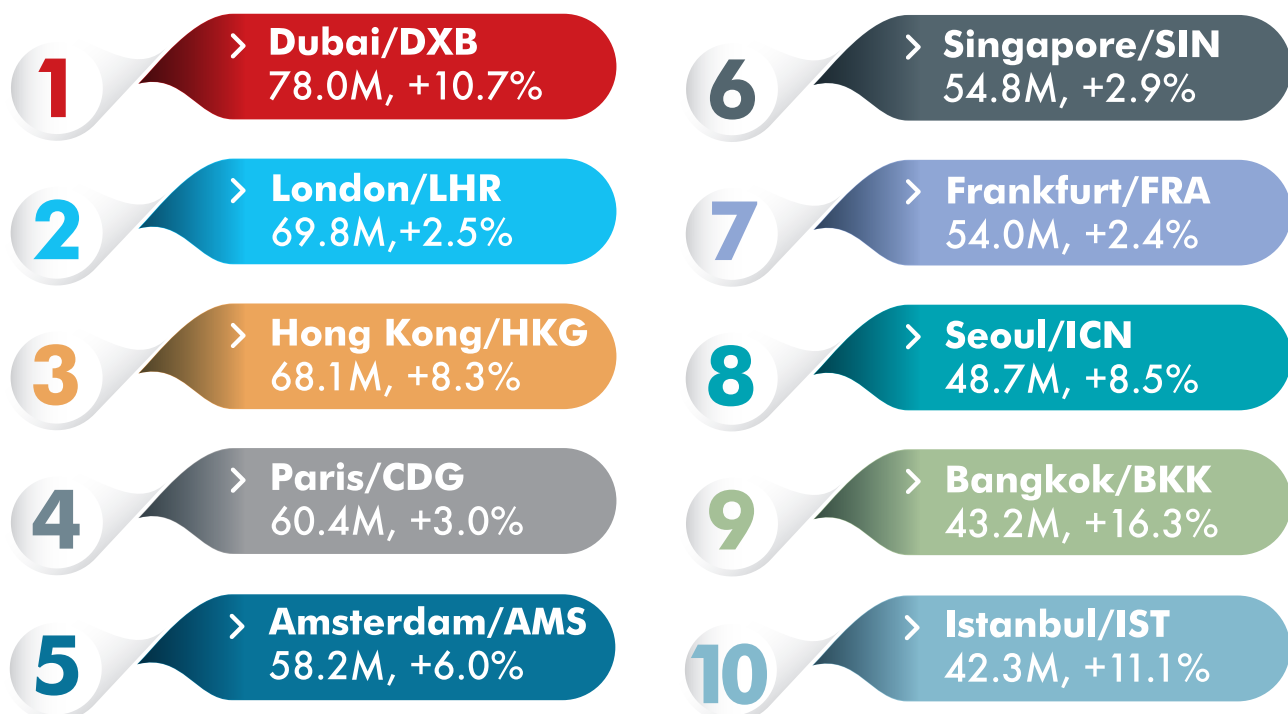


## Airport Operations

### Passenger Traffic Through Worldwide Airports & Growth (2015)



### Top 10 Airports in terms of International Passenger Traffic



Worldwide airport passenger operations recorded a growth of 6.4% in 2015 to almost 7.2 billion, registering an increase in all six ACI regions. For the second consecutive year, the Middle East led the global growth in terms of passenger traffic at 9.6%, followed by Asia Pacific with a growth of 8.6%, Latin America and the Caribbean and North America respectively at 5.3% each, Europe at 5.2%, and finally Africa at 0.6%.

Global cargo volumes handled increased modestly by 2.6% in 2015 reflecting the weak global trade activity. Similar to passenger traffic, the Middle East posted a solid growth of 9.9% in terms of total volume of cargo handled, followed by Africa at 3.5%, North America at 3.1%, Asia-Pacific at 2.3%, Europe at 0.5%, and finally Latin America and the Caribbean registered a decline of (1.3%).

Similar to cargo traffic, global aircraft movements recorded a shy growth of 2% in 2015. The Middle East also recorded the highest growth at 6.9%, followed by Asia-Pacific at 5.8%, Europe at 1.8%, Africa at 1.4%, North America at 0.3%, and finally Latin America and the Caribbean movements decreased by (0.9%).

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

Airport	Code	Passengers	Growth
Dubai	DXB	78,010,256	10.7%
Doha	DOH	31,008,549	17.1%
Jeddah	JED	30,094,000	7.3%
Abu Dhabi	AUH	23,293,022	17.3%
Riyadh	RUH	22,545,000	10.0%
Cairo	CAI	15,665,084	6.7%
Kuwait	KWI	11,269,029	8.6%
Muscat	MCT	10,315,358	18.4%
Sharjah	SHJ	10,039,936	5.5%
Dammam	DMM	9,407,000	2.6%

Airport	Code	Cargo (tons)	Growth
Dubai	DXB	2,505,507	5.8%
Doha	DOH	1,454,952	46.2%
Al Maktoum	DWC	890,883	13.0%
Abu Dhabi	AUH	841,515	4.4%
Jeddah	JED	716,610	43.3%
Riyadh	RUH	328,505	-13.9%
Cairo	CAI	309,202	7.0%
Bahrain	BAH	207,933	-5.2%
Kuwait	KWI	186,847	-1.4%
Sharjah	SHJ	183,824	-23.5%



Airport	Code	Movements	Growth
Dubai	DXB	406,625	13.1%
Doha	DOH	249,478	14.3%
Jeddah	JED	212,799	16.4%
Abu Dhabi	AUH	172,819	11.6%
Riyadh	RUH	172,754	5.7%
Cairo	CAI	148,977	4.5%
Kuwait	KWI	102,162	11.1%
Bahrain	BAH	100,625	4.6%
Muscat	MCT	94,878	15.1%
Dammam	DMM	84,803	7.0%

Reporting Arab airports recorded 324.8 million passengers in 2015, a growth of 8.8% over 2014, and are expected to grow by 8.6% in 2016 over 2015, reaching 352.9 million passengers.

Dubai airport grew by 10.7% over 2014, to become the 3rd global airport worldwide in terms of total traffic, maintaining its position as the busiest airport in terms of international traffic. Doha airport advanced to the 16th position from the 20th last year in terms of international passengers. In addition, it advanced to the 20th position from the 24th in terms of total cargo handled, and advanced to the 14th position from the 17th in terms of international cargo handled.

Overall, eleven Arab airports among the sample of 30 airports reported double-digit growth in 2015 over 2014. On the other hand, eight Arab airports witnessed a decline in passenger numbers.

Despite the geopolitical challenges facing the trade activity in the region, Arab airports led the global growth in cargo handled, recording a remarkable growth of 11.6% in cargo handled in 2015, with total cargo handled reaching 7.31 million tons, up from 6.55 million tons in 2014. Arab airports are expected to increase the volume of cargo handled by 7.5% in 2016 over 2015 to reach 7.86 million tons.

Similarly, aircraft movements at Arab airports recorded a notable growth of 9.6% in 2015 over 2014, which is equivalent to 5 times the global growth. Arab airports reported 2.59 million departures in 2015, up from 2.37 million in 2014, and are foreseen to increase that number by 6.6% in 2016 over 2015 to 2.76 million departures.





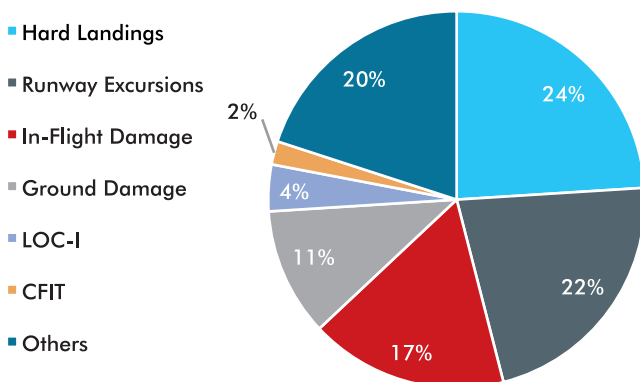


## Focus on Industry Issues

### SAFETY

	Total Accidents	Fatal Accidents	Hull losses	Fatalities
<b>Global</b>				
Average (2010-2014)	90	17	34.6	504
2015	68	4	18	136
<b>AACO Members</b>				
Average (2010-2014)	4.8	1	2.2	32
2015	2	0	0	0

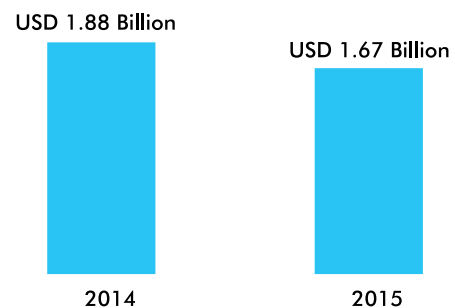
Common Types of Global Accidents in 2015



LOC-I: Loss of Control in Flight  
CFIT: Controlled Flight Into Terrain accidents

Source: IATA Safety Report, FlightGlobal, AACO

Financial Impact of Accidents



Safety is AACO’s number one priority as well as the industry’s as a whole.

In 2015, AACO continued to advocate the adoption and enhancement of a safety culture in the region. In that regards, AACO collaborated with ACI APAC and AAPA to conduct a survey on the safety culture in the Arab world and APAC regions. The findings of the survey were communicated to member airlines and presented to ICAO RASG-MID – the regional group working to enhance safety in the region.

Given the importance of aircraft tracking, AACO held a series of awareness sessions for its member airlines with eight major providers of tracking solutions. During those sessions, providers presented and demonstrated their solutions so that member airlines would consider adopting the solutions that best suit their respective IT infrastructures and operational requirements.

Another priority for AACO member airlines is crisis management and emergency response planning. AACO ERP Steering Board, which comprises 12 member airlines and governs AACO ERP Project, continues its work to implement collaboration amongst member airlines.

The Board continued its work in 2015 on the Manual which governs the implementation of the Emergency Response Mutual Assistance Agreement signed by those airlines and which first version was published in early 2016. The Board also continued to fulfill its mandate as an important platform to share experience and best practices among airlines and foster discussions with airport operators and states to raise crisis management capabilities in the region.

On the other hand, airspace capacity constraints in some areas of the region began to raise safety concerns. AACO continues to advocate ATM enhancement and reform through ICAO Middle East ATM Enhancement Programme. Further details on the work of MAEP is included in the Airspace Infrastructure section of this report.

Within the same lines of supporting safety through enhancing ATM, a regional project for the acceptance of alpha-numeric call signs is successfully running under MAEP. Etihad Airways is acting as the project manager and is conducting trials (first through dummy flight plans and then using live flights) so that the whole region would be able to accept alpha-numeric call signs which has a positive impact on safety.

## **SECURITY**

The rise of terrorism brought back aviation security to the forefront of concerns, especially in this region where geo-political conflicts and violence are on the rise.

Major security-related events on aviation in 2015 included German Wings crash on 24 March 2015 which is believed to be a deliberate act by the co-pilot, Metrojet flight KGL9268 on 31 October 2015 which is claimed to be caused by a bomb on-board, and an explosion airside in Sabiha airport in Turkey on 23 December 2015 caused by a mortar attack.

On the regional level, military activities in the region, specifically in Syria and Yemen, resulted in serious disruptions to air traffic: The conflict in Yemen closed the whole Yemen airspace, which is a crucial airspace for traffic to/from Africa, for most of the year, and the Russian Cruise missile attacks on Syria from the Black Sea resulted in the temporary avoidance of Iraqi and Iranian airspaces which created disruptions to East/West traffic flows, especially with the conflict in Yemen and airlines' avoidance of Syrian airspace.

In line with the increase in security concerns in the region, ICAO MID Crisis Contingency Team (CCT), which is a group including all stakeholders to work on mitigation plans for airspace/route closures, was activated twice. AACO participates in the CCT and interfaces between the group and member airlines' heads of ERP and Security to share information both ways.

Moreover, AACO established in 2015 its AVSEC Advisory Group. The Group comprises the heads of aviation security of member airlines, and works on all security matters of joint interest, especially on sharing information on risk assessments of airspaces, air routes and airports so that members are aware of developments to take operational decisions.

Besides conflict zones and military activities, cyber security is gaining momentum across the industry with the increase in electronic attacks. The cyber security threats' impact would result in severe and catastrophic consequences to civil aviation if used to target aviation operational

systems (ATC, aircraft, etc...) and would result in significant business, legal, personal and financial impacts if used to steal passenger data and information. The aviation industry is addressing the issue on all levels (internationally through IATA and ICAO, regionally through associations and alliances, and individually on state and airline levels). AACO AVSEC Advisory Group is addressing the issue through member airlines' IT Security experts who are working on a plan to share information and best practices to mitigate this risk.

On the operational level, two main issues are being also addressed by AACO AVSEC Advisory Group: The first is the issue of theft of personal belongings from cabin luggage by organized crime syndicates targeting long-haul flights between Asia Pacific and the Middle East. AACO AVSEC Advisory Group members are sharing information related to that criminal activity, and trying to raise the issue through global forums as it is impacting many airlines in several regions.

The second issue is unruly passengers: According to IATA, the number of unruly passengers increased by 16.5% in 2015 over 2014, with 10,854 incidents reported. 11% of those reported incidents indicated physical aggression towards passengers or crew or damage to the aircraft. 23% of reports indicated intoxication from alcohol or drugs as a contributing factor to unruly behavior. AACO AVSEC Advisory Group is following up on the operational side of the issue which includes benchmarking of occurrences, their root causes, and mitigation strategies. In addition, AACO Aeropolitical Watch Group is following up on the regulatory side of the issue to advocate the signature and ratification of Montreal Protocol of 2014 which amended Tokyo Convention of 1963, and which presents an important legal instrument to address unruly behavior on aircraft.

## **AIRSPACE INFRASTRUCTURE**

Being the most critical element to support the growth of the air transport industry, airspace enhancement is one of the highest priorities of the region.

Although individual development projects are being implemented at individual states, the size of the region's individual FIRs necessitates a holistic and collaborative approach to airspace enhancement in order to deliver projects' benefits to the aviation sector.

Accordingly, all stakeholders, including states, airlines, and international and regional organizations are mindful of the necessity to enhance the airspace structure and are collaborating towards achieving this objective.

On the airlines' side, priorities on the regional level cover the following areas:

<b>Enhancing Airspace Capacity and Efficiency</b>			
<b>Optimizing Regional ATS Route Network</b>	<b>Fostering the Implementation of Civil/Military Collaboration</b>	<b>Implementing Performance Based Navigation</b>	<b>Planning &amp; Implementing a Regional Air Traffic Flow Management Mechanism</b>

The above priorities are tackled through a major collaboration effort in the region which is implemented under ICAO Umbrella: Middle East ATM Enhancement Programme - MAEP.

MAEP structure was revised in 2015 and its governance is currently as follows:

**MAEP Board:**

- The Board is composed of all Middle East states, and is currently chaired by the United Arab Emirates.
- It decides on regional projects to be implemented and oversees its implementation.

**MAEP Project Coordination Team – MPCT:**

- The MPCT is a body comprised of representatives from states and international and regional organizations. The MPCT is chaired by organizations and currently AACO is chairing the team.
- Its role is to coordinate the implementation of regional projects and report to the Board on the development of projects, in addition to advising and recommending to the Board priorities and projects to be initiated.

**MAEP Projects:**

- Each project has its own Steering Committee which is composed of states participating in the project and international and regional organizations.
- Each Steering Committee develops a project plan to be approved by the MAEP Board, ensures the implementation of the project according to the plan, and reports back to the MPCT on developments in the implementation.

**To-date, MAEP Board approved two projects for implementation:**

- **ATS Route Network Optimization Project (ARNOP):** The project encompasses two phases: The first phase is a high-level airspace study to identify enhancement areas and which is expected to be concluded by the end of 2016, and the second phase is the implementation phase which will start in 2017. ARNOP is expected to contribute in achieving the first two priorities on page 18.
- **Middle East Flight Procedure Programme (MID FPP):** The project aims at raising the regional capabilities in procedure design, and to foster the implementation of Performance Based Navigation in the region.

In addition to the above projects, all stakeholders are working to implement a Regional Air Traffic Flow Management mechanism which will include defining and implementing milestones required to reach this objective. The project is intended to kick-off in 2017.

Further to efforts conducted under MAEP, the GCC is looking into implementing a single Virtual Upper Flight Information Region in its territories which will have many benefits. The project is being currently studied using a consultancy firm which report is expected during the first half of 2017, after which a decision would be made on the implementation of the project.

## **THE CUSTOMER**

### **The Continuous Evolution of Customer Relationship**

The widespread of the internet usage, the progression of various retailing channels, the technological advancement implemented in other industries as well as the rapid spread of mobile usage and applications affirmed the importance of customer identification, satisfaction, and adaptation to his/her needs.

That accentuation, in addition to the customers of today becoming more discerning with the rapid spread of technology use and innovation of new channels and the fact that they are the backbone of airline sales and globalization, resulted in airlines demanding innovations from their IT providers & GDSs to be able to respond to customer needs.

Nowadays, the way airlines distribute their products has changed, it's no more a mere sale of a ticket or a seat, but to maintain customer reach by maintaining contact with the passengers along their entire journey, and deliver real-time, relevant, and added value information, offers, discounts, and personalized services.

### **The Distribution Dilemma**

For decades prior to the existence of airline websites, approximately 80% of airlines' products were sold through Indirect Channels (mainly travel agencies).

While direct channels have grown, they have plateaued somewhat at 50/50 in mature markets but around 70% of those direct channels are the result of referrals also in those mature markets.

Airlines today are still using a combination of the two available distribution models; direct / indirect to present their products. Some airlines, in their strive to cut down their distribution costs, had various attempts to shift away from using this channel, yet to date the results were not that encouraging. Airlines in general and Arab airlines in particular still require partnership with Global Distribution Systems and travel agents especially that travel agencies still play a crucial role in the Arab travel market. Nonetheless, airlines have to find ways to balance those requisites with the distribution bill.

### **Dynamics of Distribution**

Distribution involves three main parties that have been evolving over many decades and impacted with the advancement of new technologies: the Customer, the Airline, and the GDS. The relationship in-between these three is inevitable. In spite of the current IT advancement and demand for transformation, GDSs as a channel of distribution cannot be avoided.

The NDC introduced the concept of merchandising of airlines' full product and service offerings across all channels, yet it is not a new distribution channel but rather a new distribution formula.

### **Possible Scenarios for the Future**

- 1 Indirect channels regain position**
  - Modernize their system to enable a transparent, personalized customer experience with the possibility to compare the different travel solutions
- 2 Airlines push for alternative models of distribution**
  - Differentiation on direct channels although network airlines prefer their products to be visible in maximum touch points
  - Possible disruptive technology that may enable airlines to go direct to the customer while providing the customer with the power of choice and comparison
- 3 New players that dominate the game**
  - Such as Triplt, Apple, Facebook, Google, and Amazon
  - Mostly not interested in creating disruptive technology for distribution
  - Quite happy till now with their revenue from referrals and Ads
  - Their cost is almost 3X more than the cost of GDSs due to very low look-to-book ratios

## AACO's work

The Future Distribution Strategies Task Force (FDSTF) has been, since its establishment back in 2013, studying and researching the latest technological developments related to distribution techniques that meet the consumer needs at all touch points, and provide optimal exposure and reach of member airlines' products.

The FDSTF has accomplished its work on phase one of its roadmap and has been in close coordination with the AACO Executive Committee in order to seek guidance on the recommendation and findings of the Task Force.

The FDSTF is now preparing the grounds for the future negotiations with the GDSs ahead of the current contract's expiry.

## REGULATIONS & POLICIES

### Landscape of Arab Aviation Regulatory Environment

#### Accessing Markets

- 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.
- Some states have opted for adopting unilateral open skies policies.
- A number of governments have struck bilaterals with global countries to open trade and tourism opportunities.
- Most governments in the Arab world look at the aviation sector as a driver to the economy; hence, unnecessary regulatory burdens are kept at a minimum.

#### Airlines

- Most Arab airlines are government-owned with very few private or partially private airlines.
- Restrictions exist on the ownership and control of airlines.

#### Aviation Relations

- The US has open skies agreements with the UAE, Jordan, Bahrain, Oman, Morocco, Qatar, Kuwait, Yemen, and Saudi Arabia.
- The EC has been granted a mandate to negotiate comprehensive EU-level air transport agreements with the UAE and Qatar. Talks have started with Qatar.
- Bilateral agreements with different levels of market access govern the relations of individual Arab states with states in the EU, with the US, states in Australiasia, Subsaharan Africa, and Latin America.

## Market Access and Ownership & Control

### Major Global Debate

**What could possibly be the levels of opening market access under an international multilateral liberalization agreement under ICAO umbrella**

**Whether designation in international agreements can be based on 'principal place of business' and 'effective regulatory control' instead of nationality of the carriers**

### Latest Developments

ICAO Air Transport Regulations Panel is developing provisions of international multilateral agreements on liberalization of market access and air carrier ownership and control.

So far there's a general agreement on certain provisions of an administrative and technical nature.

Other core elements of the agreement involving the exchange of commercial rights and safeguard provisions remain open for discussion.

ICAO 39th Assembly asked ICAO to continue working on the draft text of the international agreements. These agreements are intended for signature by any "willing and ready" party, whereas states that are not ready to sign at the initial stage can join at a later date when they resolve to do so.

### AACO's Work

AACO Aeropolitical Watch Group followed up extensively on the developments happening in this area and agreed on certain positions that were incorporated in ICAO 39th Assembly working papers through Arab civil aviation authorities.

The positions agreed at AACO members' level support the liberalization process and call for a separation between the ownership and control agreement and the market access agreement.

AACO will be following up on the ICAO Air Transport Regulations Panel work on the multilateral liberalization agreements throughout 2017.

## Competition

### Major Global Debate

**Whether ICAO guidance on fair competition is enough or fair competition principles need to be developed under ICAO umbrella; should discussions on fair competition be part of bilateral and multilateral talks? If so, what could the core elements of fair competition be...**

### Latest Developments

Competition issues in the air transport industry are a major debate be it under ICAO umbrella, on a multilateral level or on bilateral levels.

Fair competition safeguard measures have been proposed by some states to be included under the multilateral liberalization agreements being developed by ICAO's ATRP. On the other hand, fair competition issues are also being discussed as a separate topic under ICAO. Some states see that guidance under ICAO for fair competition are enough material for states to be guided by if they wish to use them at the bilateral or multilateral levels, other states see that this ICAO material is not enough.

Some positions in this area have been expressed at the ICAO 39th Assembly; however, the development of this topic will be discussed at the level of the ICAO ATRP in 2017.

## AACO's Work

AACO Aeropolitical Watch Group also follows up on competition issues in the air transport industry. As the concept of fair competition is very subjective to each state as it is based on the social and economic situation of each state, reaching a global definition in this area is farfetched.

The group will continue following up on the developments in this area and share information based on global and bilateral experiences of states to make sure that in any discussions, if they happen, the historical development of air transport is taken into consideration, there needs to be equality in granting traffic rights between states, slots need to be put on the table of negotiations, and competition discussions need to aim at expanding consumer choice and providing high quality services.

## Passenger Rights

### Major Issue

**Proliferation of excessively regulated passenger rights regimes is causing inconveniences to passengers and airlines alike.**

## International Civil Aviation Organization (ICAO)

ICAO Council adopted in July 2015 a set of core principles for consumer protection. These principles are a "live document" which means they can be updated by the ICAO Air Transport Regulations Panel.

AACO 48th AGM called upon ICAO to further work on the principles developed by the ICAO ATRP and adopted by the ICAO Council to include material on avoiding extraterritoriality and ensuring compatibility between passenger rights regimes. The AGM also called upon Arab states to look into the Consumer Protection Safety Nets and Caveats template (that was developed by AACO AWG Consumer Protection subgroup), when developing passenger rights regimes. This document gathers best practices of airlines in giving passengers their rights and could be used as relevant guidance to governments if they wish to develop passenger rights regimes. The document is based on ICAO and IATA principles on consumer protection.

The ICAO 39th Assembly urged states to give regard to and apply the ICAO principles on consumer protection in policy-making and regulatory and operational practices.

## Developments in the Arab World

The development of guiding material for Arab states on passenger rights regulations is still ongoing under the Arab Civil Aviation Commission (ACAC) umbrella. AACO and relevant airline experts follow up extensively and give input to the development of this material.

A number of Arab states including Jordan, Bahrain, Oman, Algeria, and Qatar are developing passenger rights regulations. AACO and the airlines use ICAO principles on consumer protection and the AACO Safety Nets and Caveats template in consultations with these and other states where applicable.

The Kingdom of Saudi Arabia adopted a revision to its passenger rights regulation in June 2016 without prior consultations with relevant stakeholders; however, following advocacy efforts by all concerned stakeholders, Saudi Arabia graciously accepted the implementation of the new regulation be frozen.



## Notable Developments Worldwide

**European Union:** The European Commission published interpretive guidelines in June 2016 that provide guidance to the National Enforcement Bodies, passengers, and airlines on the current state of the law until the revision of Regulation 261/2004 becomes applicable.

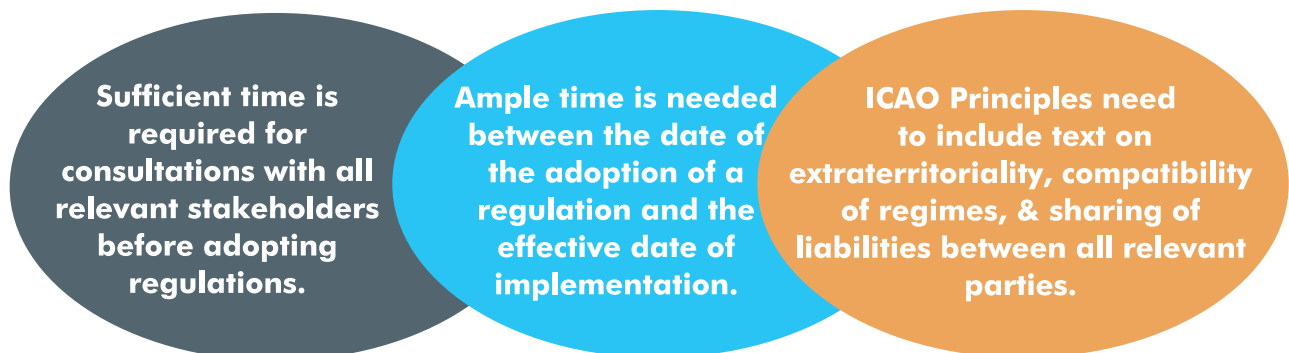
**India:** India's DGCA adopted a set of new proposed requirements related to passenger rights in India. Three Civil Aviation Requirements (CARs) were open for comments for a period of 2 weeks before their enactment.

**Malaysia:** Malaysia adopted a regulation on passenger rights which came into effect on 1 July 2016.

**China:** A new passenger rights regulation was published in July 2016 and will take effect in January 2017. The major positive points associated with China's move are: distribution of liabilities between relevant stakeholders, consultations conducted prior to enactment, and giving ample time to airlines to prepare.

## AACO Observations

AACO AWG gives high importance to such regulations due to the high costs they incur on the airlines and has noted a number of common problematic or burdensome provisions that many states include in their regulations such as extraterritoriality, conflict with international conventions, limited definitions of extraordinary circumstances, undue interference in airline commercial practices, high costs for implementation, and the non-sharing of liability among stakeholders in most cases.



## Unruly Passengers

Major Issue
<b>Unruly behavior onboard aircraft causes inconvenience to other passengers and leads to significant operational disruptions which could affect the safety and security of flights.</b>

## Latest Developments

ICAO 39th Assembly again urged states to ratify the Montreal Protocol of 2014 as soon as possible and presented a model legislation on certain offences committed on board civil aircraft as guidance for national law and regulations to deal effectively with the problem of unruly or disruptive passengers.

Following ratification by Bahrain in February 2016, Jordan ratified the Protocol on 10 June 2016. Hence, two out of the six states that ratified/ acceded to the protocol so far are Arab states, noting that for the protocol to come into force it requires the ratification of 22 states.

## AACO's Work

AACO has worked on many levels to urge Arab governments to ratify Montreal Protocol 2014 where two states ratified this protocol, as mentioned before, and other Arab states advised that they are in the process of doing so.

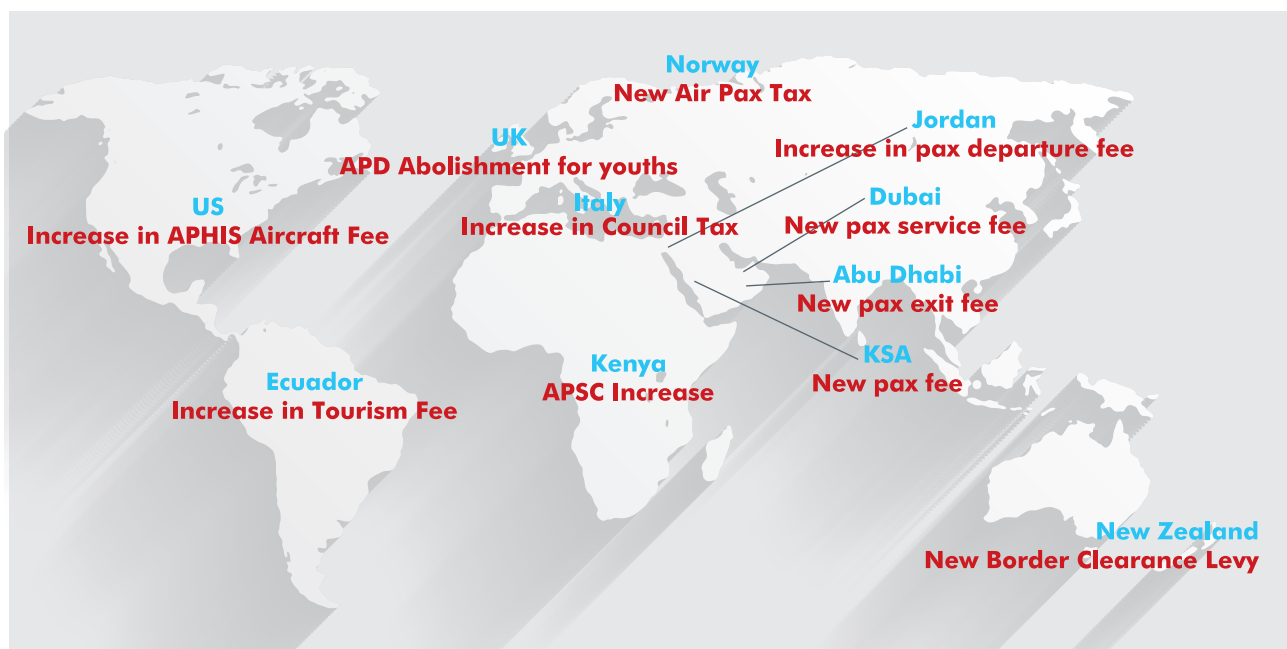
Advocacy work will continue in 2017 to ensure higher participation of states in this important Protocol.

## Taxation

### Major Issue

Imposing high levels of taxes on aviation which revenues are not invested in improving air transport and the passenger experience would only result in lowering demand for travel and negatively affect the economy.

## Latest Developments



## Arab World: Some airports in the Arab world introduced or increased passenger fees such as the below:

- **Dubai:** introduction of a USD 9.59 passenger service fee for departing flights to help finance the expansion of Dubai International and Al Maktoum International at Dubai World Central (DWC).
- **Abu Dhabi:** Introduction of a Dh 35 exit fee for airport passengers from 30 June 2016.
- **Saudi Arabia:** SAR 87 fee introduced for international passengers in Saudi Arabia from 1 January 2016. The KSA also increased the overflying charges as of 1 July 2016.
- **Jordan:** Jordan Civil Aviation Regulatory Commission (CARC) amended the Civil Aviation Charges Regulation. In the new system, passenger departure fee has increased from 4.220 JD to 9.530 JD effective February 2016.
- Separately, GCC countries and Egypt will introduce Value Added Tax (VAT); however, it is not indicated yet if air transport will be part of the VAT system.

## AACO

AACO maintains the position that taxation on aviation deters the economic benefit that the sector brings to the local economies and hence those should be minimized as much as possible. In addition, any charges imposed by airports need to be proportional to the airport services provided and revenues should be invested in improving air transport for the benefit of the consumer. On the other hand, AACO is still actively participating in the work of the League of Arab States in developing the Tunis Convention on the reciprocal exemption of taxes and charges between Arab states.

## CLIMATE CHANGE

### Climate Change: A Realized Target that is now in Action

#### Background

The environmental concern and the need to find a global scheme to mitigate the impacts of emissions and that of aviation was and is still considered a priority by all stakeholders. The UNFCCC, after extensive efforts, adopted at the Paris climate conference (COP21) in December 2015, the global climate deal, which sets a target for holding the increase in the global average temperature to well below 2 °C and to pursue efforts to limit the temperature increase to 1.5 °C.

ICAO and its member states on the other hand, were being looked at by all stakeholders and NGOs to announce success by agreeing on a global agreement that tackles international aviation emissions.

#### A Recap of the Efforts

In 2010, ICAO adopted three environmental targets as short, medium, and long term goals:

1. To achieve annual fuel efficiency of 2% in emission reduction up till 2020
2. To achieve global aspirational goal of capping emissions at 2020 level
3. To halve the net emissions by 2050 compared to 2005 levels

In 2013, ICAO and its Member States agreed on a roadmap to finalize work on the Global Market Based Measures and put in place the structure and design element of the global scheme for the assembly of 2016 to review, discuss, and possibly adopt.

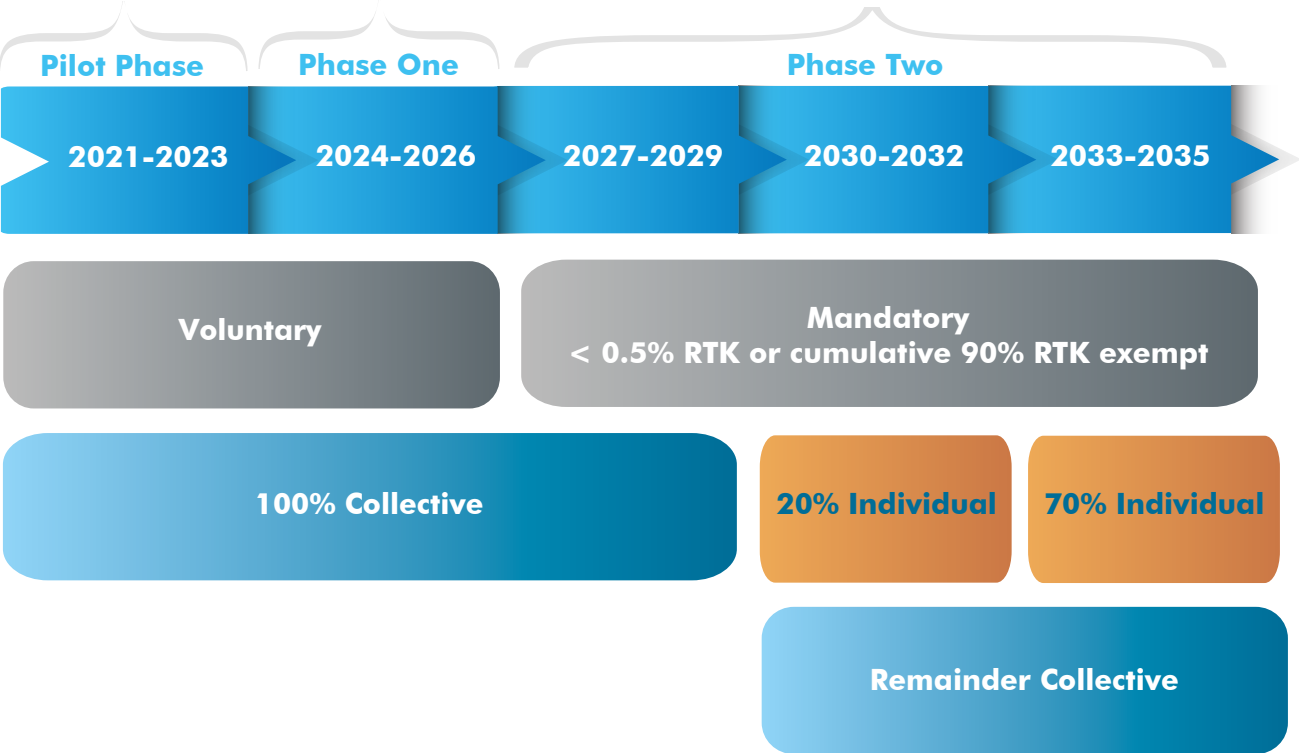
## CORSIA

Since 2013, ICAO, Member States, international organizations as well as AACO have been engaged in extensive work in order to come up with an agreeable scheme that galvanizes the support of all states and to be adopted by the Assembly in October this year. Indeed, ICAO and its Member States finalized on 6 October 2016 an agreement for a Global Offsetting Scheme for International Aviation known as CORSIA. This agreement was passed through a resolution which is considered to be a historic one due to the fact that, in spite of some states having some concerns, at the end all states agreed to pass the resolution.

Now that the global MBM (CORSIA) has been agreed, ICAO Secretariat, bodies, and Council will work on establishing the necessary mechanisms for implementation of the CORSIA 2020.

AACO, through its Environmental Policy Group, will continue its work, throughout the coming three years, with international and regional associations, stakeholders, and states in order to safeguard members' interests in the development of the CORSIA mechanisms.

**The CORSIA**





## Effective Cooperation

### FUEL PROJECT

Since late 2015 and until now, crude oil prices have not crossed USD 60 per barrel. Despite airlines' lower fuel bills in the current period, plunging oil prices are causing an economic downturn, especially in oil-exporting states. Shrinking economies and national budgets are negatively affecting the overall flow of air passengers amid geopolitical turbulence and critical security events.

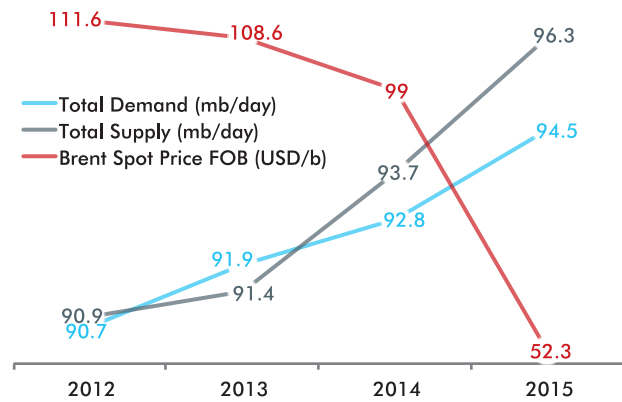
Moreover, a wide array of uncompetitive jet fuel taxes, fees, and charges remains burdening airlines and passengers alike.

In order to provide member airlines with the optimal operational environment, AACO has established the Fuel Project in 1999 which has seen since then an increase in member airlines participation.

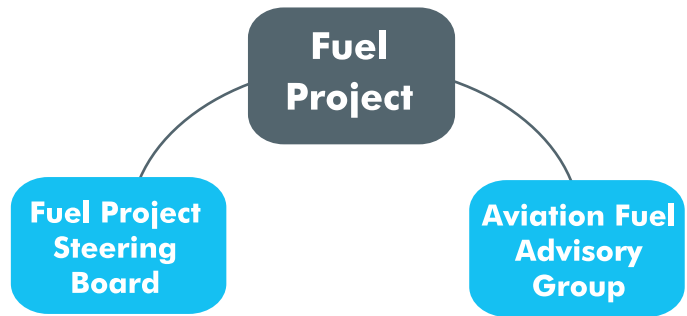
Today, the Fuel Project Steering Board gathers 23 Arab airlines, in addition to a large number of fuel companies in the Aviation Fuel Advisory Group working to ensure a sustainable, safe, and competitive aviation fuel industry in the Arab world.

The Steering Board helps its member airlines secure better fuel contracts at airports worldwide. This is achieved through a tendering process which encourages price competition, and through bilateral negotiations in monopolistic markets.

Brent Price to World Oil Demand & Supply



Source: International Energy Agency, U.S. EIA



## **TECHNICAL COLLABORATION**

In addition to activities of AACO Emergency Response Planning (ERP) Steering Board and the AVSEC Advisory Group included in Safety and Security sections of this report respectively, technical collaboration in AACO includes the following three activities:

### **Memorandum of Understanding with Jeppesen:**

AACO has in place an MoU with Jeppesen under which AACO member airlines receive discounts on their purchase of standard services and various other services from the company. The MoU delivers savings to member airlines in excess of USD 650,000 per year.

### **Memorandum of Understanding with Kenyon International:**

AACO has in place an MoU with Kenyon under which AACO member airlines receive discounts on Kenyon services and the training portfolio of the organization.

### **MRO Collaboration Project:**

AACO launched the MRO Collaboration Project in 2013. The collaboration project comprises eight member airlines, namely Air Algerie, EgyptAir Holding Company, Emirates, Kuwait Airways, Middle East Airlines, Royal Jordanian, Qatar Airways, and Saudia.

The project identified nine collaboration initiatives to be implemented in phases: inventory pooling, purchasing, line maintenance, loans & exchanges, pooling spare engines and APUs, work exchange & shared shops, GE90 shipping, training, and vendor audits.

Member airlines participating in the project are currently working on two initiatives:

- Purchasing: The Delivery Team working on that initiative has to-date conducted three tenders with aggregated savings since the inception of the project of around USD 2 million.
- Vendor Audits: The aim of the initiative is to create a pool of auditors who will audit maintenance vendors and service providers. The initiative will provide efficiencies to the project carriers as it frees more resources to cover a wider spectrum of vendors (which reflects positively on safety) and harmonizes auditors' requirements and training. It will also have an indirect positive effect on costs associated with planning and performing audits. The initiative is still in the planning phase pending the approval of National Airworthiness Authorities on the joint procedure and checklists, after which implementation will be initiated.

## **DISTRIBUTION DEALS**

Under the umbrella of AACO's effort to rationalize the cost of member airlines in distributing their content, the benefits that the 2009 distribution deal signed between Amadeus and 13 member carriers for a term of 10 years are still on the rise be it to the participating carriers that benefit from the intensive presence of Amadeus in their home markets, or the travel agents that benefit from customer-oriented distribution technology brought in by the National Marketing Companies (NMCs) in each home market, or the customer that resides at the core of this deal and benefits from an enhanced quality of service.

AACO Amadeus Steering Board (AASB), including representatives from the 13 member airlines, Amadeus, and AACO, follows up on the deal while abiding by competition laws guidelines in meetings, activities, and discussions.

In 2015, the agreement continued to witness increasing number of bookings on the Amadeus system in participating carriers' home markets.

## COOPERATION AT OUTSTATIONS

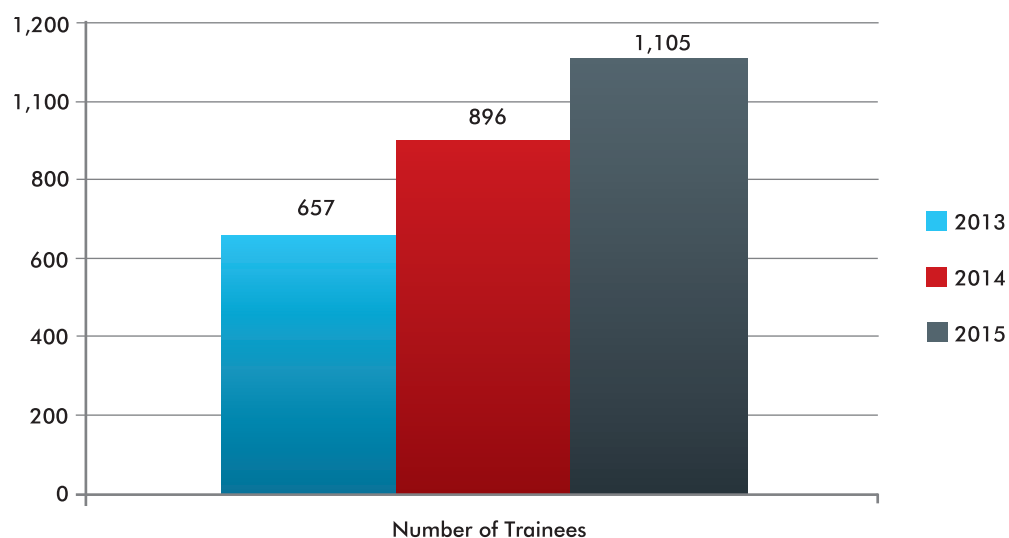
In line with its objective of promoting and increasing the level of cooperation between member airlines at Outstations in order to enhance the quality of service they receive while improving the contractual terms with service providers as well as cost optimization, the Ground Handling Steering Board, throughout the years, concluded several agreements at outstations. The current agreements include an agreement with Havas in Istanbul and 20 other Turkish airports, with Aviapartner in Rome, with Azzura in London Heathrow Terminal 4, with KLAS in Kuala Lumpur, with Çelebi in Vienna and with ICAS in Addis Ababa.

In addition to exploring possibilities of cooperation at outstations, the project also aims at addressing any regulation that may harm AACO member airlines, and interacts with the regulatory bodies to advocate the interests of Arab airlines.

In light of its target to constantly expand the project, the Ground Handling Steering Board launches every year negotiations with service providers at airports around the world based on studies that show the benefits of cooperation at those outstations.

## HUMAN RESOURCES

In 2015, the number of participants in AACO Regional Training Centers' courses reached (1,105) trainees, with an increase of 23% compared to 2014, through conducting (76) training courses.



In 2015, AACO RTC achieved savings in training costs for the Arab airlines estimated at USD 1,430,450.

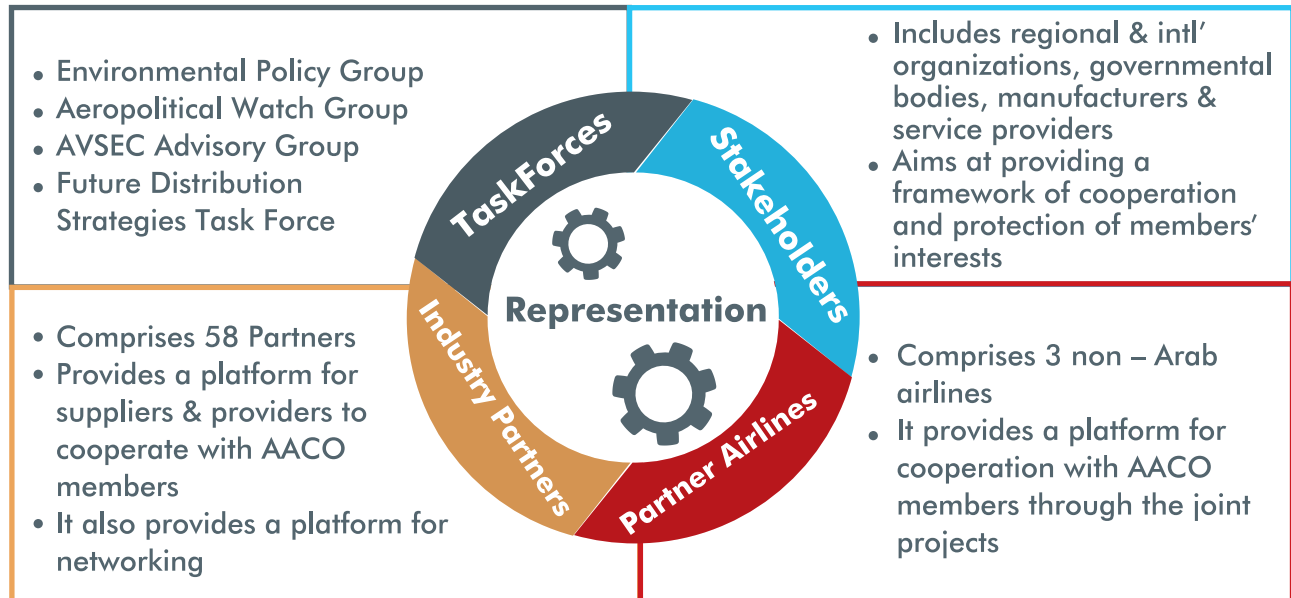
In 2015, AACO RTC provided 189 scholarships to member airlines.

In collaboration with Concordia University and ICAO, AACO RTC conducted the 10th AVSEC PM Program.

For the eighth consecutive year, AACO RTC was able to secure (4) scholarships from ATR for the Part-Time Executive MBA Program at Toulouse Business School.

# AACO Community, Forums, and Relations

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





# AACO PUBLICATIONS

Every  
365  
Days

**Annual  
Report**



Every  
365  
Days

**AATS**



Every  
182  
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**Fuel Bulletin**



Every  
90  
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**3D Insight**



Every  
60  
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**TopView**



Every  
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**The Nashra**



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28 November - 30 November 2016



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