

A red, multi-pointed starburst shape containing white text. The text is stacked vertically: 'AACO' in a large font, '47TH AGM' in a smaller font, '18-20 NOV 2014' in a smaller font, and 'DUBAI' in a large font.

AACO
47TH AGM
18-20 NOV 2014
DUBAI

Annual Report

Arab Air Carriers Organization

47th Annual General Meeting – Dubai

18-20/11/2014



Annual Report

Arab Air Carriers Organization 47th Annual General Meeting – Dubai

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



Sir Tim Clark
AGM Chairman



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

H.E. Mr. Akbar Al Baker, Group Chief Executive Officer, Qatar Airways

Sir Tim Clark, President, Emirates Airline

Mr. Mohamed Salah Boultif, President and Chief Executive Officer, Air Algerie

Capt. Sameh El Hefny, Chairman & CEO, EgyptAir Holding Company

Mr. James Hogan, President & Chief Executive Officer, Etihad Airways

Mr. Mohamad A. El-Hout, Chairman & Director General, Middle East Airlines

H.E. Eng. Saleh N. Al Jasser, Director General, Saudia

Dr. Eng. Mousab Arslan, Vice Chairman, Director General & Chief Executive Officer, Syrian Arab Airlines

MILESTONES	3
STATE OF ARAB AIR TRANSPORT	6
THE ECONOMY	6
THE MARKET	8
Areas of Strength	8
Challenges	8
Traffic: Passenger Numbers and Growth	9
THE AIRLINES	11
Operations	11
Fleet	13
Financial Performance	15
THE INFRASTRUCTURE	18
Development of Airports	18
Airspace Management	21
STATE OF ARAB AIR TRANSPORT WITH OTHER REGIONS	23
EU AND THE ARAB WORLD	23
Traffic	23
Capacity	23
Airlines' Relations	25
Aeropolitical Relations and Relevant Regulations	25
NORTH AMERICA AND THE ARAB WORLD	30
Traffic	30
Capacity	31
Airlines' Relations	31
Aeropolitical Relations and Relevant Regulations	32
LATIN AMERICA AND THE ARAB WORLD	34
Traffic	34
Capacity	34
Airlines' Relations	35
ASIA, AUSTRALIA AND THE ARAB WORLD	35
Traffic	35
Capacity	36
Airlines' Relations	36
SUB-SAHARAN AFRICA AND THE ARAB WORLD	36
Traffic	36
Capacity	37
Airlines' Relations	38
FOCUS ON INDUSTRY ISSUES	39
SAFETY	39
SECURITY	40
RELATIONSHIP WITH THE CUSTOMER	42
REGULATIONS	44
Environment	44
Consumer Protection	46
Revision of Tokyo Convention 1963	47
TAXATION	48
FUEL	49
AACO'S OTHER ACTIVITIES	52
MRO	52
MARKET INTELLIGENCE	52
HUMAN RESOURCES	53
GROUND HANDLING	54
PUBLICATIONS	54
FORUMS AND RELATIONS	56



For the third time in 4 years, AACO AGM comes to the hubs of the 21st century. After landing in Abu Dhabi in 2011 and Doha in 2013, AACO 47th AGM is privileged to be hosted this year, especially in the year of celebrating the centennial of commercial aviation, by the world's largest international airline, in the city that hosts the number one international airport in the world. Yet Dubai and Emirates are a lot more than an airport and an airline. The combination of the master plan for development of the city, the airport and the airline has dawned a new age for the travel and tourism industry in the world. It is a formula which is proving, day in day out, that aviation and sustainable development are inseparable.

Yet it is not all rosy in the Arab world, for a number of countries in this region were, and still are, the primary sources of concern in the world. The unstable situation is definitely impacting the region's growth. Leftovers from the world last recession, instability in the region and some other places in the world, the rise of renewed global polarization and the Ebola virus in Africa, will all have their mark on aviation in 2014. Yet in 2013 the Arab air transport market has grown by almost 10% and is expected to grow by 12% in 2014. There are two main reasons for that, despite instability: the expanse of the Arab region makes air travel the primary mode of transport, while the non-maturity of the market at a ratio of 0.48:1 of passengers to population leaves a great deal of room for growth.

Arab airlines have continued to grow in both the absolute number of passengers, 7.5% in 2013, and in RPKs with 11.1% more in 2013 over 2012. Those positive figures, some of the highest in the world, tally with the increase in capacity leading to a slight decline in passenger load factor in 2013. Prospects for 2014 are better and will enable the airlines of the region to continue leading the world in their growth.

2013 also witnessed a historical milestone when a number of Arab airlines ordered scores of new generation airplanes during the Dubai Airshow. A large proportion of those airliners, when introduced, will replace older generation ones, enabling the airlines of the region to maintain the youngest fleet in the world at an average age of 7 years, deliver the best environmental footprint and provide the customers of the Arab airlines with value for money and with the best product attributes in terms of comfort, hospitality and entertainment.

The Arab airlines will continue to maintain their competitive product offering by constantly having a lower unit cost than the industry's average. Keeping a healthy competitive advantage is one of the greatest points of strength of any airline in the world. Coupled with our members' quest to maintain a lower unit cost, the taxation environment in the region helps the airlines in controlling a greater proportion of their costs while having less outside of their control. In fact the biggest concern of the airlines of the region, and indeed the world, continues to be the fuel cost, in spite of the stability of fuel prices in 2013, and its slight decline in 2014.

However, pro investment environment is not the only positive contribution of the regulators of the region. In fact governments of the region embrace the role of aviation as a lever for economic prosperity. We are fortunate in this region that our governments generally view aviation as a catalyst for growth and deal with it as such, unlike regulators in some other parts of the world where they flood the aviation sector with taxes and regulations, leading to adverse impact on the competitiveness of the airlines of those regions.

The success of the airlines of the region is also enabled by the development of the infrastructure, especially when we talk about airports. Most of the airports in the region are under continuous development. These airports play a pivotal role in providing the ability to grow and in the attractiveness of the travel experience to, from, within and via the Arab world. Our modern and expanding airports are a major component in the increasing global footprint of Arab aviation. Arab airlines carried in 2013 a record of 128 million passengers to, from and within the Arab world. They were also able to carry more than 25 million passengers via the Arab world, providing AACO members a return on the investment in their competitiveness, global spread and in investing successfully in the potential provided by our geographical location.

The level of development of our airports is definitely one of our greatest attributes. Yet if that is not coupled with the development of our air traffic management systems, then our ability to grow and to become a greater catalyst for the economic development is going to be hindered. AACO has announced that the improvement of air traffic management in the region is a top priority. And for that we are working hand in hand with ACAC, ICAO, IATA, CANSO and most importantly the governments of the region in order to deal with ATM problems. The solution is simple: better navigational equipment, better civil / military coordination for releasing airspace dedicated to the military for civilian use without affecting the national security of states, and finally regional and sub-regional flow management units which constitute a mechanism to ensure that problem spots do not cascade from one place to the other.

It is only natural, in times of crises, to be distracted from developing the potential that exists in air transport. When a number of Arab countries are bogged down with instability, it is difficult to try to promote concepts and ideas which belong to normal situations. Yet we believe that even in times of crises, working towards a better future across the board is a must. Therefore we will continue to promote open skies and greater liberalization in the Arab world through the implementation of the Damascus Convention. We will also continue to promote liberalization and keeping away from protectionism elsewhere in the world. We understand that the operating environment in some regions of the world is not optimal due to lack of infrastructure development and to the regulatory perception in those regions for aviation as a cash cow. The problem exists primarily in those two areas and not in the competitiveness of other airports and airlines. Regulators of those regions need to address those problems rather than choose the easy way of protectionism.

And since the customer should always be in the driver's seat, especially now, with the state of affairs of technology, technology providers should strive to provide airlines and other stakeholders with the ability to provide the customer with product transparency and choices so that the customer would make an informed decision. While other retail industries have moved a long way in dealing with the customer as an individual with products addressed specifically to his or her

requirements and tendencies, the airline product is still highly commoditized, depriving the airlines from the ability to deal with the customer as an individual instead of a number. The NDC initiative of IATA is a great step forward to de-commoditize the airline product but the airlines need more from our current technology partners and perhaps new ones.

I also wish to cite as part of the pivotal events of this year the two tragedies which befell on Malaysia Airlines. The disappearance of MH370 in this day and age is mind boggling. Such a tragedy should not happen again. The industry and other stakeholders need to employ mechanisms which ensure tracking of airplanes in real time.. all the time. MH17 was no lesser tragedy. Airlines understand that the safety and security of air corridors is the domain of states. However it is only fair for the industry to also create a mechanism of sharing threat assessments to evaluate whether that assessment warrants avoidance of a certain air corridor.

AACO, while moving steadily towards its 50th year of existence is proving more and more to be a tool in the hands of its member airlines, their collective voice, and their catalyst for cooperation. While AACO is continuously addressing the developments on the aeropolitical and operational levels, AACO continues to play a role in advocating the greater role of aviation in sustainable development. AACO also continues to contribute to its members' quest for driving costs down through a number of joint projects. Through the active participation of its member airlines, AACO was able to deliver on that front as well. Human resources development, the investment which can never go wrong, is also one of the major fields of AACO's work. Moreover, in an age where knowledge is the basis of the global civilization, AACO continues to place resources and efforts in preparing and disseminating information to our community of airlines and partners. With more than 10 periodicals published in between monthly, quarterly and annually, AACO strives to provide this base of information to help in increasing the level of knowledge in the aviation community.

Finally, I would like to express our gratitude in being privileged by the invitation of His Highness Sheikh Ahmed Bin Saeed Al Maktoum, President, Dubai Civil Aviation Authority, Chairman & Chief Executive Emirates Airline & Group, and Chairman Dubai Airports, to host the AGM for the first time ever in this Jewel of a city: Dubai. I wish to also thank Sir Tim Clark, Chairman of the AGM and President of Emirates Airline and his team for providing us, even on the ground, with an excellent example of Emirates hospitality. I also wish to pay special gratitude to His Excellency Mr. Akbar Al Baker, Chairman of the Executive Committee and Group CEO of Qatar Airways, and the members of the Committee for dedicating time and effort for the collective work of AACO and for the support we are getting from them. My final thanks go to the CEOs and colleagues in our member and partner airlines. Your support is what makes AACO effective. To our industry partners goes my appreciation for the role they are playing in supporting AACO and in making this association a true example of global cooperation.

We continue to be proud of serving you.

Abdul Wahab Teffaha

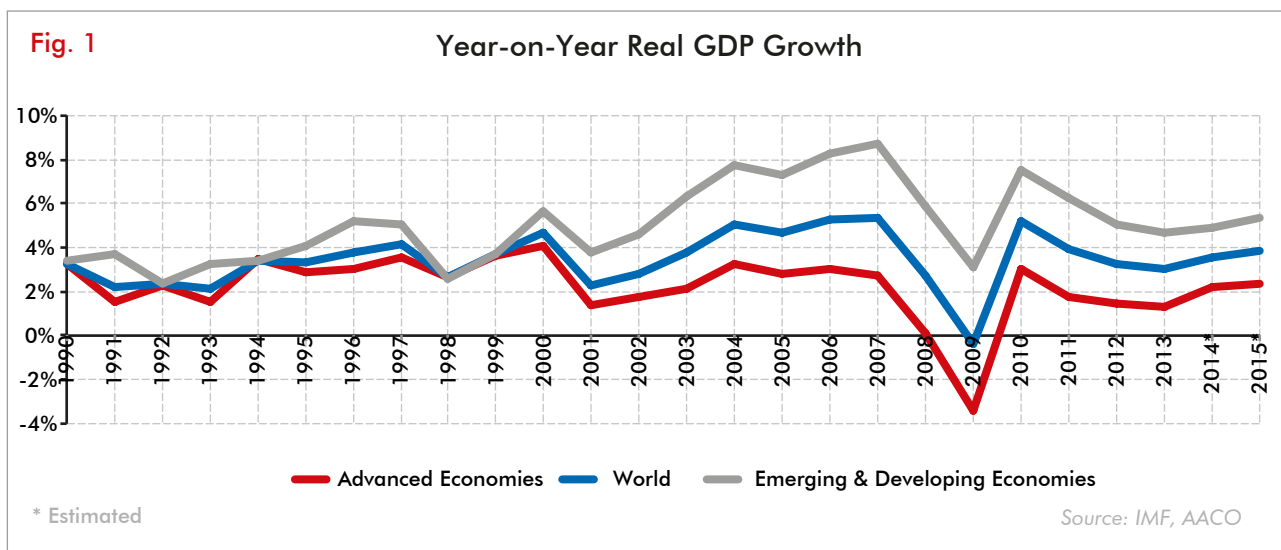


Secretary General

STATE OF ARAB AIR TRANSPORT

THE ECONOMY

The global economy growth slowed down in 2013, affected by the recessionary leftovers and the geopolitical challenges across most regions. Global GDP rose by 3.0% in 2013, down from 3.2% in 2012. Despite the gloomy environment in 2013, global economy is expected to start to regain its momentum in 2014, mainly fueled by the economic restoration in advanced economies. Global GDP is forecast to rise by 3.6% in 2014 over 2013.



Growth in advanced economies decelerated in 2013, growing by 1.3% down from 1.4% in 2012. Yet, the economic activity is foreseen to accelerate by 2.2% in 2014, fueled by the recovery of economies which were late to exit the recession.

Global economy growth in 2013 was hindered by recessionary leftovers and geopolitical challenges

Growth in the United States remained fragile in 2013, recording 1.9%, down from 2.8% in 2012. This is mainly due to the incomplete recovery of private domestic demand. The Euro Area began to emerge from recession. Activity shrunk by 0.5% in 2013, compared to a decrease of 0.7% in 2012. Activity in the U.S. and the Euro Area is expected to regain growth momentum in 2014 due to stronger domestic and external demand.

On the other hand, GDP growth in emerging and developing economies slowed down in 2013 to 4.7%, yet remaining the driver of the global growth. Growth is expected to accelerate in 2014, assisted by a stronger activity in advanced economies. GDP is expected to grow in 2014 and 2015 by 4.9% and 5.3% respectively.

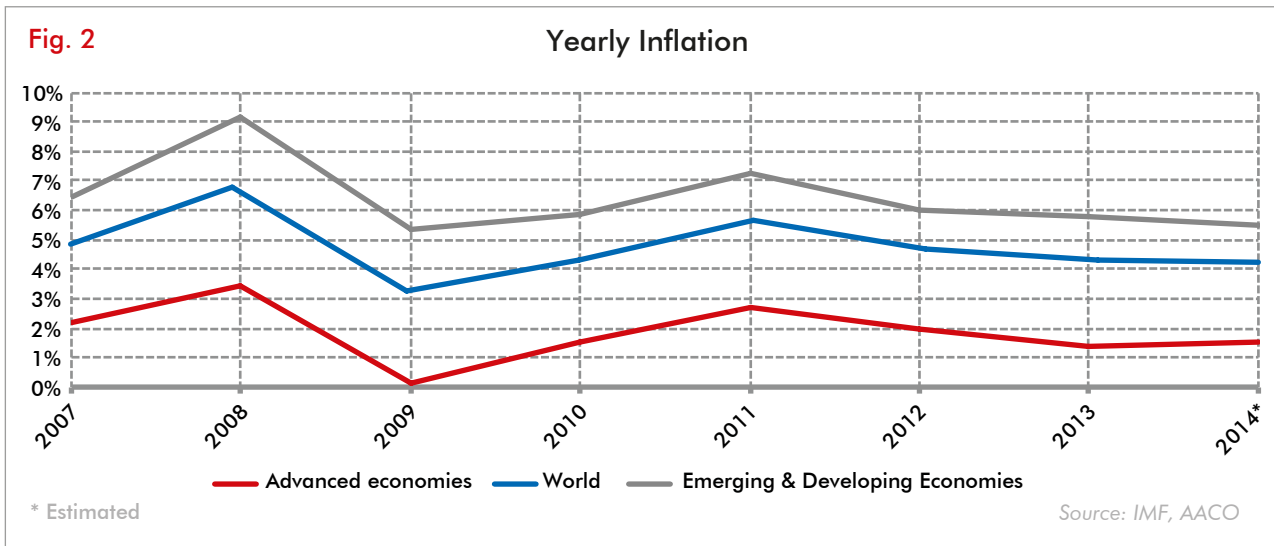
Economic activity in the Arab world decelerated in 2013 as oil production declined and geopolitical challenges remained overwhelming. GDP growth recorded 2.2% in 2013, and is estimated to accelerate to 3.2% and 4.5% in 2014 and 2015 respectively. Oil exporters'

GDP growth in the Arab world decelerated significantly in 2013

economic activity slowed down sharply in 2013 to 2.0%, recording almost half the growth achieved in 2012. On the other hand, GDP growth in oil importing economies remained sluggish in 2013 at 2.7% as political transitions and social unrest continue to weigh on those economies.

Global inflation has fallen to 3.6% in 2013, down from 3.9% in 2012, reflecting the decline in commodity prices. In the United States, inflation remains subdued at 1.5%. Similarly, the Euro Area's inflation recorded 1.35%. In contrast, Japan's inflation increased in 2013 from a negative value in 2012 to 0.4% in 2013, and is expected to rise to 2.8% in 2014. In the Arab world, inflation is still alerting at 10.5% in 2013, while unemployment rates remain elevated especially in countries facing political transitions.

Inflation in the Arab world is alarming, reaching 10.5% in 2013



The tourism sector expanded in 2013 by 5.1%

The tourism sector expanded in 2013. Global international tourist arrivals increased by 5.1% to 1,087 million in 2013, up from 1,035 million in 2012. Advanced economies topped the list in international tourist arrivals recording a growth rate of 5.5%, while emerging economies recorded a growth of 4.7% in 2013. The direct contribution of tourism to global GDP in 2013 was USD 2,155 billion, and is expected to rise by 4.3%.

Despite the weak economic performance in the Arab world, international tourists arrivals increased by 1.1% reaching 70.4 million in 2013. Tourism contributed to the Arab world GDP in 2013 by USD 64.0 billion (6.5% of total GDP). In addition, tourism supported directly in the same year more than 1.7 million jobs (2.5% of total employment).

Tourism in the Arab world added around 1 million tourists in 2013

THE MARKET

AREAS OF STRENGTH

Governments' Vision

- Most governments in the Arab world look at the aviation sector as a driver to the economy.
- Most have invested heavily in air transport infrastructure to cater for the growth in passengers and freight.
- A number of governments have struck bilaterals with global countries to open trade and tourism opportunities.
- Some have opted for adopting unilateral Open Skies policies.
- Excellent tax environment.

Location, vision, and the economy: major catalysts for the growth of the Arab air transport market

Non-maturity of the Market

- The ratio of passengers to population is only 0.48:1 in the Arab world compared for example to Europe 1.6:1 and the US 2:1.

The Economy

- The Arab world has registered continued growth in the economy.
- 2.2% growth in GDP in 2013 in the Arab world in spite of declined oil production and geopolitical challenges.

Geographical Location

- The Arab world geographic location opens big opportunities for air transport.

Young Demographic Structure

- The Arab world gathers one of the youngest populations in the world with more than 50% of the Arab population younger than 25 years of age, and hence the human resources market is very competitive and opportunities for expansion are massive.

Airlines

- Youngest fleet worldwide. The average age of the Arab fleet was 7 years in 2013.
- Superior customer service and consumer experience.
- Right price to the right customer segment.
- Lower unit cost than airlines from other regions.
- Strategy for keeping fuel burn and maintenance cost at a minimum.
- Modern revenue management systems.
- High aircraft utilization.

CHALLENGES

Restrictions

- Massive Restrictions on the movement of people and goods.
- Restrictions on the ownership and control of airlines.

Restrictive policies, airspace capacity, political instability: major hindrances to reaching the potential of the market

Bilaterals

- 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.

Airspace Capacity Challenges

- Fragmentation of airspace due to the multitude of military restricted no-fly zones.
- Lack of cooperation in civil and military ATM.
- Concentration of traffic on the few existing routes regardless of new traffic flows.
- Delays in upgrading and developing ATM infrastructure.

Political Instability in Some Arab States

- Political instability in some Arab states:
 - ◆ has caused massive reductions in passenger numbers in those states,
 - ◆ resulted in physical damage to the infrastructure and airlines' fleet in some cases,
 - ◆ and caused airlines to change air routes to avoid flying over conflict zones; hence, extending trip time for the consumer and adding fuel and other operational costs to airlines.

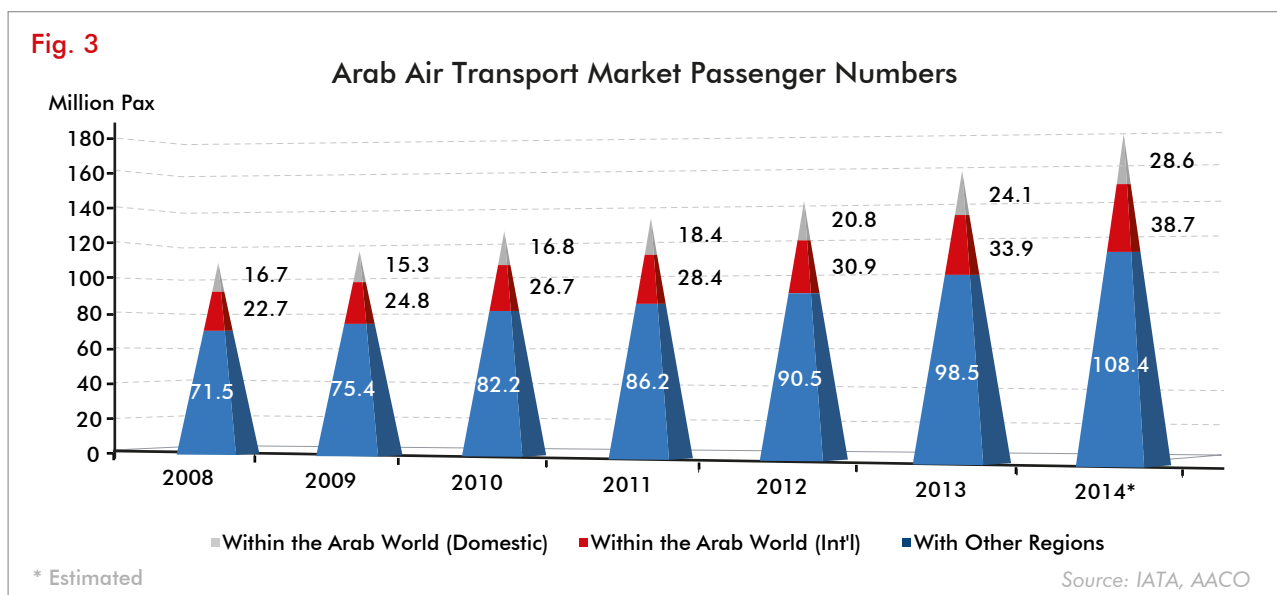
Protectionism of Regulators in Mature Markets

- Calls of airlines in Europe and the US to restrict the expansion of Arab airlines are gaining momentum and attention from their governments which is resulting in changing the external aviation policies of some governments and restricting traffic rights of Arab airlines. Example, the EXIM Bank reauthorization debate and the EU external aviation policy which is causing a fragmentation of the Arab air transport market isolating the GCC area from the Arab countries.

TRAFFIC: PASSENGER NUMBERS AND GROWTH

Despite the weak global economic performance, some economic improvements in key aviation markets, especially in Europe, helped the Arab air transport market offset the geopolitical situation in the region. As a result, the number of passengers to, from and within the Arab world reached around 156 million passengers compared to 142 million in 2012. In line with the global economic recovery, and the restoration of some air transport markets in the region, the Arab air transport market is foreseen to expand by 12.2% in 2014, reaching 176 million.

The Arab air transport market added 14 million passengers in 2013

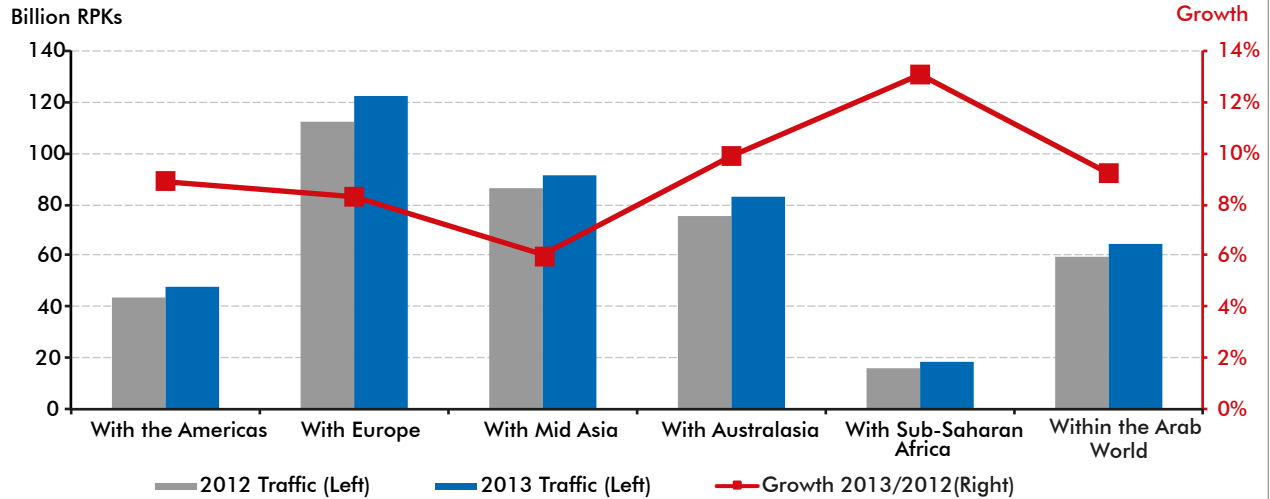


Passenger numbers to and from the Arab world recorded a growth of 9.0% in 2013 compared to 2012, and is estimated to increase by 10.0% in 2014 compared to 2013.

International Passenger numbers within the Arab world recorded a growth of 9.6% in 2013 compared to 2012, and is expected to accelerate by 14.2% in 2014 over 2013. On the other hand, domestic passenger numbers within the Arab world recorded a growth of 15.9% in 2013 over 2012, and is foreseen to expand by 18.7% in 2014 over 2013.

Fig. 4

Arab Travel Market Regional Traffic and Growth 2013/2012



Source: IATA, AACO

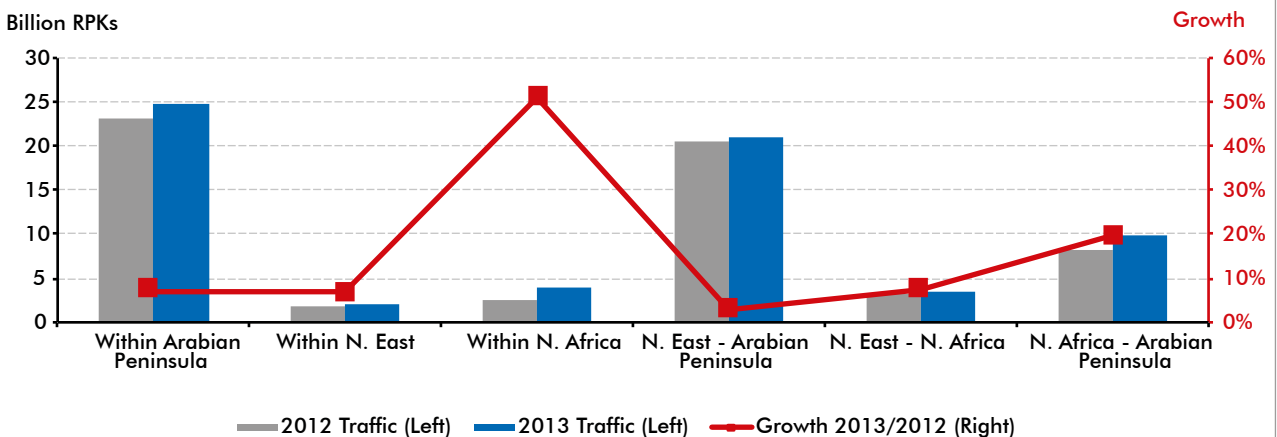
Traffic between the Arab world and Europe represented 28.5% of the total market to/from and within the Arab world, followed by Mid Asia at 21.4%, Australasia at 19.5%, within the Arab world at 15.2%, Americas at 11.1%, and Sub-Saharan Africa at 4.3%.

Traffic with Europe, Asia and within the region are the backbone of the Arab air transport market

On the other hand, traffic within the Arabian Peninsula represented 38.2% of the total market within the Arab world, followed by traffic between Near East and the Arabian Peninsula at 32.5%, between North Africa and Arabian Peninsula at 15.1%, within North Africa at 6.0%, between Near East and North Africa at 5.2%, and finally within Near East at 3.0%.

Fig. 5

Arab Travel Market Intra-Regional Traffic and Growth 2013/2012



Source: IATA, AACO

THE AIRLINES

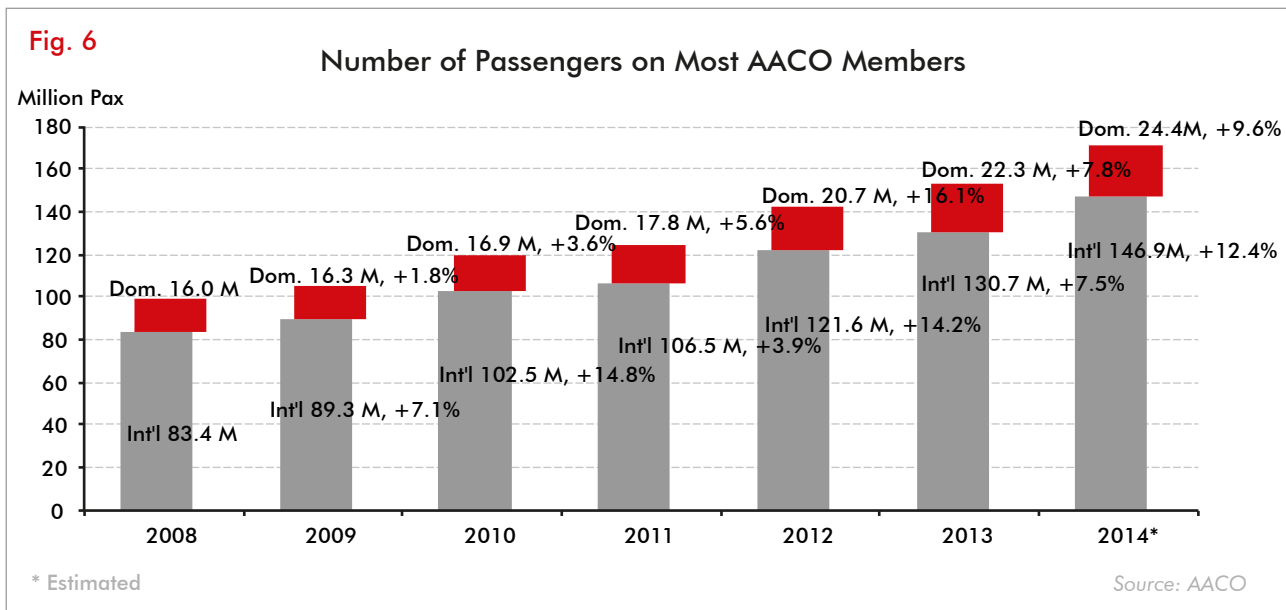
OPERATIONS

Passenger Operations

- **Demand**

The total number of passengers carried by AACO members reached 153.0 million passengers in 2013, an increase of 7.5% over 2012. We estimate that the number of passengers carried by member airlines will increase by 12.0% in 2014 over 2013 to reach 171.3 million passengers.

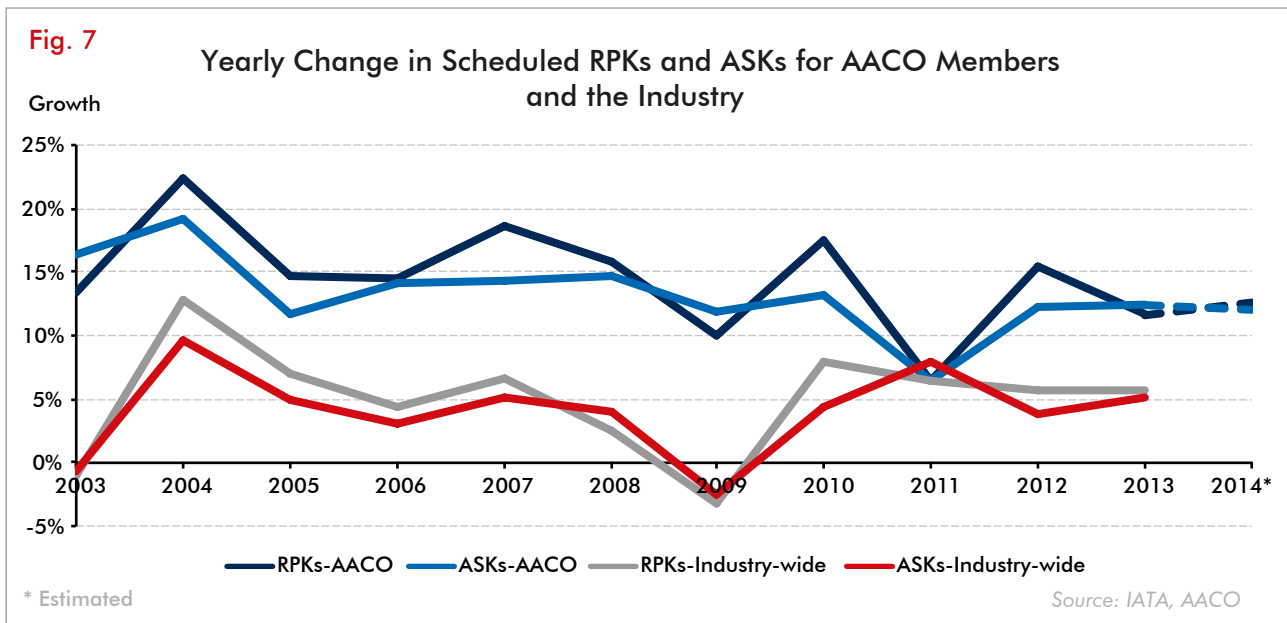
Around 11 million passengers over 2012 numbers chose to fly on-board AACO members in 2013



Member airlines recorded an increase of 11.6% in 2013 in scheduled RPKs compared to 2012. The global growth in scheduled RPKs for the same year was 5.7% compared to 2012. Overall, total RPK growth of AACO member airlines in 2013 was 11.1% (including scheduled and charter operations). We estimate a traffic growth of 12.6% in 2014.

- **Capacity**

AACO members recorded a growth rate of 12.4% in 2013 in scheduled ASKs over 2012, while the global growth for the same period was 5.2%. Total ASK growth recorded at member airlines in 2013 was 11.7% over 2012. AACO carriers are estimated to post a growth of 12.0% in ASKs in 2014 in line with new aircraft to be delivered and the growth in demand.

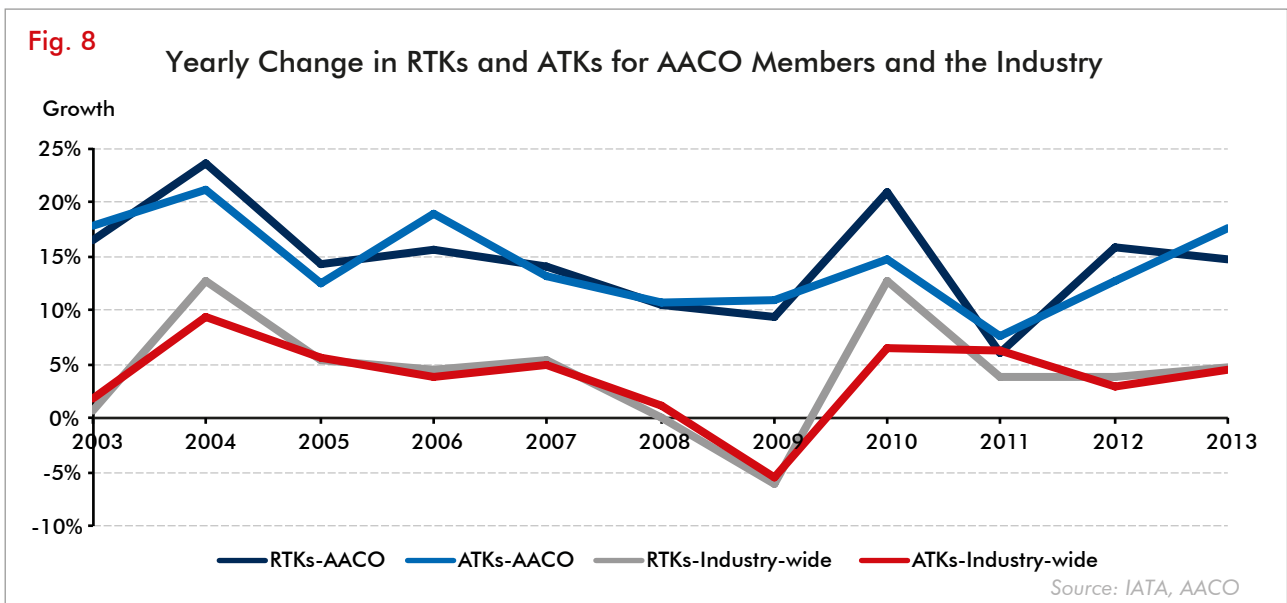


- **Passenger Load Factor**

Passenger load factor of AACO member airlines decreased by 0.4 percentage points in 2013 to 75.7%, as capacity increased faster than the increase in demand.

- **Cargo Operations**

AACO member airlines recorded a growth of 14.6% in 2013 in RTKs compared to 2012. AACO members also witnessed a growth of 17.5% in ATKs. Consequently, AACO carriers' weight load factor decreased by 1.6 percentage points to 62.3%.



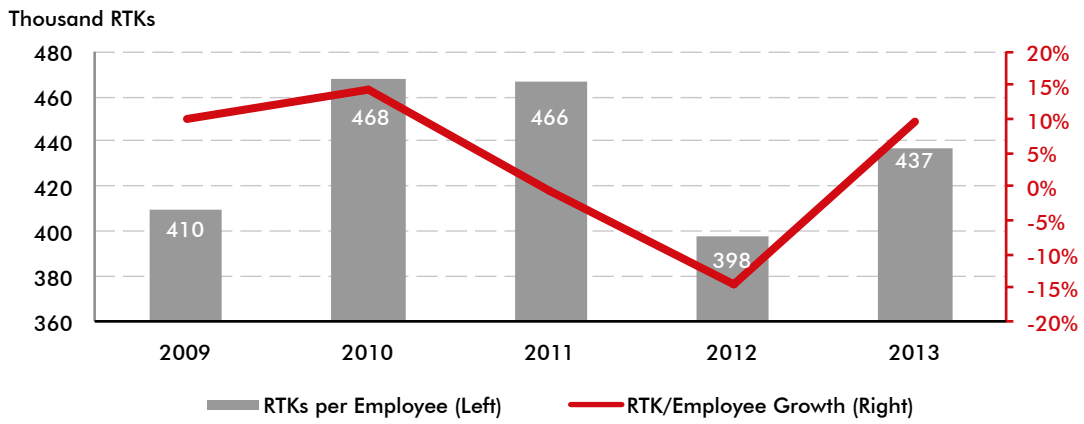
- **Employees and Productivity**

Staff counts at AACO members increased by 7.9% in 2013 over 2012. Employees' productivity reached 437 thousand RTKs per employee; an increase of 9.7% over 2012 levels, while the global growth in productivity scored 2.1% in terms of RTKs per employee, to 389 thousands. Accordingly, AACO members' staff productivity was 12.3% higher than the industry average.

AACO members' staff productivity was 12.3% higher than the industry average in 2013

Fig. 9

Reporting AACO Members' Staff Productivity



Source: AACO

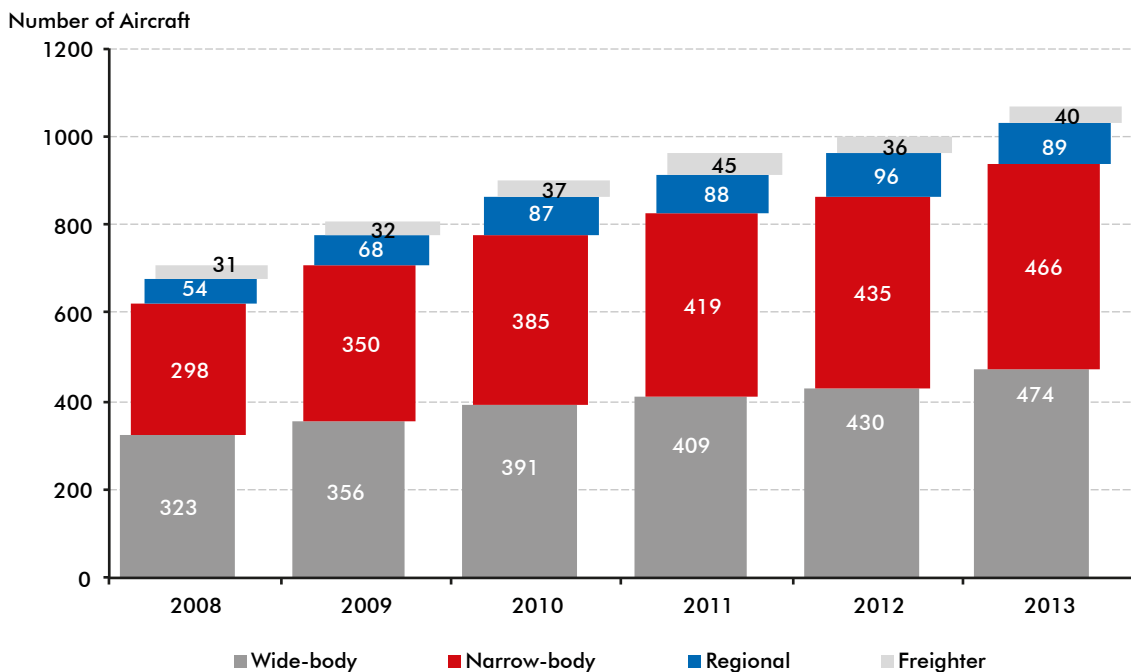
FLEET

AACO member airlines added 72 aircraft in 2013. Accordingly, AACO member airlines' fleet count increased to 1069 aircraft by the end of 2013, compared to 997 aircraft at the end of 2012. With the new deliveries, AACO member airlines' fleet composition was 44% wide-body aircraft, 44% narrow-body aircraft, 8% regional aircraft and 4% freighters.

AACO members added 72 newer aircraft and withdrew 96 older ones in 2013

Fig. 10

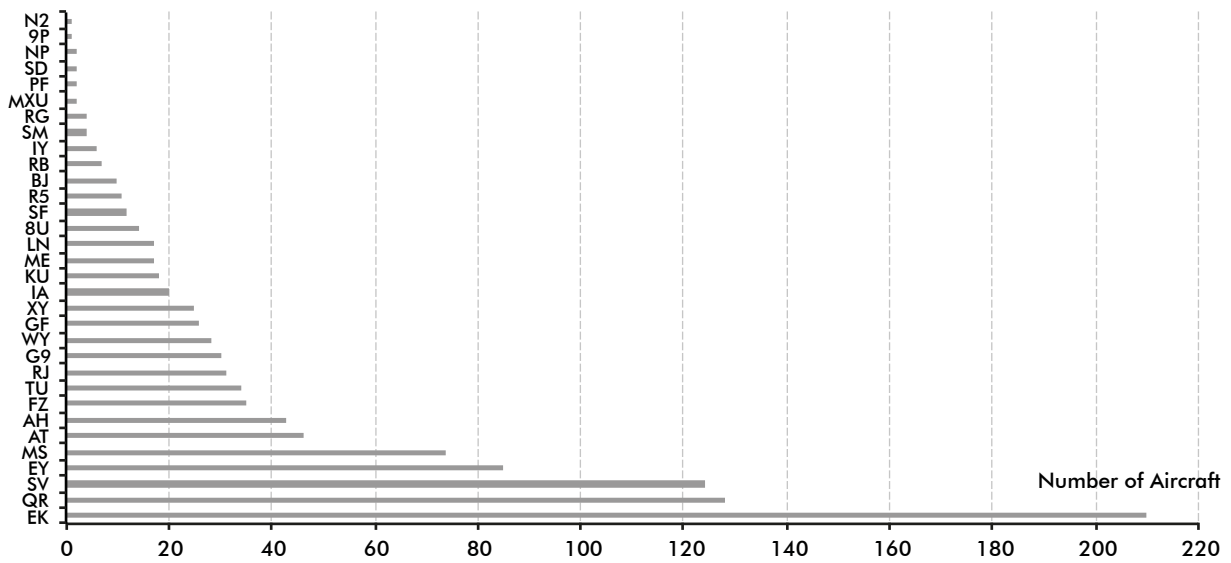
AACO Members Commercial Fleet Composition by Aircraft Size



Source: ACAS, AACO

Fig. 11

Individual AACO Members Commercial Fleet in 2013



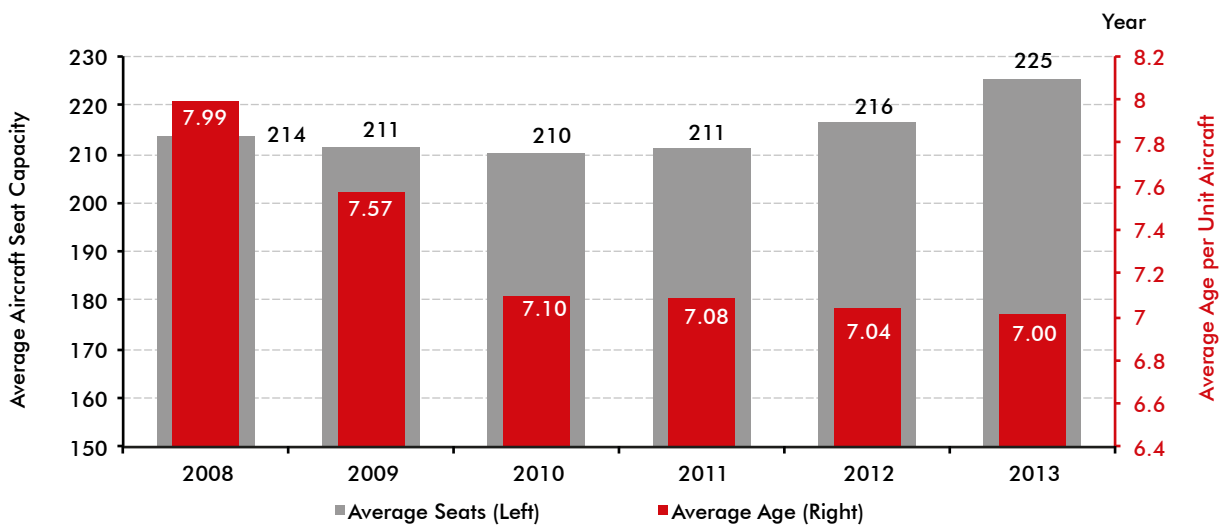
Source: ACAS, AACO

AACO members' average age per unit aircraft decreased by (0.4%) over 2012 to 7.0 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 of seats per aircraft of member airlines increased by 4.1% over 2012 levels, reaching 225 seats per aircraft.

Average age of AACO members' fleet recorded 7.0 years; the youngest in the world

Fig. 12

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

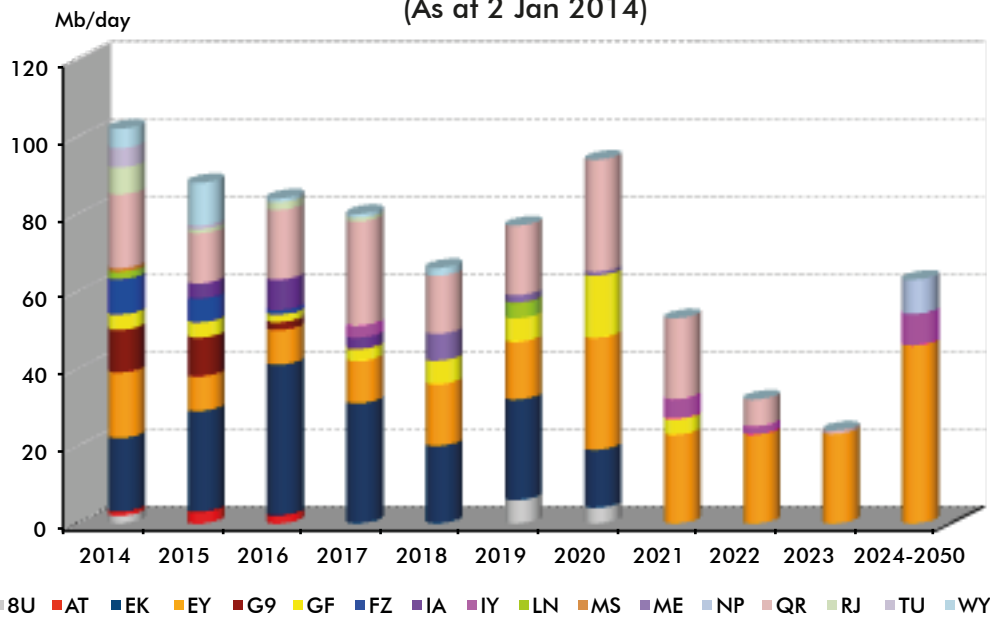


Source: ACAS, AACO

AACO member airlines are scheduled to receive 763 aircraft until 2050, among which 102 aircraft are scheduled for delivery in 2014. 76 aircraft were delivered until the end of June 2014, with the rest to be delivered during the second half of the year.

Fig. 13

Number of New Commercial Aircraft Expected to Join AACO Members' Fleet (As at 2 Jan 2014)



Source: ACAS, AACO

FINANCIAL PERFORMANCE

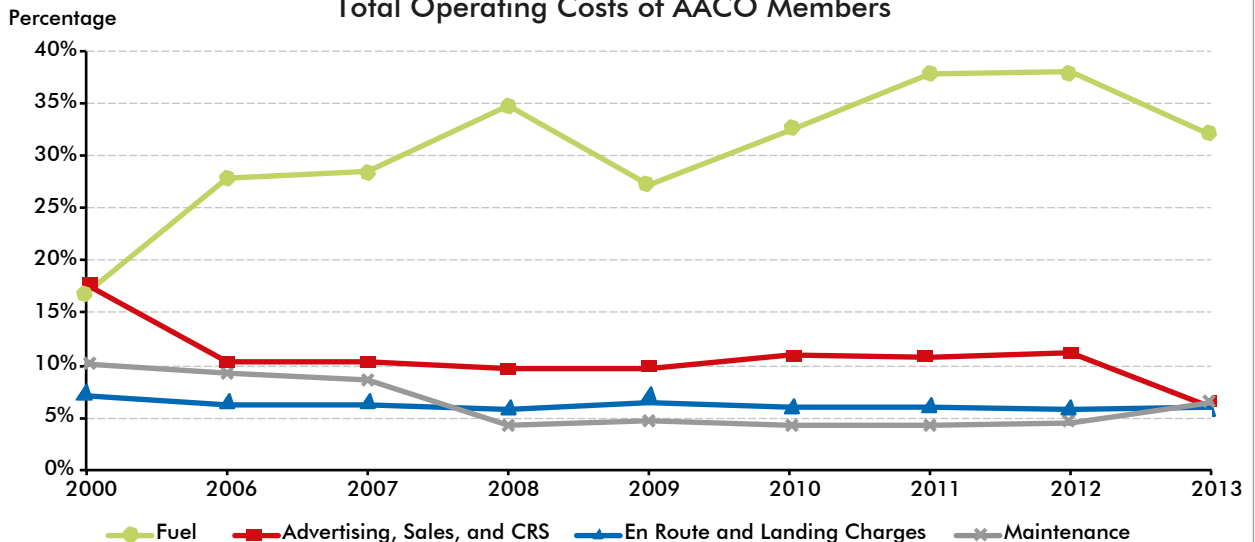
• Changing Cost

In 2013, reporting carriers' aggregate operating expenses increased by 4.5% over 2012, despite the slight decrease in jet fuel prices by 4.0%. Jet fuel continues to top airlines' expenses list. Reporting member airlines spent 7.7% more on jet fuel in 2013 which is mainly attributed to operations' expansion, however cushioned by the fuel optimization programs. Accordingly, jet fuel contribution in operating expenses decreased notably by 6.1% over 2012, recording 31.9% of reporting carriers' operating costs.

Operating cost of reporting members increased by 4.5% in 2013

Fig. 14

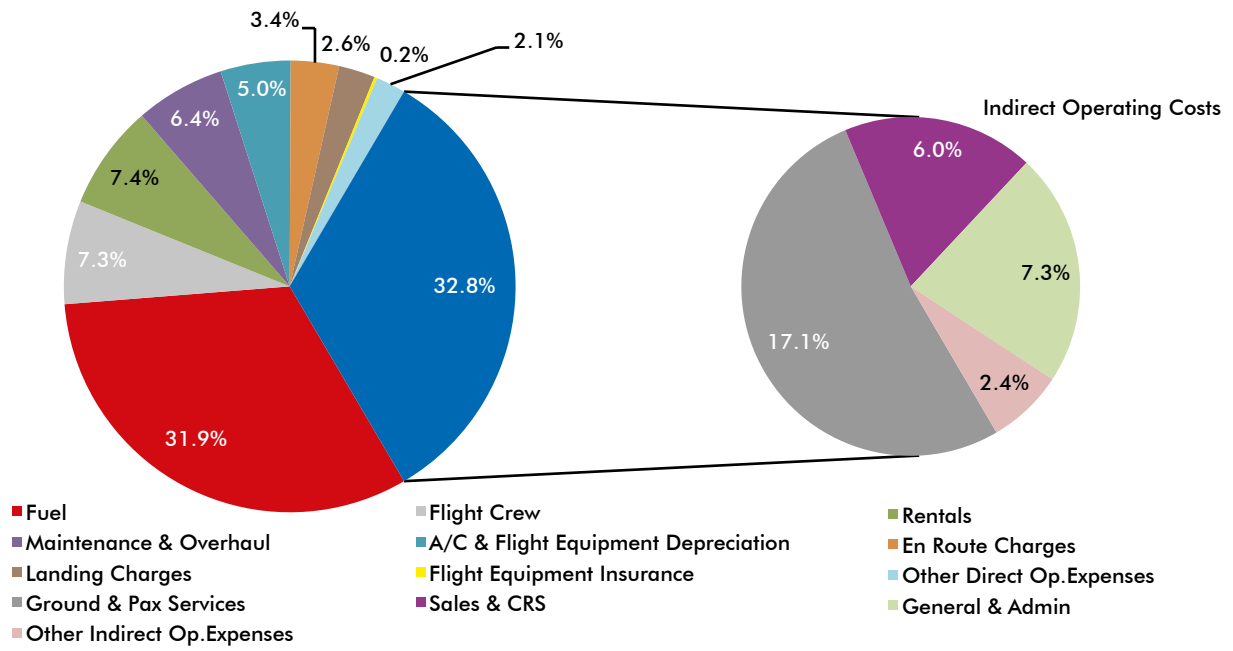
Contribution of Some Operating Cost Components in the Total Operating Costs of AACO Members



Source: AACO

Fig. 15

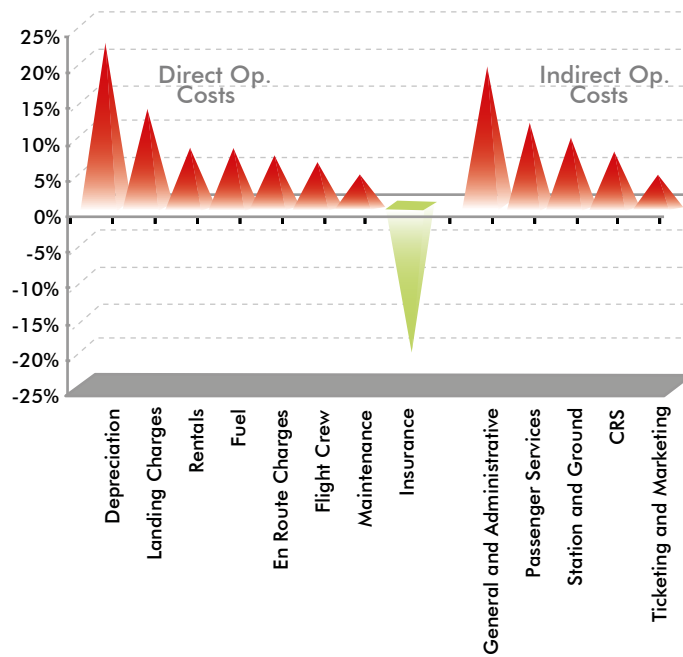
AACO Members' Operating Expenses by Cost Item - 2013



Source: AACO

Fig. 16

Cost Changes for AACO Members - 2013



Source: AACO

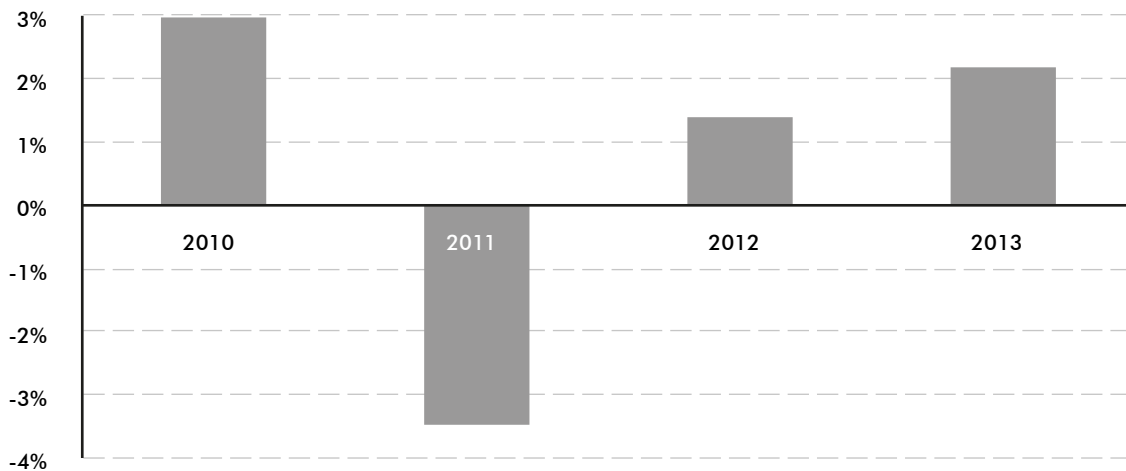
• **Financial Results**

Reporting AACO members' growth in operating revenues doubled the increase in operating expenses in 2013 over 2012 at 9.7%. Consequently, reporting members recorded an operating profit of USD 787.4 million, and a net profit of USD 462.9 million representing a 2.2% and 1.3% aggregate operating and net margins respectively. Among those airlines, the highest profits reported by a reporting member airline were USD 1.16 billion, and the highest losses incurred by a reporting carrier were USD 245.4 million.

Reporting member airlines achieved an operating margin of 2.2% in 2013 and reported an aggregate operating profit of around USD 788 million

Fig. 17

Operating Margin of Reporting AACO Members



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

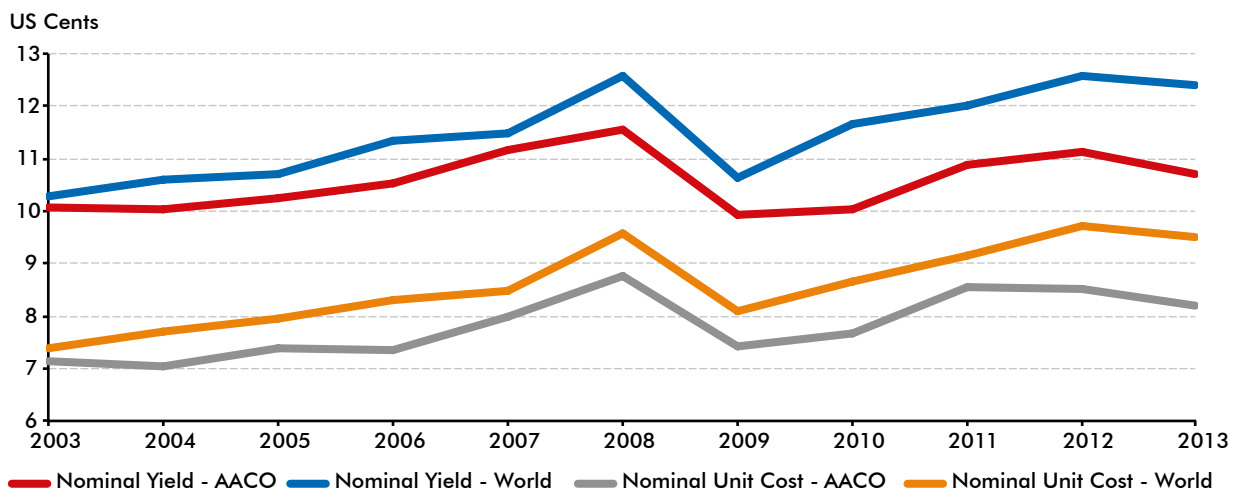
Source: AACO

• **Yield and Unit Cost**

Passenger yield of reporting AACO members decreased by (4.1%) as the increase in traffic surpassed the increase in revenue in 2013, and their unit cost by (5.2%) resulting in the decrease of the passenger break-even load factor of reporting carriers by 0.85 percentage points to 75.7%. It is worth mentioning that the passenger load factor of member airlines reporting their financial information was 77.4%, hence the aggregate profitability of those airlines.

Fig. 18

Gobal and AACO Members' Yield and Unit Cost



Source: ICAO, AACO

THE INFRASTRUCTURE

DEVELOPMENT OF AIRPORTS

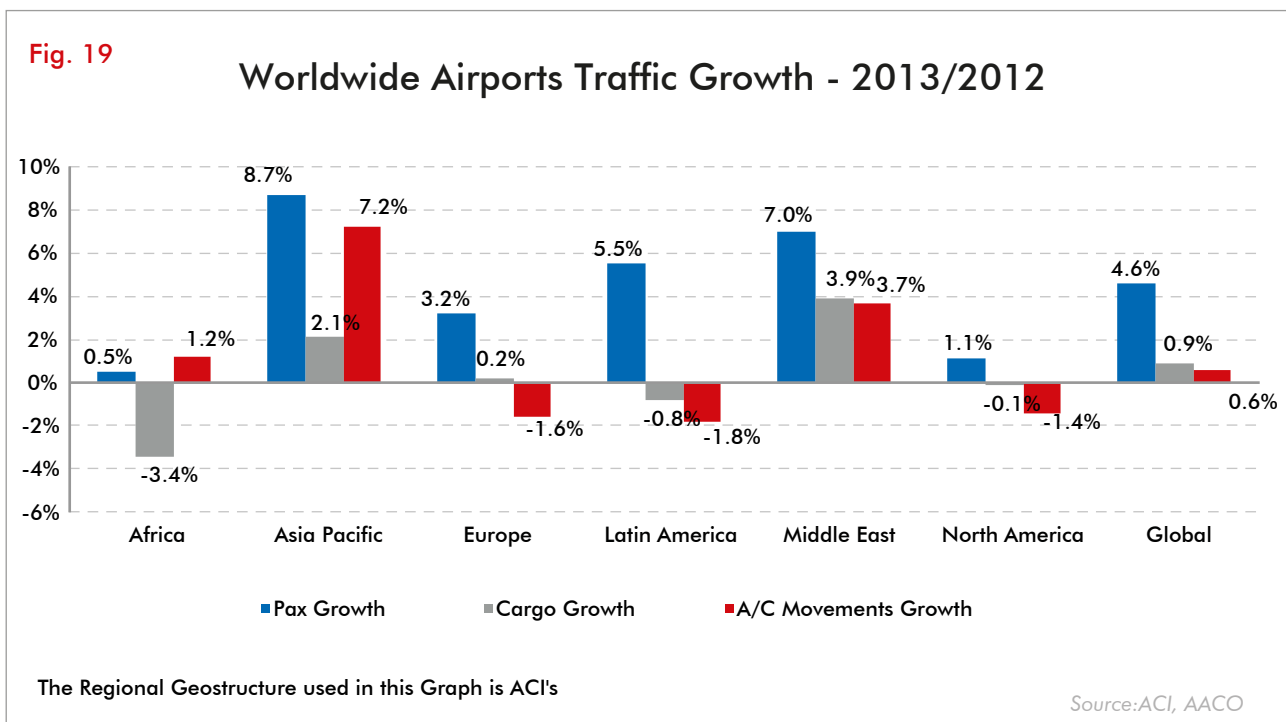
• Airport Traffic

Global airport operations' growth slowed down in 2013, reflecting the global economic environment, especially on the cargo and movements' sides, whereas passenger traffic remained resilient. Passengers through world airports grew by 4.6% in 2013 to 6.3 billion passengers. This growth was fueled by the strong airport activity in emerging and developing economies. Global cargo traffic recorded a sluggish growth of 0.9% in 2013 over 2012, reaching 96.0 million tonnes. Similarly, aircraft movements increased slightly by 0.6% in 2013 compared to 2012.

Looking at regional patterns, Asia-Pacific led the growth at 8.7% in terms of passenger traffic followed by the Middle East at 7%, Latin America and the Caribbean at 5.5%, and Europe at 3.2%. On the other hand, passenger traffic in North America, and Africa grew modestly by 1.1% and 0.5% respectively. Globally, 65% of airports recorded a positive passenger growth at an average of 7%, while 35% of airports lost traffic at an average of (4.5%).

The Middle East recorded the highest global growth rate in cargo movement at 3.9%, followed by Asia Pacific at 2.1%, and Europe at 0.2%. Africa on the other hand recorded the steepest decline in cargo traffic, contracting by (3.4%), followed by Latin America and the Caribbean at (0.8%) and North America at (0.1%).

Global aircraft movements was severely affected by the decrease of movements in Latin America and the Caribbean by (1.8%), in Europe by (1.6%), and in North America by (1.4%). However, the movement growth witnessed by Asia Pacific at 7.2%, followed by the Middle East at 3.7%, and Africa at 1.2%, cushioned the effect of the decrease in the first three regions.

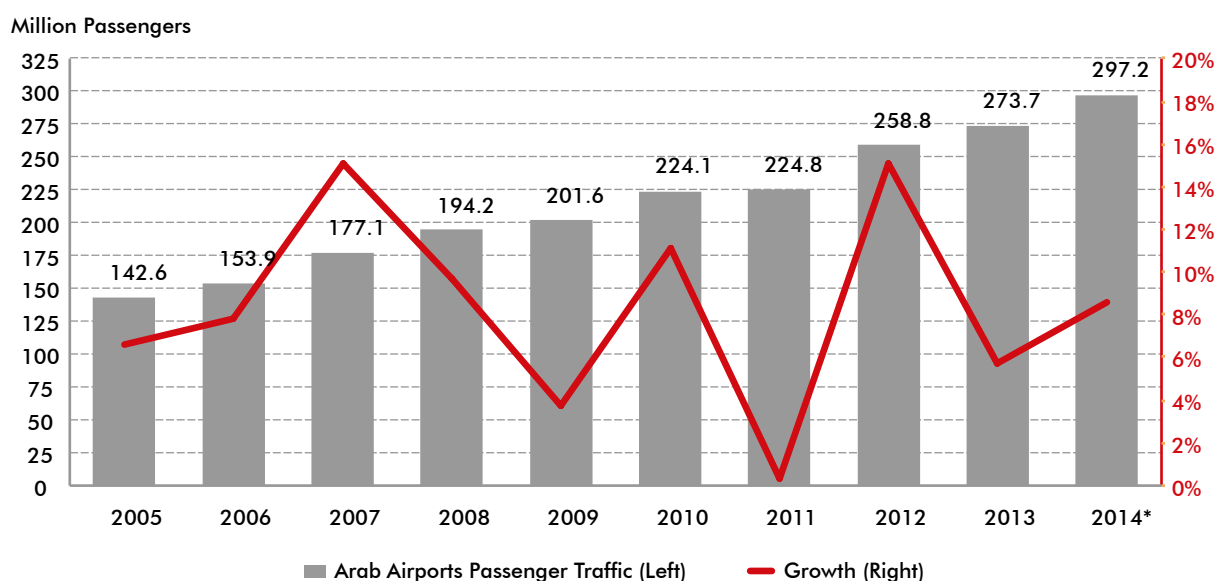


Looking at Arab airports' ranking in 2013, Dubai airport overtook Paris, Dallas and Jakarta airports to become the 7th global airport worldwide in terms of total traffic, and remains 2nd in terms of international passengers after London Heathrow. In addition, it ranked 5th, up from 6th, worldwide in terms of total cargo handled, and 2nd in terms of international cargo handled, up from the 3rd. Doha airport advanced to the 21st position from the 24th last year in terms of international passengers. On the other hand, Dubai airport ranked 6th on the list of top fastest growing airports with over 15 million passengers, growing at 15.3% over 2012. Abu Dhabi, and Doha airports ranked 13th, and 20th respectively on that list with respective growth rates of 12.4%, and 9.8% over 2012. In addition, Dubai, and Doha airports respectively ranked 14th and 19th on the top 25 fastest growing airports handling over 250 thousand metric tonnes of cargo, growing respectively by 6.9%, and 4.6% over 2012.

Dubai Airport ranked 7th worldwide in terms of total traffic in 2013, and 2nd in terms of international passenger and cargo traffic

Fig. 20

Passenger Numbers and Growth at Most Arab Airports



* Estimated

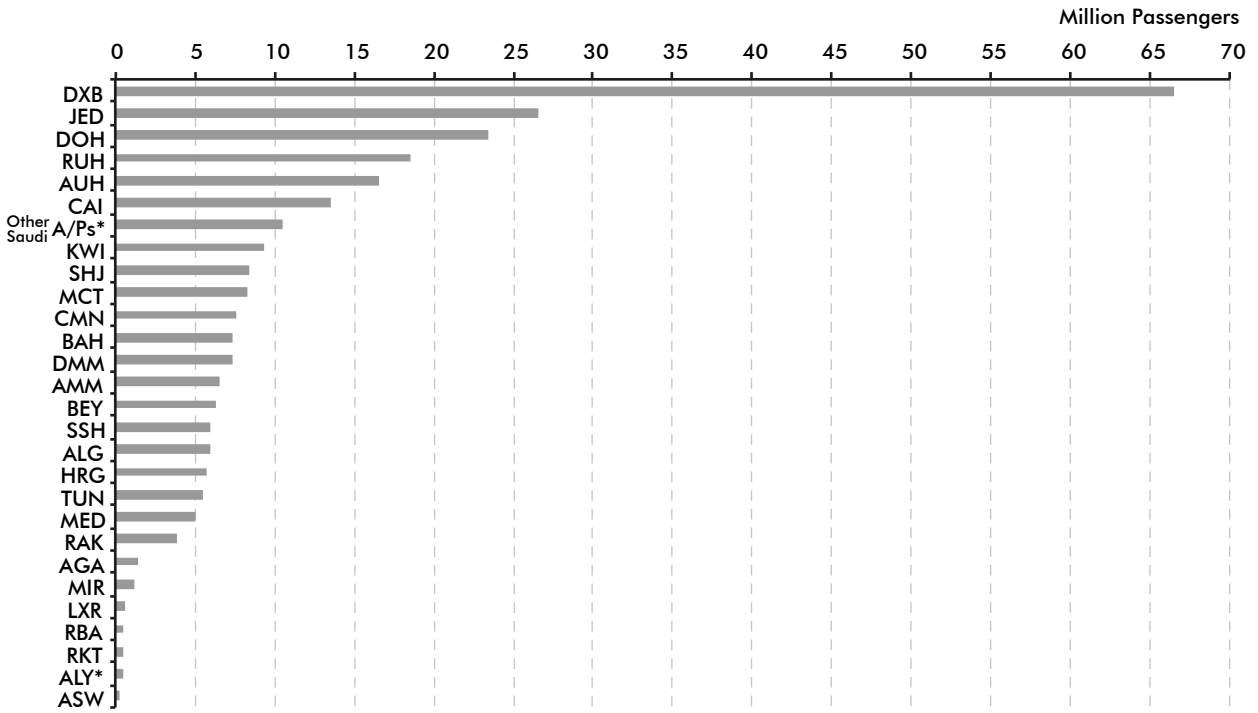
Source: ACI, AACO

Passengers using Arab airports increased by 8.6% in 2013

Among the sample of 29 Arab airports, nine airports reported double digit growth in 2013 over 2012. On the other hand, ten Arab airports witnessed a decline in passenger numbers.

Fig. 21

Number of Passengers at Most Arab Airports in 2013

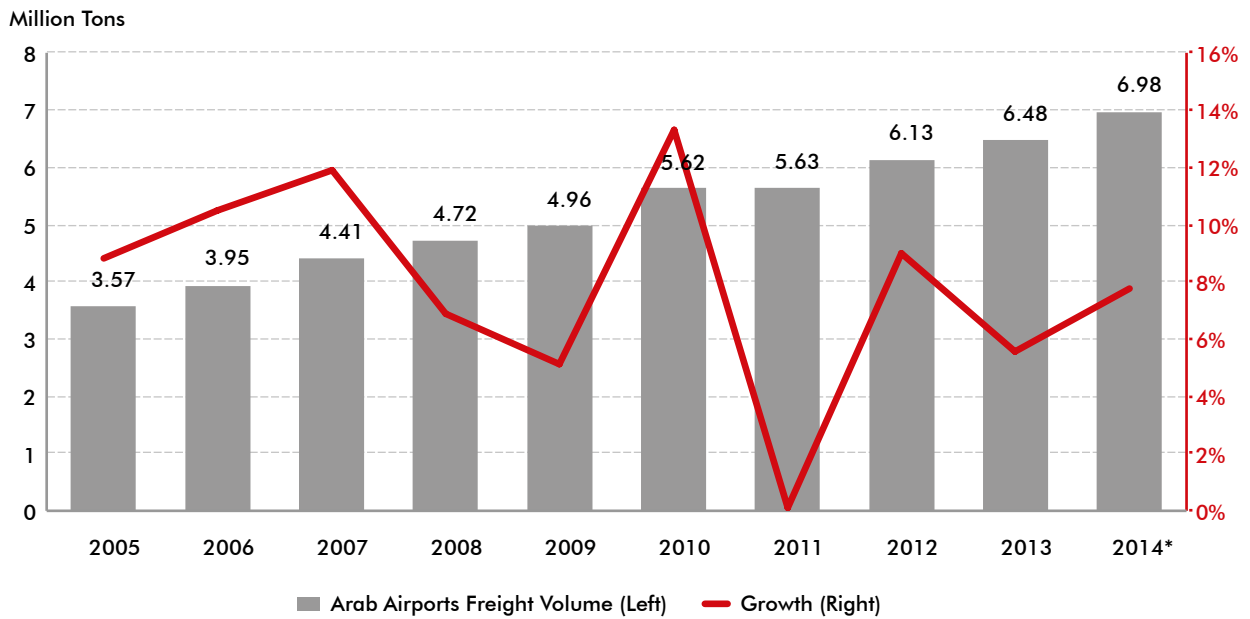


* Estimated

Source: ACI, AACO

Fig. 22

Cargo Volumes and Growth at Most Arab Airports

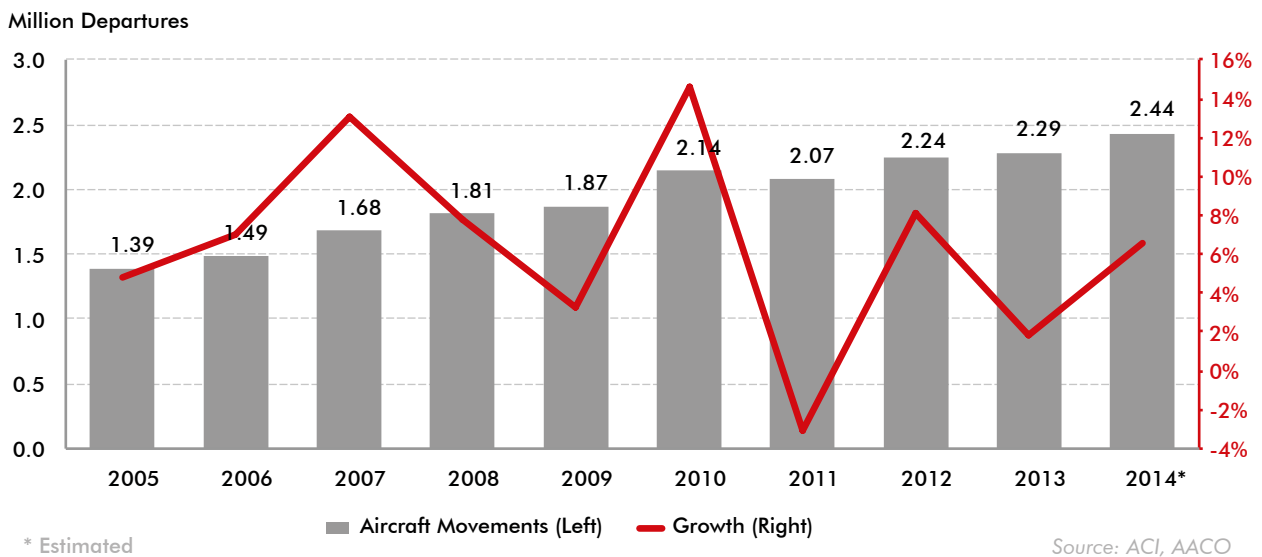


* Estimated

Source: ACI, AACO

Fig. 23

Aircraft Movements and Growth at Most Arab Airports



With traffic growing exponentially at Arab airports, where the number of passengers has doubled during the last ten years period, and with governments in the region seeing the value of air transport as a strategic catalyst for economic growth, the expansion plans which were launched in the past years continue at full thrust towards completion. Those projects are taking place at 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.

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

AIRSPACE MANAGEMENT

- 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 – comes 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.
- There have been several developments on the airspace level in the region, such as the reforms in Oman, the UAE airspace review, the developments in Saudi Arabia and specifically the Empty Quarter area, etc..
- However, the region still suffers from serious ATM deficiencies that can be summarized in:
 - ◆ Fragmentation of air space due to 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.

Additional attention is required to airspace management in the region

- ◆ 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 is not an option.
- All stakeholders acknowledge the challenges faced with regards to air transport infrastructure, and are collaborating to resolve these deficiencies; mainly through two regional initiatives:
- ICAO Middle East ATM Enhancement Programme (MAEP): The programme was launched in 2014 and gathers the main stakeholders involved in airspace management under the following structure:
 - ◆ MAEP Board which is composed of states wishing to participate in the programme.
 - ◆ MAEP Steering Committee composed of representatives from states, industry and other stakeholders.
 - ◆ Project Management Office: which is a full time office funded by the states, and which oversees the implementation of the projects and reports to the Steering Committee.
 - ◆ The programme is expected to:
 - Review previous studies conducted around airspace management.
 - Identify and prioritize collaborative projects taking into account the airspace users' requirements.
 - Implement those projects.
 - ◆ AACO and IATA are working closely to ensure member airlines' requirements and priorities are reflected in the work of MAEP.
- The second regional initiative working on airspace management issues is MEAUSE, which began as a CANSO Workgroup and evolved into a regional platform that gathers all airspace suppliers and users in order to foster collaboration amongst them.
- MEAUSE is working mainly on initiatives aiming at optimizing the use of resources, such as CRM (Customer Relationship Management) and A-CDM (Airport Collaborative Decision Making), in addition to awareness and conferences covering global ICAO ASBUs (Aviation System Block Upgrades) and its application in the region.
- 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.

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

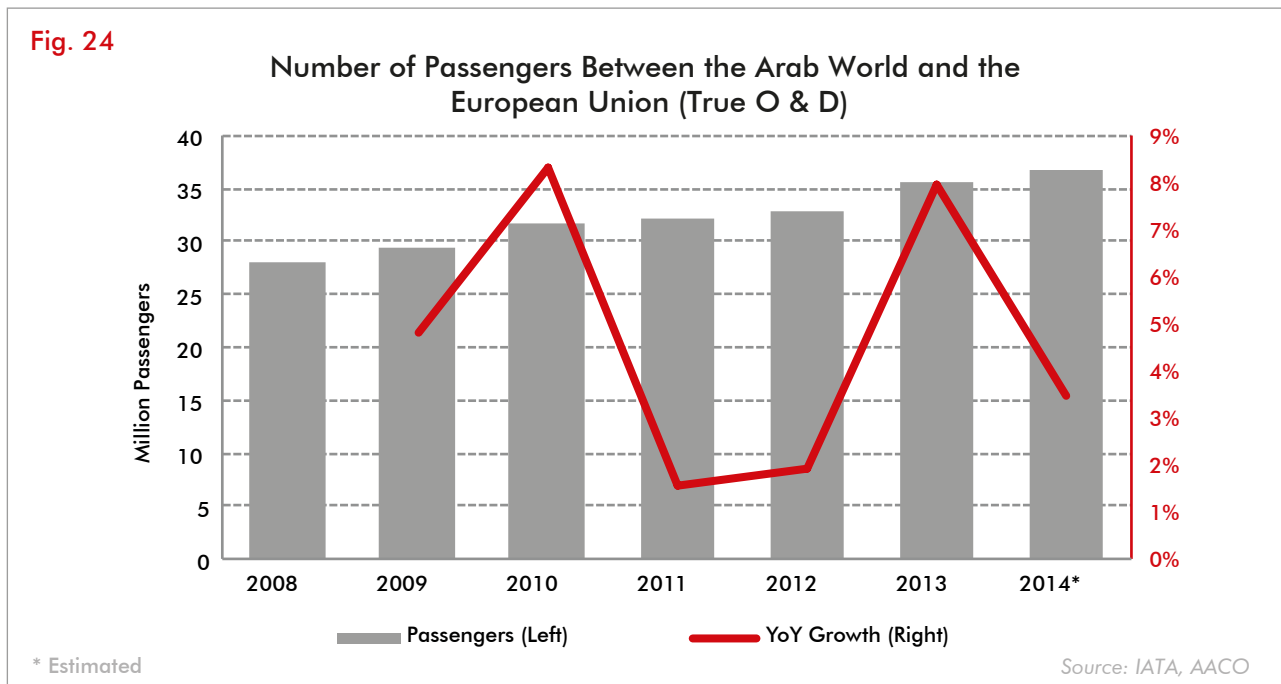
Urgent focus on Air Traffic Controllers' supply is required

STATE OF ARAB AIR TRANSPORT WITH OTHER REGIONS

EU AND THE ARAB WORLD

TRAFFIC

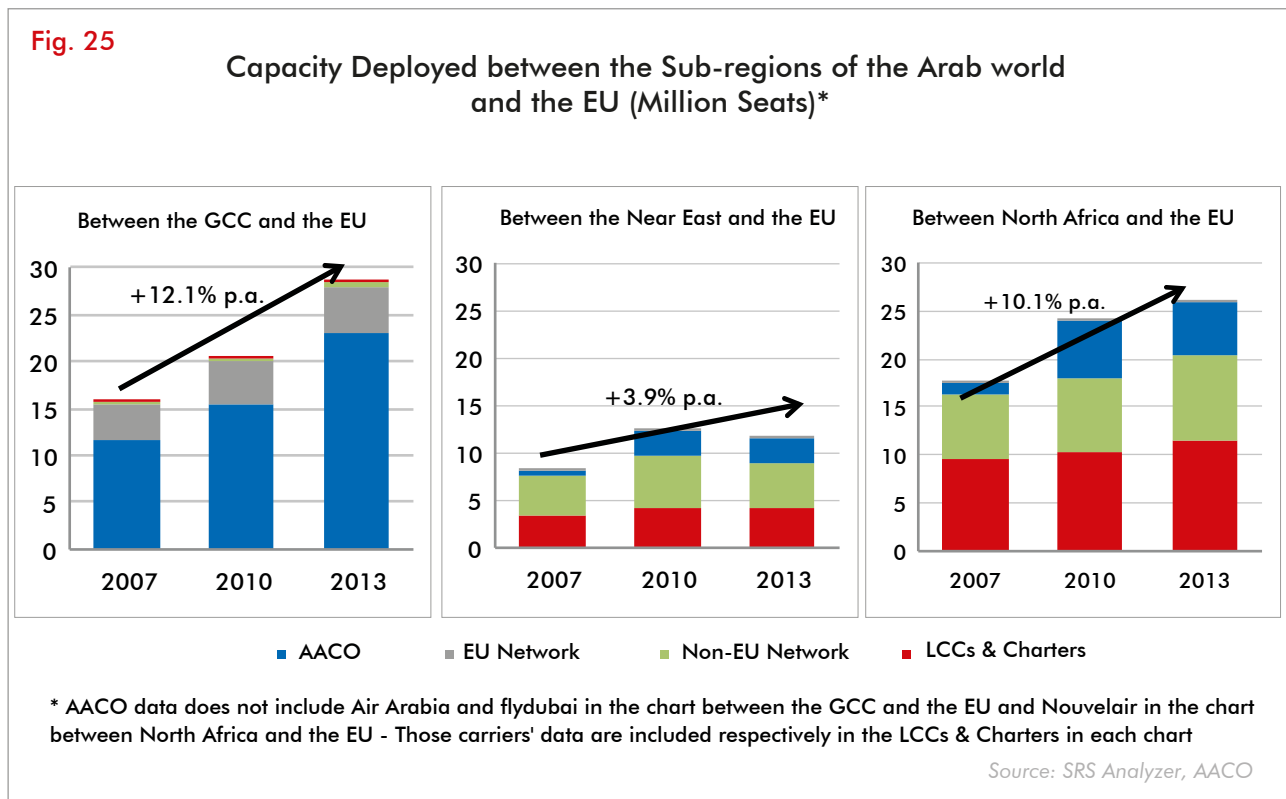
The number of passengers traveling between the Arab world and the EU in 2013 reached over 35.4 million, representing around 22.7% of the Arab air transport market. Traffic between the Arab world and the EU has witnessed continuous growth over the past years. In 2013, passenger numbers increased by 8% compared to 2012 and is expected to grow by 3.5% in 2014 compared to 2013.



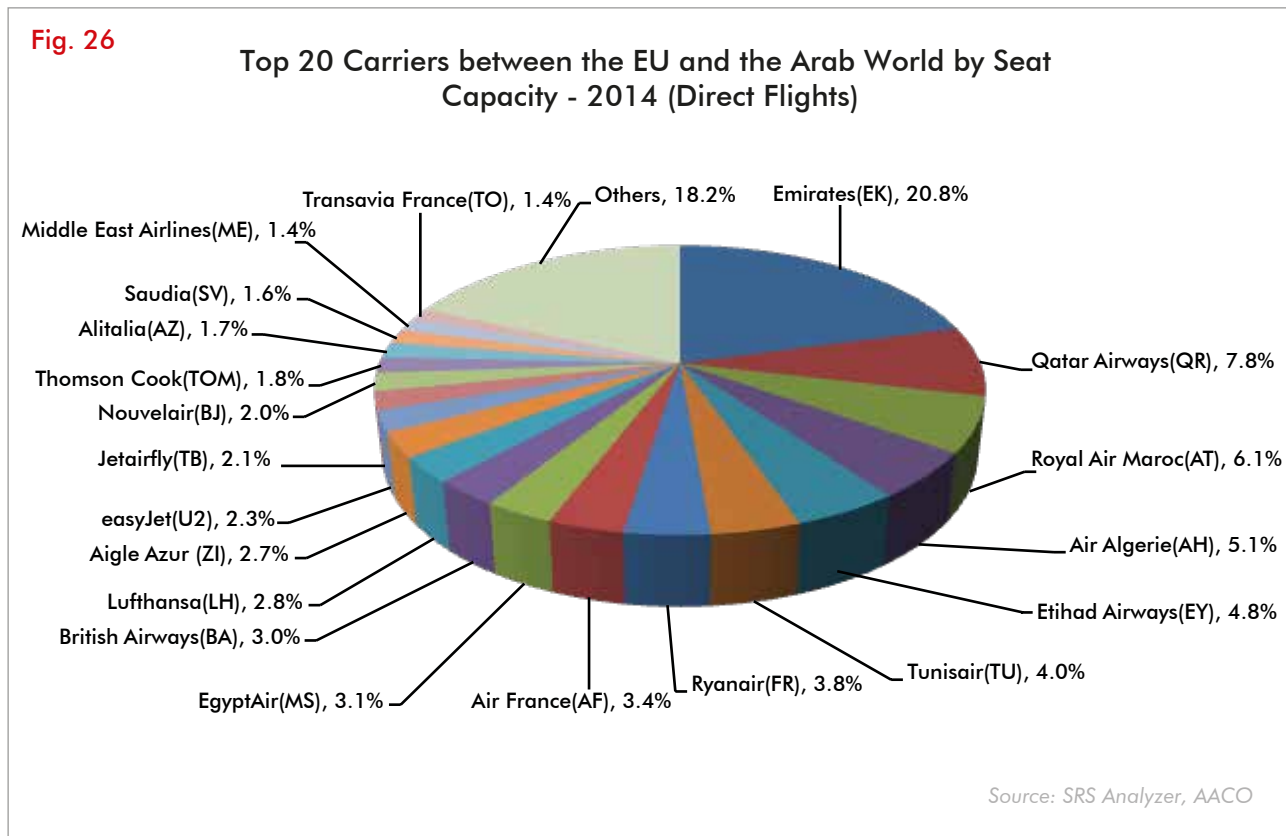
CAPACITY

Based on AACO and SRS Analyzer data, capacity deployed between the Arab world and the EU has increased by 103.4% from 2006 to 2013 with an average annual increase of 10.8%.

The below graph shows the capacity deployed between the EU and sub-regions of the Arab world between 2007 and 2013.



The below graph shows the distribution of capacity deployed between the EU and the Arab world in 2014.



AIRLINES' RELATIONS

- Synergies between Arab carriers and EU carriers have been mostly limited to partnerships (mainly codeshares and synchronization of frequent flyer programs) with some acquiring equity shares in EU carriers.
- Etihad Airways has been the most active in its partnership agreements with EU carriers over the course of 2014. The airline has finalized a €1758 million investment deal in Alitalia, raised its stake to 4.1% in Aer Lingus, expanded its partnership with airberlin including the expansion of joint sales operations, and entered into codeshare agreements with Air Europa, Air Malta and Air Baltic. In addition the airline took 33.3% stake in Swiss carrier Darwin Airline and rebranded it as Etihad Regional; however some of these moves await final regulatory approvals.

Synergies between Arab airlines and EU airlines face regulatory hurdles in some cases

AEROPOLITICAL RELATIONS AND RELEVANT REGULATIONS

Dialogue between EU and GCC

• The Dialogue

- ◆ As part of the EU external aviation policy which, among its major pillars, called for opening a dialogue with GCC states to ensure “transparency and fair competition”, the European Commission initiated a dialogue with the GCC states collectively end of 2013, where a kick-off meeting was held in November 2013.
- ◆ The two parties covered various aviation subjects including safety, security, and air traffic management, in addition to fair competition.
- ◆ The second round of the dialogue is to be held end of October 2014 in Brussels.

• AACO's Work and Position

- ◆ AACO has worked, under the umbrella of the Aeropolitical Watch Group, on lobbying to bring the dialogue towards a balanced relation between the EU and the GCC.
- ◆ Major Pillars of such a relation as developed by the group and shared with the GCC civil aviation authorities constitute the following:

□ Market Access:

1. Reciprocity in commercial opportunities.
2. Liberalization of market access to be determined according to individual GCC countries' requirements while recognizing the desire among some GCC countries to enter into fully liberal negotiations with the EU with immediate effect.
3. European airlines designated by EU states that do not have a bilateral agreement with a Gulf country should not have the right to benefit from traffic rights to that Gulf country unless such a right already exists under a horizontal agreement or a similar arrangement between a Gulf country and the EC.

□ Fair Competition:

1. The concept of fair competition should not be used as a means to restrict competition and market access.

A dialogue for balancing the relation between the EU and the GCC should be based on good will and mutual consent

2. Any fair competition clause needs to take the historical development of airlines into consideration, in addition to the varying levels of maturity of the markets concerned.
 3. There needs to be mutual understanding on the meaning of fair competition between parties.
- User Charges:
 1. The EU citing the lower user charges applied at GCC airports vis-à-vis their counterparts in Europe as a cause of unfair competition is counter-productive by implicitly calling for higher user charges by airports outside Europe rather than correctly calling for lower user charges in the European airports.
 - Access to Slots:
 1. Although slots are usually not part of bilateral negotiations, however, getting slots at European airports to match traffic rights granted to them in the bilaterals has proven to be a challenge on many occasions for GCC carriers.
 2. It is important that bilateral talks discuss this issue to try to find ways to overcome such obstacles in the conduct of air services between the EU and GCC states.
 - Any proposed revision to Regulation (EC) 868/2004 should fall in line with the dialogue.
 - While the dialogue is in process, EU States need to continue their relations with the GCC states in accordance with the bilateral agreements which are in place and would not impose any new restrictive measures on GCC carriers.
 - In addition, AACO sees that the dialogue needs to be general and for bilateral tracks to be launched between each GCC state and the European Commission, while keeping the joint dialogue as a framework. AACO also sees that the EC needs to obtain a mandate from their constituents to negotiate with individual GCC states about developing the aviation relations between these states and the EC.

Relation with Mediterranean Countries

• EU Policy Towards Mediterranean Countries

- ◆ The EU external aviation policy has set a target to reach comprehensive agreements with neighboring countries by 2015.
- ◆ So far, Morocco and Jordan in the Arab world have reached comprehensive agreements with the EU that include open skies and regulatory convergence between the two parties.
- ◆ The EU has started negotiations with Tunisia and finalized two rounds of talks.

**Tailored
approaches by
the EU towards
Mediterranean
countries**

• AACO's Work and Position

According to AACO's views the below principles are important in the negotiations between Arab states targeted in the EU's policy for neighboring countries and the EC:

- ◆ Freedom of market access should be within compatible and harmonized economic rules.

- ◆ In case two Arab countries enter the Single European Aviation Market, then designated airlines from those two Arab countries should be able to enjoy the same air traffic rights as European airlines in between the two relevant Arab countries.
- ◆ To adopt gradual steps in opening interested Arab countries aviation markets, in order to give enough time for national airlines to prepare for the expected competition and full liberalization.
- ◆ To enlist the slots issue in the negotiations to ensure equal opportunities and a level playing field between European airlines and Arab airlines at European airports.
- ◆ To ensure a time span between making use of third and fourth freedoms and benefiting from fifth and seventh freedoms of the air.
- ◆ Reciprocal provisions for the flexible use of codeshare agreements between carriers of the two regions.
- ◆ European airlines designated by EU states that do not have a bilateral agreement with an Arab country should not have the right to benefit from traffic rights to that Arab country.

Consultation on EU Reg. 868/2004

• Introduction

As one of the major pillars that constituted the updated EU external aviation policy which was published in September 2012 and adopted by the EU Council and Parliament, the European Commission issued a consultation paper preparing for a possible proposal to “better protect EU carriers against unfair practices from non-EU air carriers” through revising or replacing regulation 868/2004.

Revision of EU Reg. 868/2004 could result in an EU ETS scenario if not studied carefully

• AACO's Position

AACO sees that the consultation is extremely wide-ranging and if the proposal of the European Commission comes to be along the line of thinking of the extreme options of the questions included in the consultation, then that would create serious implications on 3rd countries' governments, airports, and airlines operating to and from the EU.

AACO has submitted a position paper to the European Commission in January 2014 after work conducted at the level of AACO's Aeropolitical Watch Group.

In AACO's position paper, the following was highlighted:

- ◆ The content and nature of the questions and the suggested answers/options assume that there's injury caused to EU carriers as a result of unfair practices, without any proof of such injury or unfair practices.
- ◆ Questions seem to be inclined towards securing the interest of EU carriers.
- ◆ The consultation could be envisioned by some EU carriers as a tool to try and secure unnecessary protectionist treatment via regulation 868/2004.
- ◆ Any new regulation should not intend to introduce restrictions on development of air services between the EU and the world at large.
- ◆ Any new legislation should include definitions that are fair and balanced, and in line with international conventions and standards.

- ◆ Any changes to the regulation need to be studied extensively so as to avoid undermining the sovereignty of a third country hence being deemed extraterritorial under international law.
- ◆ Any investigation under the regulation should be supported by evidence and dealing with complaints should follow legal norms.
- ◆ Any fair competition clause proposed by the Commission needs to be mutually agreed with the partner country and should not be imposed.
- ◆ AACO also expressed concern that the Commission is considering widening the scope of Regulation 868 to cover a wider range of alleged unfair practices e.g. levels of airport charges.

Air Passenger Rights

• Latest Updates

- ◆ As the proposal of the European Commission for the revision of regulation 261/2004 is still under debate between the EU institutions, the ambiguities in the current regulation still result in a number of court cases that aim at resolving disputes when it comes to clarifying the regulation and which results mostly add more burdens to airlines.
- ◆ One of the cases was a ruling in Jet2 vs Huzar case at the UK Court of Appeal. The Court of Appeal's ruling confirmed that normal technical problems that cause flight disruption such as component failure and general wear and tear should not be considered "extraordinary circumstances". This means that airlines can only cite technical faults as a reason for not paying compensation if the fault was originally caused by an event that was "out of the ordinary". Standard technical faults such as a part on the aircraft failing before departure will generally not be considered extraordinary circumstances.
- ◆ In another recent case, the UK Court of Appeal ruled on the issue of how far back passengers can go when claiming compensation for disrupted flights. The judgment in the Thomson vs Dawson case stated that passengers have a maximum of six years to take their compensation case to court; meaning, passengers can refer compensation claims to the courts for flights going back six years, which is the maximum length of time that courts in England and Wales will allow before cases are barred from being brought.

• AACO's Position on EC Proposal for the Revision of EU Reg. 261/2004

- ◆ As the debate is still ongoing at the parliament and council levels for possible scenarios of a revised air passenger rights regulation, AACO has communicated with the EU institutions to highlight concerns on issues that could lead to more burdens on airlines and even more confusion to passengers and airlines alike.
- ◆ One of the major issues in the EC proposal is defining a delay when arriving at final destination. Such a definition of delay is going to be:
 - difficult to implement
 - opens room for ambiguity

**Revision of
EU 261/2004 should be
treated by
the regulators as a
window to bring back
proportionality to the
rights of a passenger
and airlines'
competitiveness**

- would hold an on time carrier liability it is not responsible for
- could have a negative impact on interlining, and
- could have extra-territorial application in some cases.
- ◆ A second issue is the partial ban of the no-show policy which would deprive airlines to condition the use of their round-trip tickets, as they would be forced to adjust their promotional prices of round-trip tickets to the higher prices of trips in the other direction.
- ◆ Moreover, this policy could have extra-territorial application, whereby for non-EU carriers, the regulation applies only to flights departing the EU i.e. on a return flight of a roundtrip starting in a non-EU country. However that roundtrip is most probably sold under a contract established according to the rules of that country where the law allows airlines and passengers to enter contracts requiring the passenger to use the onward flight before the return.
- ◆ AACO continues to follow up on the developments in the EU however progress is not expected before early 2015 due to the elections and changes in the Commission.

ACC3

● Brief and Requirements of the EU Regulation

- ◆ By 1 July 2014, all airlines operating from non-EU airports to EU airports were required to be validated by an EU validator to carry cargo or mail into the EU.
- ◆ The EU has identified a number of countries (green list) which stations are exempt from the requirements of this regulation. Countries not in the green list fall within the scope of this regulation. Moreover, the EU identified a red list which includes a list of countries that are required to comply by the regulation in addition to doing an additional method of screening of cargo or mail.
- ◆ The ACC3 validation is required per station per airline operating cargo or mail into the EU.
- ◆ Ground handlers at non-EU airports should also get validated to be an RA3 (Regulated Agent) in order to avoid re-screening of cargo at hubs of non-EU airlines.
- ◆ Any validation lasts up to 5 years.

Although ICAO has clear security standards, the risk of proliferation of unilateral security measures regimes prevails

● AACO's Position as Communicated with the EC

AACO has studied this regulation at the levels of the Aeropolitical Watch Group and AACO Aviation Security Taskforce and has communicated the following points with the Commission that are of concern to member airlines:

◆ Country Classification:

- AACO highlighted to the EC that there's no indication in the regulation on the criteria that was followed to classify countries on the green, white or red lists, especially that some of the Arab states are at a very high level in terms of their security standards and even higher than some states that are on the green list, yet no Arab state is on the green list.
- In addition there's no indication on how states' classification changes i.e. how can a state become on the green list.

◆ Operational Concerns:

- Security regulations in general are rigid orders rather than guidelines; however the regulation does not include guidance material on how to implement the security measures.
- The regulation has been amended 18 times until March 2014, with an effective date of 1 July 2014. This has created confusion and instability as to how to abide by the regulation.
- The requirements in the regulation do not take into account the local regulations in countries, especially when it comes to securing special cargo such as human remains.

Risk of Proliferation of Unilateral Regulations

The scheme is a unilateral scheme which has been refused by some states (i.e. India, Russia), and hence there is the concern of proliferation of individual regulations. In this area, AACO has raised a question to the EC on their plans on how to deal with a possible proliferation of similar regulations that could contradict with the EC one and put airlines in a confusing situation.

The EC provided a response to our questions; however, the response still leaves vague some aspects of the regulation, for example, on the issue of country classification as stipulated above, the EC responded that the mechanism on which basis third country states are allocated to the different lists in the EU ACC3 programme is based on a confidential EU risk assessment, which is a continuous process whereby risk assessments are carried out on different countries. The details of this risk assessment are considered to be security sensitive information.

NORTH AMERICA AND THE ARAB WORLD

TRAFFIC

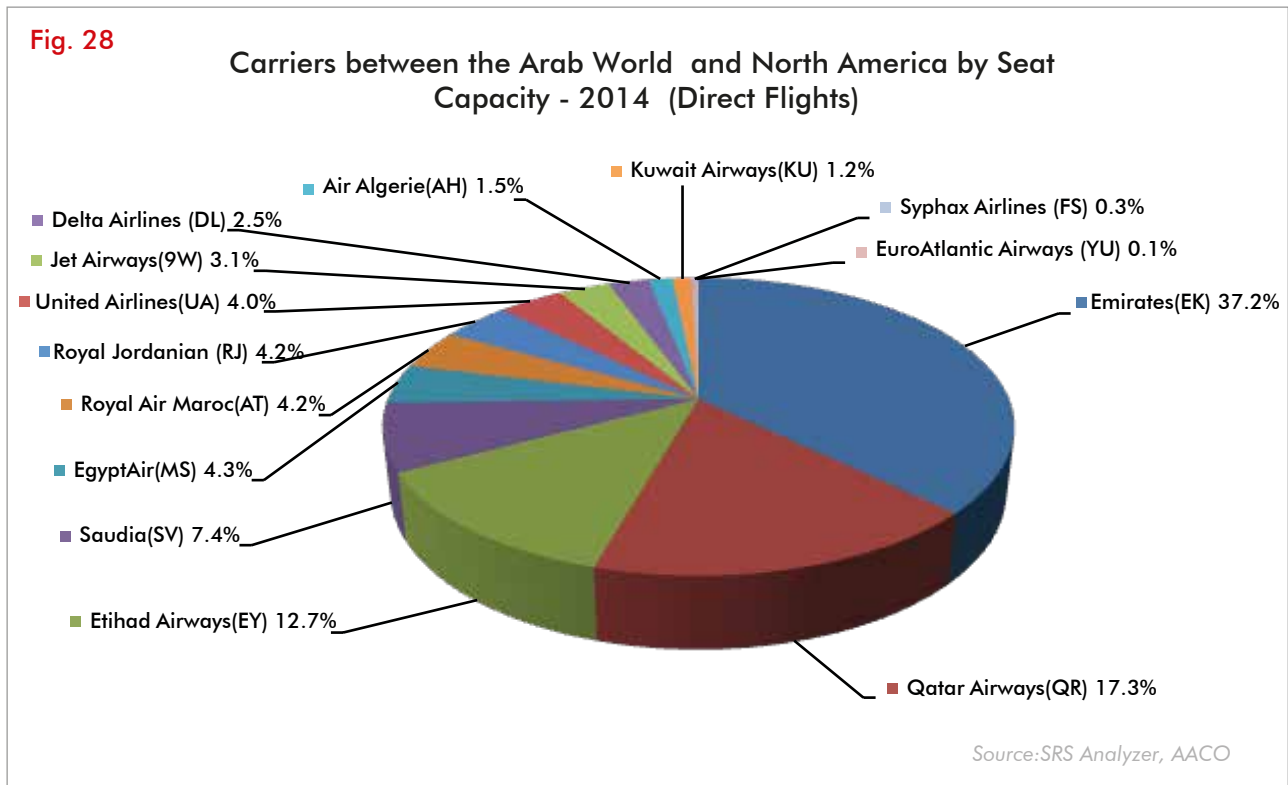
The number of passengers traveling between the Arab world and North America in 2013 reached around 4.2 million, representing almost 2.7% of the Arab air transport market. In 2013 the number of passengers increased by 9.3% compared to 2012 and is expected to increase by 11.3% in 2014 compared to 2013.



CAPACITY

Based on AACO and SRS Analyzer data, the number of seats deployed between North America and the Arab world increased by 456.8% between 2006 and 2013 with an average annual growth of 29.3%.

The below graph shows distribution of carriers between North America and the Arab world by seat capacity in 2014.



AIRLINES' RELATIONS

- Synergies between US carriers and Arab airlines have so far been limited to codeshare arrangements and cooperation within global alliances.
- Emirates, Qatar Airways and Royal Air Maroc have codeshare agreements with Jetblue. Earlier this year, Etihad Airways and JetBlue announced codeshare plans. In the first stage of the partnership, Etihad Airways codeshared on 40 JetBlue routes within the US. New codeshare services were added following the start of Etihad Airways' flights to Los Angeles. However, as at August 2014, Etihad Airways' plans to codeshare on JetBlue flights between New York and select destinations in the Dominican Republic, Jamaica and Colombia is still awaiting US and foreign government approval.
- Etihad, Qatar Airways and Royal Jordanian codeshare with American Airlines. In 2014, Qatar Airways and American Airlines strengthened their relationship with a reciprocal frequent flyer program agreement, noting that US Airways completed on 31 March 2014 their transition to oneworld following the merger with American Airlines in late 2013 adopting the American Airlines name for the merger.
- EgyptAir has a codeshare agreement with United.

Synergies limited to codeshares and cooperation within global alliances

AEROPOLITICAL RELATIONS AND RELEVANT REGULATIONS

States' Relations

- Since 1990, the US has concluded numerous "Open Skies" agreements, including with Jordan, UAE, Bahrain, Oman, Morocco, Qatar, Kuwait, Yemen and Saudi Arabia.
- In 2013, Saudi Arabia and the US have signed a Memorandum of Understanding to develop administrative, technical and operational cooperation in the field of civil aviation security and an affirmation of common interest to strengthen efforts to address threats and reduce risks in civil aviation.
- The first US Customs Pre-Clearance Facility in the Middle East took off in January 2014 at Abu Dhabi International Airport.

EX-IM Bank Reauthorization

• Debate

- ◆ There have been claims by some parties in the US that the US Export-Import Bank loan guarantees to foreign carriers provide them with a competitive advantage over US carriers. Those parties have called for restricting and even eliminating Export Credit Financing, noting that the EX-IM Bank charter was set to expire at the end of September 2014.
- ◆ Mainly the lobbying has been led by Delta and the Airline Pilots Association (ALPA). Same parties are pushing for revisiting existing open skies agreements.
- ◆ Also recent political debates indicated that the future of the bank is not secure and has faced three options in September:
 - Reauthorization of the bank's charter until 2017 while also increasing its lending cap.
 - A short-term reauthorization for the bank to give the Congress more time to work on a bill that would reform the bank.
 - Expiration of the charter of the bank with no reauthorization.
- ◆ The bank is a partisan issue with Democrats largely in favor of reauthorization and Republicans largely opposed, noting that, currently, Republicans hold the majority in the House of Representatives.
- ◆ Late September 2014, the Congress has decided to extend the EX-IM bank charter for 9 months to last till June 2015; although major US companies, such as Boeing, were calling for a long-term reauthorization of the bank.
- ◆ The Congress now has until June 2015 to decide whether to renew the bank's charter or let it expire. The bank might also be reauthorized with a precondition on conducting some reforms, as being lobbied by certain US entities.

Debate on EX-IM Bank re-authorization: yet another example of some circles' fear of competition and protectionism by regulators in mature markets

• AACO's Position

- ◆ AACO believes that the calls by ALPA and others stem from the fear of competition from foreign airlines on routes between the US and other states in addition to their attempt in protecting their partner airlines in the EU from the increasing competition of the same foreign carriers.

USD 26.31 billion worth of transportation equipment from the US to the Arab world in 2013

- ◆ The argument by the same parties that the export credit financing to widebody aircraft hurts US jobs is invalid, as according to data by the National US-Arab Chamber of Commerce, US exports to the Arab world grew 7.51% in 2013 over 2012 to reach USD 70.85 billion. This translates to almost 400,000 US jobs supported by imports of Arab states from the US in 2013. By comparison, total US merchandise exports to the world increased by only 2.09% to reach USD 1.579 trillion in 2013. The largest category of goods exported was transportation equipment, including commercial aircraft, which constituted USD 26.31 billion of total US goods shipped to the Arab world.
- ◆ AACO supports the reauthorization of the bank and definitely calls upon the US government not to be affected by calls that would bring the industry back to protectionism days.

Consumer Protection

• The Consultation

- ◆ 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. A Notice of Proposed Rulemaking for the so called “US Consumer Rules III” was issued end of May 2014.
- ◆ The Consultation mainly seeks input on how best to give passengers the ability to know complete information on fares and certain core ancillaries when purchasing through either the direct (web) or indirect (online and brick and mortar agent) channel.
- ◆ One of the major proposals of the DOT is to request carriers to sell core ancillary services through the indirect channel as they do on their websites.

• Major Highlights of AACO’s Response to the Consultation

- ◆ There is no basis or need for the DOT to propose to regulate the interaction between the air carrier and the carrier’s customer and its proposals in the NPRM that would insert the department in the relationship between air carriers and intermediaries (ATPCO, GDSs).
- ◆ Airlines have the ability to meet DOT requirements on their own website i.e. on channels that they are able to control; however, when it comes to travel agents and GDSs and other intermediaries, airlines have little direct control on how their products and services are displayed and delivered.
- ◆ Airlines should have the flexibility to decide which entities advertise and sell their products. If airlines are requested to sell ancillary services through GDSs then they will have to file the information additionally to the GDSs and this may be through ATPCO. There will be the additional cost of filing and maintaining this info and hidden costs might arise from the travel agent.
- ◆ Carriers should have the freedom to put restrictions on travel agents if the travel agent doesn’t abide by the booking and ticketing policy and is proven to have done abusive practices etc..
- ◆ The move of DOT is directing the efforts of the industry including airlines, agents and GDSs towards the legacy fare filing method while the industry is moving

**US DOT NPRM on CRIII:
over-regulation and
un-needed interference
in the relation
between airlines, their
customers, and
intermediaries**

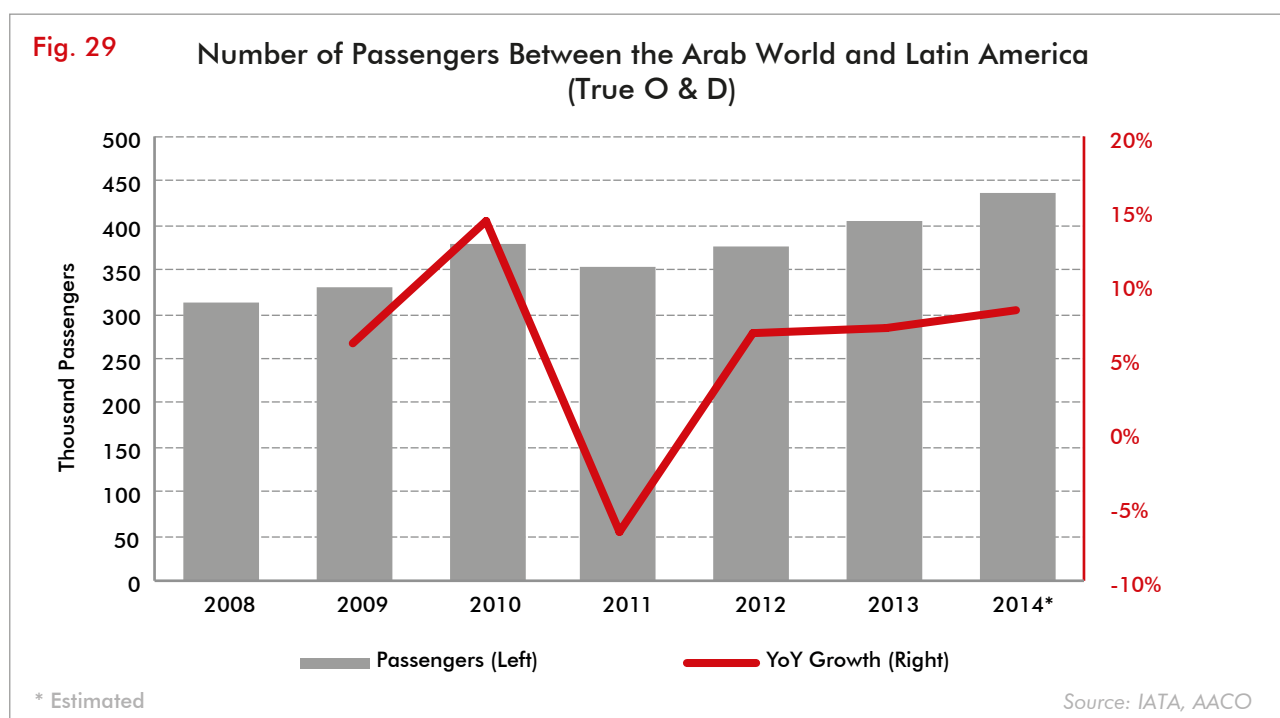
towards an XML-based environment that would assist airlines in presenting full content on ancillary services through all sales channels.

- ◆ The cost benefit analysis in the Regulatory Impact Analysis (RIA) for the proposed rule is highly negative and most areas of the proposed regulation have no quantifiable benefits; hence there's no justification behind introducing such a rulemaking where the benefits do not justify the cost.
- ◆ In addition to other arguments and feedback that AACO submitted to the DOT and which can be viewed through searching for Docket No. DOT-OST-2014-0056 at <http://www.regulations.gov/>

LATIN AMERICA AND THE ARAB WORLD

TRAFFIC

The number of passengers traveling between the Arab world and Latin America in 2013 reached more than 0.4 million, representing 0.26% of the Arab air transport market. In 2013 the number increased by 7% compared to 2012 and is expected to increase by 8.2% in 2014 compared to 2013.



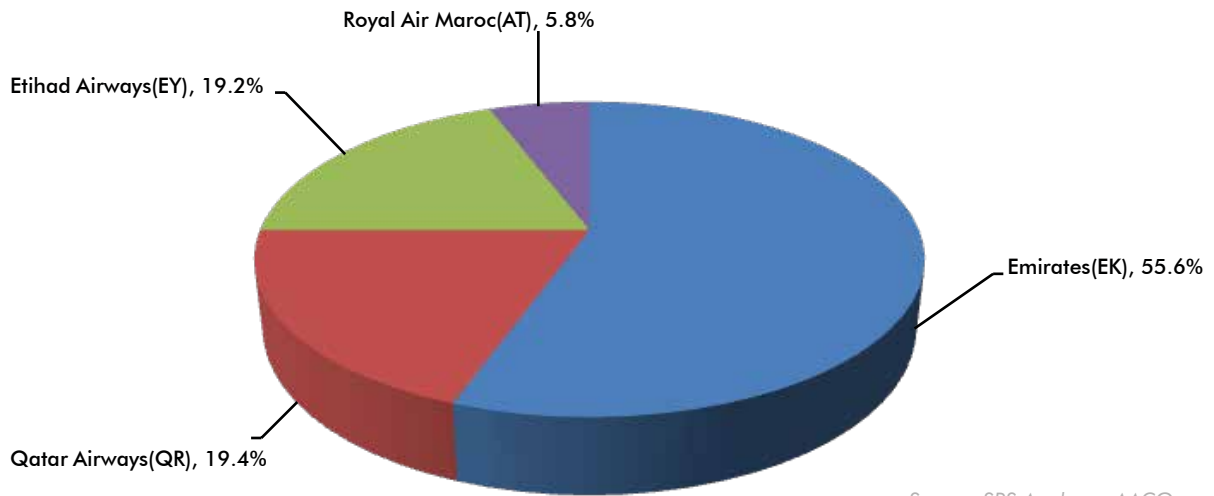
CAPACITY

Based on AACO and SRS Analyzer data, the number of seats deployed between Latin America and the Arab world increased by 897.4% between 2008 and 2013 with an average annual growth of 63.4%.

The below graph shows distribution of carriers between Latin America and the Arab world by seat capacity in 2014.

Fig. 30

Carriers between Latin America and the Arab World by Seat Capacity - 2014 (Direct Flights)



Source: SRS Analyzer, AACO

AIRLINES' RELATIONS

- The alliances' market in Latin America was redrawn in 2014 when TAM exited Star Alliance and joined oneworld. CAPA and innovata estimated that oneworld's share in the Latin American market grew from 15% to 27% after TAM joined oneworld, becoming the largest alliance in the region.
- During the past year, Etihad Airways and Brazil's Gol Linhas Aéreas Inteligentes have signed a codeshare agreement and implemented an interline ticket functionality. Royal Air Maroc also signed an interline agreement with the same carrier.

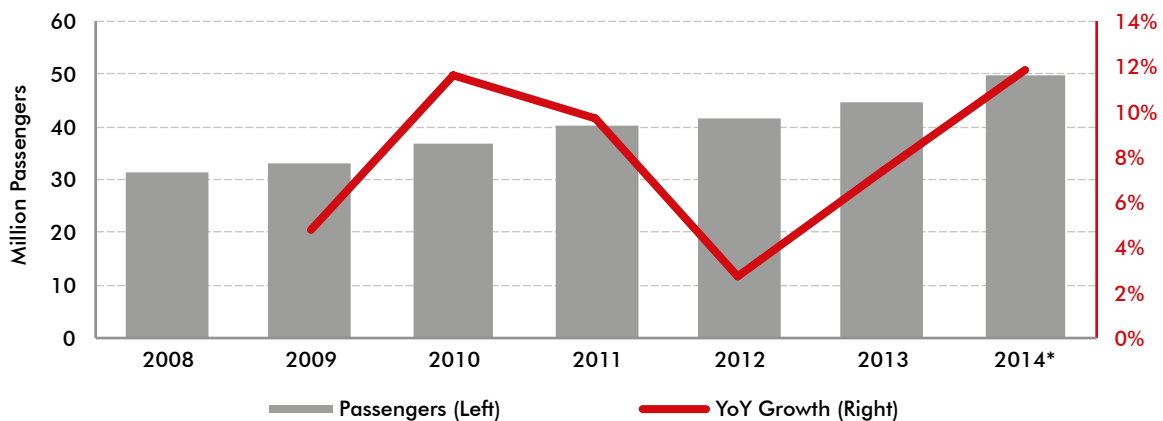
ASIA, AUSTRALIA AND THE ARAB WORLD

TRAFFIC

The number of passengers traveling between the Arab world and Asia & Australia in 2013 reached more than 44.4 million, representing around 28.5% of the Arab air transport market. In 2013 the number increased by 7.4% compared to 2012 and is expected to increase by 11.9% in 2014 compared to 2013.

Fig. 31

Number of Passengers Between the Arab World and Asia & Australia (True O & D)



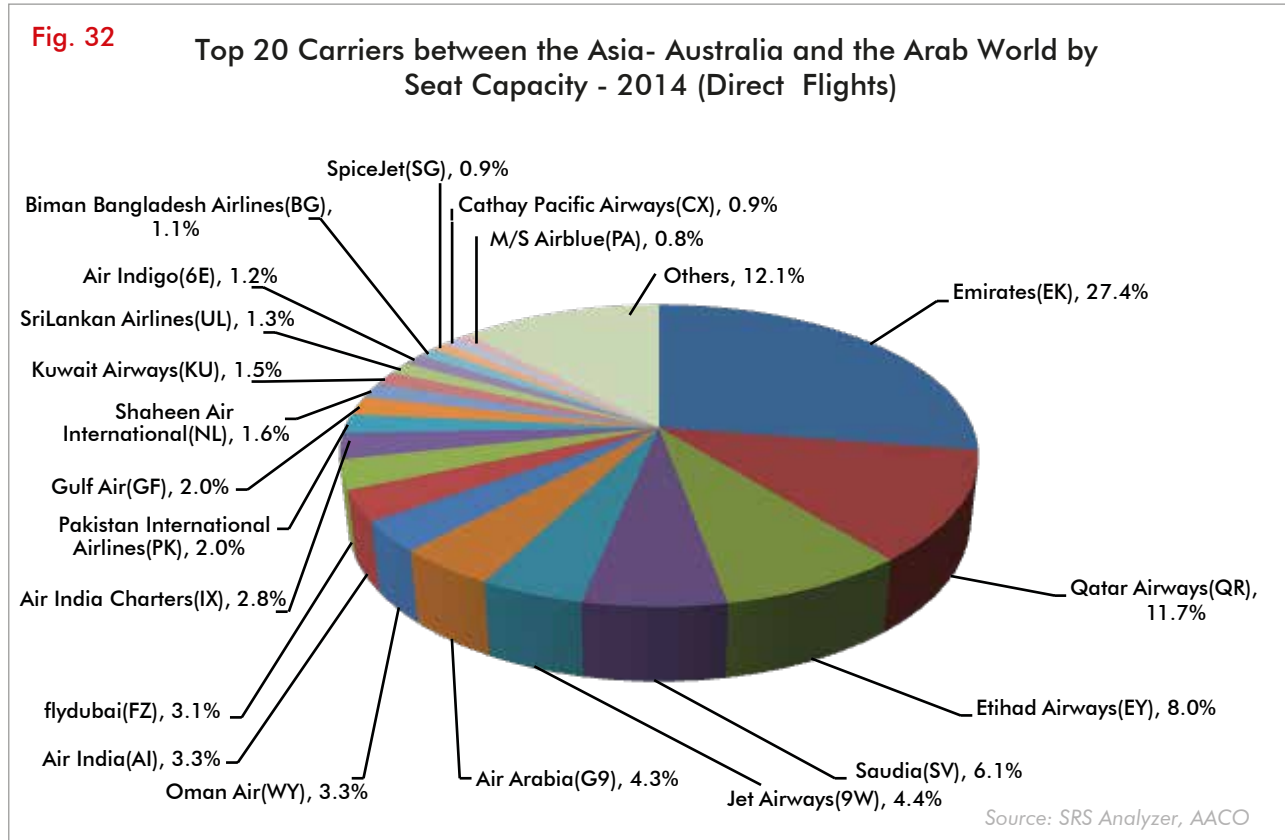
* Estimated

Source: IATA, AACO

CAPACITY

Based on AACO and SRS Analyzer data, the number of seats deployed between Asia & Australia and the Arab world increased by 124.8% between 2006 and 2013 with an average annual growth of 12.3%.

The below graph shows distribution of carriers between Asia & Australia with the Arab world by seat capacity in 2014.



AIRLINES' RELATIONS

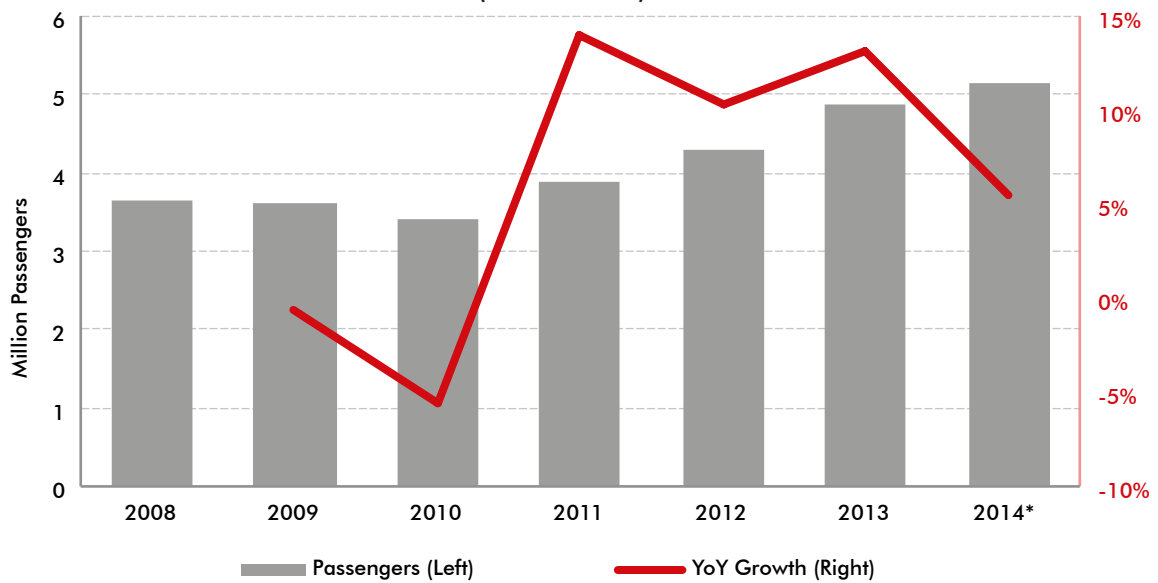
- A large number of airlines in this diversified region have joined one of the three global alliances and many others are in the process of joining, in addition to many other partnerships and equity investment arrangements.
- During the past year, Garuda Indonesia joined Skyteam alliance (March 2014), SriLankan Airlines joined oneworld (May 2014), and Air India joined Star Alliance (July 2014).
- On the other hand, Etihad Airways has increased its stake in Virgin Australia to 21.24% from 19.9% following approval from Australia's Foreign Investment Review Board, Emirates and Jetstar launched new codeshare and frequent flyer agreement, Etihad Airways and Philippine Airlines announced strategic partnership agreement, Etihad Airways expanded its codeshare agreement with Jet Airways, while Qatar Airways signed strategic agreement with Cathay Pacific and further expanded its codeshare agreement with JAL. Oman Air has also launched new codeshare agreement with SriLankan Airlines.

SUB-SAHARAN AFRICA AND THE ARAB WORLD

TRAFFIC

The number of passengers traveling between the Arab world and Sub-Saharan Africa in 2013 reached around 4.9 million, representing 3.1% of the Arab air transport market. In 2013 the number increased by 13.1% compared to 2012 and is expected to increase by 5.5% in 2014 compared to 2013.

Fig. 33 Number of Passengers Between the Arab World and Sub-Saharan Africa (True O & D)



* Estimated

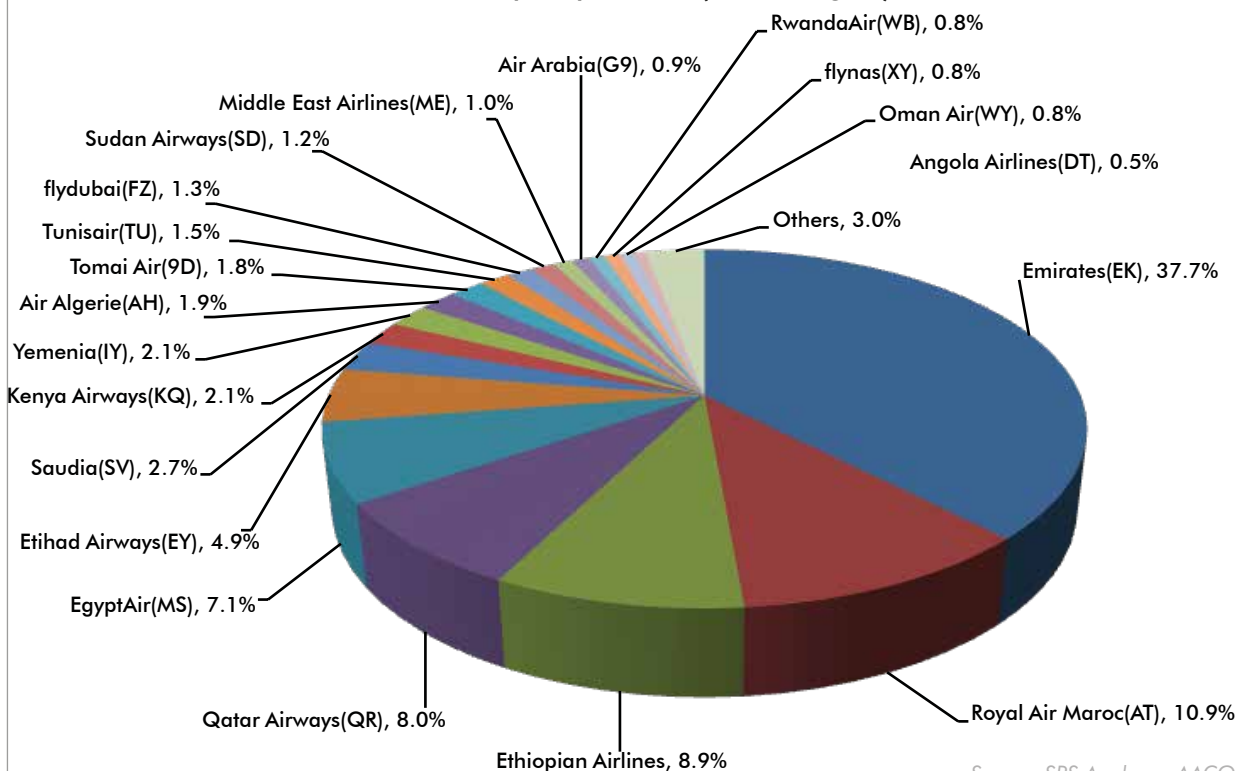
Source: IATA, AACO

CAPACITY

Based on AACO and SRS Analyzer data, the number of seats deployed between Sub-Saharan Africa and the Arab world increased by 169.7% between 2006 and 2013 with an average annual growth of 15.5%.

The below graph shows distribution of carriers between Sub-Saharan Africa and the Arab world by seat capacity in 2014.

Fig. 34 Top 20 Carriers between the Sub-Saharan Africa and the Arab World by Seat Capacity - 2014 (Direct Flights)



Source: SRS Analyzer, AACO

AIRLINES' RELATIONS

- The Arab carriers have expanded in Sub Saharan Africa over the years.
- 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, Emirates and South African Airways announced that they will extend their code-share partnership to include Emirates' fourth daily frequency out of Johannesburg that will be introduced in October 2014, Emirates signed a strategic airline partnership agreement with Angola government in respect of TAAG Linhas Aéreas De Angola, while Etihad Airways expanded its codeshare agreement with Air Seychelles.
- Several interline agreements were also conducted between Emirates and Proflight Zambia, and Emirates and Corsair.

FOCUS ON INDUSTRY ISSUES

SAFETY

- The number of accidents recorded in 2013 increased over that of 2012 by 8%, and the number of fatal accidents increased by 6.7%. However, the number of fatalities decreased significantly by (49.3%) over 2012 levels.
- On the financial side, and despite the fact that the industry recorded the same number of hull losses in 2012 and 2013, the increase in western jet hull losses led to an increase in the financial impact of accidents by 51% over 2012 levels. According to Flightglobal, the financial impact of aircraft accidents in 2013 reached USD 1.57 billion, up from USD 1.04 billion recorded in 2012

Although 2012 recorded fewer accidents; 2013 recorded 49.3% decrease in fatalities

Fig. 35

Global	Western - built Aircraft Accidents	Eastern - built Aircraft Accidents	Western - built Aircraft Hull Loss Rate (per Million Sectors) - Jet and Turboprop	Western - built Aircraft Fatal Accidents	Eastern - built Aircraft Fatal Accidents	Fatalities
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	0.21	3	12	414
2013	73	8	0.41	15	1	210

Source: IATA Safety Report

- Similar to previous years, the most common type of accidents remained Runway Excursions (21% of total accidents), followed by Ground Damage at 15%. Loss of Control In-Flight (LOC-I) accidents represented 10% of the accidents however were responsible for 60% of fatalities.
- Looking at the Arab world, the overall number of accidents in the region in 2012 increased by 40% to 5 accidents in total (three by AACO member airlines), among which none was fatal. The accidents recorded involved one runway excursion (Tunisair on 6 February in Tunisia), three ground damage accidents (Mid Airlines on 6 August in Sudan, flynas on 27 September in Mauritania, and Saudia on 28 April at Jeddah), and one Nose Landing Gear collapse (Nova Airways on 19 December in South Sudan).
- In order to enhance safety, all stakeholders are striving globally to continuously improve aviation safety, which 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).

AACO members reported three accidents in 2013 which did not result in any fatalities

- Regionally, 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.
- In addition, AACO has been following up on all regulatory issues that affect its member airlines, such as the developments in the EU Safety Assessment of Foreign Aircraft (SAFA) programme.
- However, most collaborative efforts vested to improve safety are directed towards operational safety, whereas the region suffers from drawbacks in safety management and regulatory oversight which require the urgent attention from the concerned stakeholders.

Fig. 36

Arab World	Total Number of Accidents	Number of Hull Losses	Number of Fatal Accidents	Fatalities
2009	8	4	2	158
2010	5	2	2	109
2011	5	3	0	0
2012	3	1	1	32
2013	5	1	0	0

Source: IATA Safety Report

SECURITY

- Although 2013 did not note any critical aviation security incident, however work is still undergoing to strengthen aviation security.
- The 13th amendment to Annex 17 became applicable on 15 July 2013. The revised and new provisions further the implementation of supply chain security measures with special focus on high-risk cargo, as well as the use of common baseline security measures for cargo to be transported on passenger or all-cargo aircraft. The Amendment includes a revised and comprehensive standard for the screening and security control of persons other than passengers. In addition ICAO Aviation Security Panel finalized the 14th amendment which was passed to states for comments, and is expected to become applicable in 2014.
- 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) was completed to include results from audits of 178 states including 1 Special Administrative Region. The results of the audits related to the implementation of the critical elements of an aviation security oversight system, reported that the level of implementation of Quality Control Obligations reached only 52.4% 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 86.4% among audited states. In that area, ICAO is focusing towards the transition from USAP to a risk-based Continuous Monitoring Approach (USAP – CMA). The USAP-CMA departs

Security oversight and concern resolution require states' attention

from the traditional notion of audit cycles in order to monitor states' aviation security and oversight systems on an ongoing basis; the new process will still focus on identifying security concerns and making recommendations for resolution, as well as providing enhanced feedback to states. The transition will continue throughout 2014, with full-scale implementation expected in early 2015.

- 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, the industry in collaboration with ICAO continues its advocacy efforts to states with regards to using global standards related to API and PNR data. Those requirements are increasing exponentially in the world, with states requiring data in different formats and transmission standards which are costing airlines hefty amounts of money with no obvious security benefit: 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.
- Moreover, unruly passengers are becoming an increasing concern of airlines. IATA estimates that on average 70 flights every day are faced with unruly behavior which result in heavy financial burden on the airlines in delays and diversions and disturbing the experience of other passengers on-board. AACO is following up closely on the issue through its AVSEC Workgroup. In that regards, a major development was the adoption of the ICAO Diplomatic Conference in March 2014 of a protocol (Montreal Protocol 2014 – MP14) which amends the Tokyo Convention. More details on this issue in addition to AACO's work and position can be found on page 47 of this publication.
- On the other hand, and although security is mainly the role of governments, airlines are contributing to those costs to improve their operations' security. According to IATA, airlines and their passengers have spent more than USD 100 billion during the past decade on security, among which 38% were spent on fraud & theft prevention, audits and emergency planning, 28% on passenger operations security, and 20% on aircraft protection.
- Looking at current developments, 2014 witnessed two tragic security incidents, the first was the disappearance of Malaysia Airlines flight MH370 over the Indian Ocean on 8 March 2014 which 239 passengers and crew are still missing, and the second is the shooting of Malaysia Airlines flight MH17 over Ukrainian airspace on 17 July 2014 which killed its 298 passengers and crew. In the aftermath of those incidents, all stakeholders are looking into those accidents to develop measures that ensure that such incidents would never occur in the future. Further details on those incidents are pending and which will be thoroughly reviewed in next year's report.
- In 2014, the EU security requirements for incoming Air Cargo & Mail which requires air carriers operating cargo and mail to be designated as an "Air Cargo or Mail Carrier operating into the Union from a Third Country Airport" (ACC3) came into force on 1 July 2014. AACO has been following up closely on the issue through its AVSEV Workgroup and Aeropolitical Watch Group. More details on EU ACC3 in addition to AACO's work and position can be found on page 29 of this publication.

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

Airlines and passengers have spent more than USD 100 billion on security during the past decade

- On the training side, AACO continues to provide 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 – Canada.
- In relation to both safety and security, and acknowledging the need for collaboration in crisis management and emergency response planning, AACO established an ERP task force in 2013. The task force is developing an AACO Emergency Response Mutual Assistance Agreement and an AACO Emergency Response Planning Manual which can be used by member airlines to assist each other in calamities. In addition the task force is analyzing the capabilities of member airlines and developing a strategy and roadmap to enhance crisis management capabilities and preparedness of member airlines and the region as a whole.

AACO ERP Task Force is working on a Mutual Emergency Response Assistance Agreement amongst AACO member airlines

RELATIONSHIP WITH THE CUSTOMER

TRANSFORMING PASSENGERS INTO CUSTOMERS

Introduction

- The airline industry is consistently changing. Customers are becoming more discerning with the rapid spread of technology use and innovation of new channels.
- What the customers of today want is to have a similar experience of other industries such as retail:
 - ◆ To be able to reach any information instantly
 - ◆ To make choices based on needs, requirements and even to be inspired with choices
 - ◆ Select services and/or products based on personalized preferences
 - ◆ Have a seamless relationship with airlines at any touch point
- Based on that, airlines' awareness and understanding to what the customer wants began to change by adding additional objectives to the core of their business of just selling a seat. Hence the objectives became:
 - ◆ To know the customer in order to meet his/her satisfaction
 - ◆ Make competitive differentiation visible to the customer
 - ◆ To segment pricing their product at an optimum level with minimum cost of distribution

Distribution Strategies

In order to translate these objectives into actions, airlines have adopted merchandizing as well as personalization strategies.

- A merchandizing strategy includes:
 - ◆ Focusing more on selling ancillary services with the aim of turning demand into profits by investing in additional services to drive revenues.
 - ◆ Looking for innovative solutions that will enable them to display their products throughout all the distribution channels in a seamless manner and pattern.
 - ◆ To be able to provide the right product and service to the customer, and have the flexibility of delivering that service through the right channel, at the right time, and in a way that is visually appealing and easy to understand.

Airlines have adopted merchandizing as well as personalization strategies to meet the needs of the consumer

- A personalization strategy includes:
 - ◆ The ability to collect customers' data (customer journey, technique, channel, service, and price preferences) and to personalize every offer made to individual customers.
 - ◆ To have the ability to respond to customer's needs who want the ability to pick individual services - à la carte, bundled services or personalized packs - that offer clear tangible value.

Challenges

The transformation from PNR based passenger transactional systems to personalization of the consumer poses several challenges in the current IT and distribution infrastructures:

- IATA NDC is an important milestone for the industry by producing a new set of standards enabling airlines to highlight attributes of their products and hence create differentiation in them that will remove commoditization.
- However, in order to be able to transform passengers into customers rather than simple PNRs, airlines need to have complete control over the way they can respond to queries from different channels and/or be able to push their products' attributes and structure their ancillaries.
- The new trend of big data analysis including structured (coming from IT systems) and un-structured (behavioral data pulled from search and social media streams) data requires integration of airline systems which are still operating in silos based on the legacy technology used to implement those systems.
- In addition, the development in marketing philosophies in moving from cross-channel marketing to omni-channel marketing (i.e. same content displayed to customer across all touch points), presents endless opportunities to target individuals with relevant content across all communication platforms and equipment.
- The optimal change in the distribution landscape will require a re-invention of IT infrastructure to cater for the requirements of the customer. Such re-invention would require a revamp of airline systems to reach an integrated platform with seamless data exchange between the different systems/components, and which will recognize the customer, capture and store his information in order to create and provide each customer with relevant offers produced on time on that platform and populated to the customer across all distribution channels.
- The roadmap to individualization is still in its early stages. Industry standards are important and they would create a common language for airlines to be able to differentiate and retail. Yet, airlines still need a revolutionary system that will allow them to better serve the customer's increasingly sophisticated needs and requirements.

AACO'S WORK WITHIN THE FRAMEWORK OF THE FUTURE DISTRIBUTION STRATEGIES TASK FORCE (FDSTF)

- The FDSTF during 2014 met with various technology and distribution providers within its objective to study and research 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 based on IATA NDC initiative.
- The FDSTF identified three phases for its work:
 - ◆ Awareness and information gathering
 - ◆ Short listing of vendors capable of delivering viable solutions for AACO members
 - ◆ Negotiations

AACO'S WORK UNDER THE UMBRELLA OF AACO AMADEUS STEERING BOARD

- 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 Amadeus Steering Board (AASB), including representatives from the 13 member airlines, Amadeus, and AACO, follows up on the deal. The board holds periodic meetings to review the performance of this agreement in order to ensure its effectiveness for member airlines.
- In 2013, the agreement has crossed the anticipated threshold in terms of number of bookings on the Amadeus system in participating carriers' home markets; hence, bringing higher benefits to all participating carriers.

In 2013 AACO-Amadeus agreement has crossed the anticipated threshold, bringing higher benefits to all participating carriers

REGULATIONS

ENVIRONMENT

Introduction

- The environmental concern and the need to find a global solution to address climate change and the effect of aviation emissions still lodge the agenda of all stakeholders.
- All stakeholders look up at ICAO for the development of a global market-based measure (MBM) for international aviation.
- ICAO during its 38th session adopted a resolution on aviation and the environment and mandated the secretariat of ICAO to develop a framework for market-based measures (MBMs) in international aviation and report back its work to the 39th assembly.
- 2016 is a critical year, depending on the outcome of the discussions amongst states and regional and international organizations, we may witness - if the result of these discussions were positive - the birth of the global market-based measures (MBMS) scheme structure and design elements.

There is a need to reach a global solution to address climate change

Key Milestones

- **EU**
 - ◆ Back in 2012, the EC announced stopping the clock of the EU ETS on international flights (to/from the EU) until the close of the ICAO general assembly of 2013.
 - ◆ At the 38th session of the ICAO assembly, the EU was trying to gain recognition for the reactivation of its ETS on a wider scope, and that attempt was voted down.
 - ◆ In spite of the outcome at the ICAO assembly, the EC published its proposal to amend the scope of its EU ETS, to capture emissions in their airspace from non-EU airlines.

- ◆ Because it was evident that restarting the clock would restart the trade war, the parliament voted to continue with stop the clock of the aviation EU ETS until 2016 awaiting the outcome of the 39th session of ICAO assembly on an agreement to implement a global market based mechanism after 2020.
- ◆ Accordingly, for 2013 airlines were required to report only their emissions on intra-European Economic Area (EEA) routes.

• ICAO

- ◆ ICAO's 38th session resolved that the council, with the support of member states, should finalize the work on the technical aspects, environmental and economic impacts and modalities of the possible options for a global MBM scheme, including its feasibility and practicability, without prejudice to the negotiations under the UNFCCC;
- ◆ ICAO 39th session would evaluate and decide on the structure and key design elements as well as the mechanisms for the implementation of the scheme from 2020 as part of a basket of measures which also include technologies, operational improvements and sustainable alternative fuels to achieve ICAO's global aspirational goals.
- ◆ The council agreed, based on a request by the BRIC states to the establishment of the environment advisory group (EAG) which will oversee the work related to the development of the global scheme that will be principally undertaken by a global market-based measure technical task force (GMTF).
- ◆ Early this year, the environment advisory group (EAG) developed a Strawman for a global market-based measures scheme for international aviation that identifies the goal, scope, individual responsibility as well as adjustments.

ICAO progresses on its work on the structure and key design elements for a global scheme

Strawman for Global Market-based Measures

- Following are the suggested design elements and structure of the MBM :
 - ◆ A timetable to introduce the legal mechanism to implement the global MBM.
 - ◆ MBM to be based on route groups, to be defined as mature or developing.
 - ◆ Forms of exemptions, burden sharing, common but differentiated responsibilities, special circumstances and respective capabilities, and environmental integrity within a global MBM scheme.
 - ◆ Identifying the percentage of collectively vs the individuality (basic calculation).
 - ◆ The calculation method of fast growth adjustment.
 - ◆ The calculation method of the early mover adjustment for the airlines who invested in renewing their fleet prior to 2020.

It is pre-mature to anticipate the outcome of the discussions within ICAO as these discussions are still ongoing.

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

• Strawman for global market-based measures

- ◆ AACO's Environmental Policy Group followed up on the outcome of the discussions of ICAO Environmental Advisory Group and commented on the suggested design elements and calculation methods of both early movers and fast growth adjustments within the Strawman.

- ◆ The EPG emphasized on the importance of these two adjustments which are part and parcel of the global deal.

- **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.

CONSUMER PROTECTION

Current Situation

The proliferation of passenger rights regulations has always put burdens and resulted in confusion to airlines and passengers alike. According to IATA information, more than 60 passenger rights regimes are currently in place. IATA estimates that the potential liability to airlines resulting from the expansion of these regulations could nearly triple in the next 5 years; from over USD 4 billion in 2012 to USD 12 billion in 2017.

ICAO'S 2013 Assembly

- Work is being done under the ICAO umbrella in order to bring more harmony to the different regulations developed by various states.
- ICAO's 2013 Assembly has requested the Council to develop, in the short term, a set of high-level, non-binding, non-prescriptive core principles on consumer protection, for use of policy guidance, which strike an appropriate balance between protection of consumers and industry competitiveness and which take into account the needs of States for flexibility, given different State social, political and economic characteristics; these core principles should be consistent with existing instruments, in particular that of the Convention for the Unification of Certain Rules for International Carriage by Air, adopted in Montreal on 28 May 1999.

Work at ICAO'S ATRP

- ICAO Air Transport Regulatory Panel (ATRP) is responsible to tackle all issues in charge of economic regulations related to the air transport industry.
- In May 2014, the ATRP developed the ICAO Core Principles on Consumer Protection, which will be presented for consideration by the ICAO governing bodies and Member States as ICAO policy guidance on the core principles on consumer protection.
 - ◆ Basically the core principles call upon governments when they are developing passenger rights regimes to develop ones that strike an appropriate balance between protection of consumers and industry competitiveness and which take into account states' different social, political, and economic characteristics, without prejudice to the security and safety of aviation.
 - ◆ National and regional consumer protection regimes should:
 - reflect the principle of proportionality
 - allow for the consideration of the impact of massive disruptions,
 - be consistent with the international treaty regimes on air carrier liability established by the Convention for the Unification of Certain Rules Relating to International Carriage by Air (Warsaw, 1929) and its amending instruments, and the Convention for the Unification of Certain Rules Relating to International Carriage by Air (Montréal, 1999).
 - ◆ The ATRP principles as well provide guidance on passenger rights before travel, during travel, and after travel.

ACAC'S Guiding Material on Consumer Protection and AACO'S Work

- ACAC Air Transport Committee has developed a guiding regulation on consumer protection that Arab states can use when they want to develop their own regulations on passenger rights.
- AACO has sent detailed comments to ACAC on the guiding material and urged ACAC to postpone the adoption of this material until the work at ICAO is done and to join efforts with ICAO in the development of core principles for consumer protection.
- ACAC AGM held in May 2014 referred back the guiding material to ACAC air transport committee to look into AACO comments.
- Based on AACO's recommendation, ACAC Air Transport Committee, in their meeting in September 2014, decided to raise a recommendation to ACAC Executive Council to establish a working group that would amend the ACAC guiding material to be in line with the principles developed at ICAO's ATRP from now until 2016 before adopting the guiding material. The working group would gather interested Arab CAAs with the participation of AACO and would liaise with the four Arab states that are on the ATRP.

**ACAC to join
ICAO's efforts**

AACO'S Position on the Proliferation of Passenger Rights Regimes

- AACO is in support of the harmonization of regulations related to passenger rights as the current situation is bringing confusion to airlines and passengers and in some cases discriminates between passengers travelling on the same flight and could also result in harming connectivity; hence AACO has supported IATA's core principles that were adopted at their 69th Annual General Meeting for consumer protection and is as well in support of the development of core principles at ICAO level that would bring more harmonization to the different regulations adopted by various states, provided that these principles are in line with IATA's principles and would bring a balance between passenger rights and industry competitiveness.

REVISION OF TOKYO CONVENTION 1963

Montreal Protocol 2014

- The Tokyo Convention was negotiated in 1963 and it gives jurisdiction over offenses committed onboard aircraft to the state of registration of the aircraft.
- There were loopholes that allow unruly passengers to escape law enforcement for serious offences committed on board aircraft.
- ICAO held a Diplomatic Conference late March 2014 in Montreal. More than 100 governments attended and adopted a Protocol that amends Tokyo Convention.
- The new protocol significantly improves the ability of ICAO member states to expand jurisdiction over related offenses to the state of the operator and the state of landing.
- The agreed changes give greater clarity to the definition of unruly behavior (such as including the threat of or actual physical assault, or refusal to follow safety-related instructions).
- The changes will come into force when 22 states ratify the protocol to the Tokyo Convention.

**MP14: closing loopholes
in Tokyo Convention
1963**

AACO'S Position

- AACO has joined IATA and other airline associations in adopting a joint position paper urging states to prioritize the ratification, acceptance or accession to the Montreal

Protocol 2014, which was adopted at ICAO's Diplomatic Conference earlier in 2014 to revise the Tokyo Convention 1963. In particular the parties of the joint position paper urged states to:

AACO advocates for the ratification of MP14

- ◆ Prioritize the ratification of the 'Protocol to amend the Convention on Offences and Certain other Acts Committed on board Aircraft' (Montreal Protocol 2014).
- ◆ Consider the adoption or amendment of supporting domestic legislation to secure the proper activation of jurisdictional and prosecution powers using ICAO Circular 288 as a guide.
- ◆ Raise public awareness of the consequences of failing to follow crew instructions or commit unruly behavior.
- AACO and IATA wrote joint individual letters to the Directors General of the Arab CAAs highlighting the benefits of the new Protocol to governments, airlines, and passengers alike, and urging the DG CAAs to lobby with their governments to adopt the new Protocol.
- On the other hand, AACO, joined by IATA, coordinated with the Arab Civil Aviation Commission (ACAC) to have the issue discussed at the ACAC Security Committee to be eventually raised to the ACAC Executive Council.

TAXATION

Introduction

- Government taxes have always been one of the major industry concerns affecting airlines and passengers. Therefore, the industry has always been engaged with governments in talks that highlight the negative effects of increasing ticket prices.
- Ticket prices for consumers and tourists increase when governments introduce new high taxes on the air travel and tourism industry. Therefore, the demand for air travel and tourism will decrease; and with a lower demand, aviation will play a less major role in boosting tourism and subsequently driving the economy. Although most Arab governments look at aviation as a driver to the economy, we still see some hikes in government taxes that have adverse effects on the air transport sector; hence the economies of these states. Some of the latest taxes that were introduced during the past year were in Egypt and Morocco, and in other states as mentioned below.

We still see hikes in government taxes that have adverse effects on the air transport sector and the economy as a whole

Latest updates

- Egypt increased the air passenger departure tax at Cairo airport from USD 20 to USD 25 on 1 July 2014 in order to finance Terminal 2 at the airport; noting that a few months earlier Egypt increased the entry visa fees to foreigners, reaching USD 25 from USD 15.
- The Moroccan Government imposed a tax of MAD100 (USD 12) on economy class tickets and MAD 400 (USD 49) on first or business class tickets, for flights departing from Morocco from 1 April 2014.
- A similar tax to Morocco was imposed by Tunisia early 2014; however, Tunisia's tax is imposed on international travel and at a much lower rate of TND 2.5 (USD 1.6).
- The UK Air Passenger Duty (APD) tiers were harmonized in March 2014. In order to promote connections to high emerging economies, the UK government announced that the upper two tiers of the tax, Bands C and D for flights more of a length than 2,001 miles, would be abolished. While the industry remains keen on abolishing the APD, this harmonization is saving the industry around USD 300 million annually.

- US Transportation Security Administration (TSA) fees rose on 21 July 2014 from USD 2.5 for nonstop flights and USD 5.6 for connecting flights to USD 5.6 for all flights. Updates on this fee are currently being debated at the congress.
- The African Union proposed a regional tax of USD 10 per international tourist; however, industry calls have resulted in abolishing this proposal that would have resulted in USD 3.4 billion fee on tourists.

AACO's Work

- AACO has always been keen on promoting an environment free of taxes on airlines, especially when it comes to taxes introduced by governments to fund projects not related to the aviation industry.
- AACO's major focus during the past year was on revising the existing Tunis Convention on the 'Reciprocal Exemption from Taxes and Charges on Activities and Equipment of Arab Air Transport Institutions'. Throughout 2014, there has been a major leap in the revision of the convention and AACO has been closely involved with the financial authorities of Arab states in the process.

AACO's major focus during the past year was on revising the existing Tunis Convention

FUEL

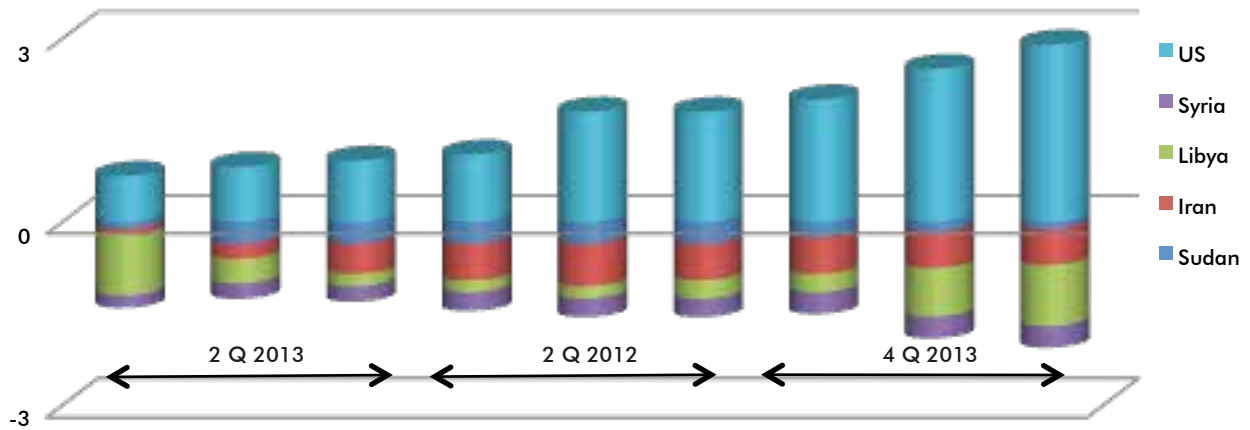
Factors Driving Jet Fuel Prices Globally during 2014

- Fuel prices are considered the major variable cost component for airlines which has a direct impact on airline profits and hence on ticket prices.
- IATA expects that the fuel share from the operational cost is going to decrease by 2% this year; from 32% in 2013 to 30% in 2014, which will be reflected positively on the airlines' profitability.
- The oil market was stable in the last 2 years and witnessed the gentlest levels of price volatility, this is attributed to:
 - ◆ A stable production which was maintained despite the geopolitical unrest in the following countries (eastern Europe, Iraq, Syria, Libya, Sudan and Iran). The disruptions in those countries had resulted in declines in global markets, this was offset by the increases in output from America's shale discovery.
 - ◆ The increasing refining capacity in the US Gulf Coast that exceeds regional demand.
 - ◆ The infrastructure in the US Gulf Coast which allows to supply the product to other U.S. regions and to the global market.
 - ◆ Increased competition from refineries kept the crack spread stable over Brent crude oil prices.
 - ◆ China, the second biggest fuel consumer, has reduced demand on oil and their jet fuel refineries had ample production.
 - ◆ Hence, crude oil prices witnessed a slight decline in 2014 compared to the year 2013.

Gentle oil price volatility for the past 2 years

Fig. 37

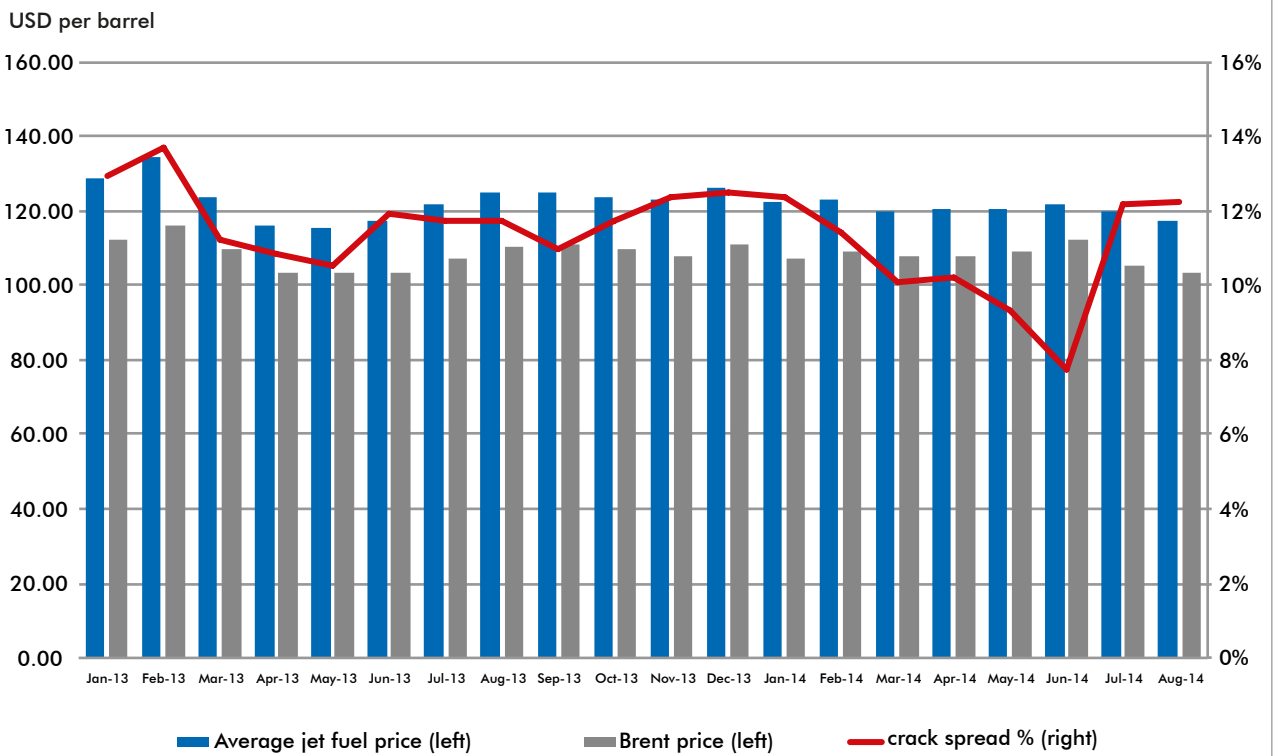
Changes In Oil Production



Source : Energy Outlook 2035, BP, 2014

Fig. 38

Correlation between Jet Fuel ,Crude Oil Prices & Refinery Margin



Source: Platts

AACO's Fuel Project Activities

- In the past decade, if fuel price was the main concern for airline companies, quality and sustainability are not losing points on the charts.

The Arab Air Carriers Organization established the Fuel Project (FP) to tackle the Arab airlines' main fuel concerns. By minimizing the effect of volatile fuel prices on airlines, the Fuel Project contributes in realizing breakthroughs in fuel prices when it comes to monopolistic areas and helps establish a better economic environment for operations. In addition to this core work of the participating group of carriers in the project, the group plays an awareness role as well by holding forums, workshops, and sharing and publishing information. In August 2013, Dubai hosted AACO's fuel forum gathering fuel suppliers, civil aviation, Arab airlines, service providers, global associations with the same interest and the media. The different parties discussed fuel hedging, along with technical and commercial aviation topics.

- Workshops were also held on various topics such as: exchange of expertise on fuel supply, new techniques of buying fuel (buying into storage whether at refineries or airports, joining a fuel consortium etc..). Members also receive the latest changes of taxes and fees applicable on Jet Fuel sold to international carriers and on the conditions of tax exemption.
- The Fuel Project as well advocates for the best interests of member airlines when it comes to new regulations. When Kuwait's Higher Council for Civil Aviation, for instance, debated freezing government's aid for international carriers operating at Kuwait airport, the Fuel Project communicated with the Higher Counsel and highlighted the possible negative consequences of such a decision; hence, the new rule was not enforced. In South Asia, after several meetings with different partners, the Fuel Project convinced the government of Colombo of waving the PAL tax on Jet Fuel; thus ensuring better air fares for the end consumer.
- Future plans of the project include training on Aviation Fuel Contracts Management, Aviation Fuel Tendering Management and the latest systems for managing fuel consumption on operations. And in 2015, the project is planning to organize a forum on renewable energy sources and alternative fuels.
- Established in 1999, the project has been the link between fuel suppliers and more than 20 airline companies: Air Cairo, Air Algerie, Air Arabia, Afriqiyah Airways, EGYPTAIR, Gulf Air, Jordan Aviation, Kuwait Airways, Libyan Airlines, Middle East Airlines, Nile Air, Oman Air, Qatar Airways, Royal Jordanian, Saudia, Sudan Airways, Syrian Arab Airlines, Tunis Air, Yemen Airways, and Trans Mediterranean Airways.

AACO'S OTHER ACTIVITIES

MRO

- AACO launched the MRO Collaboration Project in 2013. 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.
- Member airlines participating in the project are currently working on two initiatives:
 - ◆ Line Maintenance: the initiative focuses on fostering collaboration between the project carriers to tackle issues faced at some stations with regards to the availability and adequacy of line maintenance services at those stations with the aim to eliminate flying spanners and/or improve the service level at those stations.
 - ◆ Joint Purchasing of Consumables: the Delivery Team working on that initiative successfully concluded in 2014 the first tender covering oils, lubricants and cleaners.

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.

HUMAN RESOURCES

AACO RTC 2013

- The number of participants in AACO training courses for the year 2013 has reached 657 trainees through 59 training courses which were conducted as follows:
 - ◆ 18 scheduled courses were attended by 197 participants.
 - ◆ 34 in-house courses were attended by 427 participants.
 - ◆ 7 extra courses were attended by 33 participants.
- AACO was able to provide 144 scholarships in 2013, and AACO member airlines used 78 scholarships either by registering them on the scheduled courses, or by covering the costs of conducting in-house courses at their home base.
- AACO also conducted 3 courses for Qatar CAA which were attended by 60 participants, 1 course for Bahrain CAA which was attended by 29 participants, 1 course for the Jordan Airport Company which was attended by 17 participants, 1 course for Blue Bird which was attended by 9 participants and 2 courses for Jordanian Air Force which were attended by 24 participants
- Savings for Arab airlines in training reached USD 1,558,180 through year 2013.
- AACO secured 4 scholarships from the European Aircraft Manufacturer ATR for the fourth consecutive year, on the part time executive MBA program at Toulouse business school specialized in Aerospace Management, and it included participants from Etihad Airways, Air Algerie, EgyptAir, and Kuwait Airways.
- AACO conducted the 8th AVSEC PM Program in collaboration with Concordia University, ICAO and hosted by Emirates Airline, attended by 22 participants from several airlines, 8 of them from AACO members.
- AACO also conducted a Human Resources Management Diploma for EgyptAir attended by 21 participants.

AACO RTC FROM JANUARY TO AUGUST 2014

- The number of participants has reached 471 participants from Jan 2014 till the end of Aug 2014 through 54 training courses which were conducted as follows :
 - ◆ 9 scheduled courses were attended by 87 participants
 - ◆ 43 in-house courses were attended by 356 participants
 - ◆ 2 extra courses were attended by 28 participants
- AACO conducted 2 courses for Libyan Wings attended by 19 participants, and 2 courses for the Academie Tuniso Francaise de formation en surete de l' Aviation Civile attended by 57 Participants, 1 course for the Nova Air attended by 25 participants, and 1 course for Saudi Ground Service company attended by 20 participants.
- In spite of the low number of courses held, due to the unstable political situation in some of the Arab states, the center was able to achieve good savings for Arab airlines, reaching around USD 1,282,255.
- AACO was able to provide 141 scholarships till the end of August 2014, and AACO member airlines used 56 scholarships of them.
- AACO conducted the 9th AVSEC PM Program in collaboration with Concordia University, ICAO and hosted by Emirates airline, which was attended by 22 participants from several airlines 9 of which were AACO members.
- AACO also secured 3 scholarships from the European Aircraft Manufacturer ATR for the Fifth consecutive year, on the part time executive MBA program at Toulouse business school specialized in Aerospace Management which included participants from Etihad Airways, Royal Jordanian and Oman Air.

GROUND HANDLING

- AACO Ground Handling project (Cooperation at Outstations) focuses on increasing the level of cooperation between member airlines in outstations in a way that maintains and enhances the quality of services, and at the same time controls cost issues and tackles any regulation that may harm AACO member airlines.
- The current agreements in hand are with Havas in Istanbul and 20 other Turkish airports, and with Groundcare S.P.A. in Fiumicino and Ciampino airports.
- Upon the bankruptcy of Groundcare S.P.A, the Ground Handling Steering Board (GHSB) launched negotiations with service providers in Rome. The GHSB also launched negotiations with service providers in Brussels and in Kuala Lumpur, and is constantly aiming to expand the project to cover several other airports.

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 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 published in the English language.

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 include:

- 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 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.

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 31 member airlines, more than 60 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 Affairs 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.
- ◆ Aviation 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, ACAC, 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.



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