



AACO 44th AGM - Abu Dhabi

الجمعية العامة الرابعة والأربعون
للحري للونقل الجوي

28-30 November

2011

Annual Report

Arab Air Carriers Organization

AACO 44th AGM - Abu Dhabi



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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 interest and be the catalyst for their cooperation.

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 and serve joint projects between member airlines with the objective of reducing their costs, increasing their revenues and embracing best practices
- ◆ To provide forums for members and for industry partners to enhance the knowledge base and improve cooperation amongst them
- ◆ 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



Mr. James Hogan
AGM Chairman



Mrs. Ghaida Abdullatif
Chairperson of the Executive Committee

Mrs. Ghaida Abdullatif, Vice Chairman - Director General and CEO, Syrian Arab Airlines

Eng. Rammah Ettir, Chairman, Afriqiyah Airways

Mr. Mohamed Salah Boultif, President & CEO, Air Algerie

Mr. James Hogan, Chief Executive Officer, Etihad Airways

Eng. Samer Majali, Chief Executive Officer, Gulf Air

Capt. Abdulkalek Saleh Al-Kadi, Chairman, Yemen Airways

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

Eng. Hussein Massoud, Chairman and CEO, EgyptAir Holding Company

Mr. Akbar Al Baker, Chief Executive Officer, Qatar Airways

Eng. Khalid Almolhem, Director General, Saudi Arabian Airlines



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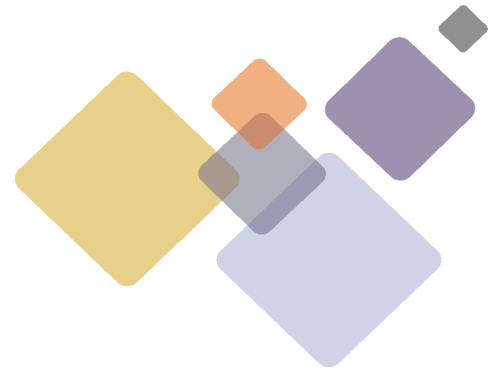


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The world air transport industry was not fortunate, apparently, to enjoy an extended period of time void of crises. This industry just exited in 2010 and early 2011 the repercussions of the structural financial crisis, to enter into the tremors of an economic crisis which started in Europe but obviously will affect the economy of the whole world.

The impact of the consecutive crises which hit the airline industry from 2001 was not uniform. The financial crisis of 2008 and 2009 primarily hit hard the US based airlines and burdened these airlines more than others around the world. The last crisis started by impacting the European airlines in particular, at a time when these airlines have exhausted almost all of their restructuring and cost cutting techniques. These airlines unfortunately do not have anymore a wide margin of flexibility in putting more pressure on their cost to meet the challenges of the emerging crisis, in spite of the strive towards consolidation and mergers led by major European airlines.

As for the Arab scene, and in spite of the radical changes that some of the Arab countries have witnessed in 2011, it is expected that the Arab airlines will continue their growth this year. The Arab airlines continued this constant growth even during the financial crisis. They have witnessed a massive growth exceeding 17% in RPKs in 2010 and also expected for their RPKs to witness in 2011 a 7% increase in spite of the pressures in the region and the economic crisis in the world.

The primary reason for the continuation of such a growth resides in the ability of AACO member airlines to deal with crises as opportunities to strengthen their relationship with the customers rather than resort to scaling down and retraction. The strategy employed by the airlines can be summarized by providing the traveler added value in services and in also providing that traveler a total travel experience that is unique, promoting the traveler's choice of these airlines rather than their competitors.

The tremendous advancement of information technology provided the traveler with a great power; he can exercise his choices. The traveler does not rely anymore on a third party to guide him in his travel choices. The traveler now is at the driver's seat in how he makes his choices through identifying what exactly he needs and whom in the value chain of travel and tourism can meet his requirements. The traveler indeed has become global. His globality is

Milestones

Milestones



synonymous to the globality that the internet provides especially in what it provides as channels of knowledge and identification of who can meet the increasing requirements of this traveler. On the other hand, technological advancements in airframe and engine manufacturing also contributed in providing the customer with the ability to travel from any point in the world to any other point with only one stopover. The development of the infrastructure in the Arab world also enables the Arab travel value chain to account for the future traffic demand in addition to the current one, completing total value proposition to the global customer, offering him choices based on efficiencies and quality of service rather than the flag that the service provider is carrying. The collective effect of these factors are the ones which are enabling the Arab airlines to continue their expansion, growth and success in exceeding the expectations of the global traveler rather than just meet them.

The potential for growth and expansion is still very wide for AACO member airlines. The ratio of travelers in the Arab world to its population is only 1.3:1, while it is in Europe 1.1:1 and in the USA is 2:1. Moreover, the geographical location of the Arab world provides the Arab airlines with the ability to benefit from the exponential growth of the Asian markets. These markets will produce in the current decade and beyond hundreds of millions of travelers annually.

However, making the best out of those potentials needs a structural change in the Arab regulatory framework. This change should remove restrictions from market access and ownership and control within the framework of the economic rules of the Damascus Convention and according to a clear timetable that the Arab countries need to commit to. The Arab regulatory framework was one of the main issues which AACO dealt with last year. Achieving a liberal Arab regulatory framework remains one of the fundamental requirements to attain a better future for the Arab air transport. The quest for a liberalized Arab regulatory framework requires also a parallel work to formulate Arab European aviation relations in a way which provides balance between the air transport sectors in both regions. AACO works with ACAC on those fronts under the leadership of the Council of Arab Transport Ministers.

AACO, on a different issue, continued its work on the environmental front. AACO prepared a template for the mitigation of environmental impact of Arab aviation. This template is based on the principles of the Chicago Convention, Kyoto Protocol and ICAO resolutions of 2010; and it is within the context and approach of the IATA four pillars strategy.

On the other hand, AACO is still affording to its members the cooperative framework concerning the European Emissions Trading Scheme. This scheme will cost members in 2012 only more than one hundred million US dollars. AACO is very clear in this regard: We consider that the implementation of this program on non European airlines does not respect Chicago Convention nor the bilateral agreements granting each country sovereignty over its space.



Milestones

The Arab airlines in fact have the best environmental footprint in the world. This is due of course to their fleet renewal policy which results in them having the youngest fleet in the world. In spite of the fact that many of the Arab countries are oil producers, a number of them are investing heavily, on their own or together with their national airlines, in the research and development of alternative energy sources. This is a strategic move that hopefully will meet the requirements of the future.

AACO is always guided by its vision, mission and objectives. Hence, it launched in 2011 a new project for Engineering, Maintenance and Overhaul, to join the numerous joint projects AACO has, thus increasing the added value to its member airlines. The Arab Air Carriers Organization launched also a partnership program with non Arab airlines. Two prominent airlines joined this program already, namely Jet Airways and Turkish Airlines. This program seeks to enhance mutual added value between members and partner airlines. The program is also expected to include a number of other airlines.

AACO's work this year was intense and productive. This is first and foremost due to the support and guidance that the CEOs of AACO member airlines afford to AACO. Here I would like to thank the Chairman of the AGM for this year, Mr. James Hogan, the Chairperson of the Executive Committee, Mrs. Ghaida Abdullatif, and the members of the Executive Committee, as well as all the CEOs and their assistants for providing an unequivocal support to our efforts.

I would like also to thank our industry partners, IATA and the other regional organizations, with whom we share the same goals, for their support and cooperation.

Last but not least, I would also like to thank AACO staff; you are the backbone of this association. AACO actually graduated this year skills which either learned the aviation art in the Secretariat General or expanded their experience with this industry therein. My colleague Ahmad Rihan returns to Egyptair after eight years of productive and efficient work in AACO, which placed the Regional Training Center firmly on the road to sustainable success. Our colleagues Fadi Fahes and Mirna Khalil also left AACO to take over senior responsibilities at major global companies, proving that AACO has become a school for producing efficient industry skills. While I wish those colleagues the best in their future endeavors, I reiterate my gratitude and thanks to all members who have enabled AACO with their guidance and support to become an effective institution and a place to produce talented skills.

Abdul Wahab Teffaha

Secretary General



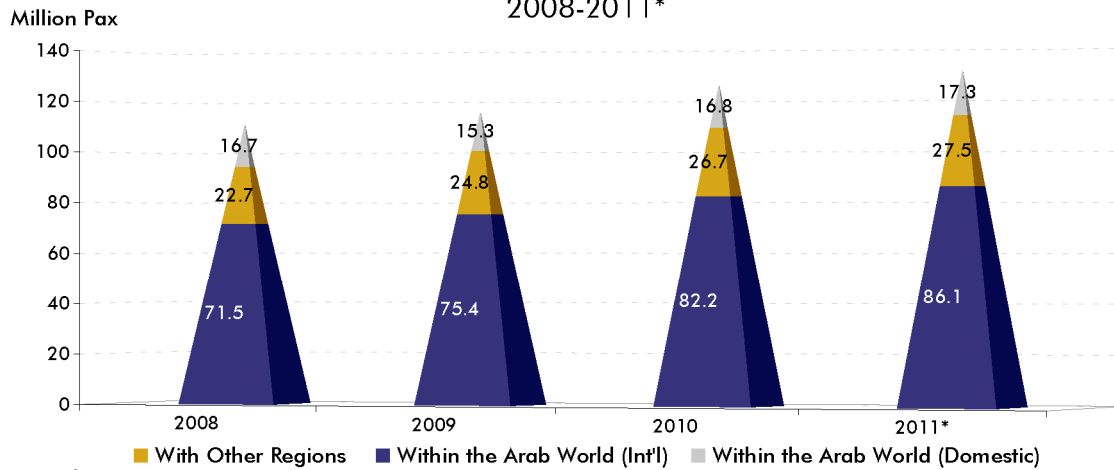
ARAB REGION: A GLOBAL AIR TRANSPORT HUB

Development of the Arab Air Transport Market

The Arab air transport market continued its booming expansion in 2010 as the recovery from the global financial crisis began. The Arab air transport market grew by 8.9% compared to 2009. Number of passengers to, from and within the Arab world reached around 126 million passengers compared to 116 million in 2009. In spite of the situation in the region, and based on preliminary figures for the first half of 2011, we expect a growth of around 4.1% in the number of passengers traveling to, from and within the Arab world in 2011 over 2010.

Fig. 1

Arab Air Transport Market Passenger Numbers
2008-2011*



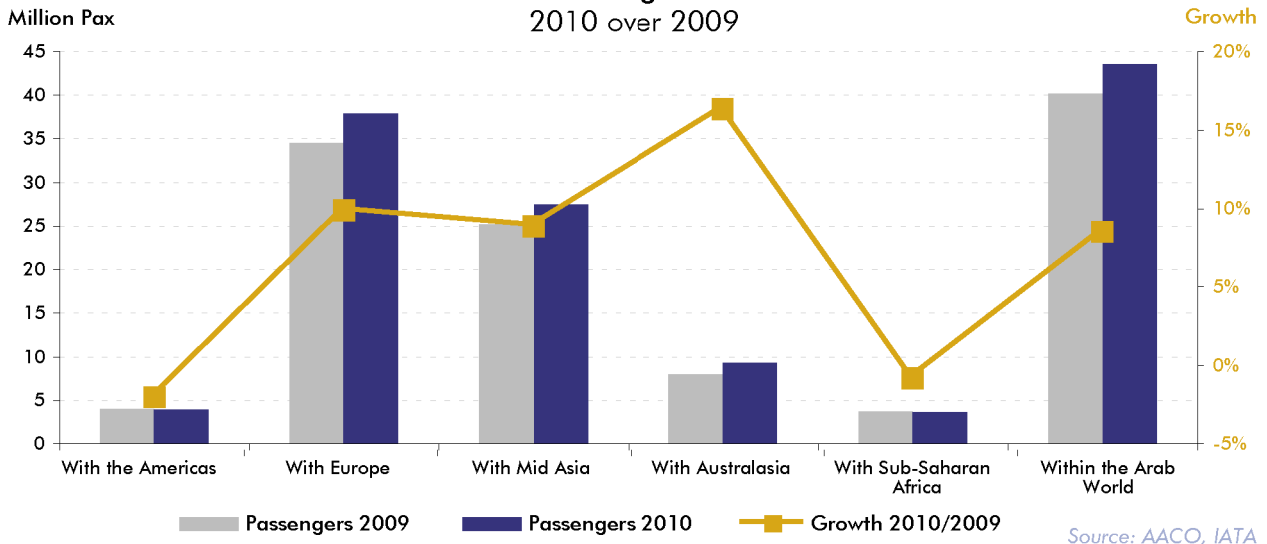
* Estimated

Source: AACO, IATA

Passenger numbers to and from the Arab world recorded a growth of 9.1% in 2010 compared to 2009. Passenger traffic to and from the Arab world is forecast to grow by 4.7% in 2011 compared to 2010.

Fig. 2

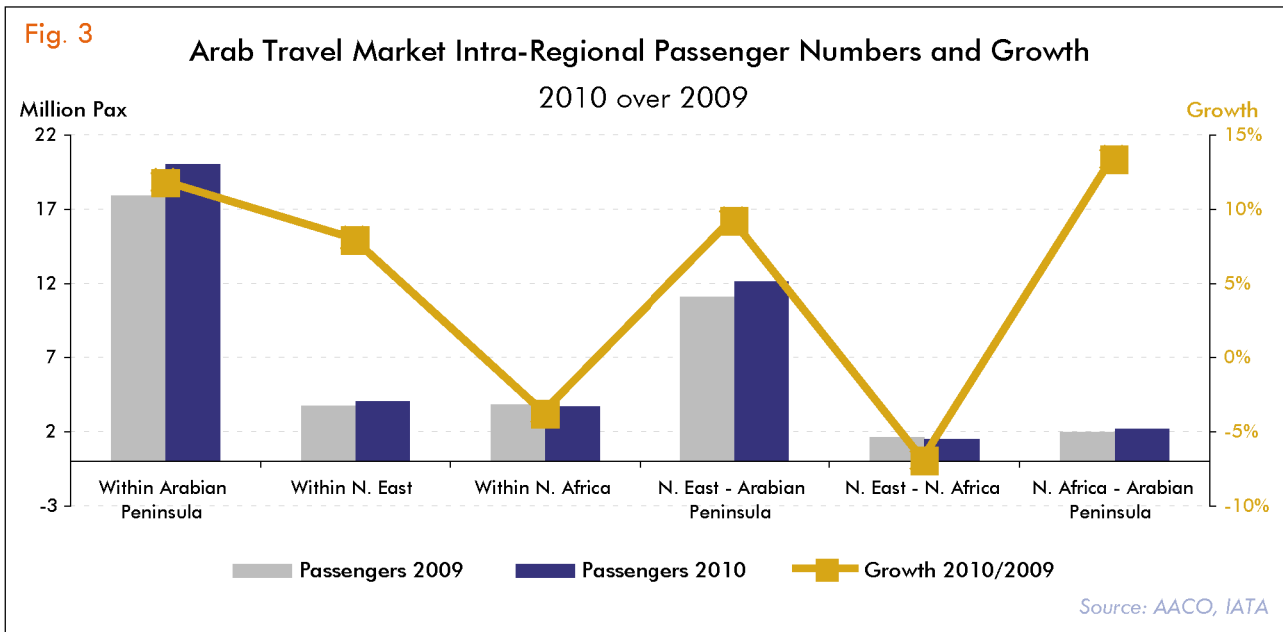
Arab Travel Market Passenger Numbers and Growth
2010 over 2009



Source: AACO, IATA



Passenger numbers within the Arab world recorded a growth of 8.5% in 2010 compared to 2009, with international traffic within the Arab world growing by 7.8%, and domestic traffic increasing by 9.6%. Passenger traffic within the Arab world is forecast to grow by 3.0% in 2011 compared to 2010.



AACO MEMBERS' OPERATIONS

Passengers Operations

Revenue Passenger Kilometers

Member airlines recorded a big increase of 17.1% in 2010 in scheduled RPKs compared to 2009. The global growth in scheduled RPKs for the same year was 7.3% compared to 2009. Overall, total RPK growth of AACO member airlines in 2010 was 16.9% (including scheduled and charter operations). We estimate a traffic growth of 7.0% in 2011 as traffic slows down as a result of the situation in the region.

Available Seat Kilometers

AACO members witnessed a growth rate of 12.8% in 2010 in scheduled ASKs over 2009, while the global growth for the same period was 4.0%. Total ASK growth recorded at member airlines in 2010 was 12.5% over 2009. AACO carriers are estimated to post a growth of 8.6% in ASKs in 2011 in line with new aircraft expected to be delivered and with their network expansion.

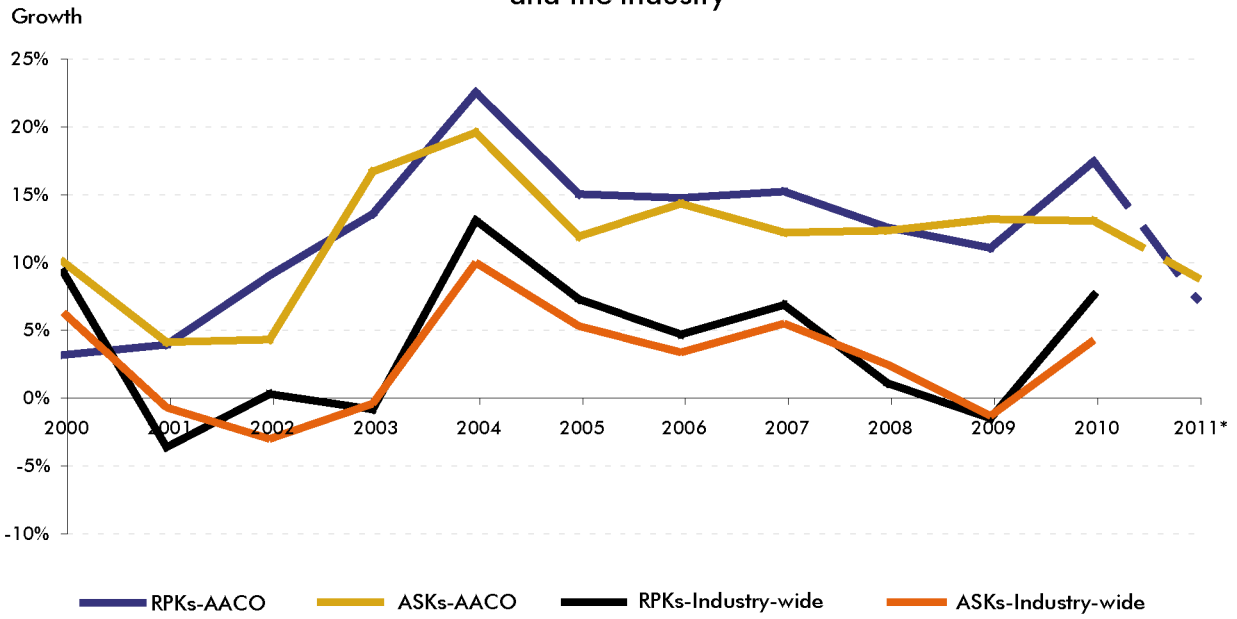
Passenger Load Factor

Passenger Load Factor at AACO members climbed 2.7 percentage points in 2010 to 74.1%, as capacity increase lacked behind the growth in demand.



Fig. 4

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



* Estimated

Source: AACO, IATA

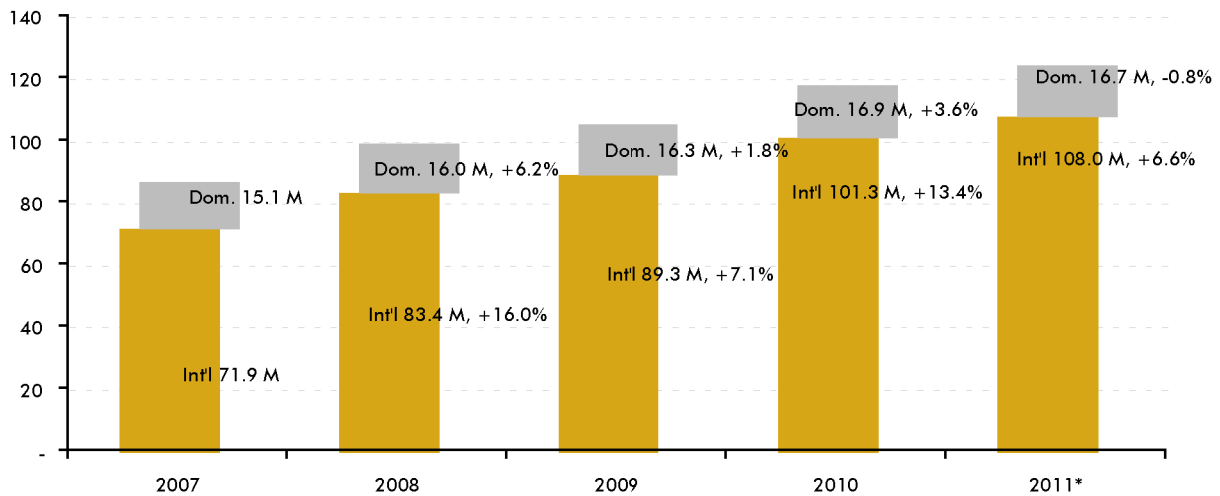
Total Number of Passengers

The total number of passengers carried by AACO members reached 118.2 million passengers in 2010, an increase of 11.9% over 2009, compared to an industry increase of 7.4% in the number of scheduled passengers.

AACO members are forecast to carry 124.7 million passengers in 2011; an increase of 5.5% over 2010 numbers.

Fig. 5

Number of Passengers on Most AACO Members 2007-2011*



* Estimated

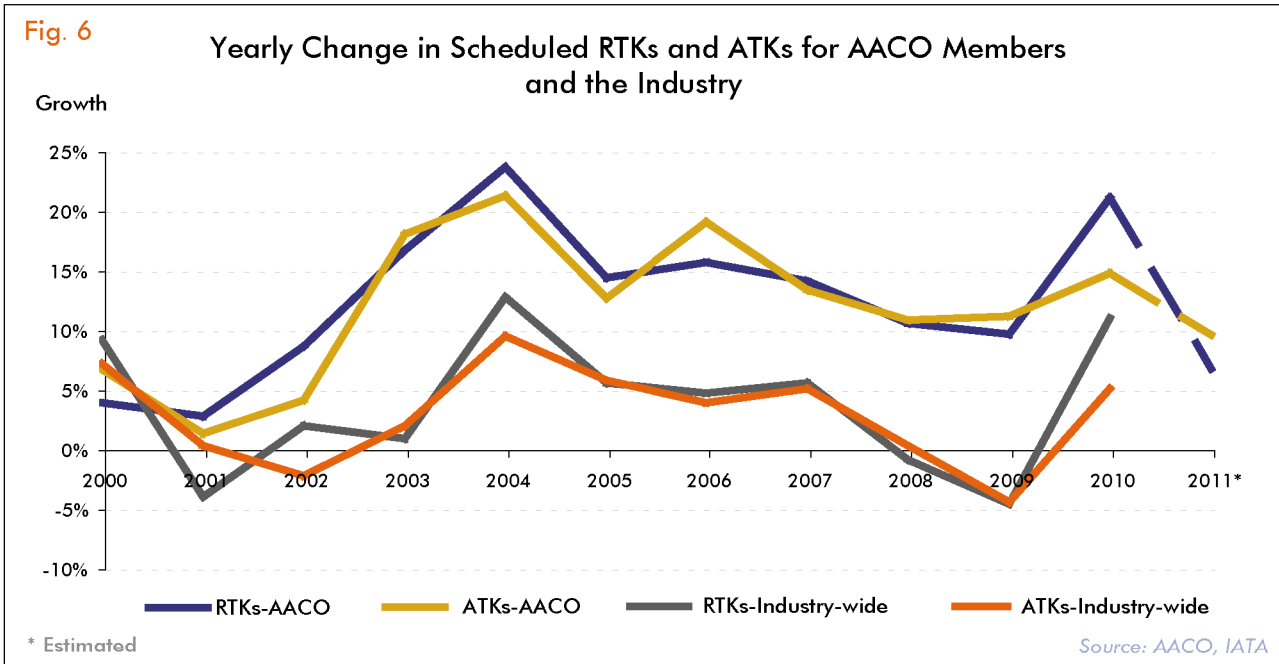
Source: AACO



Cargo Operations

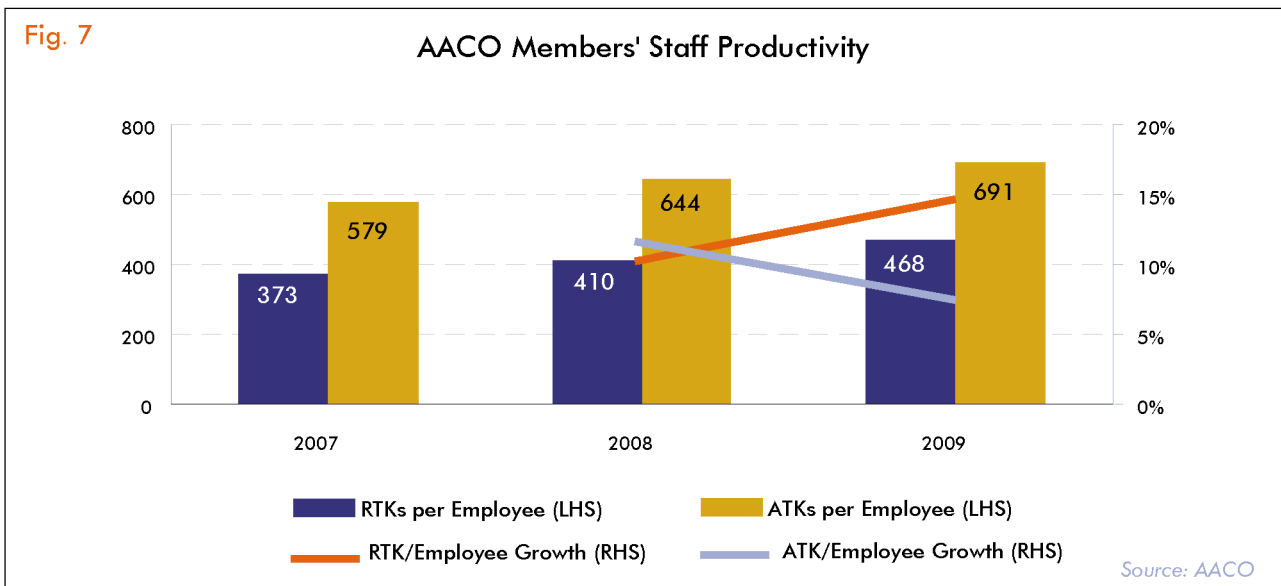
AACO member airlines recorded an impressive growth of 20.8% in 2010 in RTKs compared to 2009, as a result of healthier trade conditions boosted by good levels of domestic demand. AACO members also witnessed a growth of 14.6% in ATKs. Consequently, AACO carriers' Weight Load Factor increased by 3.2 percentage points to 62.1%.

We expect AACO members' cargo operations to increase by 6.5% in traffic and by 9.4% in capacity in 2011 for the same reasons affecting passenger operations.



Employees

Staff counts at 10 reporting AACO members increased by 6.7% in 2010 over 2009. The restructuring at many carriers resulted in an increase in employee productivity and efficiency to 468 RTKs per employee and 691 ATKs per employee, in thousands. The percentage increase over 2009 levels was 14.3% and 7.2% respectively, compared to a growth of industry-wide productivity of 9.4% and 4.2% respectively. Moreover, reporting carriers exceeded the global averages not only in growth level, but in absolute terms as well; IATA reported an average of 375 RTKs per employee, and 552 ATKs per employee.

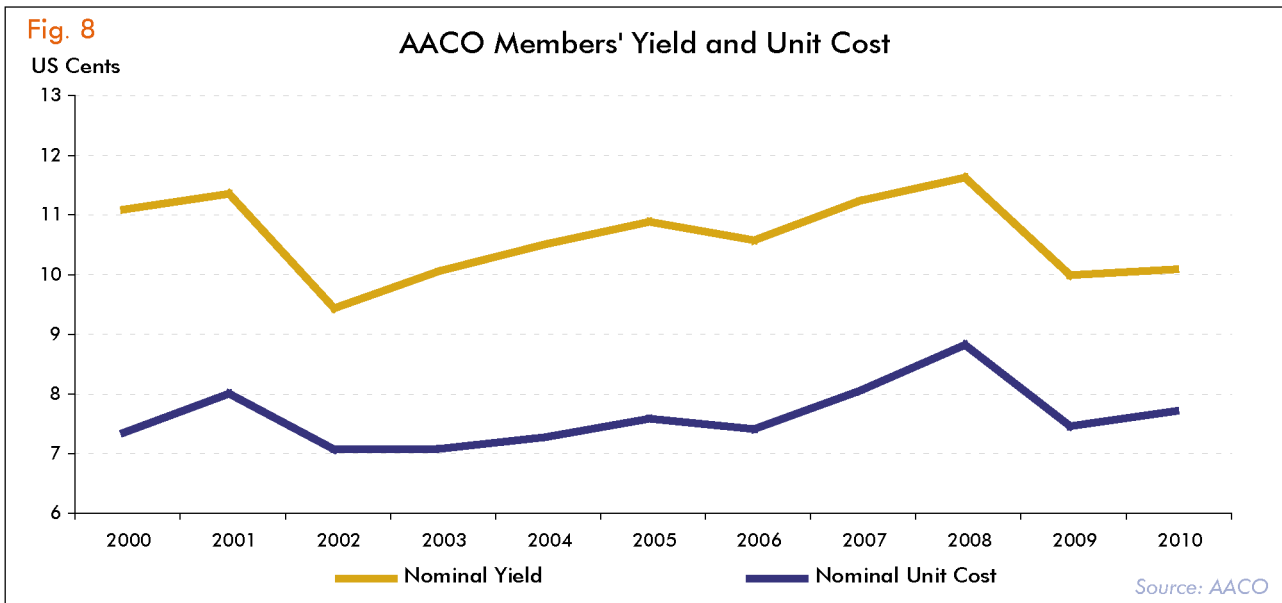




FINANCIAL PERFORMANCE OF AACO MEMBERS

Yield and Unit Cost

Passenger Yield of 10 member airlines increased by 1.1% in 2010 as a result of the increase in traffic and revenues. On the other hand, those carriers' unit cost increased by 3.3% due to the increase in fuel unit cost and operations' expansion. As a result, AACO members' Passenger Break-even Load Factor increased by 2.3 percentage points, up to 76.2%. It is important to mention that Passenger Load Factor for AACO members reporting in this section was 78.6% rather than total AACO members' PLF of 74.1% reported earlier.



Changing Cost

Jet Fuel returned to the forefront of airlines' concerns in 2010, after the big hike in jet fuel prices of 29.1% over 2009. Reporting member airlines spent 39.5% more on jet fuel compared to 2009, which constituted 32.4% of their operating expenses. This increase, coupled with the operations' expansion, led to an increase of 17.2% in reporting airlines' operating expenses.

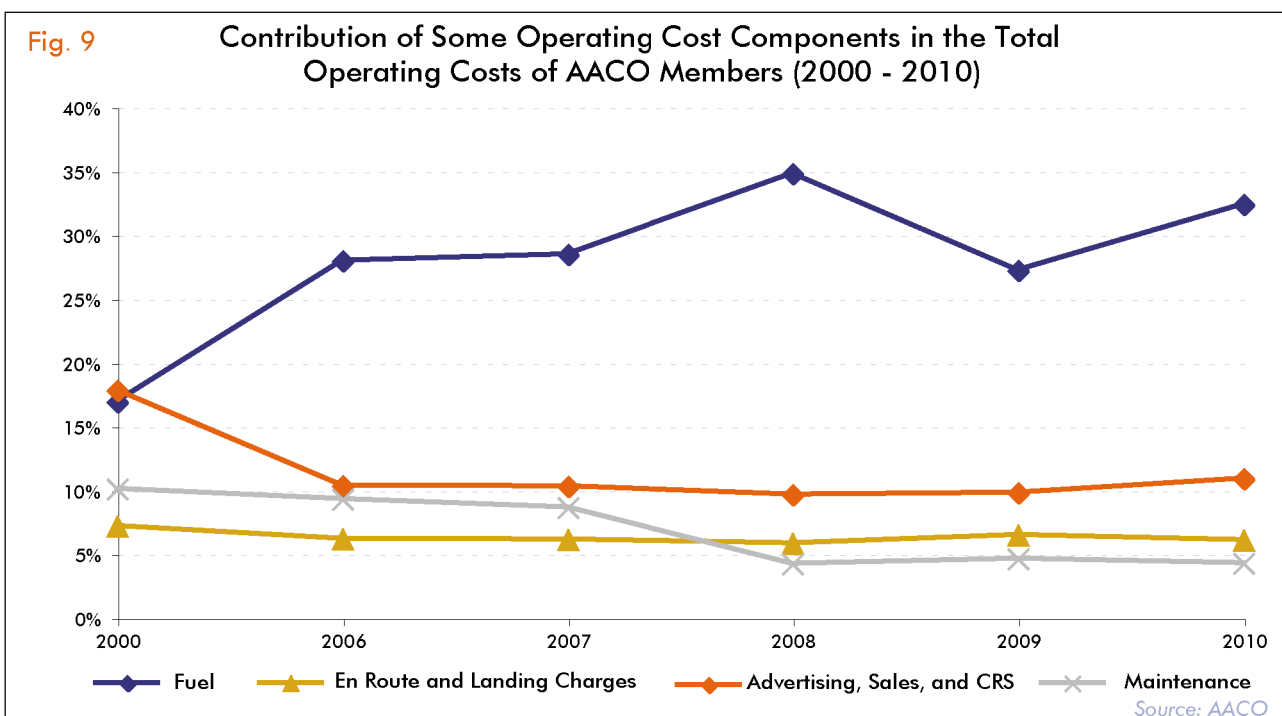
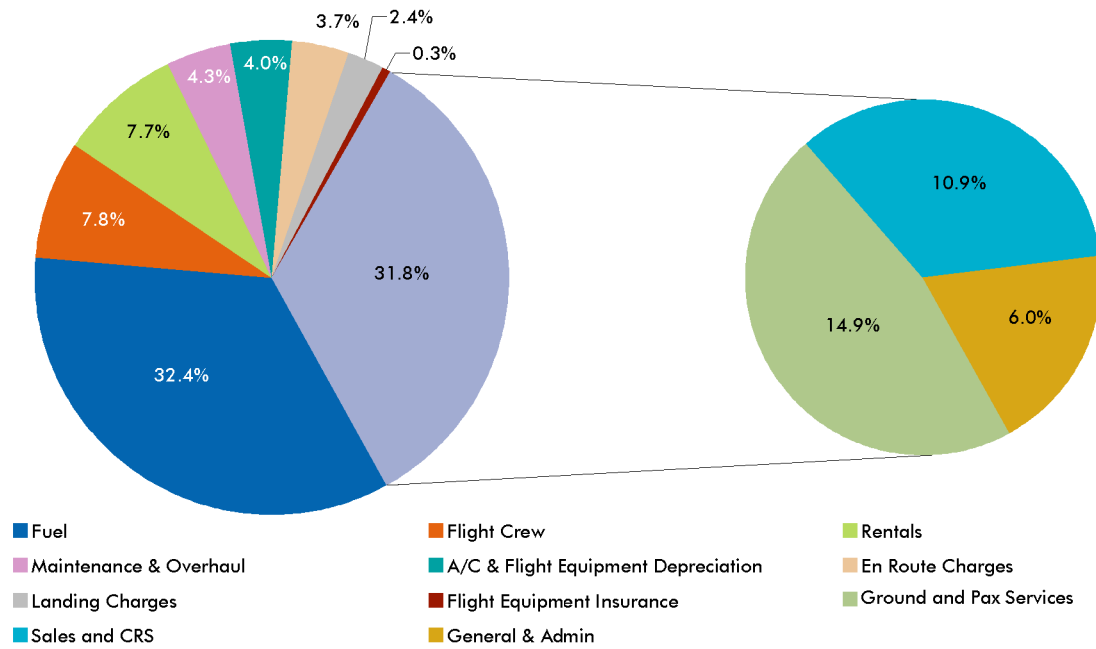




Fig. 10

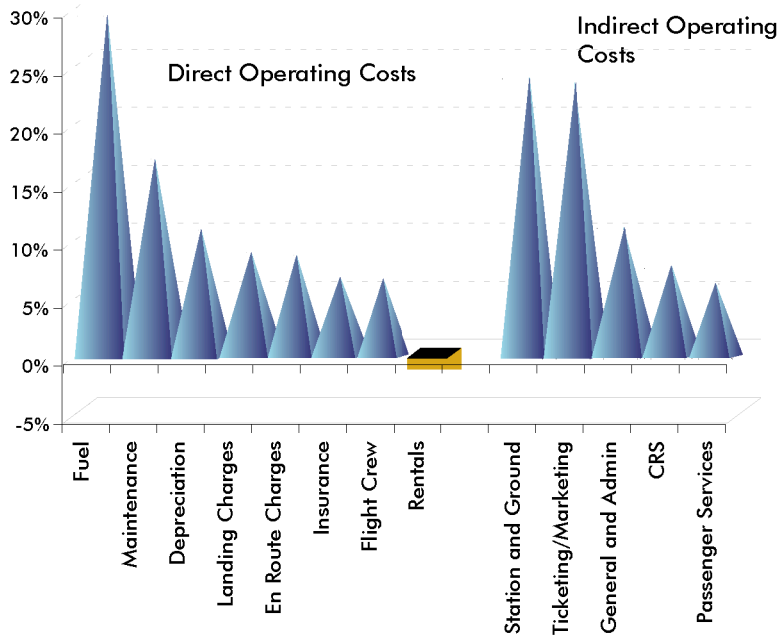
Operating Expenses by Cost Item - 2010



Source: AACO

Fig. 11

Cost Changes - 2010



Source: AACO

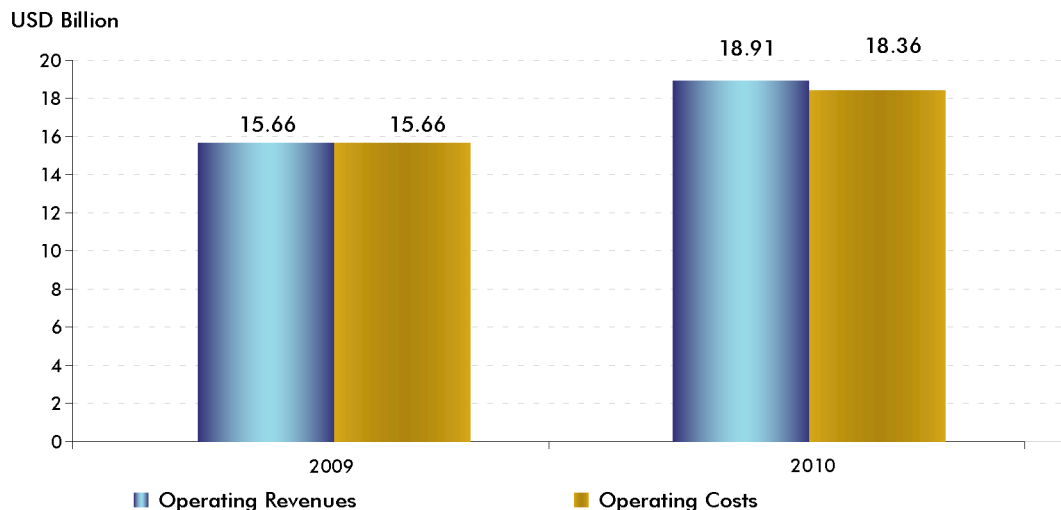


Financial Results

Reporting AACO carriers' aggregate operating revenues increased by 20.8% in 2010 over 2009. On the other hand, airlines' operating expenses increased by 17.2% during the same period. Consequently, reporting members remained in the black, recording an operating profit of USD 559 million, and a net profit of USD 1.2 billion. The big difference between operating profits and net profits at the reporting carriers is backed by the exceptional increase in non-operating revenues from financial and asset related investment activities at some AACO members.

Fig. 12

Comparison of Operating Revenues and Operating Costs for Some AACO Members



2009 data has been recalculated for data set consistency.
Reporting carriers: CE, EK, G9, IY, KU, ME, R5, RJ, TU and WY

Source: AACO

GLOBAL AIRLINES FOR GLOBAL CUSTOMERS

Global Aviation Customer

Globalization is a widely used term that can be defined in different ways depending on the context. It can be defined as a worldwide process towards economic, financial, trade, and communications integration. It can be referred to as a practice by which the people of the world are unified into a single global society.

In his book, "The World is Flat", Pulitzer Prize winning journalist Thomas L. Friedman suggests the world is "flat" in the sense that globalization, and mainly communication technology, has leveled the playing fields, and has enabled the individual to have greater influence and a bigger say in the services he/she requires. This applies to everything the consumer wants, including air services.

When we used to look at the aviation market in general and think about what the market drivers are, we used to think "liberalization", "Competition", "Jet Fuel Prices", "Credit Facilities", etc... The passenger was at the bottom of the list. This scenario has intensely changed, as the globalization of the consumer took over as the essential market driver. The remaining items on the list became only tools for airlines to be able to cater for the needs and



requirements of the global, limitless, and borderless consumer that is the only decision maker in aviation, who has forced airlines to be creative and imposed change on airlines' strategies and business models.

The aviation customer is connected and is no longer bound by the same geographic and time constraints as before.

Geography & Technology as Catalysts

To cater for the needs of global customers, the Arab airlines are offering much needed global services. Arab airlines are connecting continents and providing services for customers transiting through their hubs. They are serving areas that were not served before and offering competitive services to already served routes.

Among other grounds, Geography and Technology have enabled Arab airlines to provide truly global connections with one stop.

Sovereignty: A Change in Concept

The Chicago Convention of 1944 and the Bermuda I agreement dealt with the international potential of civil aviation and initiated an institutional structure that laid common ground rules for bilateral air service agreements (ASAs) between nations.

Aviation regulators need to cater for the globalization of the customer. Restrictions in the Chicago Convention need to be gradually removed to help airlines truly offer global services for customers whose psychology, connectedness, needs, expectations, and reach has undergone massive changes during the past decades.

ARAB AIRLINES' COMPETITIVE EDGE

Competition in the aviation field is dominated by mainly three major airline alliances that include big mergers, with a total share of international air traffic amounting to 68% in 2010, supported by anti-trust immunity. Arab airlines have chosen different strategies when it came to joining alliances. Arab carriers have low representation in the major international alliances. Two Arab airlines are currently in an alliance (Royal Jordanian and EgyptAir), while two others are invited to join an alliance (Middle East Airlines and Saudi Arabian Airlines).

Simultaneously, AACO airlines obtain value through joint initiatives, reduced duplication of capacity, linked networks and destinations, improved customer connectivity and maximized capacity utilization through route sharing and rationalization.

This competitive cooperation has played a role in strengthening the competitive position of the Arab airlines community vis-à-vis other airlines of the world.

The US and the EU were two of the first free trade movers and have created the concept of globalization. When some of AACO airlines became major players in the global air transport field, they have been accused of state subsidies, been denied landing rights, and forced to raise their fares in some markets. There have been calls to limit the growth of Arab airlines



by blocking or stalling negotiations for more liberal bilaterals. These moves risk the interest of the customer by limiting choices for travel.

AACO airlines' competitive edge stems from a number of fundamentals highlighted below, facilitated by few natural (Geography) and man-initiated (Technology) elements:

Geography	The Arab world is situated in the middle of the intercontinental trade routes of the ancient world. Location has enabled Arab airlines to offer excellent services for passengers transiting through their hubs.
Quality of Service	Quality of service of Arab airlines received global recognition and awards throughout the years. Customers choose to travel with Arab airlines enjoying state of the art service reflecting the hospitality trait of the people of this region.
Value for Money	Arab airlines offer the right price to the right customer segment.
Low Unit Cost	Excellent tax environment; strategy for keeping fuel burn and maintenance cost at a minimum; modern revenue management systems, and high aircraft utilization benefiting from 24 hours operations' window.
Excellent Infrastructure	With the vastness of the region, airlines are benefiting from well planned and sufficient infrastructure.
Environment Friendly	Arab airlines have the best environmental footprint in the world. The average age of their aircraft is 7.3 years - the youngest in the world producing 15-20% lower carbon emissions per tonne kilometer than the industry average.
Immature Market	Arab countries are developing countries where market maturity is far from being reached.

MEETING FUTURE DEMAND

Infrastructure Development

Global Airports Traffic

According to Airports Council International, traffic at world airports increased in all world regions in line with the recovery from the global financial crisis. As a result, global passenger traffic and cargo traffic grew by 6.6% and 15.3% respectively in 2010 over 2009, and aircraft movements increased by 1.1% over 2009 levels.

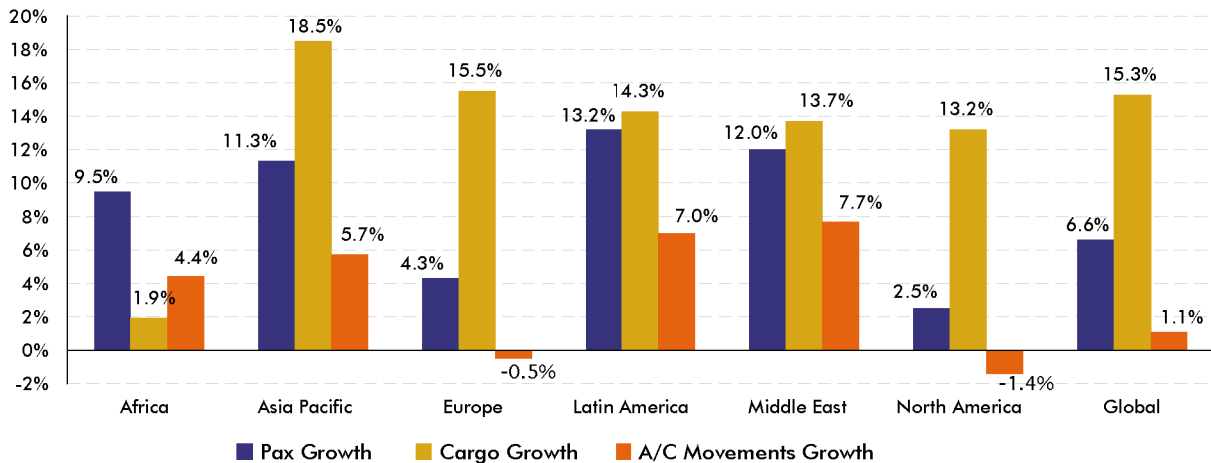
Looking at regional patterns, all world regions recorded good growth rates, especially in cargo traffic as the economic cycle and rebuilding depleted inventories are boosting trade. All regions except Africa recorded double digit growth in cargo traffic. Passenger traffic growth was also considerable with 3 world regions witnessing double digit growth, which led to globally surpassing the five billion passenger mark for the first time. The



Middle East was the second fastest growing region behind Latin America. On the other hand, the closure of European airspace in April 2010, and the severe winter that hit Europe and North America, led to a slight decline in aircraft movements at those regions' airports.

Fig. 13

Worldwide Airports Traffic Growth - 2010/2009



Source: AACO, ACI

The Regional Geostructure used in this Graph is ACIs

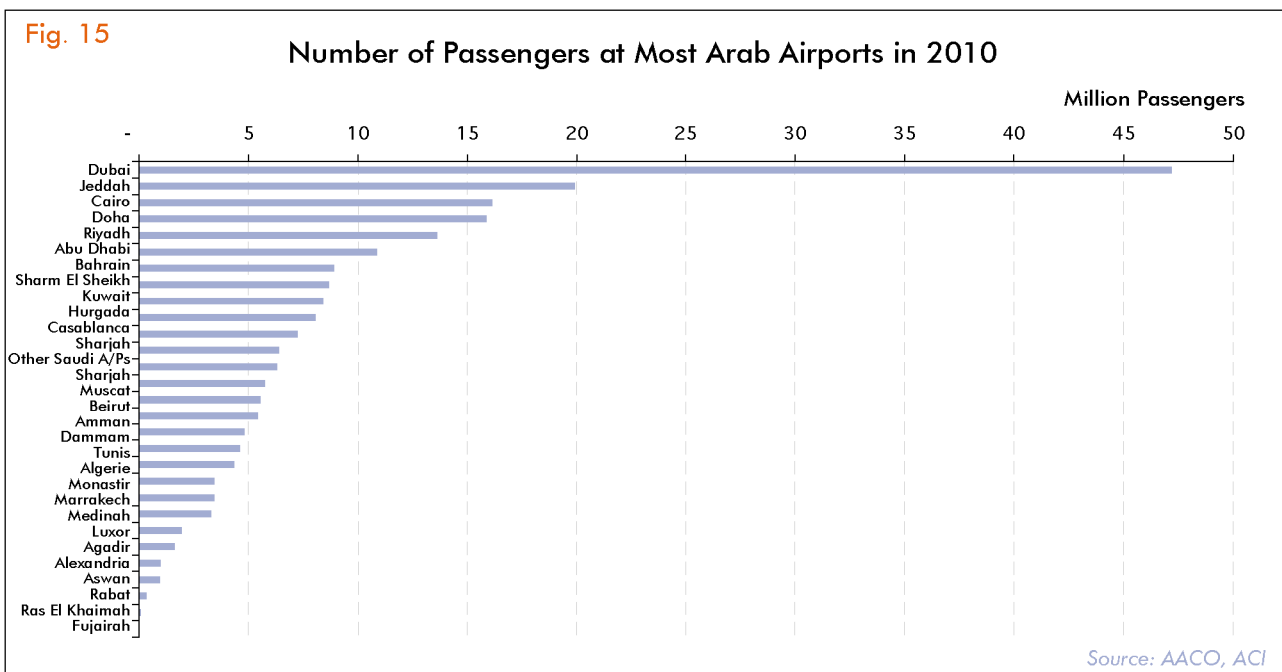
Looking at airports' ranking in 2010, Dubai airport was the 4th airport worldwide by international passengers, 8th worldwide in terms of total cargo lifted, and 4th worldwide in terms of international freight (excluding mail). In addition, three Arab airports were among the top 25 fastest growing airports worldwide in terms of number of passengers, namely Muscat International Airport (26.6%), Hurghada International Airport (19.8%) and Doha International Airport (19.5%).

Arab Airports Traffic

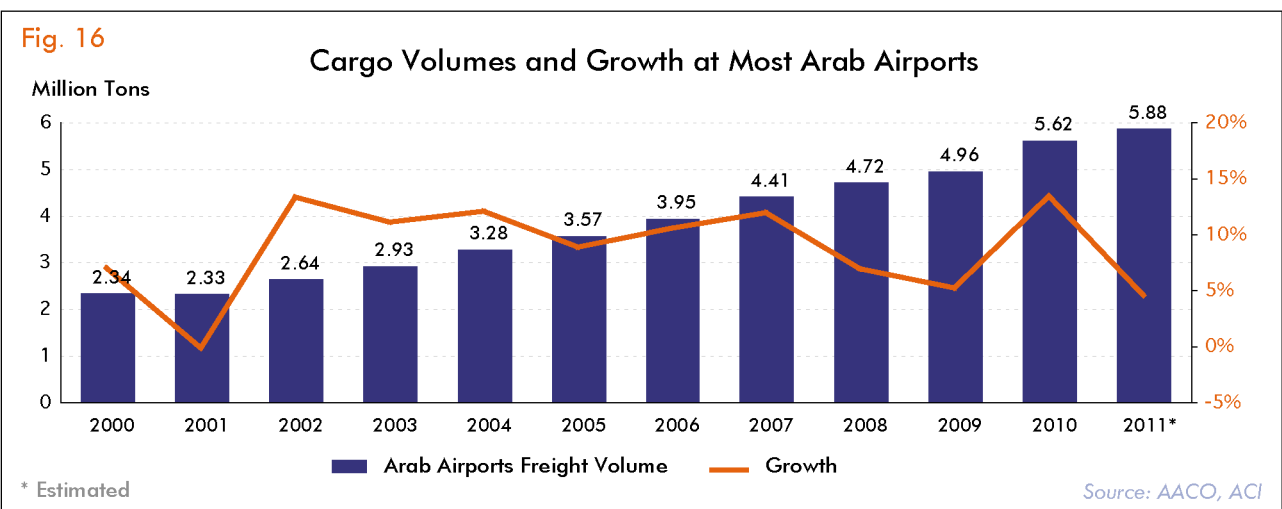
In 2010, passenger numbers at Arab airports grew by 11.2% over 2009. Fifteen Arab airports reported double digit passenger growth. On the other hand, six Arab airports witnessed a decline in passenger numbers.

Looking at the top Arab airport, Dubai International Airport has been growing at an average rate of 13.8% between 2005 and 2010 – growing by 90.4% in 2010 over 2005, with 9% being the lowest growth recorded in that period. Moreover, the growth plans of Dubai and Emirates would reflect a continuity of that trend. Therefore, assuming such continuity, Dubai International Airport would become the top airport worldwide by international passenger traffic in the coming five years, surpassing Hong Kong, Paris Charles De Gaulle, and London Heathrow airports.

Moreover, the top five Arab airports (i.e. DXB, JED, CAI, DOH and RUH) combined grew by 63.7% in 2010 over 2005 in terms of number of passengers, recording an average passenger growth between 2005 and 2010 of 10.4%. And therefore, these airports are forecast to service a little less than 300 million passengers in 2020.

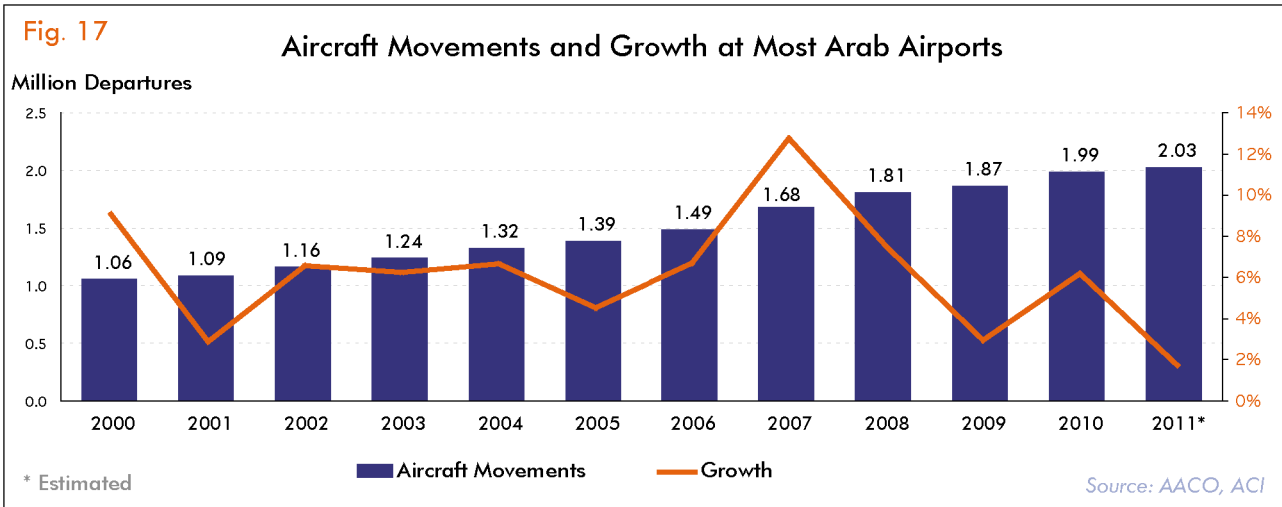


Similar to passenger traffic, cargo traffic at Arab airports increased by 13.3% in 2010 over 2009. Muscat airport led freight growth, scoring 49.6% over 2009, followed by Rabat International Airport growth of 44.3% and Doha International Airport with a growth of 36.8%.





Aircraft movements recorded a growth of 6.5% at Arab airports. Muscat International Airport was again the star in 2010, with aircraft traffic growing at 21.4% over 2009. Nine Arab airports grew by more than 9%, among which seven airports recorded a double digit growth in aircraft movements over 2009. On the other hand, seven Arab airports witnessed a decline in movements in 2010 over 2009.



Fleet Development

AACO member airlines took delivery of 152 aircraft in 2010, including 94 brand new aircraft, and 54 older ones. Accordingly, AACO member airlines' fleet count increased to 850 aircraft by the end of 2010, compared to 767 aircraft by the end of 2009.

With the new deliveries, AACO member airlines' fleet composition was 46% Wide-body aircraft, 41% Narrow-body aircraft, 9% Regional aircraft and 4% Freighters.

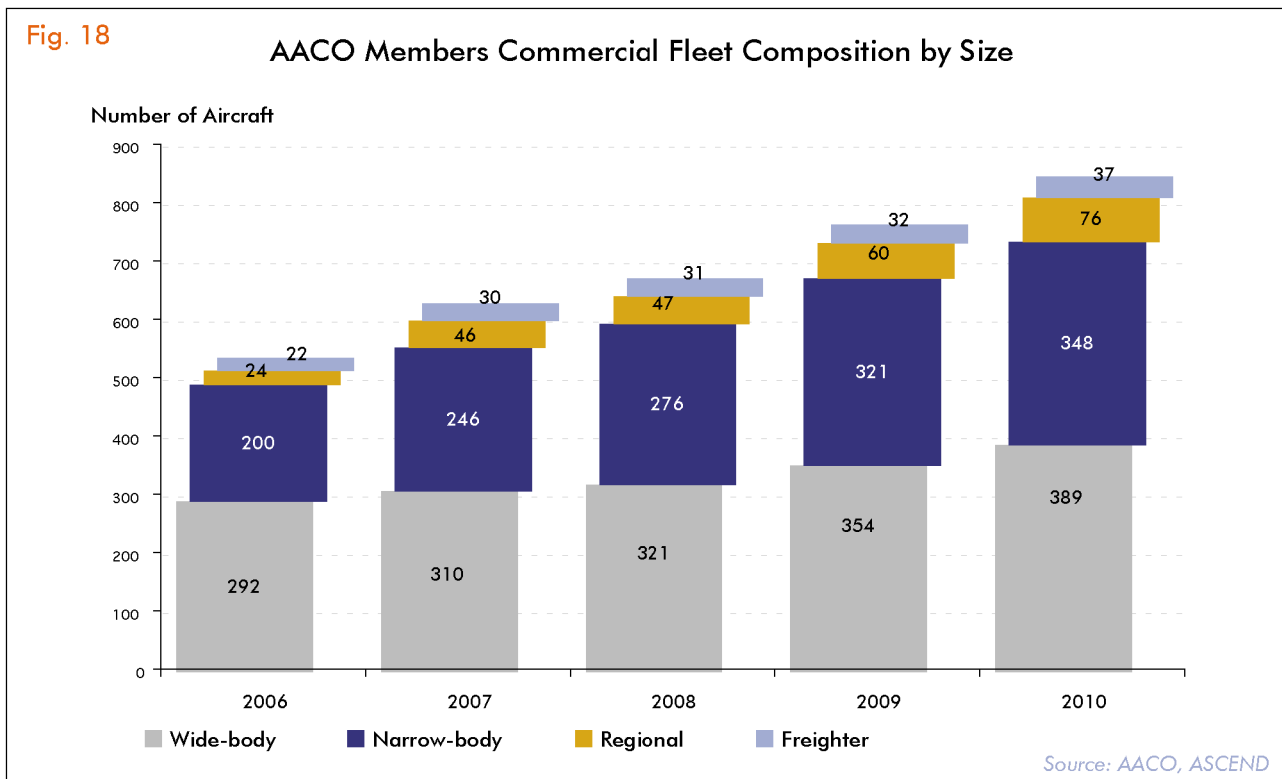
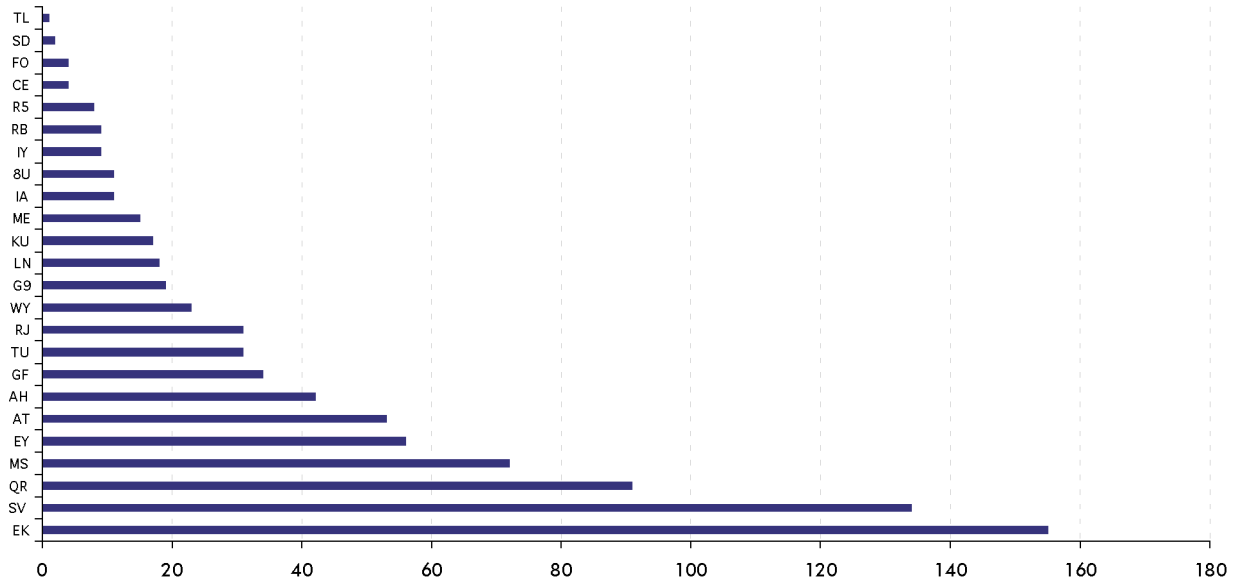




Fig. 19

Individual AACO Members Commercial Fleet in 2010

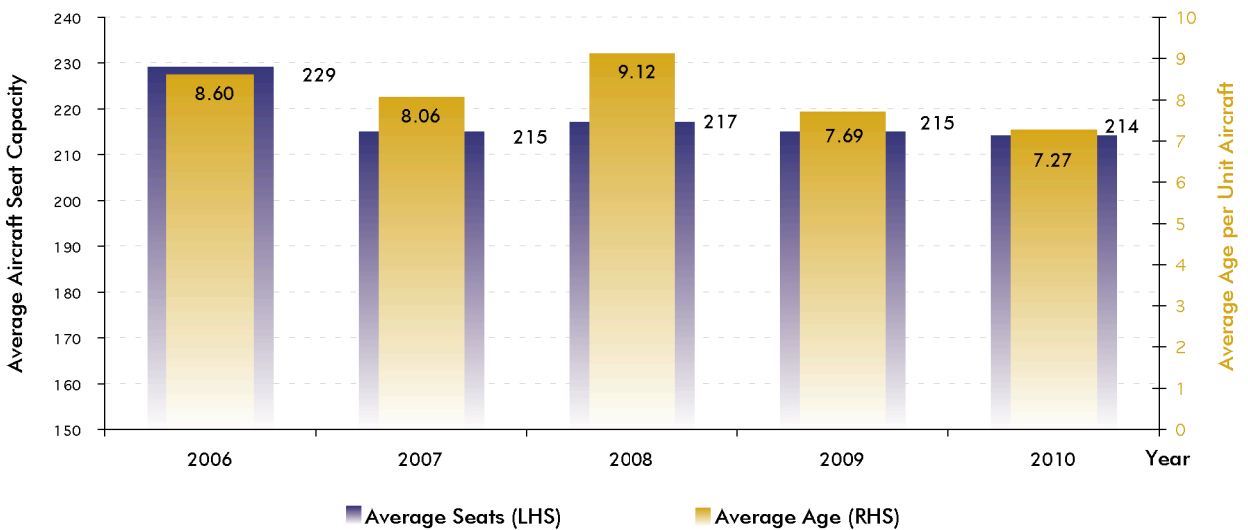


Source: AACO, ASCEND

These new acquisitions reduced AACO members' average age per unit aircraft by a (5.6%) over 2009 fleet, down to 7.3 years, further 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, as the delivered number of single aisle aircraft was greater than double aisle aircraft, the average seat per aircraft of member airlines dropped slightly from 215 to 214 seats per aircraft.

Fig. 20

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



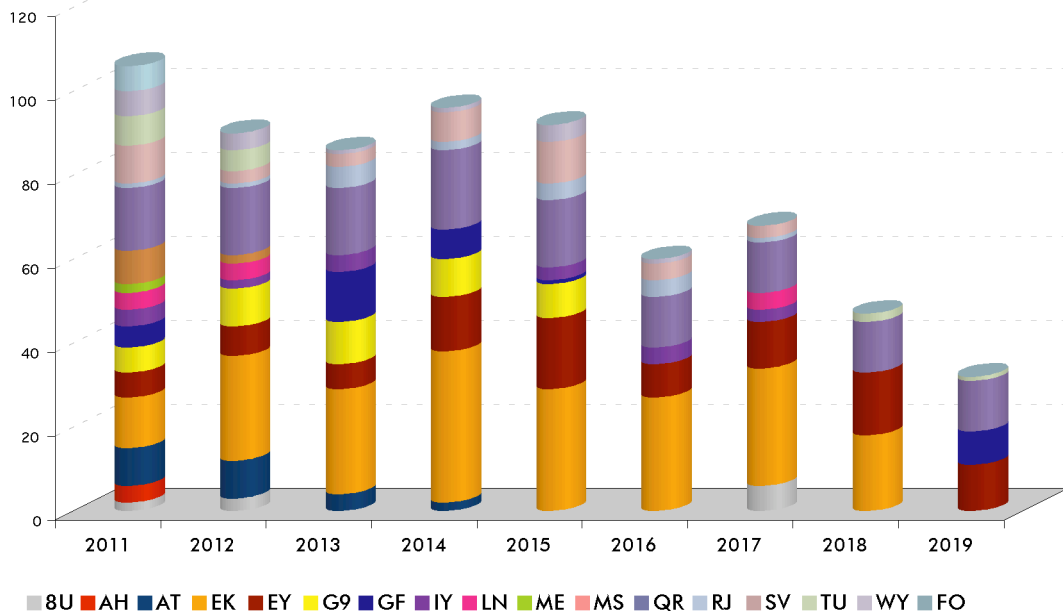
Source: AACO, ASCEND



AACO member airlines are scheduled to receive 677 aircraft until 2019, among which 106 aircraft are scheduled for 2011. AACO members took delivery of 44 new aircraft during the first six months of 2011, with 62 scheduled for delivery until year end.

Fig. 21

Number of New Commercial Aircraft Expected to Join AACO Members' Fleet (As at 1 Jan 2011)



Source: AACO, ASCEND



INDUSTRY ISSUES

SAFETY

Although air transport is the safest means of transportation, aviation safety remains the industry's top priority as continuous monitoring and improvement in this arena is essential to minimize the exposure of passengers and crews to safety hazards. 2010 marked an important event related to aviation safety on the global level; the signature of a Memorandum of Understanding between IATA, ICAO, the Commission of the European Union and US Department of Transport at the ICAO 37th Assembly. This MoU reflects cooperation between industry and regulators to create and develop the Global Safety Information Exchange (GSIE). In addition, the development of the Global Aviation Safety Roadmap was another fruit of cooperation between industry and regulators, as their involvement in safety is instrumental to evolve to better standards.

Looking at statistical numbers, 2010 witnessed a decrease in hull loss rate per million flown sectors for western-built aircraft of (0.2%) compared to 2009, and a freeze in the number of fatal accidents during the same period (14 fatal accidents) despite the increase in the number of flown sectors for the same category by 4%. However, the number of fatalities involved in fatal western-built aircraft accidents increased by 38.4%, highlighting the need for continuous improvement in this area.

	Western-built Aircraft Accidents	Eastern-built Aircraft Accidents	Western-built Aircraft Flown Sectors (Million Landings)	Eastern-built Aircraft Flown Sectors (Million Landings)	Western-built Aircraft Hull Loss Rate (per Million Sectors) - Jet and Turboprop	Eastern-built Aircraft Hull Loss Rate (per Million Sectors)- Jet and Turboprop	Western-built Aircraft Fatal Accidents	Eastern-built Aircraft Fatal Accidents	Western-built Aircraft Fatalities	Eastern-built Aircraft Fatalities
2008	95	14	35.49	0.91	1.18	12.09	16	7	434	68
2009	78	12	34.67	0.79	0.78	10.13	14	4	492	193
2010	74	20	36.04	0.73	0.78	20.55	14	9	681	105

Source: IATA Safety Report

The most common type of accidents remained Runway Excursions (21% of total accidents); however 2010 recorded an improvement over 2009 in this type of accidents: 20 accidents in 2010 versus 23 in 2009 and 28 in 2008, i.e. a decrease of 39% in 2010 over 2008. The second most frequent accident type was accidents caused by Technical Faults and Maintenance Issues (12% of total accidents).

Looking at the Arab world, the overall number of accidents in the region declined by (38%) from 8 in 2009 to 5 in 2010, and the number of hull losses halved from 4 to 2. The number of fatal accidents remained at 2009 levels of 2 accidents. Although the fatal accident rate declined from 1.62 per million flights in 2009 to 1.46 in 2010, and despite the decrease of (31%) in the number of fatalities from 158 in 2009 to 109 in 2010, the region still suffers from drawbacks in safety management and regulatory oversight which require urgent attention from operators and states.



Arab World	Total Number of Accidents	Accident Rate (per Million Flights)	Number of Hull Losses	Hull Loss Accident Rate (per Million Flights)	Number of Fatal Accidents	Fatal Accident Rate (per Million Flights)	Fatalities
2008	10	9.26	5	4.63	5	4.63	59
2009	8	6.49	4	3.25	2	1.62	158
2010	5	3.65	2	1.46	2	1.46	109

Source: IATA GSIC

The accidents in the region involved 4 accidents at AACO member airlines, and one fatal accident at Tarco Airlines; a Sudan registered operator (in Zalingea Air strip/Sudan on 11 November 2010 causing 6 fatalities). Among AACO member airlines 4 accidents, one involved a fatal accident (Afriqiyah Airways in Tripoli on 12 May 2010), one engine failure at take-off run (Saudi Arabian Airlines in Cairo on 17 July 2010), one bird strike attack (Royal Air Maroc in Amsterdam on 6 June 2010), and one collision with object (EgyptAir in Cairo on 2 April 2010).

As AACO's first objective is to support and promote the highest safety standards, the organization has been involved with IATA and regional stakeholders in several initiatives that aim at improving air safety in the region. Further details on AACO's work in this area are found in the Technical Work section later in this report.

SECURITY

September 11th attacks started a new era of using aviation as means for terrorist and unlawful acts, which brought aviation security to the forefront of priorities both on regulatory and on operational levels. Although security is mainly the role of governments, airlines are contributing to this area to improve their operations' security. According to IATA, security is costing airlines and their passengers USD 5.9 billion annually, which includes USD 2.4 billion (38% of total security cost) on fraud & theft prevention, audits and emergency planning, USD 1.6 billion (28% of total security cost) on passenger operations security, and USD 1.2 billion (20% of total security cost) on aircraft protection.

The most dangerous security incident in 2010 was the cargo planes bomb plot on 29 October 2010. Two packages, each containing a bomb consisting of 300 to 400 grams of plastic explosives and a detonating mechanism, were found on separate cargo planes. The bombs were bound from Yemen to the United States, and were discovered at en route stop-overs, one at East Midlands Airport in the UK and one in Dubai in the United Arab Emirates as a result of intelligence received from Saudi Arabia's security apparatus. That incident highlights the fragility of the current security system that was put in place long ago to search for knives in passenger handbags rather than stopping terrorists from using airplanes as weapons. This attack and the previous ones starting from 9/11 demonstrate that threats facing this industry are evolving, and that terrorists are restless in seeking gaps and vulnerabilities in the current established security systems.

AACO has been voicing in all forums that aviation is a global business, and therefore aviation security cannot be regulated only at state level, however security processes and procedures should be globalized in a manner where all stakeholders collaborate to increase the effectiveness of the security system to guarantee secure transport of passengers and freight from the point of origin until the destination, while at the same time looking into



means to simplify the complexity of security procedures for the common passenger. In addition, recognizing the need for trained personnel to achieve the security objectives, AACO has been providing its member airlines' personnel with security training, beginning with basic security training and several intermediate security courses, and reaching the globally recognized ICAO AVSEC PMC (Aviation Security Professional Management Course).

On the other hand, AACO has been working closely with its member airlines to spur cooperation in this area of airlines' business through its AVSEC Work Group. Further details on the work of AACO AVSEC Work Group are found in the Technical Work section later in this report.

REGULATORY SCENE

Arab Scene

General Overview

Levels of opening the aviation market vary from one Arab state to the other. Intra-Arab Liberalization is in its early stages; however the Damascus Convention is a step in the right direction. Till the Convention is adopted by its ratifying states in their relations, bilateral - mostly limiting - agreements govern aviation relations between Arab states.

Intra-Arab Aviation Regulatory Scene

Restrictive Market Access	Few One Sided Open Sky Policies	Conservative Ownership & Control Policies	Damascus Convention
<ul style="list-style-type: none">◆ Intra-Arab Liberalization is still budding at the Multilateral level.◆ Market Access in the region is bound by bilaterals mainly covering 3rd and 4th Freedoms.◆ Minimal 5th Freedom bilaterals.	<ul style="list-style-type: none">◆ Open Sky Policies from one side adopted by few Arab countries; namely: Bahrain, Kuwait, Lebanon, Oman, and the UAE.	<ul style="list-style-type: none">◆ Most Arab airlines are government owned.◆ Few Arab airlines are privatized and some others are undergoing privatization processes.◆ Some privately owned airlines are being established in the region, but still depending on the national policy of each government.	<ul style="list-style-type: none">◆ A Multilateral Agreement for the liberalization of Air Transport in the Arab world.◆ Ratified by 8 Arab states.◆ Covers fundamental principles of liberalization that include market access, ownership and control of airlines, and fair competition.◆ Lack of Implementation of the Convention will likely put Arab carriers at competitive disadvantage vis-a-vis carriers from other regions.



Damascus Convention

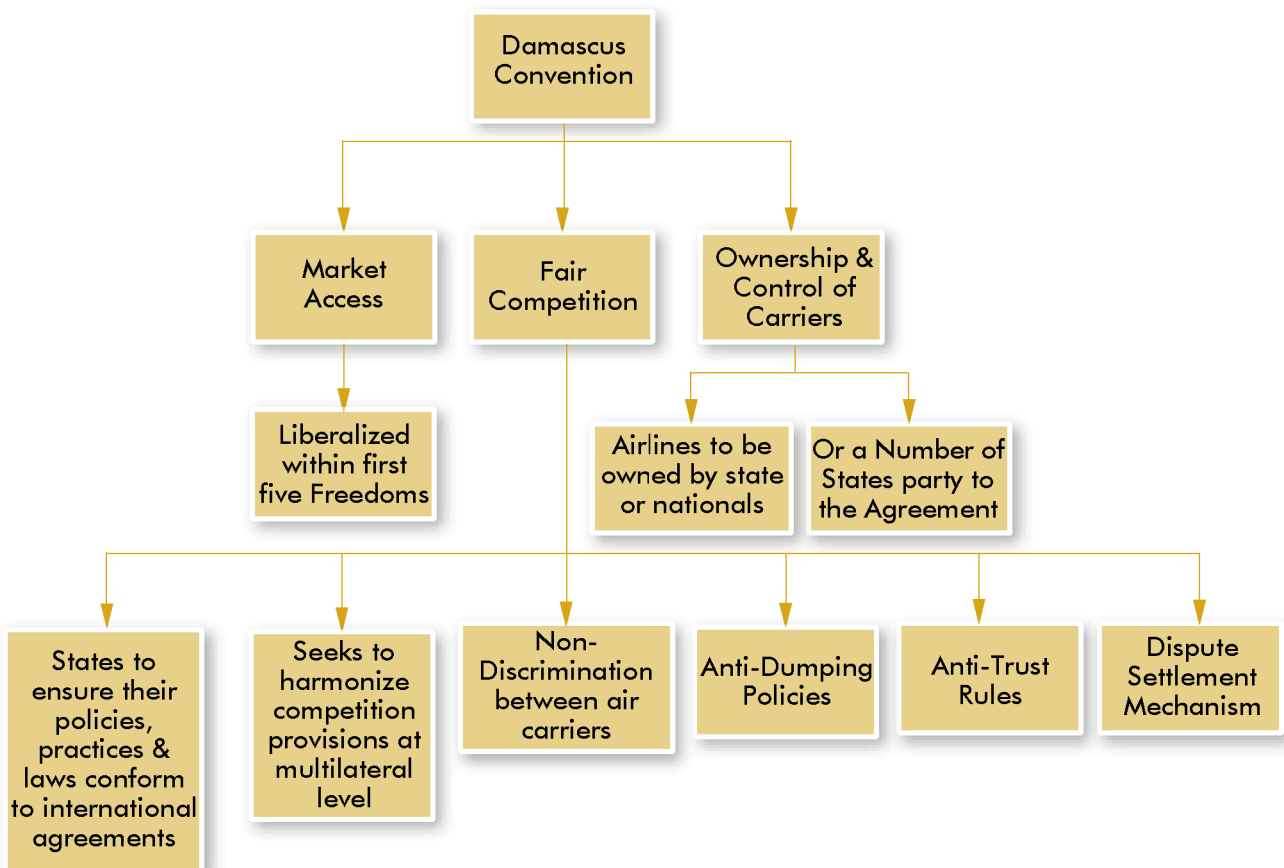
The Damascus Convention is a multilateral document on the liberalization of air transport between Arab countries, which came into effect in 2007 after the fifth state ratified it. So far, the Convention, which was agreed upon by the Council of Arab Transport Ministers in 2004, has been ratified by 8 Arab states, namely: Lebanon, Jordan, Syria, Palestine, Oman, Yemen, United Arab Emirates and Morocco. The following countries signed but did not ratify the Convention: Bahrain, Tunisia, Sudan, Iraq, Egypt and Somalia.

The Damascus Convention covers fundamental principles of liberalization that include market access, ownership and control of airlines, and fair competition.

Market Access: The Convention was initiated as the fourth phase of a set of phases for the liberalization of air transport in the Arab world which was initiated by ACAC and supported by AACO. The fourth phase included the provision of fifth freedom rights that is to be covered by a regional agreement. Accordingly, the Convention grants scheduled traffic rights under the first five freedoms for international air traffic to and from points in the state parties. No cabotage rights are provided, neither seventh freedom rights.

Ownership and Control: The convention stipulates that substantial ownership and effective control of a designated carrier should be vested in a state or several states parties or their nationals, and the main headquarters of this airline must be in one of the states parties. This paves the way for what is referred to as the “community” carrier.

Fair Competition: The Convention provides carriers “Equal & Fair Opportunity” to exercise their traffic rights as stipulated in the agreement. Competition policies of individual states need to conform to international agreements. The Convention does not specifically address harmonization of competition laws or coordinating the implementation of these laws.





Towards a Single Arab Aviation Market

- ◆ Open skies policies lead to increasing air transport activity and consequently to additional economic growth. In addition, they spur traffic growth and employment, while opening up consolidation and merger opportunities for air carriers.
- ◆ The Damascus Convention is a major step towards the creation of a Single Arab Aviation Market.
- ◆ Adequate implementation of the Convention needs to be secured by the various state parties.
- ◆ Policies granting Arab capital ownership & control of carriers are required.
- ◆ Arab states need to strengthen their collective negotiating position vis-à-vis other regions/ large markets, especially Europe, Africa, with parts of Asia.

EU-Arab Scene

General Overview

The EU and the Arab region have long recognized the benefits of a region to region aviation dialogue. These talks have resulted in the Sharm El-Sheikh and Muscat Declarations. As seen in earlier sections, the number of passengers traveling between the Arab world and the EU in 2010 reached 37.9 million, representing 30.2% of the Arab air transport market. This is the second largest market in the Arab world after intra-Arab air transport with a share of 34.6% of the total Arab market size in the same year.

The Air Transport industry in Europe suffers from the slowdown in economic growth in Europe, and the maturity of its aviation market, whereby passenger numbers in 2010 represented 111% of the population, while in the Arab world it is still 36%.

Other challenges include European airports and air space congestions. Accordingly it became essential for Europe to look for new markets to guarantee the growth of its air transport sector; hence, the EU External Aviation Policy. The EU external aviation policy encompasses three pillars; the Horizontal agreements, Common Aviation Areas with neighboring countries, and global agreements with the major regions/ countries of the world. Different Arab countries fall within different pillars in the EU external aviation policy.

Arab - EU Aviation Regulatory Scene

EU Designation (Horizontal and ASAs)	Euromed Agreements	Sharm El-Sheikh Declaration	Muscat Declaration	Resolutions by Council of Arab Transport Ministers
<ul style="list-style-type: none"> ◆ Bahrain amended its Air Services Agreements (ASAs) with 7 EU Member States to remove the national Designation. ◆ Egypt amended 9 ASAs. Iraq (6), Kuwait (1), Oman (4), Qatar (11). ◆ EC signed Horizontal agreements with Jordan, Lebanon, Morocco, Saudi Arabia, and UAE. ◆ Discussions are ongoing between the EC and Algeria, Egypt, Libya, and Tunisia. 	<ul style="list-style-type: none"> ◆ Euromed Agreements open the skies between the two parties in addition to a gradual regulatory convergence in areas like safety, air navigation, environment, competition laws and passenger rights. ◆ Morocco signed the Euro-Mediterranean agreement with the EU in 2006. ◆ Jordan signed the Euromed agreement in 2010. 	<ul style="list-style-type: none"> ◆ Signed in November 2008 between EC, ACAC, and AACO. ◆ The provisions of this declaration are being used in bilateral negotiations between Arab countries and the EC. ◆ Confirmation of the principle of reciprocity. ◆ Strengthening future technical cooperation. 	<ul style="list-style-type: none"> ◆ Signed between the EC and ACAC in October 2009 following the first EU - Arab World Aviation Conference. ◆ Stressed the need to enhance EU-Arab cooperation. ◆ Two regions identified areas of cooperation. ◆ Stressed the importance of making the Euromed agreement on the level of the European and Arab regions. 	<ul style="list-style-type: none"> ◆ April 2010: Resolution to use Sharm El-Sheikh Declaration of Principles in bilateral negotiations between Arab countries and the EU. ◆ October 2010: Resolution to hold a meeting dedicated for relations with Europe and mandated ACAC Executive Council of follow up for implementation.



Euromed Agreements

Perhaps the most famous relation between the Arab world and the EU is the Moroccan experience in acceding to the EU single aviation market since 2006. By 2010 commercial aviation capacity increased by 130% and the number of International tourist arrivals grew 46% (representing over two million tourists more per year).

In 2010, Jordan signed a similar agreement with the EU. The process that led to the liberalization of the Jordanian skies with those of the EU has been different and longer than the Moroccan process, giving more time to the Jordanian national carrier to prepare for the reverberations of opening the skies with the EU.

Of course for both carriers, change in strategy that fits the national strategy of their relevant governments was essential to cope with the new market entrants and increasing competition.

Towards a level playing field in a free market

- ◆ The Arab and European political will is needed at the highest level for enhancing air transport relations.
- ◆ National policies need to cater for a region to region relation.
- ◆ Gradual aviation regulatory conversions between the two regions.
- ◆ Experts from various stakeholders to receive mandates for working towards the objective.
- ◆ Augmenting the European infrastructure is an urgency.
- ◆ Equal and fair treatment at airports with regards to slots allocation is a must.
- ◆ Operators of both regions should have the freedom to enter markets.
- ◆ Operators should be able to freely offer capacity without any restrictions on frequencies, aircraft types and size.
- ◆ Right of investment in aviation activities.
- ◆ Regional air traffic management cooperation and harmonization.

AACO works through its Aeropolitical Watch Group (AWG) to deal with Aeropolitical affairs, following up on various regulatory issues, lobbying in favor of AACO airlines, providing awareness, and suggesting solutions where applicable. A later section in this report puts more focus on AACO's AWG work in regional and international forums.

Environment

Voices are mounting for increasing environmental actions and binding commitments to fight global warming and the increasing effect of greenhouse gas emissions in the atmosphere.

Countries around the world have started looking at the impact of aviation on the environment, albeit aviation's contribution to greenhouse gas emissions is currently no more than 2% of the global emissions.

The Rio Earth Summit in 1992 led to the agreement of the UNFCCC. This in turn gave rise to the Kyoto Protocol which, unless positive steps are taken to extend or replace it, will expire in 2012. With the failure to do so up till now, regional initiatives have started to proliferate each penalizing the aviation industry by imposing more taxes on flights.



Milestones of Aviation and the Environment

Kyoto Protocol	ICAO	EU ETS
The protocol was negotiated in 1997 as a supplement to the Framework Convention on Climate Change & ratified in February 2005 by 191 states except by the US. The Objective is to stabilize Green House Gases (GHG) concentrations at safe levels.	ICAO 36th Assembly couldn't reach an agreement on aviation's emissions reduction, but urged states not to implement an emissions trading scheme on other state's aircraft operators except on the basis of mutual consent between those states.	The EU refused to sign up for ICAO's decision that market based schemes should only be implemented if mutually agreed and vowed to press on with its own emissions trading scheme.
Commitments: Annex I Parties (industrialized) are committed to reduce emissions, and to support financially and technologically actions by non-Annex I Parties (developing) to implement the Convention.	ICAO has earlier recognized the special circumstances of airlines in developing nations, whereby they were exempted from noise restrictions for seven years.	On 2 February 2009, the adopted EU ETS states that all flights arriving at or departing from an EU airport will be included in the ETS from January 1, 2012.
Main principles of the protocol are: to protect the Climate system on the basis of equity & common but differentiated responsibilities (CBDR), address the specific needs & special circumstances of developing countries, promote environmentally friendly technology transfer and scientific research.	ICAO 37th Assembly adopted resolution which sets global aspirational goals of stabilizing CO2 emissions at 2020 levels and achieving a 2% annual increase in fuel efficiency up to 2050 for international aviation.	2012 cap: 3% free for new entrants & high growth operators. 97% of average 2004-2006 emissions free for remaining operators (82% free allowance & 15% auctioned) 2013 cap: 3% free for new entrants & high growth operators. 95% of average 2004-2006 emissions free for remaining operators (80% free allowance & 15% auctioned).
The Kyoto Protocol has recognized ICAO, as the global instrument to pursue the limitation or reduction of greenhouse gas emissions from international aviation.	ICAO is working now on the implementation of a global mechanism for Market Based Measures.	EC directive imposes financial penalties for non-compliance in addition to banning airlines' operations to the European Union.

Background of Kyoto Protocol

The developed countries (Annex I) agreed then to limit their own GHG emissions with legally binding targets. The US, although it was one of the countries that made these commitments, didn't ratify the Kyoto Protocol because of the way it was carried out. The US refused to ratify the protocol until China and India in particular accept limits on their emissions growth. That stance was obvious in the discussions which took place at both COP15 and COP16, where countries couldn't agree on an extension to the Kyoto Protocol nor on a replacement to it.

COP15 was supposed to provide the commitments of mitigation & reduction beyond 2012 giving time from the end of 2009 up till the end of 2012 for states to ratify the new protocols if agreed upon.



Aviation was not included in the Kyoto protocols except in article 2.2. No real progress, back then, was recorded by ICAO except the declaration by the High Level Meeting in Montreal in October 2009 which focused on 2% annual efficiency targets.

The EU, citing lack of progress in ICAO enacted in November 2008 its Emissions Trading Scheme.

The US embarked on a last minute attempt to reach an agreement to save the conference from total failure and managed to get China, Brazil, India, South Africa and a number of countries, including some powerful countries in the EU and elsewhere to support the agreement which was called the Copenhagen Accord.

Cop15	Cop16	Cop17
<p>Main focus was not on Aviation, but rather on other economic issues related to energy and industries on the one hand, and getting access to financial aids on the other</p>	<p>COP16 started fairly unenthusiastic. Two negotiations ran in parallel, divided between the Kyoto Protocol and Long-term Cooperative Agreement</p>	<p>No high hopes for a possible breakthrough on a framework agreement ahead of COP18 in 2012 in Qatar</p>
<p>The Accord is a non-binding agreement in-between governments</p>	<p>The EU & many other non-Annex 1 countries have been in favor of an extension of the KP. The US and China supported the Long-term Cooperative agreement which is a more voluntary approach to the reduction of GHG emissions globally but with a 30% reduction target</p>	<p>The Industry will continue to lobby for a formal global framework through ICAO, yet future of CDM remains unknown, although the Carbon Market is well established</p>
<p>The conference of the Parties was concluded with the Copenhagen Accord</p>	<p>It was agreed to identify sources of finance to raise \$100 billion a year uptill 2020 to help developing countries adapt to climate change and transition to low-carbon economies</p>	<p>Talks will continue to establish the Green Climate Fund that will seek to raise and distribute the \$100 billion pledged by the rich countries</p>
<p>ICAO was not assigned nor mentioned. However, it mentioned CBDR. The Accord did not mention aviation or global sectoral approach</p>	<p>The Advisory Group Financial report suggested aviation and shipping could be potential sources of funding from levies on international passenger tickets or fuel or through a global emissions trading scheme</p>	<p>If COP17 concludes with no agreement then Kyoto 2nd commitment period expires</p>



The EU ETS

Legal Challenge

The EU scheme which enters into force as of 2012 is being challenged in the European Court of Justice by a number of US airlines on the basis that the application of the EU ETS to international aviation is illegal and violates the fundamental principle of international law that each state has complete and exclusive sovereignty over the airspace above its territory in addition to Chicago Convention and the Open Skies Agreement (1997) between the EU and the US.

On 6 October 2011, the Advocate General, an "adviser" to the Court of Justice of the European Union delivered an Opinion concluding that the EU's plans to extend the Emissions Trading Scheme ("ETS") to the aviation sector are legal and do not contravene principles of international law.

The Commission set the 2012 aviation emissions cap at 214.8 million metric tons for 30 nations in the European Economic Area that participate in the EU ETS carbon-trading. The limit from 2013 onwards is 210.3 million tons. The EU will auction 32.2 million aviation allowances in 2012, and 31.6 million from 2013 onwards. A total of 182.6 million allowances will be distributed to airlines free of charge in 2012, falling to 172.5 million in 2013 through 2020. The special reserve for the eight-year period has been set at 50.5 million allowances.

The European Union set a level of 0.6422 carbon allowances per 1,000 ton-kilometer for the eight years through 2013 - 2020, and 0.6797 carbon allowances per 1,000 ton-kilometers in 2012. The free allowances will be distributed over the nine years starting 2012 based on 2010 freight-and-passenger data.

Political Challenge

Many states are gearing up for opposition of the EU ETS such as the US indicating that they shall use all legal, political and diplomatic means against the EU ETS. Recently the US House of Representatives Transportation and Infrastructure Committee has approved a bill that will prohibit US carriers from taking part in the EU ETS. It also instructs US officials to negotiate or take necessary action to make sure that US carriers are not penalized by any unilaterally imposed EU scheme.

Russia is actively talking about retaliatory measures against the EU ETS. Russia's Deputy Transport Minister said Moscow will table legislation similar to that passed in the U.S., which prohibits the country's airlines from participating in the scheme.

China announced that it is looking at legal means & has threatened the EU with a trade war by announcing that it will stop buying European manufactured aircraft, if the ETS is not withdrawn from being applied to Chinese airlines.

India supported by 25 other states issued a joint declaration urging the EU and its Member States to refrain from including flights by non-EU carriers to and from an airport in the territory of an EU Member State in its emissions trading system and urging them to work collaboratively with the rest of the international community to address aviation emissions. Similarly the African Civil Aviation Commission (AFAC) issued a declaration opposing the EU ETS with a position paper which will also be submitted to the ICAO council in December. Also the Latin American Civil Aviation Commission (LACAC) issued a similar declaration.



Many states have announced that they shall file an official complaint to ICAO Council which will take place in December. A complaint to the ICAO Council may force the European Commission to suspend the ETS start date, similar to what happened back in 1999, when the EU banned hush-kitted aircraft trying to deter European operators from buying older models and fitting them hush-kits device instead of buying new planes. The U.S. filed an objection to the ICAO Council as such measures would harm American manufacturers. The ICAO rejected the ban forcing the EU to delay its directive replacing it in 2002 with new legislation that fell in line with ICAO rules.

AACO works through its Environmental Policy Group on dealing with all the environmental issues from the awareness, policy and solutions stand points as explained later in this report. AACO also requested ACAC to object to the application of the EU ETS on international aviation and to ask the EC to work with other governments on formulating a global scheme through ICAO.

Individual Environmental initiatives	
Indian DGCA Circular	The Indian DGCA issued a circular which states that all scheduled and non-scheduled (Indian and foreign carriers) operating on domestic or international routes shall be required to monitor the fuel consumption data of their respective aircraft fleet on monthly basis and file the same to the DGCA in line with ICAO mandate to reduce emissions from aviation sector.
South African Carbon Tax	The Department of the National Treasury of the Republic of South Africa announced that it plans to apply a Carbon Tax Scheme by mid 2012.
Australia Carbon Tax	Australian Government will set a price on carbon emissions in 2012 in preparation for a trading program that could begin as early as 2015 aimed at curbing greenhouse gases.
Chinese ETS	China is to launch pilot emissions trading schemes in six regions leading up to 2013 and nationwide trading by 2015.
USA	Federal cap-and-trade proposals are facing difficulties.
Switzerland	Voluntary cap and trade as an alternative to a CO2 tax.
Japan	Voluntary cap and trade, to gather experience. Proposals are in the country's parliament for mandatory ETS.
New Zealand	Staged implementation of an ETS (2010 - 2015) aims at cutting carbon emissions to 1990 levels. The scheme applies only to domestic air travel, while jet fuel used on international flights is exempted. Beyond 2013, the New Zealand scheme depends on the outcome of the current negotiations for a possible successor to Kyoto. If no successor emerges, New Zealand will fix national/regional targets.

Biofuel

Second Generation of Biofuel: Will it be the future of alternative fuel?

Aviation biofuel is widely considered by the aviation industry to be one of the primary means by which the industry can reduce its carbon footprint. After a multi-year technical review from aircraft makers, engine manufacturers and oil companies, biofuels were approved for commercial use in July 2011. Since then, several airlines have begun



the use of biofuels on commercial flights. The focus of the industry is on second generation sustainable biofuels that do not compete with food.

Why Biofuel?

Although the aviation industry did not specify a specific feedstock to be used for the production of biofuel, the latest studies show that biofuel is considered to be approximately CO² Neutral.

Biofuel is produced from biomass, and it burns an equivalent amount of CO² as fuel produced from fossil sources. However, as a result of the production lifecycle, "Carbon dioxide emitted will be reabsorbed as the next generation of feedstock is grown".

Relation between Biofuel and Aviation

By using biofuel feedstocks such as: Jatropha, Camelina, Halophytes, Waste, Sugar cane, Algae, several studies assert that the production cost of biofuel is falling by 5 - 20% over the years. In addition, biofuel would present a viable alternative that is not affected by the reasons behind the fluctuation in crude oil and derivative prices.

Biofuel Characteristics

Essential – Viable – Sustainable – Cleaner – Practical – Possible.

Commercial Aspects

Since 2008, a large number of test flights have been conducted, and since ASTM approval in July 2011, several commercial flights using biofuel mixes are being conducted with passengers onboard.

Biofuel Availability

- ♦ IATA estimates that 3% of the global jet fuel supply will come from renewable sources in 2018.
- ♦ The USAF aims to power its fleet with 50% alternative fuels by 2015.
- ♦ Qatar plans to supply all its EU flights with 50% biofuel by 2014.

Air Routes & Infrastructure

The current Air Traffic Management (ATM) system in the Arab world suffers from several gaps due to the stagnation of development in this area throughout the last two decades. Among those deficiencies, AACO notes the following crucial areas that need to be addressed urgently:

- ♦ Fragmentation of air space caused by the multitude of military restricted no-fly zones.
- ♦ Lack of civil/military air traffic cooperation and collaboration.
- ♦ Almost no consideration for new traffic flows that did not exist a decade ago, and concentration of traffic on the few existing ATS routes.
- ♦ Missing route options with regards to regional 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.



Although many efforts were developed in the near past to address the issue of restricted airspace, no concrete action has been taken by states yet. Examples of previous efforts include studies undertaken by ACAC in 2006, AACO in collaboration with IATA and ICAO in 2008, and by IATA in 2009. During the latest CANSO High Level meeting in January 2010, the meeting endorsed the UAE Declaration, in which “the participants declared their intention to undertake a joint Middle East Airspace Study to address ... capacity challenges, and optimize the region’s airspace structure”.

TAXES & CHARGES

General Overview

Along traditional taxes and charges that airlines pay for services and operations, airlines, and consequently their customers, pay a variety of taxes and charges. This includes taxes on income, sales, use of air transport, property, fuel, equipment, and more recently, taxes for social and economic purposes such as climate change, development aid, and ironically tourism enhancement.

Taxes do serve a purpose, and the aviation sector does contribute to the national treasuries; not to mention the valuable economic value that this industry brings to its customers, employees and the wider economy. The problem does not lie in taxes per se; it rather lies in the levels, structure, and impact of taxation.

A direct impact of taxation is higher fares and cargo rates, or reduced levels of service; consequently deterring the value that the aviation industry brings to the economy.

The aviation industry is suffering from economic crises, terrorism, pandemics and natural disasters making it more urgent than ever for all industry stakeholders to maximize cost efficiency and cost reduction.

Although the industry has a reputation of being resilient to crises, this should be looked at from the economic value of the industry rather than being looked at as an easy target for generating revenues to governments. Increasing taxation, as one of the challenges of the industry, continue to test the industry’s resilience.

Latest Tax Initiatives – In 2010 passenger taxes increased by USD 3.6 billion

In 2010 passenger taxes increased by \$3.6 billion, according to IATA. 2010 witnessed an increase in the UK Air passenger Duty Tax and in the Canadian Air Travellers’ Safety Charge. In addition the German government introduced a new air transportation tax of \$1.5 billion annually starting 1 January 2011. Austria quickly followed the German initiative and introduced a similar air travel levy starting 1 April 2011.

EU

A Green Paper titled “Towards a simpler, more robust and efficient VAT System” was published by the European Commission. The paper focuses on the future of VAT. Exemptions from the VAT System comprise air passenger transport and related supplies. In December 2011, the EC’s plans with regards to any planned adjustments to the VAT System will be disclosed.



US

In its long-term deficit reduction plan, the Obama Administration proposed new aviation fees which would charge commercial airlines and corporate jets a \$100 fee per departure. The new proposal also inflicts additional fees on passenger security raising the present fee of \$2.50 per flight segment up to \$10 per round trip, to a \$5 fee per flight segment, with a plan to raise it to \$7.50 by the year 2017.

UK

The APD raises £2.9 billion for the UK Treasury per year. While the government abandoned the idea of replacing the APD by a per plane tax, the March 2011 budget included a consultation to reform the APD. The government froze the APD at current levels in 2011, delaying the planned increase for a year. The last increase was in November 2010.

Germany

Introduced at the beginning of 2011, Air Transportation Tax (ATT) will be imposed as is until the end of the year 2014 when a possible review may occur as a result of the broader ETS implementation. With rates of €8 for domestic and short haul destinations, €25 for medium haul and €45 for long haul, the annual revenues announced amount to €1 billion.

Austria

As of 1 April 2011, Air Travel Levy apply to air passengers traveling from an Austrian airport at rates of €8 for domestic and short haul destinations, €20 for medium haul and €35 for long haul. The Austrian government has estimated its annual revenue as €60 million in 2011 and €90 million in subsequent years.

The Aviation Industry's Wish list when it comes to taxation

- ◆ Meaningful consultation process between airlines and providers to ensure that the economic, service quality and capacity needs of both parties are understood and that a balance is struck.
- ◆ Transparency in sharing financial and other information on operations with airlines is a must to assist them in verifying and justifying the costs involved in providing the services.
- ◆ A logical cost-relationship between charges and taxes and the cost of services provided is required in a way that all aviation charges and taxes are reinvested into the facilities and services for which they were levied.
- ◆ An equitable charges structure where no users are burdened with costs not properly allocable to them according to sound accounting principles.
- ◆ Productivity and cost-effectiveness improvements which translate into lower charges to the airlines.
- ◆ Compliance with all other principles of ICAO's Policies on Charges for Airports and Air Navigation Services (Doc 9082).



AACO'S VALUE ADDED SERVICES

AEROPOLITICAL ISSUES

AACO's Aeropolitical Watch Group (AWG)

Gathers Aeropolitical and Legal experts from various AACO members. The role of this group is to:

- ◆ Follow up on the various regulatory affairs affecting the Arab airlines
- ◆ Lobby in favor of the joint interests of AACO members
- ◆ Provide awareness through AACO to the members on Aeropolitical affairs
- ◆ To suggest solutions wherever applicable.

Pan Arab Spotlight

AACO calls for the effective implementation of the Damascus Convention

AACO asks more Arab governments to adopt the Tunis Convention for tax exemptions

Relations with other Regions

AACO calls for a parallel course to the Euromed Aviation project that includes all Arab countries

AACO calls for a holistic level playing field between Arab and European carriers

Pan-Arab Spotlight

Priorities throughout last year were focused on pushing for the implementation of the Damascus Convention in an attempt to liberalize pan-Arab market access, pave the way for easing up ownership and control of carriers, and enhancing fair competition.

AACO worked as well on highlighting the importance of the Arab Reciprocal Exemption Agreement for Taxes & Charges (Tunis Convention) in cutting costs of Arab carriers.

AACO coordinates with the Arab Civil Aviation Commission (ACAC), the Arab League, and Directors General of Civil Aviation for the effective implementation of Arab conventions that lie in the interest of AACO member airlines.

Focus on Relations with other Regions

Relations with Europe

The second priority on AACO's Aeropolitical agenda dealt with air transport relations between Europe and the Arab world. The two neighboring locations and increasing traffic flows between the two regions made it essential to have a region to region relation rather



than bilateral “pick & choose” policies. AACO pushes for enhancing air transport relations between the two regions at the highest levels to ease up market access, and to ensure a level playing field for all carriers serving the market.

In this area AACO is involved with the Arab League, ACAC, the European Commission, and a number of European airlines’ associations.

Throughout the year, AACO’s AWG held several meetings with the European Commission to discuss aviation relations between the two regions, and worked on establishing a roadmap for these relations, while at the same time providing input to European aviation directives and proposals for rulemaking to ensure that the Arab carriers’ interests are heard and taken into consideration.

The European Commission published a white paper this year highlighting areas that the European Union will be focusing on during the coming years. AACO has given special attention to this paper as it sets the scene for possible aviation regulatory changes in the EU; most importantly:

- ◆ Passenger Rights
- ◆ Airports Package; covering the Ground Handling, Noise, and Slots Allocation directives.
- ◆ State Aid Rules
- ◆ External Aviation Relations
- ◆ In addition to environment targets which are being handled by AACO’s Environmental Policy Group.

Relations with the United States

AACO’s AWG worked on providing input to the US Department of Transportation on a proposed rulemaking to enhance passenger rights.

AACO lobbied as well with other airline associations to extend the implementation deadline of the new passenger rights, whereby a number of obligations under the new rules were successfully postponed till next year.

ENVIRONMENTAL AWARENESS & SOLUTIONS

AACO’s Environmental Policy Group (EPG)

Gathers environmental experts from various AACO members. The role of this group is to:

- ◆ Follow up on the various Environmental policy issues affecting the Arab airlines.
- ◆ Lobby in favor of the common interests of AACO members.
- ◆ Provide environmental awareness to AACO members.
- ◆ Find solutions that would help AACO members in facing the environmental challenges.

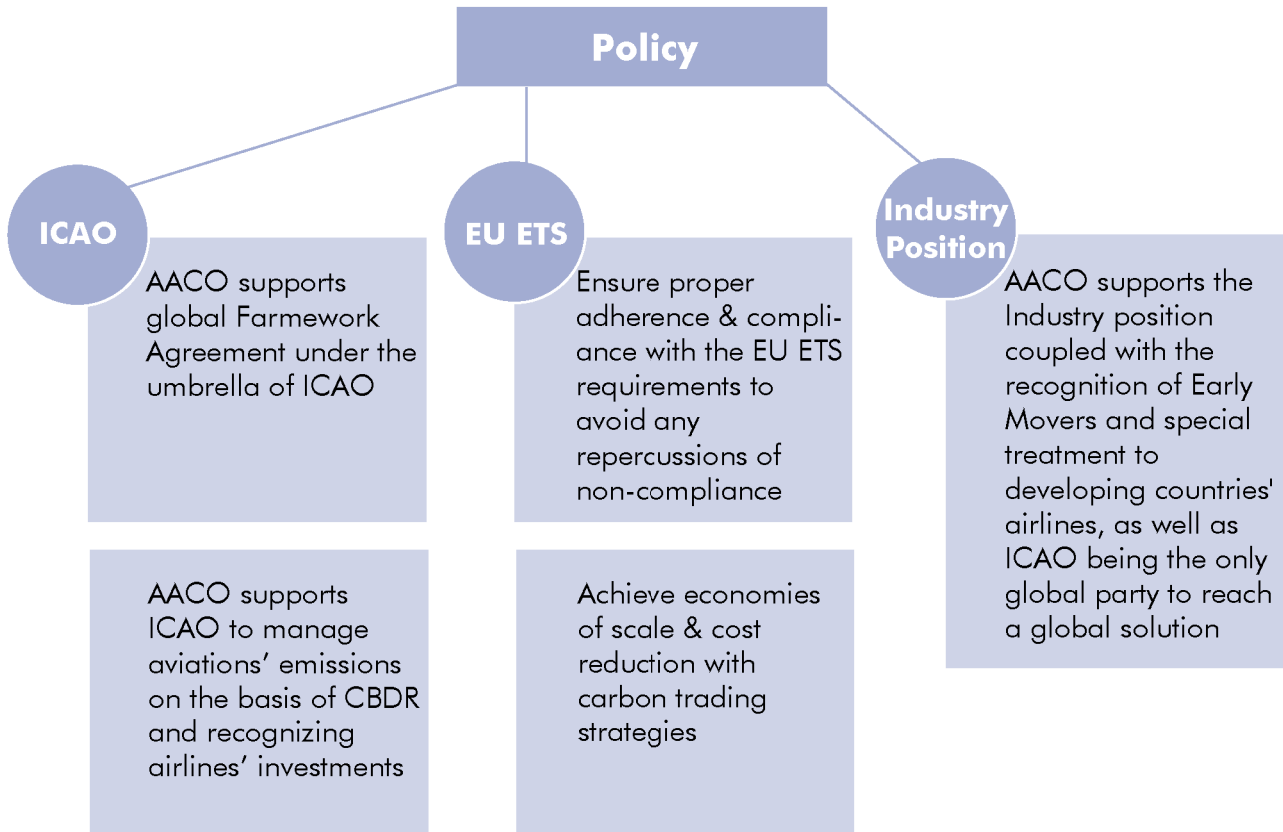
Modus Operandi: AACO’s works is based on the following four pillars:

Policy

AACO follows up on political and regulatory steps that are there to tackle aviation’s impact on the environment. AACO sees that in order to avoid proliferation of regional



unaligned individual Cap & Trade schemes, a global scheme needs to be adopted under ICAO that would take into consideration Kyoto's principle of Common But Differentiated Responsibilities (CBDR) and Chicago Convention's principle of non-discrimination between operators. The special needs of developing countries' airlines as well as recognition of airlines' investments in mitigating their emissions, are also part of AACO's policy.



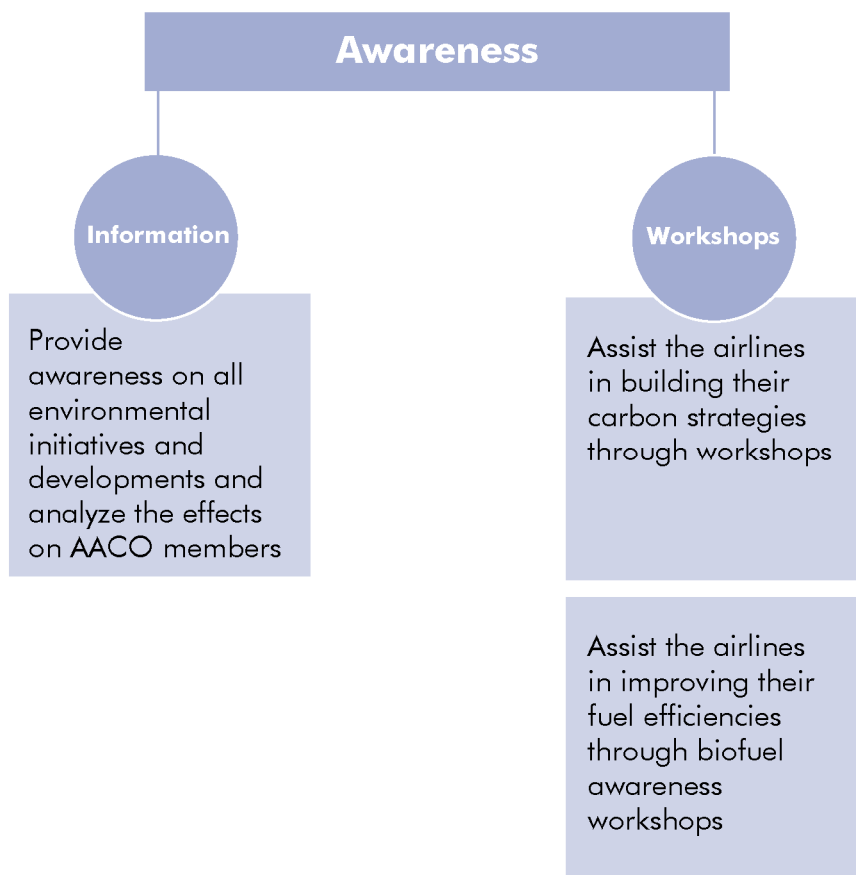
Representation

- ◆ AACO estimates that the EU ETS will cost AACO members around 85 million Euros in the first year of implementation of the scheme in 2012.
- ◆ AACO has been working with various international bodies to secure the interests of AACO member airlines in any global solution to tackle aviation's impact on the environment; AACO has also worked on the Arab front with the cooperation of ACAC to protect the interests of the Arab airlines at the Conference of the Parties and ICAO.
- ◆ The Executive Council of ACAC requested AACO to prepare various scenarios for dealing with the EU ETS.
- ◆ AACO participates in the ACAC Environment Committee, which mandated AACO to provide a study on a basket of measures which will limit the exposure of the Arab airlines.
- ◆ According to AACO 43rd AGM resolution supporting ICAO resolution A37 – 17/02 on Aviation and the Environment and the declared intention of the EC to continue with the implementation of its EU ETS, AACO has identified various scenarios of dealing with the European Scheme and mitigation of Arab airlines' emissions.
- ◆ Based on the above, AACO studied thoroughly what would be the effect of each scenario on the Arab airlines and prepared a comprehensive approach for emissions mitigation.



Awareness

- ◆ AACO follows up on environmental developments related to aviation and distributes the necessary data to AACO members related to the EU Emissions Trading Scheme and its impact on the Arab airlines, in addition to other information related to individual, regional and global regulatory trends in this regard. AACO also allocates part of its official monthly bulletin to display latest environmental news.
- ◆ On the other hand, AACO stayed in contact with various relevant parties like the European Competent Authorities, the EC, Eurocontrol, and other governmental and non-governmental entities and environmental service providers and accredited emissions verifiers by European states, and others.
- ◆ This strong foundation of relationships facilitated communication with various relevant key entities which helped bring awareness to AACO members to comply with the environmental laws, under protest.



Solutions

AACO continuously seeks cost effective solutions for its members to comply with the requirements of the EU ETS, under protest.

- ◆ Consultancy to assist them in formulating their monitoring and reporting plans.
- ◆ The adoption of an electronic system for the monitoring & reporting of emissions and Tonne-kilometer data; agreement done bilaterally between SITA and 13 member airlines under the umbrella of AACO. The adoption of this system resulted in member airlines submitting successfully their ton-kilometer and emission reports to the concerned competent authority.
- ◆ Members have also met the verification deadline successfully by contracting mainly Lloyds (10 airlines), PWC (2 airlines) and VerifAvia (6 airlines).



TECHNICAL WORK

In 2010, AACO Technical department was renamed to Technology Management. 2010 was a busy year for AACO in the technical arena, as work was undergone on several initiatives aiming at rationalizing member airlines' cost, and protecting their interest:

Flight Operations

- ◆ AACO has been providing its member airlines with specialized events that address new developments in flight operation systems, such as the symposium that was co-organized with Lufthansa Systems on Lufthansa Systems' IOCC (Integrated Operations Control Center) in October 2010 in Cairo – Egypt.
- ◆ In addition, AACO has been following up on regulations that would affect the operations of its member airlines such as the new format of ICAO Flight Plan, to which AACO is preparing training courses for dispatchers in order to be able to file flight plans to their respective ATCs under the new format.

Aviation Safety

- ◆ AACO has been a signatory party to the Abu Dhabi declaration that initiated the Top Level Safety Team (TLST) and is participating in its meetings. The TLST works towards developing and implementing the Middle East Safety Road Map in line with the ICAO Global Aviation Safety Road Map. This consortium gathers airlines, civil aviation authorities, aircraft manufacturers and international and regional associations such as AACO, ACAC, Airbus, Boeing, CANSO, IATA, ICAO, IFALPA, MEBA and UN World Food Program.
- ◆ On the other hand, AACO is involved with the work of the ICAO Regional Aviation Safety Group (RASG) that was established in 2011, and is part of the Regional Safety Committee (RSC) that oversees the work of the different work groups initiated to prioritizing safety risks in the region, and to developing solutions to mitigate those risks. The work of RASG and RSC is guided by the ICAO Global Aviation Safety Road Map and Global Aviation Safety Plan. It is worth mentioning that the RASG is the only body in ICAO MID office that involves the industry in its core activities, and not only as observers. The industry has discussed with ICAO MID such involvement and was able to secure the second vice chairman of the MID RASG from the industry, in addition to a co-chair and an alternate on the RSC.
- ◆ Moreover, AACO has been following up on all regulatory issues that affect its member airlines, such as the EASA Third Country Operators Notice for Proposed Amendments (TCO NPA), and is coordinating with international bodies within the industry to respond to this NPA and to similar consultations to ensure the interest of its member airlines.

Aviation Security

AACO established the AVSEC Work Group upon the request of several member airlines early 2010. The group is working on several initiatives of both operational and regulatory natures:

Harmonization of security audit checklists

- ◆ AACO AVSEC Work Group has been developing a unified security audit checklist to be used by member airlines at airports. The list is in conformity with ICAO annexes and with IATA IOSA requirements. In addition, it will include the specific requirements of Arab civil aviation authorities in order to be approved by all countries. The aim of that checklist is to minimize the number of audits AACO member airlines



conduct at stations. Having a unified checklist, any certified auditor from any member airline can audit a station and his audit would be approved by other member airlines operating to that station. The checklist is currently in the final stages of refinement, and future steps will be to develop guidance material for that checklist. Eventually, the initiative will create a pool of auditors who are calibrated and trained to use the new checklist. Those auditors will perform the security audits at stations once on behalf of all member airlines flying to those stations.

Security Management Systems (SeMS)

- ◆ Acknowledging the need for Arabic SeMS as Arabic is the only language known for security personnel in some countries, AACO Work Group has previously translated the IATA SeMS latest version that was released in 2007. As the new version of the SeMS is expected soon, the group will amend the translated document to conform to the new version. In addition, the group will amend IATA SeMS in order to remove clauses that are irrelevant to the air transport business in our region, in order to have a document that addresses the air transport industry in the Arab world. Upon completion, the translated SeMS will be communicated to ACAC to be circulated for approval of Arab civil aviation authorities.

Security Handlers at outstations

- ◆ AACO AVSEC Work Group is currently joining efforts to address cost issues related to handling security at outstations. The group agreed to launch the initiative at few stations in order to test the waters, and then expand to additional stations. Hence the initiative will be launched, in the first phase, at CDG, FRA, GVE, JFK, LHR and MXP.
- ◆ In addition, due to the new security requirements of the Indian Bureau of Civil Aviation Security (BCAS), several member airlines have shown interest in having a better security handling agreement with Indian operators. Six AACO member airlines are currently participating in this initiative, namely Air Arabia, Emirates Airline, Etihad Airways, Gulf Air, Kuwait Airways and Oman Air, along with Jet Airways, AACO's new Partner Airline who showed interest in this initiative.
- ◆ On the other hand, AACO has been increasing its presence in aviation security forums by supporting and speaking at several international events, the latest being the International AVSEC Conference that was held in May 2011 in Hong Kong.
- ◆ Moreover, AACO, through the AVSEC Work Group, is keeping its member airlines updated with regards to the new regulations affecting airline security such as the new requirements of the Indian BCAS, European updates with regards to carrying liquids, and is responding to consultations that affect member airlines' operations and costs such as the UK's Department of Transport Better Aviation Security Proposal.

Engineering & Maintenance

2010 marked the launch of AACO members collaboration in the MRO field. To accomplish that cooperation, AACO established an MRO Task Force. The Task Force decided to hire a consultant in order to assess the individual systems and procedures of participating member airlines, and conclude with different scenarios for cooperation in the following areas:

- ◆ Purchasing of Aircraft Parts
- ◆ Management of Aircraft Parts
- ◆ Use of MRO Capabilities in the Arab world



AACO issued an RFP in that regard and received responses from three consultancy firms. The Task Force evaluated those proposals and decided to contract ICF SH&E to conduct the consultancy study. The framework agreement for the consultancy study was signed during AACO 6th Technical Forum on 11 October 2011, and the result of the study is expected by the end of March 2012. Seven AACO member airlines are participating in the study, namely: Air Algérie, Egyptair Holding Company, Emirates Airline, Kuwait Airways, Middle East Airlines, Qatar Airways and Saudi Arabian Airlines.

On the other hand, in line with the strategy to increase AACO visibility in the technical landscape of the industry, AACO has been supporting and speaking at several important regional MRO events, the latest being UBM Airline Engineering & Maintenance Middle East conference that was held in May 2011 in Abu Dhabi.

DISTRIBUTION

Global Distribution Systems (GDSs) or Computer Reservation Systems (CRSs) have captured headlines in 2011. The “commercial” grievances that have long marred the relationship between airlines and the GDS took a legal turn. This year was marred by litigation and threats of suspending GDS services to a key airline in the United States.

Airlines want to sell their seats in a way that gives them more power/control and less cost. Airlines realize that GDSs are indispensable, however, that comes at a hefty price. While technology has brought in partial substitutes, there is no real alternative to GDSs in the foreseeable future. It remains that GDSs are among the very few technologies and industries that have increased in price over time. Airlines still pay no less than 7% increase annually on GDS fees, and still pay a “flat fee” for transactions regardless of the ticket value and on cancellations. It means that for the same service, for the same technology, airline distribution bill increases by about 50% every 5 years! In the past, before the internet and telecommunication revolution, GDSs were the best means to distribute airline Industry. Over time, two things occurred, internet evolved, and the price of airtravel, along with airline yields, declined dramatically.

Prior to deregulation, airlines owned their own reservation systems with travel agents subscribing to them. For example, Sabre was once a unit of American Airlines. Today, independent companies run the GDS, and they have airlines and travel agencies as their major subscribers. In the U.S market for example, Sabre and Travelport control more than 90% of U.S. data distribution to travel agents. In the Arab world, depending on the country in question, roughly 80% of the market is shared between Amadeus-Travelport and Sabre.

AACO’s strategy with GDSs is partnership, and this has extended for over 20 years, ever since the first distribution agreement between Galileo – now Travelport – and Arab airlines was signed in 1991. AACO carriers are shielded by distribution agreements in their respective home markets. Eighteen AACO members have distribution agreements with the three major GDSs in the region.



Over 2011, AACO started the Relationship with the GDSs Taskforce. The taskforce has set several objectives. On the participation agreements levels, the airlines wish to understand the terms, scope and legal limitations of the GDS Participation Agreements in a non-commercial manner. On the commercial level, the aim remains to rationalize distribution cost through agreements with GDSs that extend beyond local markets, through capping the annual increases by Global Distribution Systems under the terms of the commercial agreement. Another aim is to work on stamping down travel agency abuses across markets in coordination with GDSs. The Taskforce will explore the direct distribution path outside the market region at selective locations, and will exchange expertise on the successful approach for some AACO carriers in that regard.

NETWORK COOPERATION

Over the span of 6 years, Arabesk has paved the way to achieving additional revenues for every single carrier in the initial Arabesk grouping, and has proven the theory that scientifically founded collective cooperation on network alignment is not only possible, but also very lucrative. By 2011, the project has yielded over USD 75 million for the grouping of 9 airlines.

The project reached an important junction. The initial cooperation on trunk routes was fully achieved, and the need to expand the membership towards AACO airlines and non-AACO airlines alike, raising the need to give up the closed structure that characterized Arabesk at its first phase.

The Arabesk Chief Executive Officers agreed that the cooperation should take a different path, whereby the technical consultancy services that were adopted in the past will be replaced by regular Management Information Reports that will be delivered to all AACO member airlines – in cooperation with a service provider. The Management Information Reports would be derived from actual market data and from other sources, namely pricing reports and airport traffic data in a SWOT analysis approach. They will highlight the opportunities and threats of the airline networks in terms of schedules, pricing, competition, and revenue management and will cite clear recommendations on these matters. The reports that will be sent to the airlines' Chief Executive officers and senior management will periodically highlight cooperation opportunities with other airlines, Arab and non-Arab.

This approach allows airlines to maintain and expand their existing codeshare agreements, and to develop new commercial cooperation. It also allows airlines to bilaterally move ahead with potential partners, considering that the reports include airline-personalized recommendations and performance reporting. In the case an airline wishes to further study a specific case it can request that from the technical service provider. In the case where a group of airlines wish to engage in other areas of cooperation (such as loyalty, services, sales and distribution) they may do so jointly with a group of interested companies, with no obligation to the entire group.

AACO's role would be to organize regular meetings that would gather the officers in charge of commercial and network cooperation, and to drive towards the delivery of the Management Information Reports highlighted opportunities.



FUEL

Imbalance affecting Crude Oil Markets

The Instability of Oil prices and the climb we saw in recent years reflected on the airline operating cost where the fuel bill now represents a significant cost item for the airlines, increased by 39.5% in 2010 over 2009, and consists of around 49.9% of the total direct operating cost.

The factors affecting oil price can be summarized as follows:

- ◆ The increase in demand and restoring capacity
- ◆ Speculation
- ◆ The supply of and demand for alternative fuels which has a direct impact on oil prices
- ◆ Correlation between the reserve growth to production ratio and the oil price
- ◆ Global events
- ◆ Supply constraints

Fuel Project

AACO provides the members with a framework to negotiate with suppliers in order to rationalize the fuel cost.

The Fuel Project consists of the following 20 member airlines:

Air Cairo, Air Algerie, Air Arabia, Afriqiyah Airways, Egypt Air, Gulf Air, Jordan Aviation, Kuwait Airways, Libyan Airlines, Middle East Airlines, Oman Air, Qatar Airways, Royal Jordanian, Saudi Arabian Airlines, Sudan Airways, Syrian Arab Airlines, Tunis Air, Yemen Airways, Felix Airways and Trans Mediterranean Airways.

AACO also provides a framework for enhancing the knowledge base and improving the cooperation between member airlines and fuel companies.

AACO Fuel Technical Group holds periodical Fuel Technical forums, the last of which was in Dubai in October 2011. The event dealt with sharing information related to the challenges and impacts facing the MENA region in terms of technical, operational, environmental and commercial disciplines.

E-COMMERCE AND MOBILITY

Technology is continuously evolving offering significant opportunities to all businesses. For the travel industry to make the best out of these opportunities, it is adopting new technology solutions like social networking and mobility technology to improve the passenger experience before, during and after a trip.

The opportunities are most evident in researching the trip, finding price and availability information, serving the passenger, and booking the trip.

A global industry wide Airline IT Trends Survey done by SITA shows that more than 90% of the airlines surveyed are increasing their investment in mobile capabilities offering their passengers a streamlined experience, while utilizing this new distribution channel to generate revenue too. 85% of airlines in the Survey either offer or plan to offer selling tickets by 2014.



Following this year's AACO IT Forum, an E-Commerce Task Force gathering executives from the member airlines was established with an objective of exploring innovative Mobile Applications for sales and marketing purposes, and look into adopting the best solutions. Moreover, the Task Force will examine means to minimize the credit card fraud pertaining to online payment which represents around 1.5% of all online transactions.

During the 2nd quarter of this year, the Task Force approached 15 of the best and prominent organizations offering these solutions and services. And now the Task Force is working on evaluating the best tool to address their current requirements and at the same time would be scalable for future developments to align with airline's future strategies.

Still, many challenges need to be considered in the future from offering tickets on partners' airlines to ensuring cross-platform integration between all airlines' channels to provide the passenger with consistent experience.

MARKET INTELLIGENCE

The usage of market intelligence varies between carriers. An ideal situation warrants that carriers use market intelligence for both sales and planning purposes. Visibility means the ability to identify threats and opportunities on schedule, network planning, product improvement and pricing vis-a-vis competition. Small and medium sized airlines face the high cost of acquiring and processing market intelligence data, which forces them to limit their acquisition of market intelligence, and unwillingly accept partial visibility through acquiring selective markets or routes. At one point Pax-IS – a product from IATA - presented itself as a very cost effective solution to the market visibility versus cost dilemma, however, litigation between GDSs and IATA has masked certain portions of PaxIS, reducing its value in regions where Amadeus GDS has high presence. This had a direct impact on Arab airlines especially that Amadeus is the leading GDS in the Arab world and in Europe.

AACO and its carriers are involved at the Direct Data Services (DDS) project for direct and indirect data that is being developed by IATA. DDS would avert the legal challenges that PaxIS faced by the GDSs regarding IATA's right to use airlines' data extracted from BSPs.

There are several gains from the DDS direction. First, data covers the "direct sales" patch that MIDTs cannot show, as direct sales, a fast growing channel, does not go through the legacy GDSs. Moreover, the cost of acquiring DDS is expected to be dramatically lower than the ever increasing price charged by the GDSs for Market Information Data Tapes. The DDS extracts direct and indirect sales data and tickets data directly from the airlines own data, in an industry standard format. Only airlines who participate in the DDS database may buy the DDS sets. DDS will provide market visibility to airlines, allowing them to access passenger data on a shared basis.

A special taskforce within AACO is following up on this project's different phases, including the testing and the legal aspect. A framework agreement will be signed between AACO and IATA on DDS during the 44th AGM.



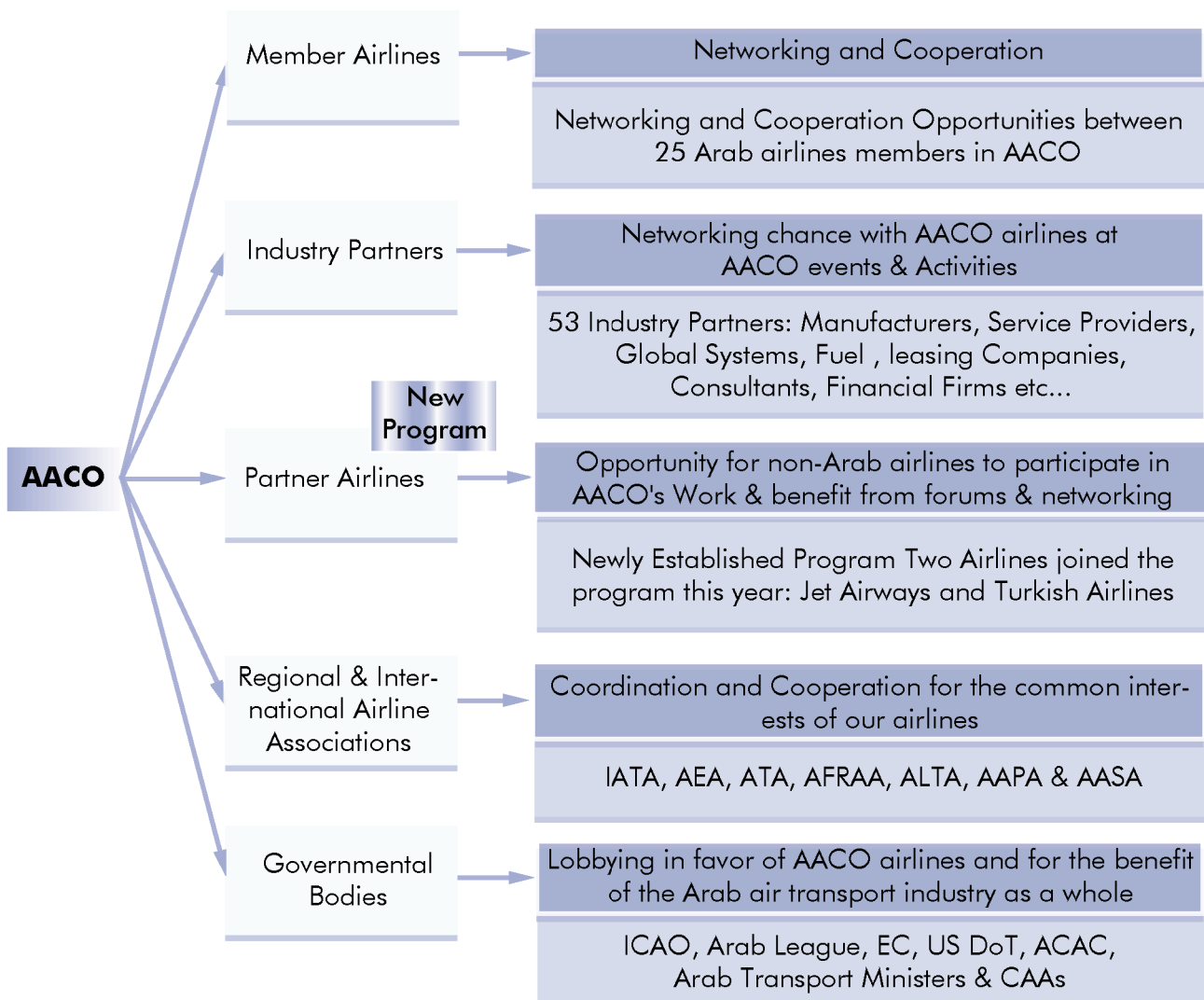
GROUND HANDLING AND FACILITATION

The project aims to enhance the quality of services delivered to members & partner airlines at outstations while addressing cost issues, as well as improving the contractual terms with various service providers in the ground handling service delivery and in Airports' development.

The project resulted in a number of successful ground handling framework agreements at outstations, namely with HAVAS in Istanbul and 10 other Turkish airports, and with Flightcare Italy in Rome. The Group is constantly working on expanding the project to cover more stations.

OUTREACH AND NETWORKING

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.





TRAINING & HUMAN RESOURCES DEVELOPMENT

The year 2011 had started with a sign of recovery after two years of suffering from the effects of global financial crisis, but as soon as we started to resume activity on training, the Arab world witnessed a great deal of instability. Airlines' drives towards cost cutting increased in 2011, and training was one of the first sectors that airlines targeted, especially management training.

During the first half of 2011, AACO training centers conducted 51 training courses attended by 932 trainees as follows:

- ◆ 11 scheduled courses attended by 158 trainees
- ◆ 36 in-house training courses attended by 708 trainees
- ◆ 4 additional courses attended by 66 trainees

AACO was able to provide 119 training scholarships through the Industry Partnership Program during 2011.

As for 2010, AACO training centers as well were able to achieve some good results that could be presented in the following figures:

AACO training centers were able to conduct 98 training courses attended by 1717 trainees as follows:

- ◆ 17 scheduled courses attended by 256 trainees
- ◆ 73 in-house training courses attended by 1313 trainees
- ◆ 8 additional courses attended by 148 trainees
- ◆ AACO was able to provide 180 scholarships funded by Industry Partners in 2010, where 109 scholarship from which were used during the year.

Free Courses

AACO RTC organized 5 free courses during the first half of 2011 and offered each airline 3 free seats on each:

- ◆ Carbon Trading workshop conducted in Abu Dhabi in cooperation with Shell Aviation.
- ◆ Strategic Management
- ◆ Awareness on Biofuel training course in September 2011 in Beirut.
- ◆ Second Carbon Trading workshop in cooperation with CITI group, in Beirut in September 2011.
- ◆ Project Management in Aviation course conducted in Cairo in October 2011.

In cooperation with the Qatari Civil Aviation Authorities, AACO training centers have conducted Air Transport Policies workshop in Doha in April 2011.

During 2010, AACO training centers organized four free courses funded by AACO members' contribution, offering AACO members 8 seats for each airline.

As well during 2010, AACO training centers organized two training courses in cooperation with Qatar Civil Aviation Authorities, which are Judicial Officers in Civil Aviation, and Human Factors in Aviation. Both courses had been organized in Doha-Qatar fully sponsored by Qatar CAA.



Academic Programs

AVSEC Professional Management Program

In cooperation with Concordia University & ICAO, AACO conducted the 5th AVSEC program in Dubai at Emirates Aviation College in cooperation with Emirates Group Security. The 6th program will be conducted in December 2011 in Dubai.

Master Degree in Air Transport Management with Helwan University

The Master Degree Program started in cooperation with Helwan University in 2009. The 1st group comprising 32 researchers finished their studies in December 2011. The 2nd group started studying in May 2010 and are expected to finish by March 2012. Registration for the 3rd group is expected to start during the 1st quarter of 2012.

Aerospace MBA Program Scholarships

As part of our cooperation with the European aircraft manufacturer ATR and for the 3rd consecutive year, AACO was able to secure 6 scholarships on the MBA program at Toulouse Business School specialized in Aerospace management.

Aviation Management Diploma with AUC

Through an agreement with the American University in Cairo, AACO introduced three management post graduate diplomas.

The 1st group graduated in March 2010, and the second group in April 2011. The third group is expected to graduate in May 2012.

Currently AACO training centers are in a process of discussing a similar program with Prince Sultan College for Tourism & Management in Jeddah, and Toulouse Business School.

INFORMATION DISSEMINATION

One of AACO's main pillars of work is to enhance the knowledge base of its members and partners. With AACO's extensive information databases, the association has created a distribution chain system that has made the dissemination process a lot more efficient. AACO's electronic and printed publications have witnessed a creative makeover reflecting the modern look of AACO's new website. The newly polished publications have an enhanced reader friendliness.

AACO members, industry partners, and partner airlines enjoy a variety of general and specialized publications and bulletins.

AACO Annual Report

AACO annual report is the yearly harvest of all AACO developments, industry challenges and projects results. A yearly update is distributed during AACO AGMs. It is in printed format, in English and Arabic.

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 AACO's Partner Airlines. It also includes some vital statistics on general economic trends with a particular emphasis on the ones which are more related to Arab Travel & Tourism sector.

It is distributed, in printed format, to AACO members, Industry Partners, and Partner Airlines. This publication is in the English language only.

3D-Insight "AACO Quarterly Bulletin"

3D insight "AACO Quarterly Bulletin" is an electronic statistical and analytical bulletin in English. This bulletin is done in collaboration with Seabury Aviation & Aerospace 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.

TOP VIEW

An electronic bulletin dedicated for briefing the CEOs of AACO members about the major industry developments and AACO's activities in a very concise and executive manner. The TOP VIEW 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. It is a monthly recap of aviation in the Arab world on a regional and International level. Major issues covered in the NASHRA include:

- ♦ Major developments in the Arab aviation industry at various levels.
- ♦ 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, Fuel update 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 new Partner Airline Program.

The NASHRA is distributed to the CEOs and executives of AACO member airlines, Director Generals and senior management of Civil Aviation Authorities in the Arab world, Transport, Tourism and Economy's ministers in the Arab countries, worldwide regional associations and IATA, media around the world, AACO's Industry Partners and Partner Airlines.

Regulatory Update

A monthly electronic bulletin that covers all regulatory updates in the Arab region and the world for the previous month. This bulletin is sent to the Commercial Directors, Aeropolitical Experts, and Legal Experts.

Safe and Level

It is about 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 English newsletter is published every month.

Weekly Web News

It is a weekly update on the top and latest developments posted on a daily basis on our homepage covering the previous week's news, upcoming AACO events, and the next two scheduled RTC courses. The publication received a complete makeover early this year making it much more appealing. It is a link to our news with the possibility of selecting,



previewing and printing them as well as searching the News Archive.

<http://www.aaco.org/news>

RTC Catalogue

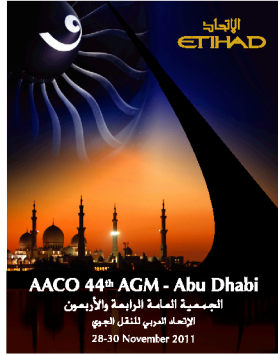
The Regional Training Center catalogue is a detailed description of the yearly training courses. This catalogue helps in giving the trainees detailed information about the courses facilitating their choice of course, registration and accommodation.

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www.aaco.org

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