



ANNUAL REPORT

Arab Air Carriers' Organization
52nd Annual General Meeting – Kuwait

4 - 6 November 2019





Annual Report

Arab Air Carriers' Organization

52nd Annual General Meeting – Kuwait

Vision
Mission
Strategy
Objectives



AACO's Vision

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



AACO's Mission

To serve the Arab airlines, represent their common interests and facilitate, in a manner consistent with all applicable competition and other laws their cooperation so as to improve their operational efficiencies and better serve the travelling public.



Strategy

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



AACO's Objectives

- To support the Arab airlines' quest for highest safety and security standards.
- To support the Arab airlines' quest for developing their environmental policies for processes in harmony with the environment.
- To actively contribute in the development of human resources.
- To interact with the regulatory bodies to support and protect the interests of the Arab airlines.
- To launch joint projects between member airlines with the objective of achieving efficiencies that will lower their costs in a manner consistent with all applicable competition and other laws and that enhance members' best practices.
- To provide forums for members and for industry partners to enhance the knowledge base.
- To reflect the positive image of The Arab Airlines Globally.



AACO Executive Committee



Mr. Yousef A. AlJassem Al-Saqer
Chairman of the AGM



H.E. Eng. Saleh N. Aljasser
Chairman of the Executive Committee

- H.E. Eng. Saleh N. Aljasser, Director General, Saudia
- Mr. Yousef A. AlJassem Al-Saqer, Chairman, Kuwait Airways
- Mr. Adel A Ali, Group Chief Executive Officer, Air Arabia
- Capt. Ahmed Adel, Chairman & CEO, EgyptAir Holding Company
- Mr. Tony Douglas, Group Chief Executive Officer, Etihad Aviation Group
- Mr. Mohamad A. El-Hout, Chairman & Director General, Middle East Airlines
- H.E. Mr. Akbar Al Baker, Group Chief Executive, Qatar Airways
- Mr. Abdelhamid Addou, Chairman & Chief Executive Officer, Royal Air Maroc
- Mr. Stefan Pichler, President & CEO, Royal Jordanian
- Mr. Ilyes Mnakbi, Chairman and President, Tunisair





SAFETY

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

CUSTOMER

To assist airlines in finding solutions that harness the technological advancements to enhance the customer travel experience in all touch channels and increase customer satisfaction.

SECURITY

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

AIRSPACE INFRASTRUCTURE

To promote and support enhancing the region's airspace infrastructure through enhancing the air route network, advocating civil/military collaboration, fostering Performance Based Navigation implementation, and supporting the implementation of a regional Air Traffic Flow Management mechanism.



REGULATIONS

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

CLIMATE CHANGE

To mitigate the impact of international aviation's emissions on climate change through supporting ICAO's efforts to ensure the successful implementation of its global scheme and to join efforts to improve operational performance and promote R&D in alternative fuel.

COST

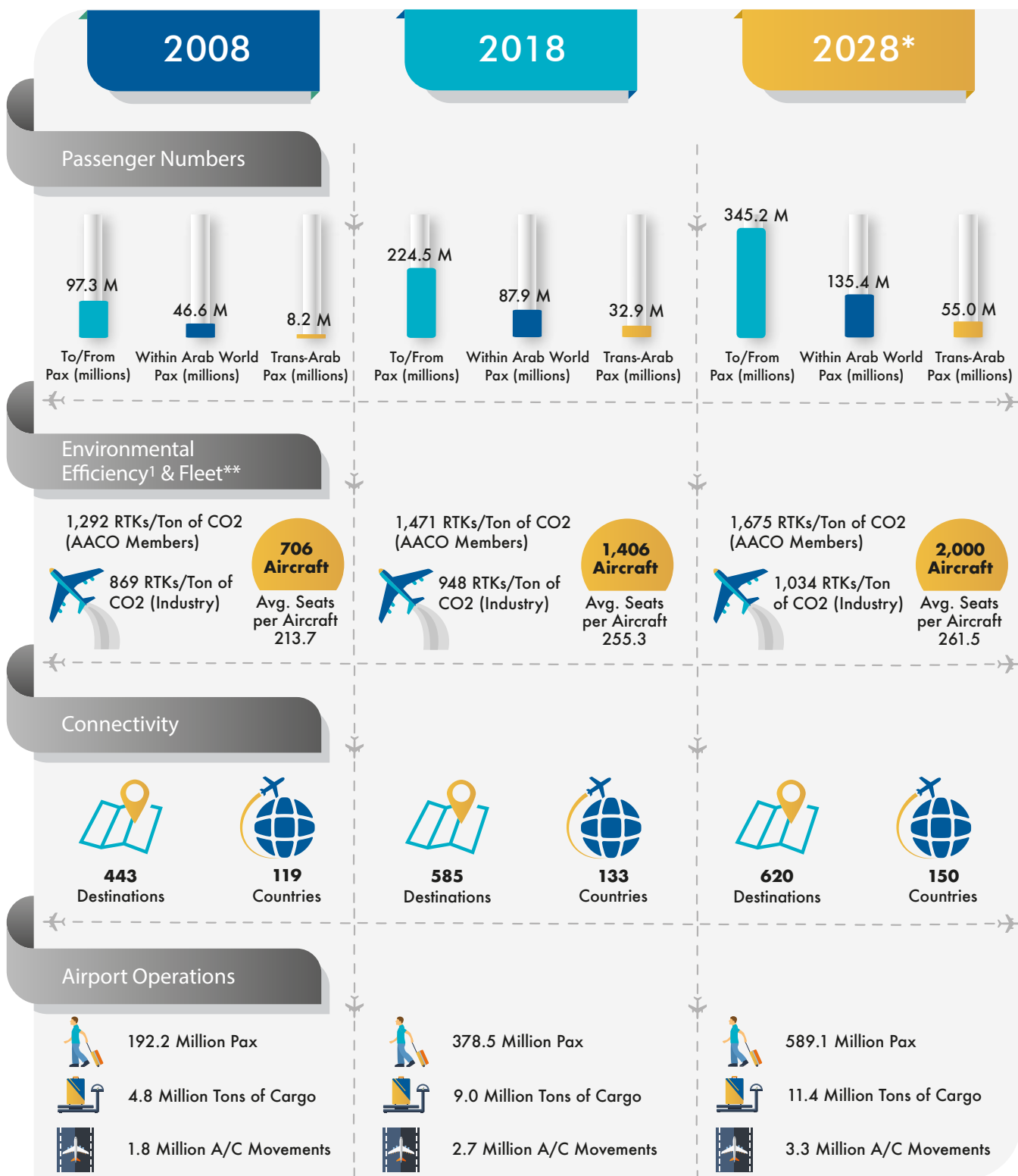
To assist member airlines in optimizing their operational environment, promote best practices while rationalizing their cost through cooperative activities, within the boundaries of competition laws.

AWARENESS AND CAPACITY BUILDING

To provide the highest quality, cost effective training that covers aspects of the air transport industry to maximize the performance of the human capital in the Arab region, and to provide networking opportunities through specialized forums about the latest air transport developments.



Arab Market: 10-Year Evolution



*Based on medium-growth forecast (available on page 5)

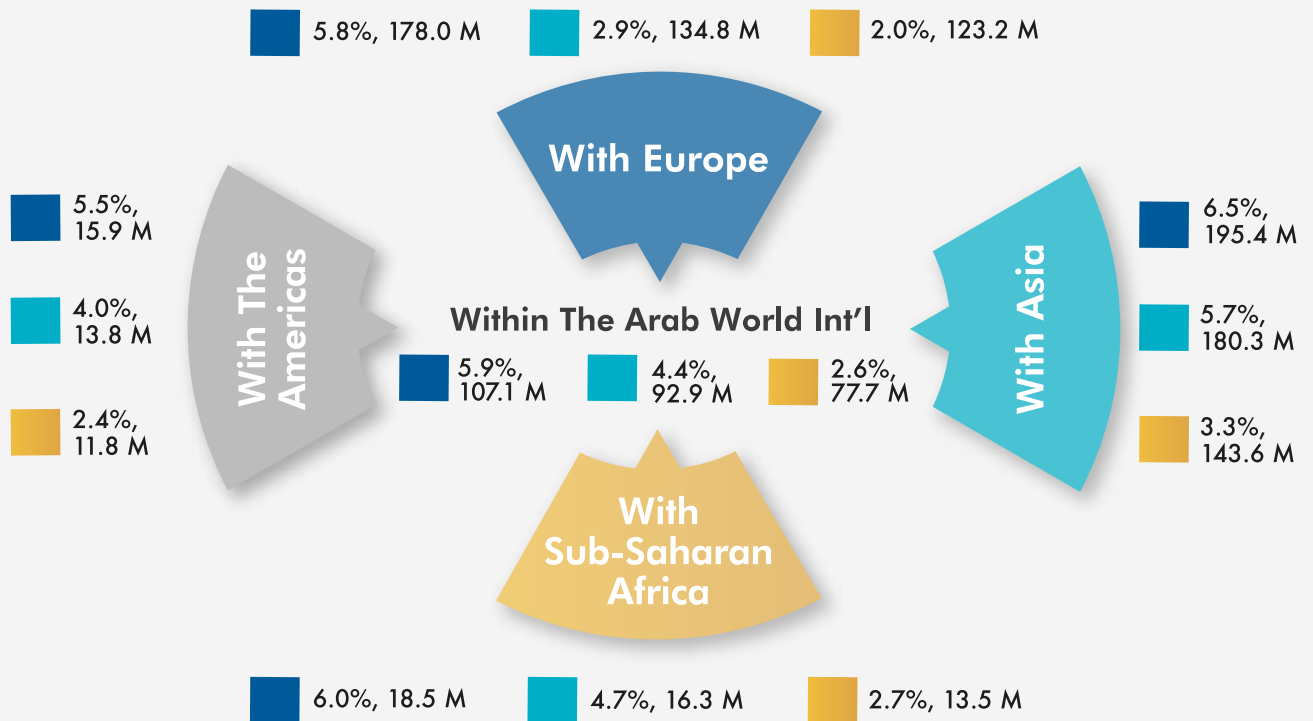
Source: IATA, ICAO, Fleets Analyzer, SRS Analyser, AACO

**AACO Members' Fleet Numbers

¹Emissions data does not take CORSIA into account



Arab Market International Passenger Demand Forecast until 2028



High-growth forecast

Threats receding or resolved.

Medium-growth forecast

Current sensitivities continue at the same intensity (trade and economic sensitivities, geopolitical tensions, and unchanged liberalization policies).

Low-growth forecast

Escalation of current threats (a weaker economy, elevated geopolitical tensions, and protectionism).

Growth rates are on average per annum

Source: IATA, AACO

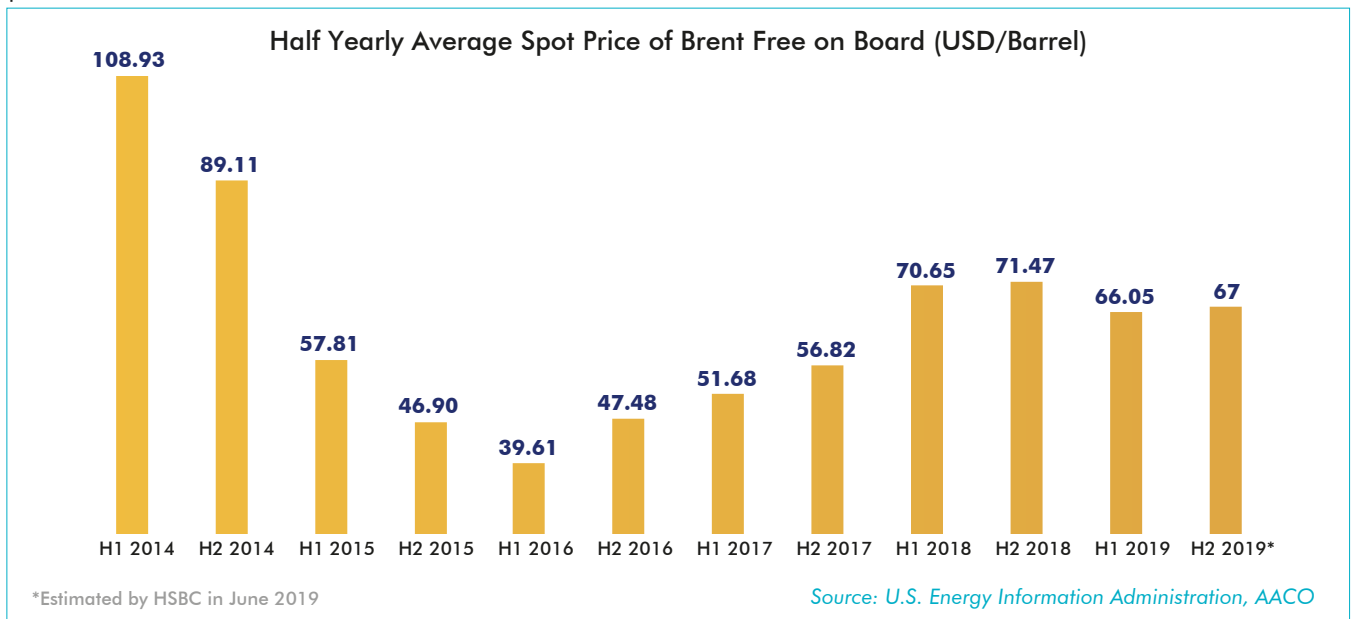
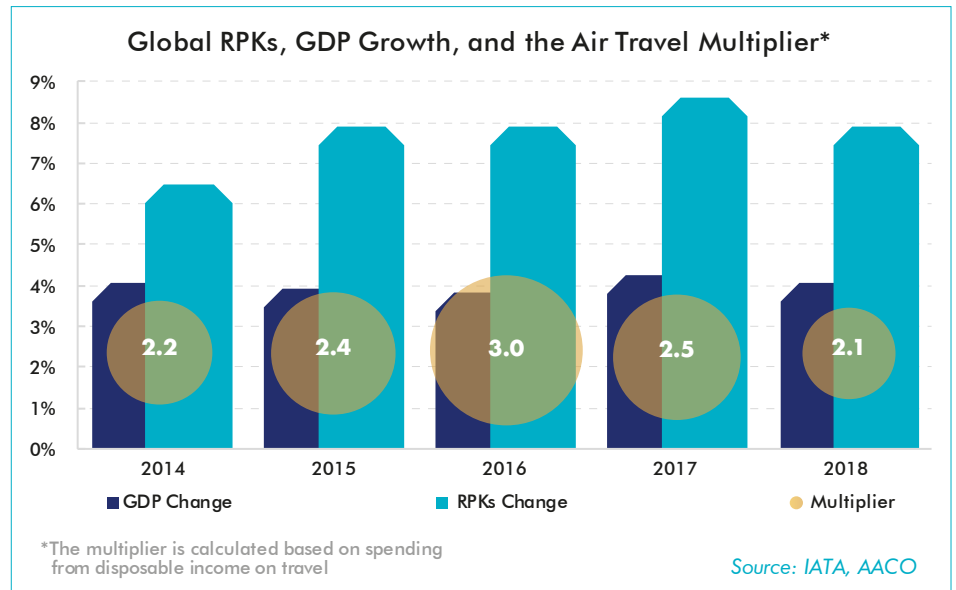


| | |
|-----------------------------------|--|
| The Industry | <ul style="list-style-type: none">● Global Air Transport Market and Tourism 7● Arab Air Transport Market and Tourism 12● AACO Members 15● Airports 17 |
| Advocacy | <ul style="list-style-type: none">● Safety 19● Aviation Security 20● Aeropolitical Affairs 21● Climate Change 25● Airspace Infrastructure 27 |
| Effective Cooperation | <ul style="list-style-type: none">● Jet Fuel 28● Business Technology 28● Cooperation at Outstations 28● Flight Charts 28● Security Information 28● Emergency Response Planning 28● MRO Project 28● Human Resources 29 |
| Awareness & Networking | <ul style="list-style-type: none">● AACO's Community, Partners, Forums, and Relations 30● Publications 31 |

The Industry

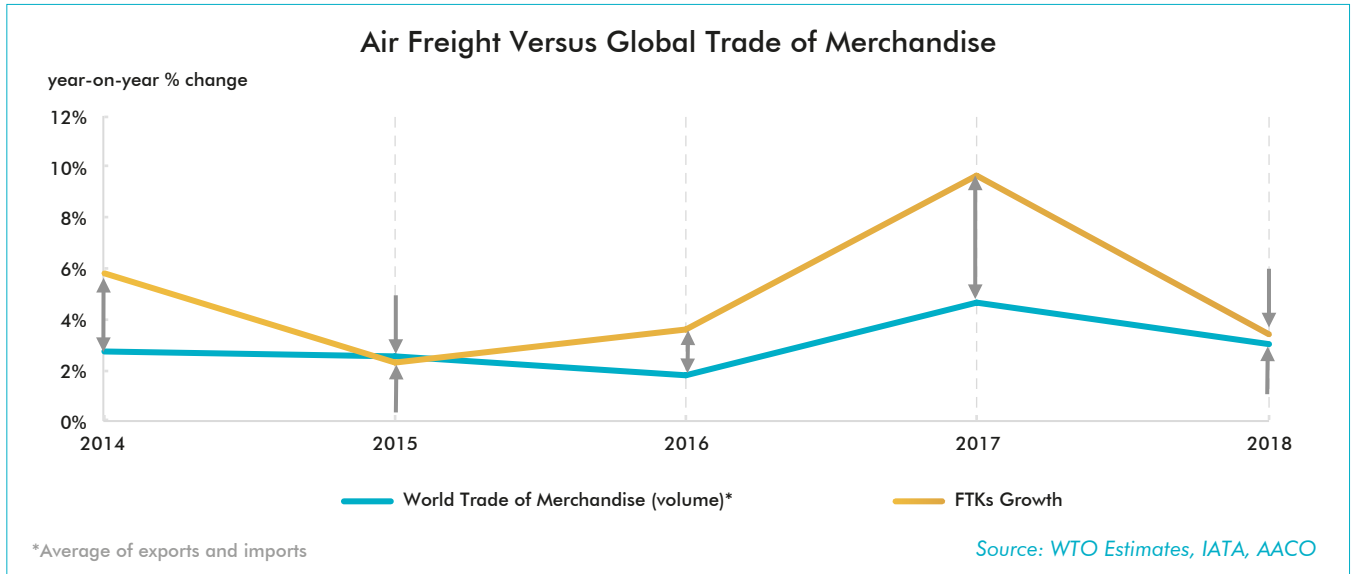
Global Air Transport Market and Tourism

The global economy expanded at a slower pace in 2018 after a notable performance in 2017, reflecting the escalation of trade tensions between the U.S. and China, the modest economic performance in the Euro area, and macroeconomic imbalances across emerging and developing economies. **Global GDP grew by 3.6% in 2018, down from 3.8% in 2017. The global economy's growth is expected to weaken further in 2019 to increase by 3.3% over 2018,** as the same factors will continue to depress the global performance.



Brent crude oil price averaged at 71 \$/barrel in 2018. It is anticipated that Brent will average at 66.5 \$/barrel in 2019. While many speculate that crude oil price will average in the 60s or 70s in 2020, it is important to look at **the factors shaping the crude price**. The existing forecasts for Brent could be easily scrapped if the **trade war between the US and China** further escalates. On the other hand, **ongoing sanctions** on Iranian and Venezuelan oil, and **political instability in some oil-producing countries and geopolitical tensions** that could easily disrupt production or trading lines are also factors that could cause great spikes in crude prices. Looking at refined products, **IMO 2020 regulation** that limits sulfur content on all marine fuels **will be sending shockwaves in the refined-product markets**; yet, it is still to be known how much margins and differentials will increase **in the short-term**.

Looking at air travel demand, **global scheduled Revenue Passenger Kilometers (RPKs) grew by 7.4%** in 2018 compared to 2017, which represents a 0.7 percentage point (pp) slowdown (8.1% RPKs growth recorded in 2017 over 2016). Rising fuel and labor costs and a weaker economic growth were the main factors affecting the global demand. **In addition, the air travel multiplier fell to 1:2.1**, affected by the the slowdown in travel growth. **Air travel demand is expected to slowdown further in 2019 to grow by 5.0% in terms of RPKs**, which may put more pressure on the air travel multiplier.



Air freight performance was weak in 2018 as it follows a year of very strong growth. **The Aviation Industry’s Freight Ton Kilometers (FTKs) increased by 3.4% in 2018 over 2017, down from 9.7% registered in 2017 over 2016**, affected by the moderation in global trade resulting from heightened trade tensions between the U.S. and China, the uncertainty over Brexit, and weaker global demand for manufactured goods. However, air freight sectors related to e-commerce and pharmaceuticals continued to perform well.

Global Commercial Air Transport at a Glance in 2018



Passenger Numbers

Global number of passengers grew by 6.9% in 2018 over 2017 to reach around 4.4 billion, up from 4.1 in 2017. Growth is expected to continue in 2019, yet at a slower pace mainly affected by a weaker economy and global geopolitical tensions.



Operational Performance

Global scheduled RPKs increased by 7.4% in 2018 over 2017, while global scheduled ASKs increased by 6.9%, driving the global PLF to reach 81.9% (+0.4 pp compared to 2017).



Financials

The global airline industry generated USD 30 billion in net profits, representing a decline of 20.2% compared to USD 37.6 billion recorded in 2017. The profits in 2018 represent a net margin of 3.7% compared to 5.0% net margin recorded in 2017. The decline is mainly attributed to the rise in labor and fuel costs.



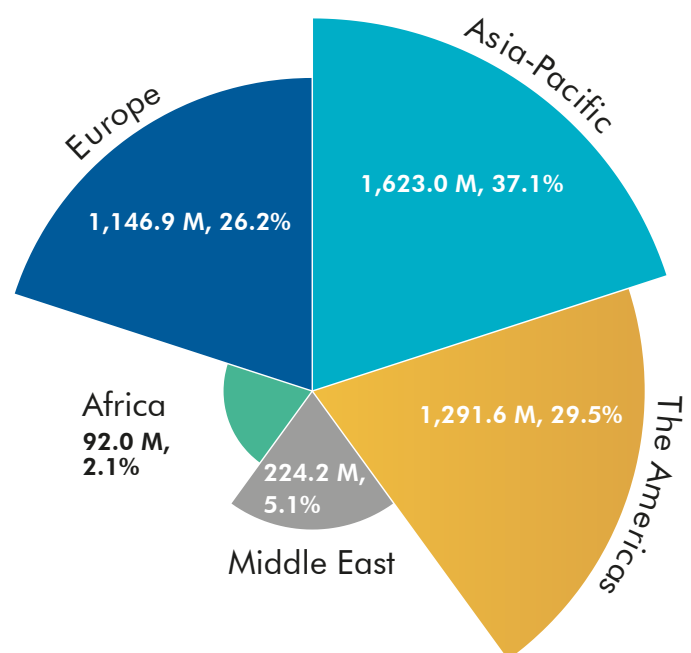
Fleet & Capacity

Global fleet count reached 32,707 aircraft, with an additional 10,260 aircraft on order as at June 2019. Total narrow-body aircraft's number of seats offered increased by 6.9% in 2018 over 2017, followed by propellers' at 5.9%, and finally wide-body's number of seats increased by 2.7%.

World Scheduled Passenger Traffic and Market Share per Region in 2018

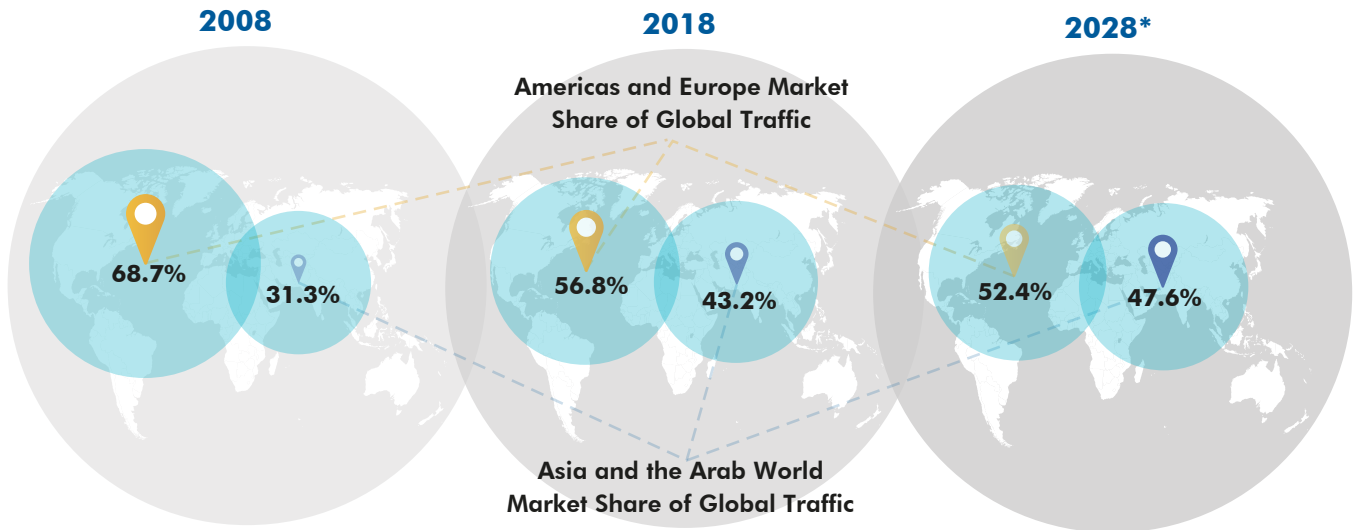
Asia-Pacific continued to lead the global growth in 2018 with the total number of passengers to, from and within the region reaching 1.62 billion; a growth of 9.2% over 2017. This has increased the region's market share of the global market by 0.8 pp, reaching 37.1% in 2018.

On the other hand, **the market share of The Americas decreased by 0.5 pp in 2018** compared to 2017 reaching 29.5% of the global market, followed by the Middle East decreasing by 0.2 pp to reach 5.1% in market share, and finally Europe and Africa's respective market shares declined by 0.1 pp each to reach 26.2% and 2.1% respectively.



Source: IATA, AACO

The Aviation Market Center of Gravity is Shifting East

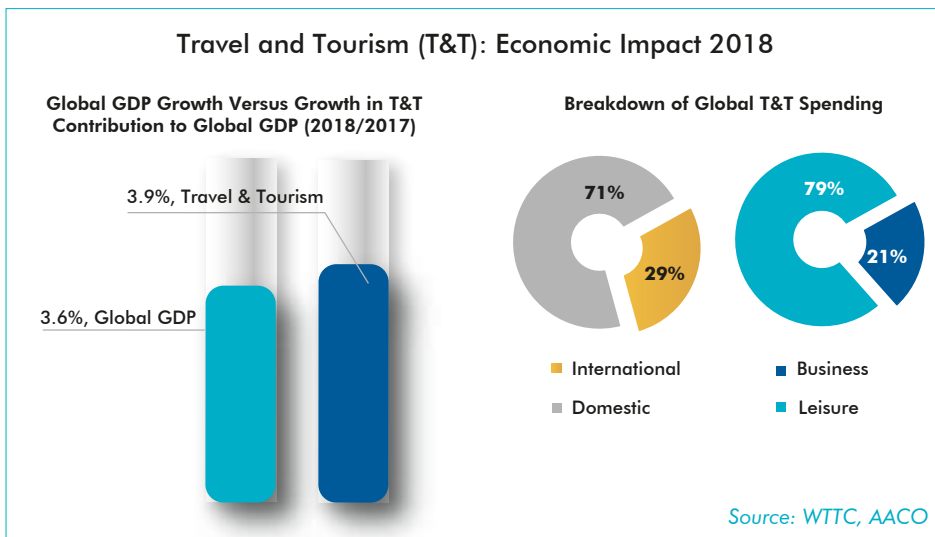


*Based on medium-growth scenario on page 5

Source: IATA, AACO

In 1965, The Americas and Europe represented around 90% of the global traffic in terms of passenger numbers, while the rest of the world represented the remaining 10%. Since then, **the center of gravity of aviation has been moving eastwards**, supported by the exponential growth of air transport in emerging and developing countries in the Arab world and Asia. As a result, it is expected that the latter markets will generate almost half the global traffic by 2028.

Economic Impact of Travel and Tourism



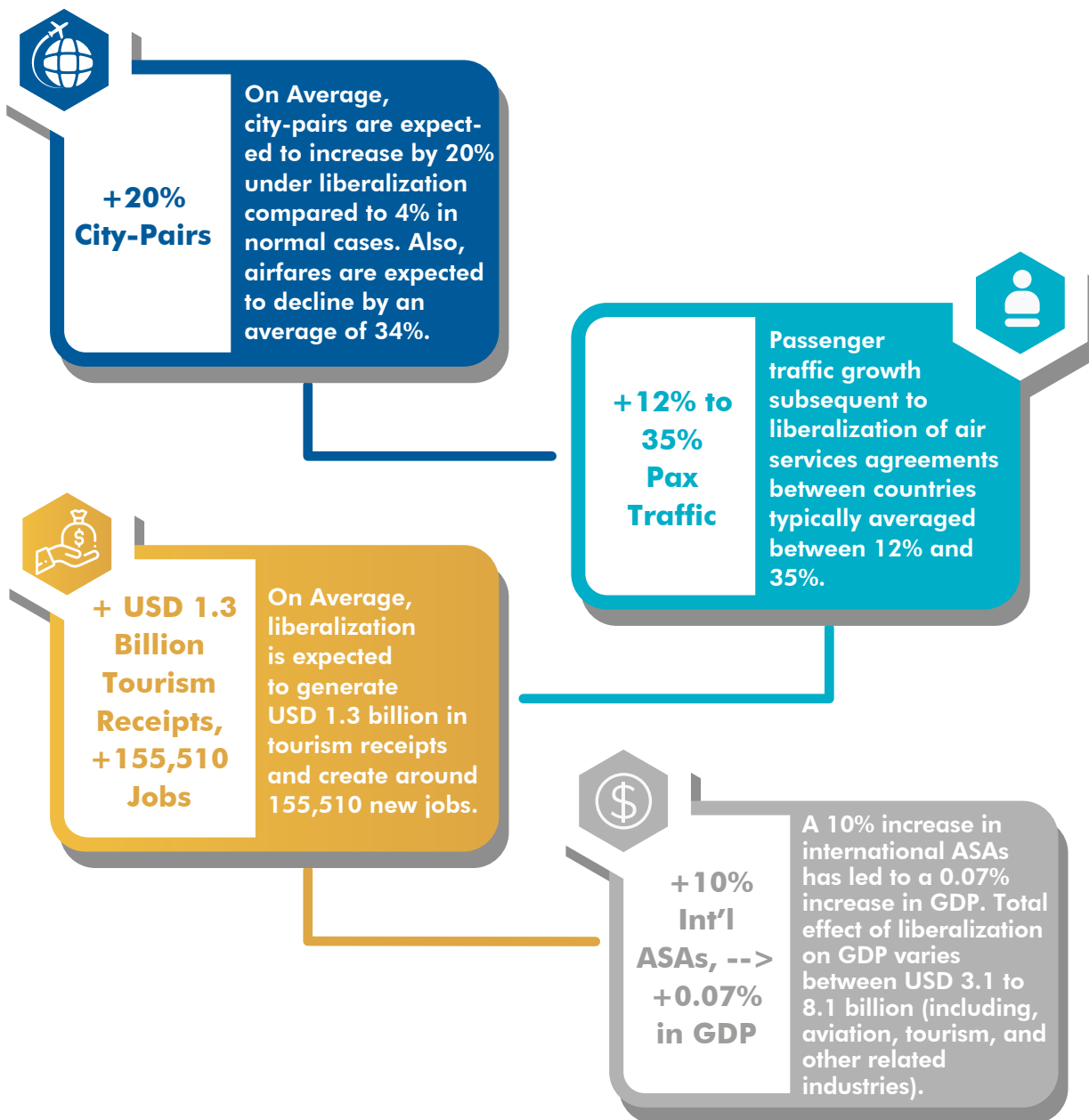
Despite the challenging global economic situation, **international tourist arrivals grew by 5.6% in 2018 over 2017 to reach 1,403 million tourists**. Similarly, **international tourism receipts grew by 7.6% in 2018 over 2017 to reach USD 1,448 billion**. On the same front, **international tourists traveling by air are expected to have spent USD 850 billion, an increase of more than 10% over 2017**.

Source: WTTC, AACO

Accordingly, **the total contribution of travel and tourism to global GDP, as reported by the World Travel and Tourism Council, grew by 3.9% in 2018 over 2017 to reach USD 8.8 trillion**, which represents 10.4% of the global GDP. In addition, **travel and tourism added a total of 6 million jobs in 2018 over 2017 numbers with total jobs supported by travel and tourism reaching 319 million jobs** (an increase of 1.9% compared to 2017).

On the other hand, **taxes and Charges are a down force on travel and tourism**. In general, they increase the cost of travel which in return affects the demand for air transport. Many studies discussed the impact of taxes and charges on demand for air travel and on the wider economy, proving that the benefit from lowering taxes and charges on the economy outpaces the revenues generated from those taxes. For example, a study conducted by IATA in 2017 stated that if airport charges remained constant in Europe between 2006 and 2016, passengers would have paid 17 euros less on average per one-way trip, which could have generated an additional 50 million passengers, unlocking 50 billion Euros in European GDP and creating 238,000 jobs.

Economic Impact of Liberalization*



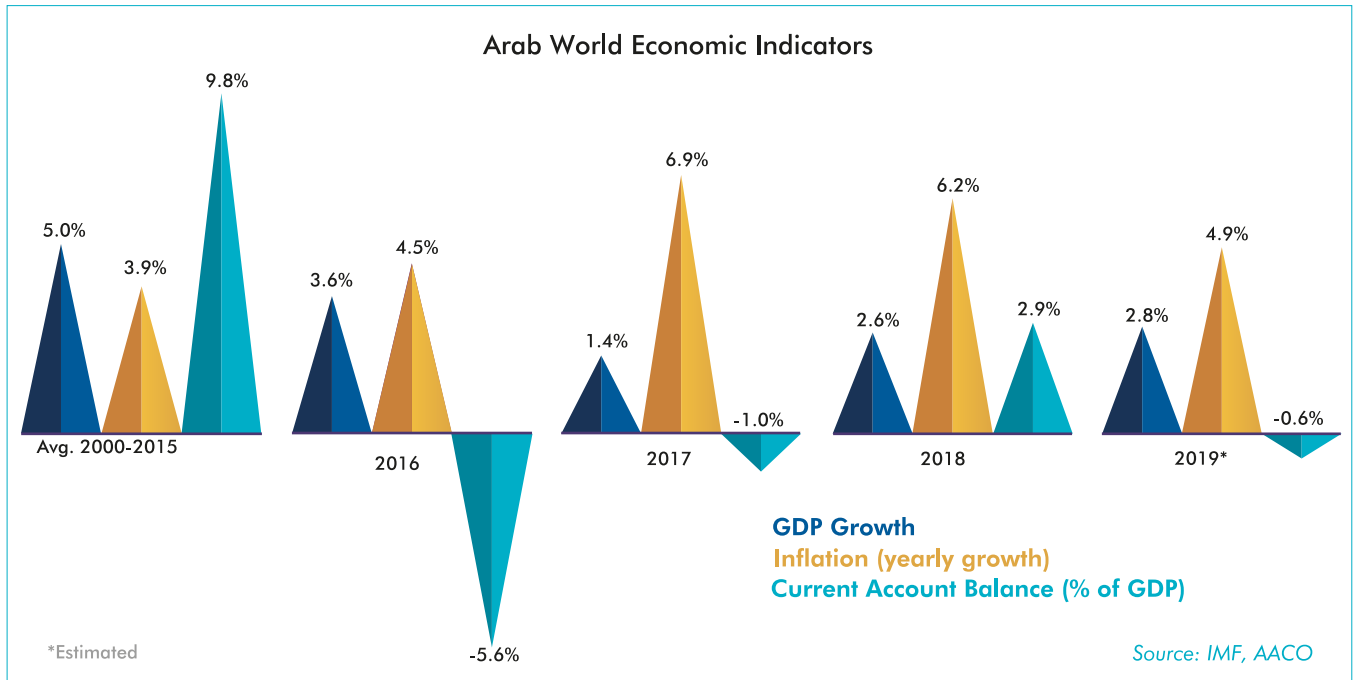
Note: ASAs (Air Services Agreements)

* benefits are expected to materialize after one year

Source: InterVISTAS, IATA, AACO

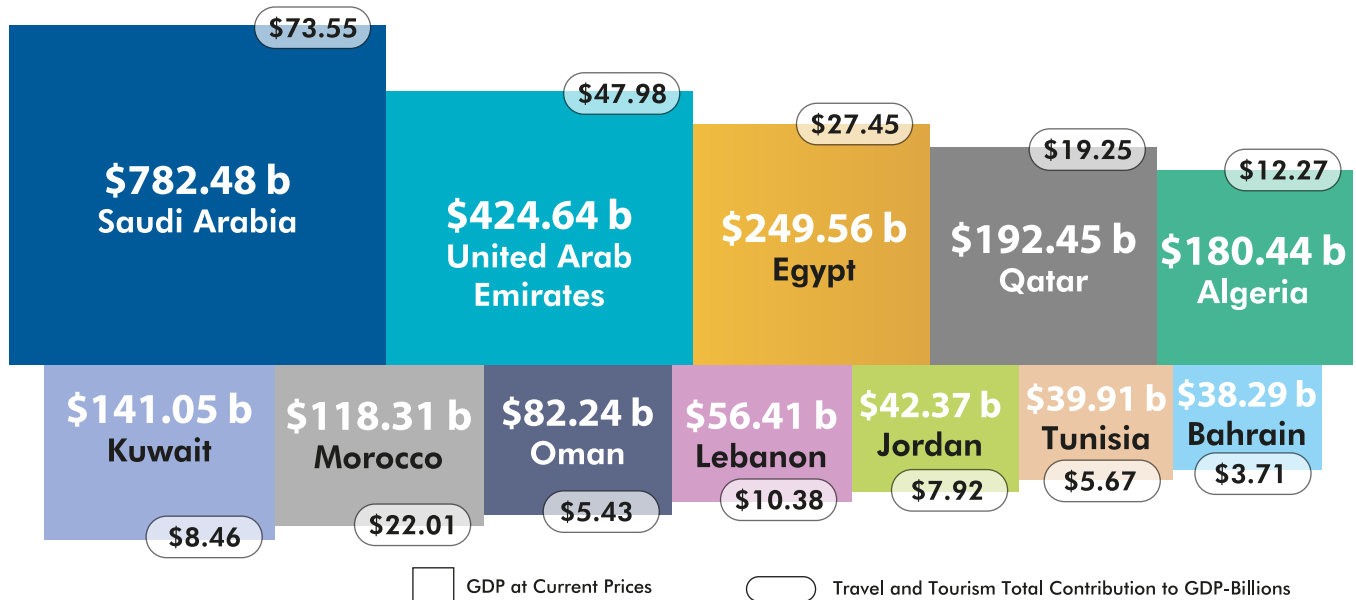


Arab Air Transport Market and Tourism



The Arab world economy performed well in 2018, with its GDP growing by 2.6%, up from 1.4% in 2017. The acceleration of growth was supported by the recovery of oil prices which helped major oil-exporting economies emerge from recession. On the other hand, most oil-importing economies witnessed a decline in GDP growth, affected by geopolitical tensions and rising debt. **The Arab region is expected to continue its general positive performance in 2019**, supported by stable oil prices and better fiscal policies, yet market confidence remains fragile amid prolonged geopolitical tensions and weak domestic demand, which might hinder the region’s growth.

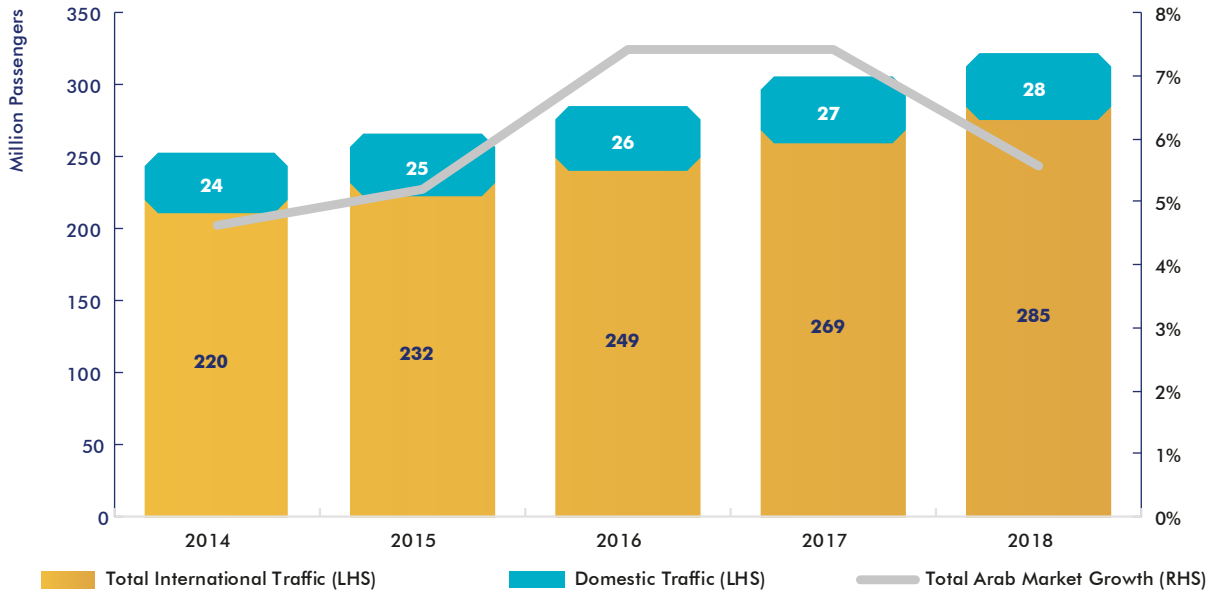
Most Arab Countries’ GDP at Current Prices (USD) and Contribution of Travel and Tourism therein¹



¹ Data reflects 2018 Figures

Source: IMF, WTC, AACO

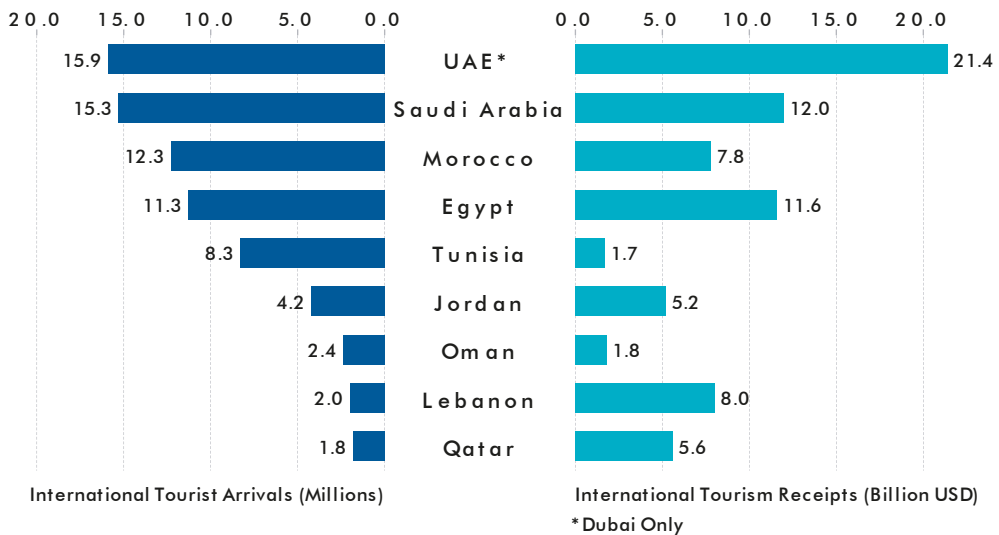
Arab Air Transport Market Passenger Traffic & Growth



Source: IATA, AACO

The Arab air transport market fared well in 2018 despite the slowdown in the global economy, rising fuel costs, and geopolitical tensions. **The direct air transport market (to, from, and within the Arab world) grew by 5.6% over 2017 in terms of passenger numbers**, reaching around 313 million passengers. Passenger traffic on international routes increased by 5.9% to 284.8 million passengers, whereas traffic on domestic routes grew by 2.0% to 27.6 million passengers.

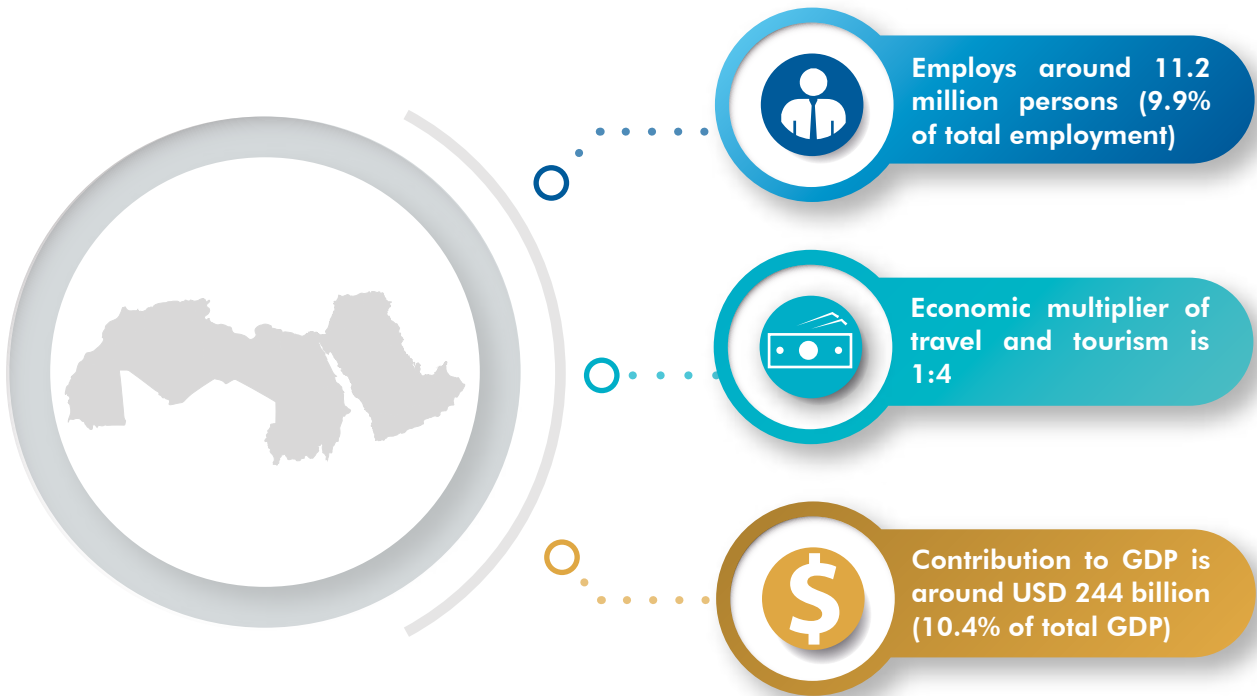
Tourism Activity in the Arab World



Source: UNWTO, AACO

International tourist arrivals to the Arab world increased by 5.5% in 2018 over 2017 to reach around 83.8 million tourists. Similarly, **international tourism receipts increased by 6.4% during the same period to reach around USD 83.3 billion.** The UAE was the most visited destination in 2018, while Egypt and Tunisia recorded the highest growth rates in terms of international tourist arrivals, growing by 36.8% and 17.7% respectively. On the other hand, only two Arab countries witnessed a decline in their total number of tourists.

The Importance of Travel and Tourism in the Arab world

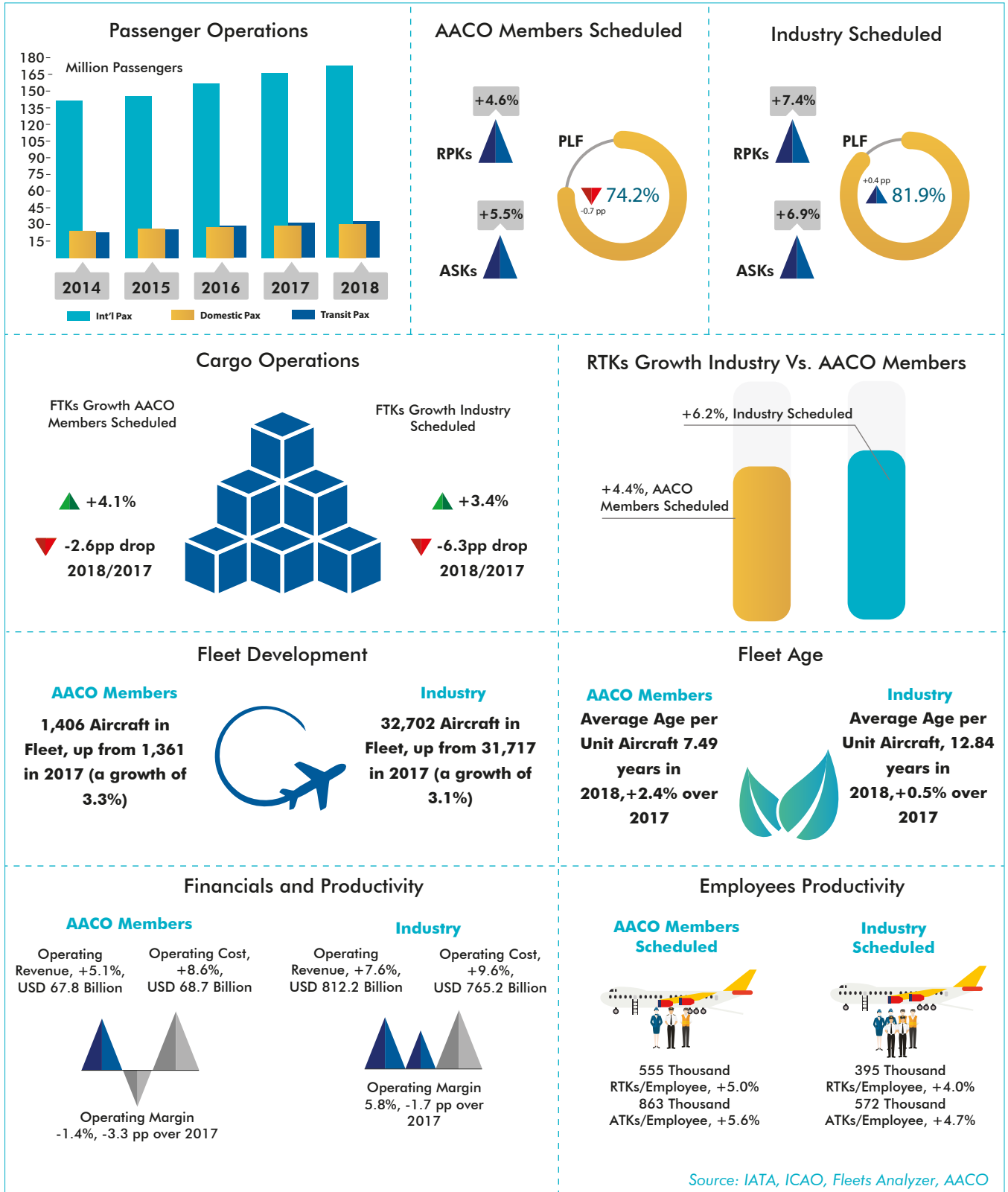


Source: IMF, WTTC, World Bank, AACO

Taxes and charges are also a hindrance to travel and tourism growth in the Arab world. Analysis indicates that an increase of 10% in taxes and charges results in 0.5% decrease in demand for air travel in the Arab market (equivalent to 1.6 million passengers), and reduces tourism spending by USD 2.3 billion, which is equivalent to 0.1% of the Arab world's GDP. In contrast, if taxes and charges are removed, it would result in an additional 1% demand for air travel (3.1 million passengers), and generate around USD 4.7 billion into the Arab world's GDP (0.2% of GDP).

AACO Members

All figures reflect 2018 numbers, while all growth rates are 2018 over 2017.

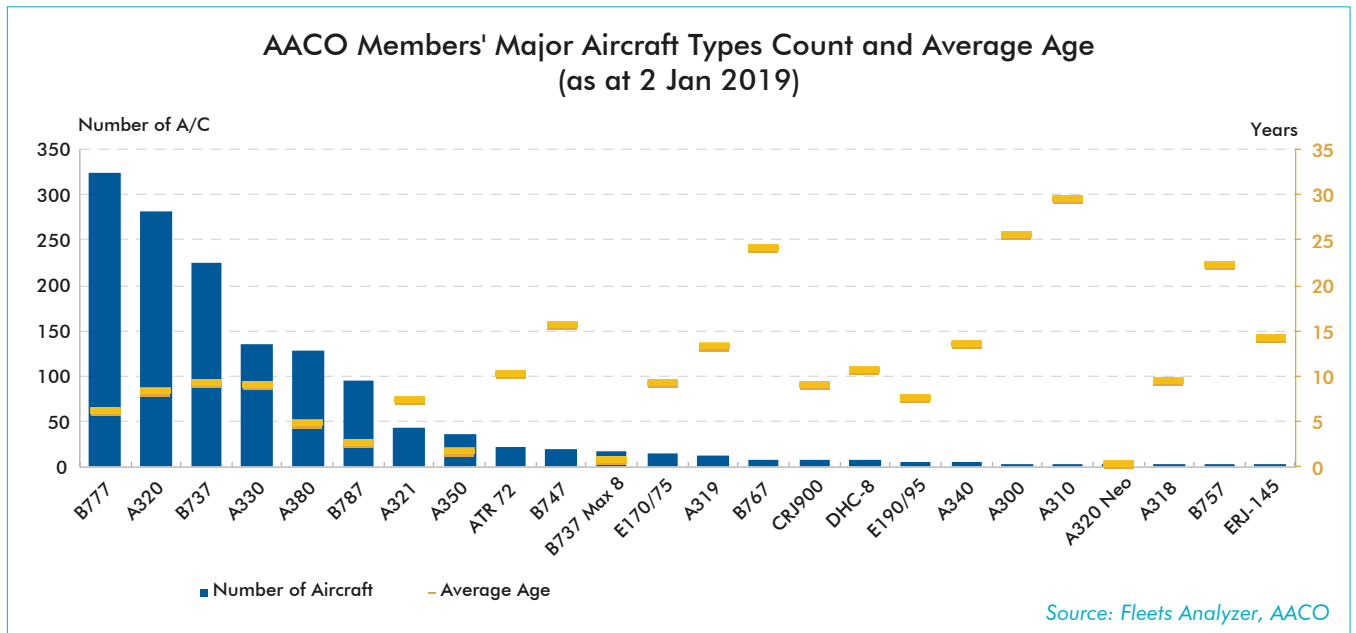


Passenger Demand Analysis

AACO member airlines expanded their operations in 2018 despite several pressure points affecting their performance. **AACO member airlines' passenger traffic on international routes (to/from) grew by 2.0%, transit traffic by 7.4%, and domestic traffic by 2.0% in 2018 over 2017.**

Fleet Analysis

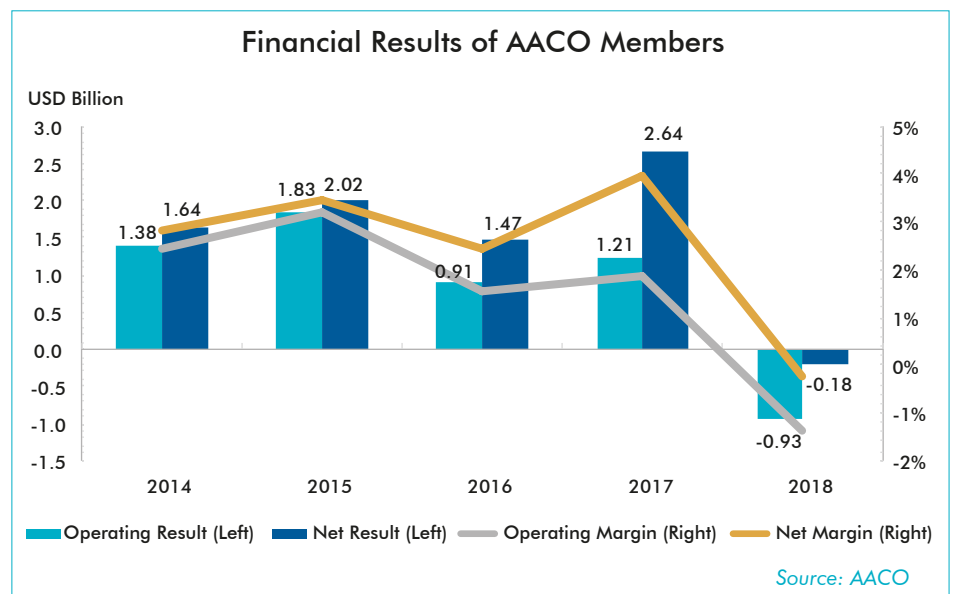
AACO members increased their fleet count by 3.3% in 2018 over 2017 to 1,406 aircraft, through acquiring 146 aircraft with an average age of 4.6 years per unit aircraft and phasing out 101 aircraft with an average age of 13.3 years per unit aircraft. **Accordingly, members' average fleet age reached 7.49 years.** AACO members' order book as at 3 July 2019 anticipates the delivery of 1,412 new aircraft until 2035.



Financial Analysis

In 2018, AACO members' operating costs' increase outpaced that of operating revenues, mainly affected by the increase in fuel prices and slowdown in demand for air travel.

As a result, AACO members recorded an operating loss of USD 0.93 billion, and a net loss of USD 0.18 billion, representing a -1.4% and -0.26% in operating and net margins respectively.

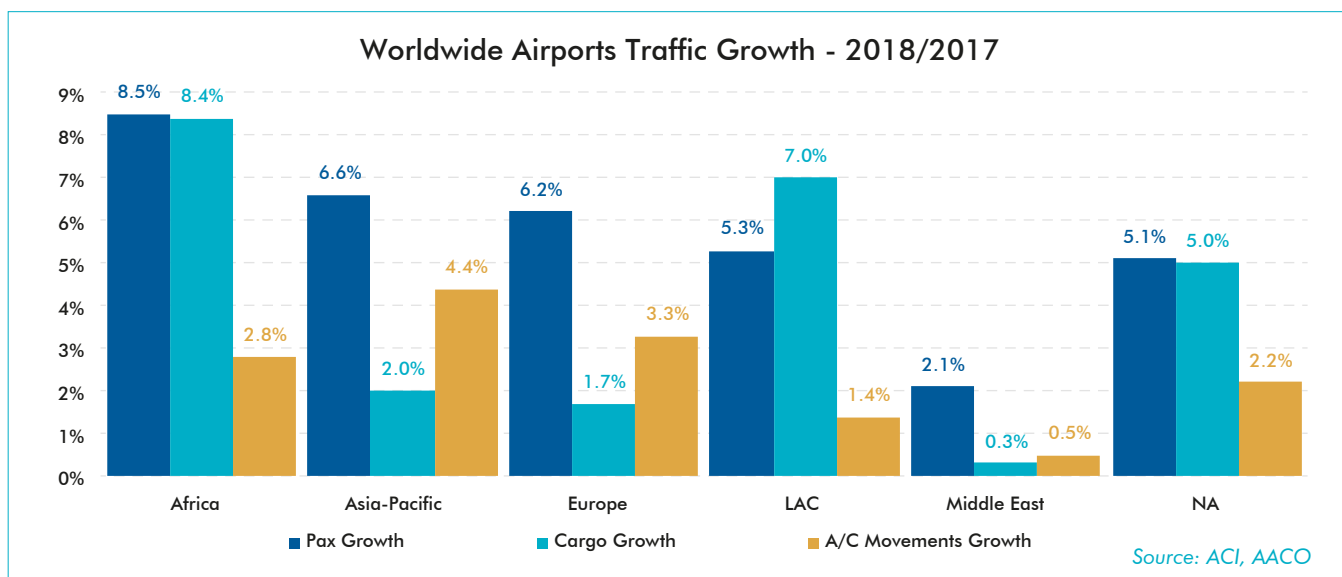




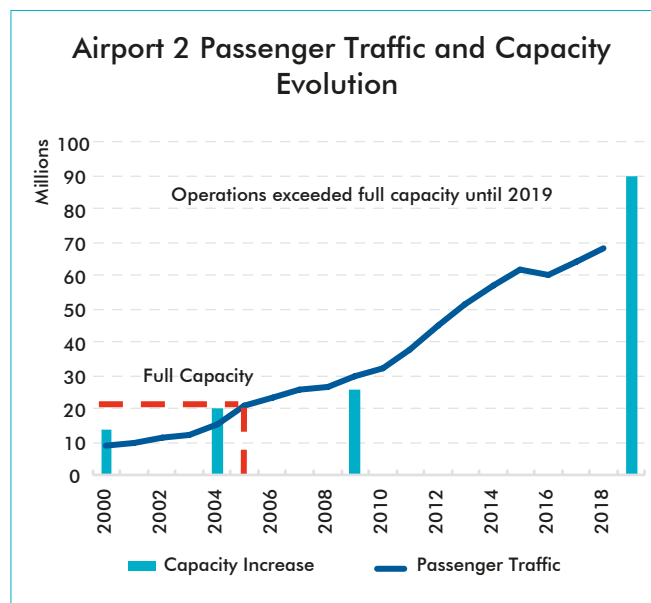
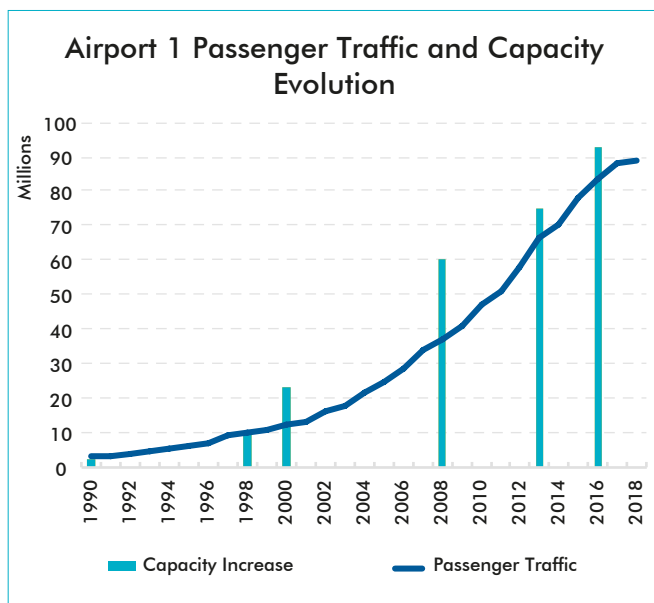
Airports

Airports' Developments

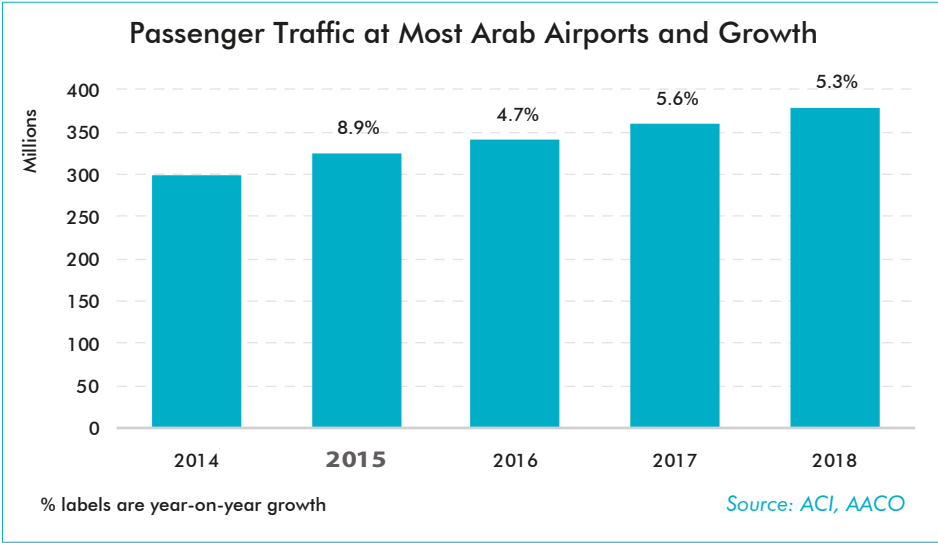
Worldwide airport passenger operations recorded a growth of 6.0% in 2018 over 2017 to reach 8.8 billion passengers. On the other hand, the air cargo market grew by 3.2% in 2018 over 2017, reflecting the global slowdown in trade activity and weaker global demand. Similarly, aircraft movements recorded a shy growth of 2.9% in 2018 over 2017.



In spite of the growth in the number of passengers crossing global airports, several risks continue to depress the outlook in the near future, including capacity constraints, delays at airports, and infrastructure challenges. Looking at capacity constraints, major airports are falling into capacity shortages as passenger demand soars year on year. The below graphs illustrate the best practice infrastructure development strategy implemented by one airport (Airport 1, left chart) to match capacity and demand growth versus the lack of proper infrastructure planning resulting in many years of capacity shortage in Airport 2 (right chart).

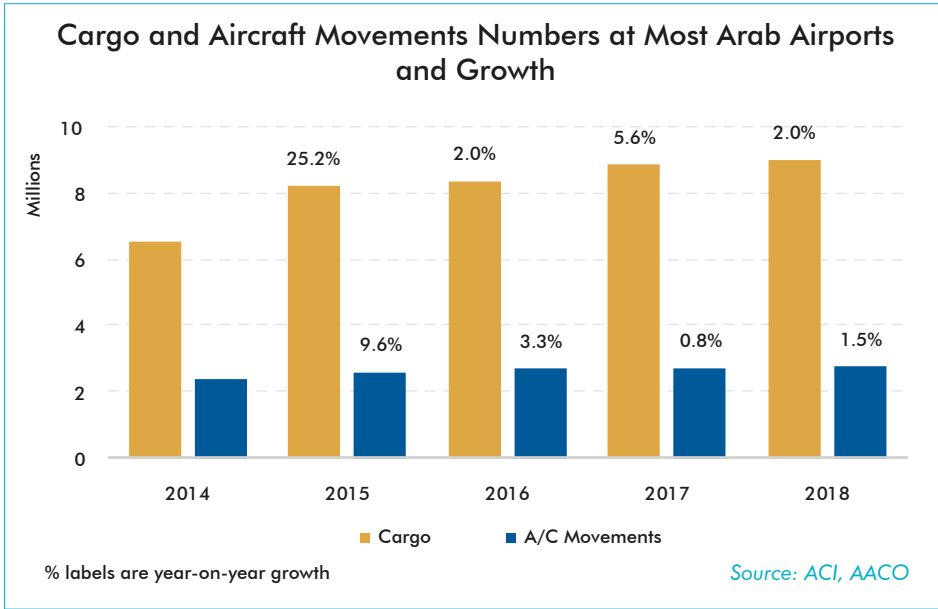


As for delays, in air travel markets such as the U.S., the European Union, and China, major delays were due to airline operations, air traffic problems, reactionary delays (delays caused by the late arrival of aircraft, crew, passengers or load), and finally traffic growth. Delays caused by air traffic problems have been increasing exponentially during past years. In the U.S. the length of delays caused by air-traffic control problems soared by 69% between 2012 and 2017. In China, the average delay per domestic flight spiked by 50% in 2017 and remained at an average of 15 minutes per flight. In Europe, the length of delays due to en-route air-traffic-flow problems grew by 104%. Over 60% of those delays were because of a lack of capacity or staff, 25% were weather-related, and 14% caused by strikes by controllers and others. Looking at the Arab world 40% of passengers had been impacted by flight disruptions caused by one of the above reasons. Studies estimate that airlines in the Middle East region lose around USD 2.76 billion in revenues each year due to delayed or cancelled flights.



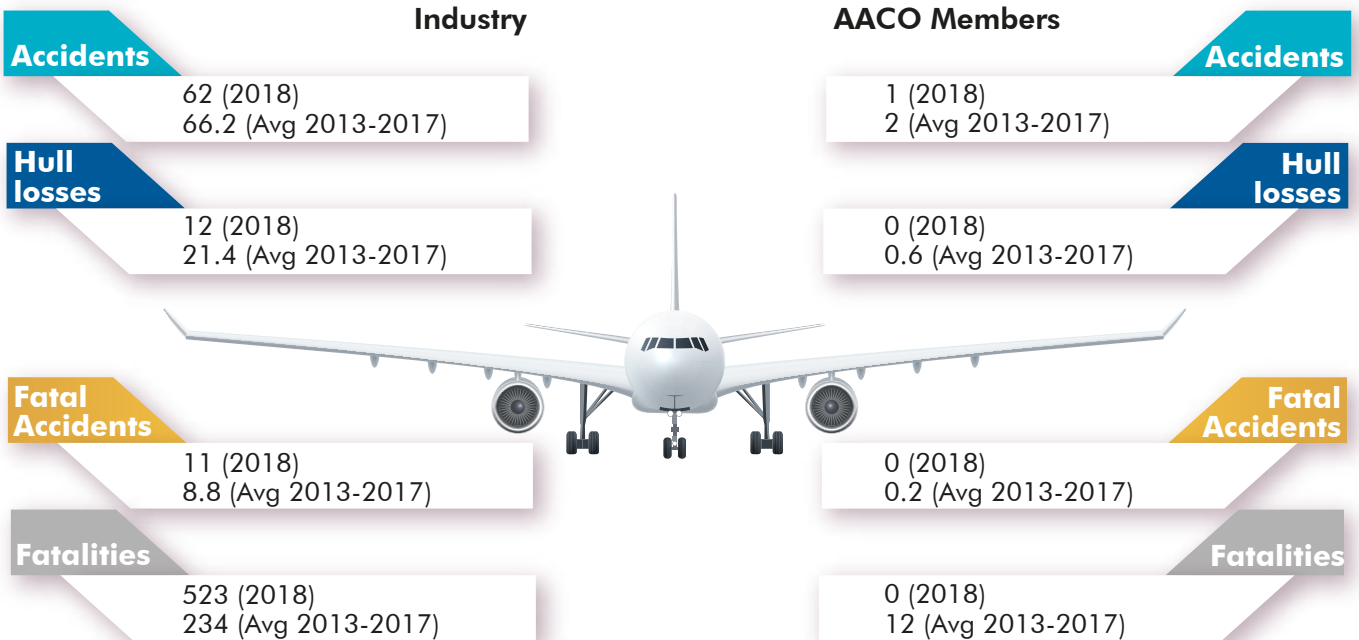
Arab Airports Traffic

Arab airports generally performed well in 2018, with the total number of passengers growing by 5.3% in 2018 over 2017 to reach 378.5 million passengers. On the other hand, cargo traffic and aircraft movements recorded modest growth rates of 2.0% and 1.5% respectively in 2018 over 2017, recording 9.0 million tons and 2.7 million movements.





Advocacy Safety



- Safety remains AACO members' as well as the industry's number one priority.
- **On the global level**, and in spite of the relative deterioration of safety performance in 2018 compared to 2017 (which is the safest year for commercial air transport on record), **overall performance remains better than the five-year and ten-year averages**, and air transport remains the safest form of long-distance travel with a fatal accident rate of 0.24 accidents per million sectors flown (1 fatal accident per 4.2 million flights).
- **AACO members maintained their clean safety record for the second year in a row**, and for the fourth year in the past five. In 2018, AACO members recorded one accident related to ground damage. This highlights AACO members' focus on safety and their efforts to continuously enhance it.

Source: IATA Safety Report, AACO

Acknowledging the importance of collaboration in safety development, AACO members continue to work under AACO umbrella to enhance the safety of their operations through the following initiatives:

Emergency Response Planning

- Mutual support between members in responding to crises.
- Sharing information & best practices.
- Enhancing collaboration between members in hubs and outstations.
- Conducting workshops and training sessions.

Technology

- Raise awareness on new concepts and technologies that support enhancing operational safety, such as:
- Developments in flight charts, tracking, and weather solutions.
 - Predictive safety and maintenance solutions using big data analysis.

Safety Culture

AACO, in collaboration with ACI and the Association of Asia Pacific Airlines, launched the second edition of the safety culture survey which targets all aviation stakeholders, and aims at measuring safety culture progress and formulating enhancement recommendations to regional bodies.

Training

AACO, through the AACO Regional Training Center – RTC, works with member airlines to continuously identify members' training requirements and offer best quality and cost-effective training packages that contribute to enhancing the safety of members' operations.



Security

- **Security remains very high on AACO members' agendas.** The multitude of threats and risks facing the air transport industry (conflict zones, geopolitical risks, socio-economic risks, terrorism, civil unrest, cybersecurity, insider threats, etc...) dictates the highest levels of vigilance among all aviation stakeholders.
- AACO members continue to address security matters through **AACO AVSEC Advisory Group**, which focuses on the following issues that support the regional and global aviation security development:



- Members continue to **share security information through the information sharing network** established by AACO to enhance awareness and risk management.
- Members also continuously **seek reliable information sources** to identify threats, assess their impact, and mitigate them.



- Collaboration is key to address security matters.
- AACO and member airlines continue to **support the development and implementation of the Middle East Regional Aviation Security & Facilitation Plan**, as well as work with all stakeholders on the global level to **support effective and efficient security regulations and processes.**



- Cybersecurity is an emerging threat that is getting traction by the day.
- The risks associated with cyber-attacks are many and affect the whole aviation landscape.
- AACO continues to **raise awareness on cyber threats and on the need for regional and global collaboration to address them.**



- IATA reported more than **8,700 occurrences of unruly behavior** on-board aircraft in 2018.
- AACO continues to **support advocacy efforts for the endorsement and ratification of Montreal Protocol 2014**; an instrument that would allow states and stakeholders to better address on-board unruly behavior.



Aeropolitical Affairs

Air Transport Relations

The **Chicago Convention** of 1944 and the **bilateral air services** system **established principles** that formulated the global air transport network. It is essential that states around the world abide by the principles stipulated in the Convention and bilateral agreements, **especially states' jurisdiction over**

- 1- **their airspace**
- 2- **air traffic rights** given to other states
- 3- all issues related to their **own air transport activities**.

Unilateral initiatives by states imposing their terms on other states **have a negative effect** on the sustainable development of international air transport.

AACO continues to **advocate** for the above principles and for **avoiding protectionism** in air transport while encouraging the **opening of markets** and **basing that on studies** involving all elements and entities of air transport including the infrastructure, airlines, regulatory environment, and the impact on the wider economy.

Some Arab Countries' Relations with the European Union

A Euro-Mediterranean Aviation Agreement was signed on 15 December 2010 between the EU and Jordan.

First Euro-Mediterranean Aviation agreement was signed between the EU and Morocco in 2006.

Comprehensive Euro-Mediterranean agreement between the EU and Tunisia has been initiated on 11 December 2017.

EU – Bahrain, Kuwait, and Saudi Arabia: EC requested the Council to authorize the negotiation of an EU-level aviation agreement with each of these countries.

EU - Qatar: Negotiations were finalized in February 2018 and the draft EU-Qatar Comprehensive Air Transport Agreement was initiated and presented to the Council.

In October 2018, the EC obtained a mandate from the EU Council to negotiate EU-level comprehensive aviation agreement with Oman. Since then, two rounds of negotiations have taken place.

In 2016, the EC obtained a mandate to negotiate EU-level comprehensive aviation agreement with the UAE.

Relations with Other Regions

Bilateral air services agreements govern the relation of Arab states with other regions including **some open skies agreements** such as the ones between the United States and each of Bahrain, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, the UAE, and Yemen.

Intra- Arab Air Transport Relations

Governed by bilateral air services agreements mainly covering **3rd and 4th freedoms of the air**. Some States have unilaterally adopted open skies policies such as Bahrain, Kuwait, Lebanon, and the UAE.

It is important that all states work together to ensure that the opening of market access between some Arab states and the European Union is as well reflected in the relations amongst those Arab states in order to guarantee fair operational rights for Arab airlines between the Arab states vis-à-vis their EU counterparts.

Competition in Air Transport

In 2019, the European Union adopted **regulation 712/2019** on safeguarding competition in air transport which repeals Regulation (EC) 868/2004. The new regulation **gives the European Commission (under EU law) the right to conduct investigations on practices by third-country entities** affecting the competitiveness of EU airlines and to adopt redressive measures against third country airlines benefiting from such practices.

EU Regulation 712/2019 is considered to be **extraterritorial** where the EU imposes its own regulations and policies based on its economic, political and social standards on other states that do not necessarily share those standards.

Over the course of 6 years, **AACO has engaged with the European institutions to change some crucial clauses** that would have caused serious disputes with other states.

Possible Adverse Effects of Investigations under EU Regulation 712/2019



Tension in the air transport relations between non-EU and EU states.



Negative effect on the partnerships between EU and non-EU airlines as a result of investigations that would affect connectivity provided to the consumers.



Instating changes to the regulatory approach to air transport by non-EU states while **basing the changes on EU economic, political and social standards** that do not necessarily reflect the standards in the non-EU states.



Indirect and possibly direct effect on the bilateral air transport agreements between EU and non-EU states that might not fall to the benefit of the consumer.



Potential retaliatory measures by non-EU states.



Financial and administrative costs on non-EU airlines under investigation.



Negative effect on the image of airlines under investigation.

Dialogue and consultations remain the best approach for agreeing on any issues related to air transport services.

Passenger Rights

- There's a **global wave of adopting burdensome air passenger rights regulations** that in most cases do not take into consideration that on many occasions the cause of the **inconvenience is not within airlines' control**.
- Most of the regulations adopted in 2019 have **extraterritoriality** in their scope such as in Canada, Malaysia, and Ghana, in addition to extraterritoriality in the latest European court rulings interpreting EU regulation 261/2004 where the scope covers flights that do not touch European airspace.

- In 2019, the **Arab Civil Aviation Organization** adopted guidelines for Arab states on air passenger rights. AACO believes that those **guidelines** need to be revisited as they **lack a number of key principles for proportional and balanced consumer protection regulations**.
- AACO's Safety Nets Document for passenger rights regulations is available for use in consultations with governments. It provides a **model regulation** based on airlines' best practices in serving passengers.

Montreal Convention 1999

- The total number of parties to MC99 is now 136, representing just over 97% of passenger traffic.
- The convention is applicable in 13 Arab states.
- Benefits: **better protection for passengers, ease of operations for air cargo shippers, and greater certainty for airlines**.
- **New liability limits** under the convention have been adopted in 2019 following a periodic review conducted by ICAO that considers inflation and other economic factors.



Montreal Protocol 2014

MP14 is a **legal deterrent to unruly and disruptive behavior** onboard.

- During the past year six additional states ratified the protocol, bringing the total number to 21 states.
- **One more state is needed to ratify so the protocol comes into force.**
- In the Arab world, Bahrain, Egypt, Jordan, and recently Kuwait ratified the Protocol.

AACO continues its **advocacy efforts with governments in the region to ratify the Protocol**.

MP14 gives states a legal tool to deal with unruly passengers and hold them accountable to their misbehavior. This is ultimately beneficial for passengers, airlines, and states alike.

Taxation

- In 2019, airlines and customers are forecast to generate **USD 136 billion in tax revenues for governments'** treasuries, according to IATA figures. Taxes in various forms are introduced on air transport with many applied under the environment banner.
- A number of **governments are also removing air transport exemptions from VATs and GSTs**.

Revised Tunis Convention: Arab Convention for the Mutual Exemption of Taxes and Charges for Arab Airlines

- Based on a suggestion by AACO, the revised Convention was approved by all relevant bodies of the League of Arab States and adopted by the Council of the League. The Convention has however not moved forward and has not been opened for ratification by Arab states.
- AACO continues to **support the work of the Secretariat General of the League of Arab States to open the revised Convention for ratification**.

It is essential for aviation to continue to be able to meet demand and drive economic growth.



User Charges

As for user charges, ICAO Doc 9082 is guidance for governments when reviewing levels of airport and air navigation charges whereby the document calls for adopting a number of principles in that regard, most importantly:

1. To conduct **consultations with operators**
2. Levels of **charges to reflect the cost** of provided services and facilities
3. **Changes** to charges to be introduced **on gradual basis**

User Charges should reflect the services provided. **Governments need to exercise economic regulatory oversight** over the setting of user charges in order to promote **transparency, consultation, and productivity**.



Climate Change

Air transport is an innovative and environmentally responsible industry that drives economic and social development.

Aviation provides the only network for global and speedy transportation, which makes it essential for global business and tourism. It plays a vital role in facilitating economic growth, particularly in developing countries. By facilitating tourism, **air transport** also **helps generate economic growth and alleviate poverty** while providing employment opportunities.

The **economic benefit of air transport in 2018** was translated into **65 million jobs** and a **USD 2.7 trillion contribution to the global economy**, amounting to **3.6% of the global GDP**.

Moreover, air transport facilitates world trade and tourism, and boosts productivity across the global economy, as well as improves the efficiency of the supply chain. It is an **enabler of investment** both into and out of countries and regions. Furthermore, and most importantly, air transport **provides consumer welfare benefits to individuals in terms of the increased availability of travel connections**.

On top of that, **air transport has been responsibly reducing its environmental impact** throughout the years. Aircraft entering in service today are much quieter and more fuel-efficient than previous generation aircraft.

Yet the **industry** didn't stop there: The air transport industry recognizes the need to address the increasing global challenge of climate change and **has adopted an action plan to mitigate its CO₂ emissions**:

2009 - 2020

An average **improvement in fuel efficiency of 2% per year**

2020 - 2035

A **cap on net aviation CO₂ emissions**

2050- onwards

A **reduction in net aviation CO₂ emissions of 50%**, relative to 2005 levels

The above plan is **in line with the Paris Agreement** goal of keeping global temperature rise below 2°C over pre-industrial levels. However, in order to achieve that, a strong commitment is required from all stakeholders across the world to work together to improve technology, including the deployment of sustainable low-carbon fuels, more efficient aircraft operations and infrastructure (including modernized air traffic management systems, airspace availability and flight procedures), and a carbon offsetting and reduction scheme for international aviation emissions (CORSIA).

CORSIA is expected to mitigate over 2.5 billion tons of CO₂ and generate at least USD 40 billion in finance for carbon reduction initiatives between 2020 and 2035.

On the other hand, public concern over environmental issues and their impact on climate change has increased worldwide. This has been reflected through the rise of environmentalists and activists' voices shaming those who travel by air and pressuring governments to find ways to cut down demand on air travel. Those groups are also calling upon European governments to end aviation's fuel tax exemption. In response, those governments, specifically in Europe, have started to call for an EU-wide aviation eco-tax.

The air transport's infrastructure is financed by user charges and the industry pays taxes to national treasuries. Therefore, **it is totally misleading to suggest that aviation enjoys tax privileges.** In fact, air transport is the only transportation mode that pays both user charges and taxes. **Combating the impact of international aviation emissions on climate change can only be done through the medium goal commitment of offsetting the increase in the net emissions above 2020 levels and a long-term goal towards the development of sustainable aviation fuels.**

In that regard, governments have a role to play and hence **instead of adopting taxation policies** that raise general governmental revenues and are not re-invested in aviation enhancements, **a global harmonized and balanced approach is needed to remove barriers on the take up of sustainable aviation fuels and support investments in this vital sector.**





Airspace Infrastructure

AACO, in collaboration with regional and international partners, continues to **advocate for Air Traffic Management (ATM) reform in the region** through the priorities identified by its member airlines: Enhancement of air routes and Flexible Use of Airspace (FUA), implementation of Performance Based Navigation (PBN), and the implementation of a regional/sub-regional Air Traffic Flow Management (ATFM) mechanism.

However, **ATM modernization is becoming a crucial matter** that threatens the sustainability of aviation, **not only in the region however on the global level.**

Case of European ATM

- In 2018, **delays in Europe accredited to ATC increased by 104% over 2017 to 19.1 million minutes**, mainly due to:
 - **Lack of airspace capacity offered** by Air Navigation Service Providers (ANSPs).
 - **Shortage of ATC personnel** aggravated by the **multitude of ATC strikes**.
 - **Adverse weather conditions**.
- Between January and June 2019, around **1,000 flights per day were moved from optimal routes** to avoid ATC bottlenecks. This has **resulted in 30% longer flights and 27% increase in fuel burn and environmental footprint for those flights**.

Source: EuroControl, A4E

In the **Arab world**, many **ANSPs continue to introduce airspace enhancements** in terms of air routes and operational improvements. One of the noticeable achievements was the completion of the UAE Air Space Restructuring Project (ASRP), which made the **UAE Airspace the first full PBN airspace in the world**.

The UAE ASRP included the implementation of **30 new routes**, 312 modified/new route segments and many enhancements leading to **estimated benefits of around USD 15 million in fuel savings to airlines using the airspace, and around 100,000 metric tons of CO₂ emission savings during the first year after the implementation of the project**.

However, **conflict zones and geopolitical tensions in the region and in states at the interface with the Arab world are restricting airspace availability in the region**, which is already at crucial levels, and necessitating the implementation of several **contingency measures** to ensure the safety of air transport. Being reactionary by definition, those contingency measures, which are implemented in several places at different times, are leading to the **concentration of traffic over few air corridors**.

This, along with other airspace infrastructure constraints, is creating **several bottlenecks at the interface of the region as well as in high traffic en-route corridors within the region** such as at the Turkey/Iraq, Oman/Pakistan, and Oman/India interfaces, as well as the Arabian Gulf corridor. Those **bottlenecks result in increased unpredictability and delays to AACO member airlines** which disrupt planning processes and sometimes forces airlines to fly non-optimal routes and carry unnecessary additional fuel, hence increasing their cost and environmental footprint.



Effective Cooperation

Fuel Project

AACO's Fuel Project, which includes the Fuel Steering Board (FSB) and the Aviation Fuel Advisory Group (AFAG), provides a platform for member airlines and the jet fuel industry stakeholders to raise awareness and ensure a safe, sustainable, and competitive aviation fuel industry in the world in general and in the Arab world in particular.

Business Technology

As part of its mission and objectives, AACO continues to provide a platform for its member airlines to enhance the knowledge base and raise awareness on all technological advancements and innovative solutions, as well as allowing the partners and 3rd party providers to present their advanced technological solutions that go in line with members' vision to provide the customer with added value and up to date services.

Cooperation at Outstations

In line with its objective to promote and increase the level of cooperation between member airlines at outstations, the Ground Handling Steering Board (GHSB) provides the framework that allows member airlines to enhance the services they provide to their customers, and raise awareness on new technologies, services, and regulations.

Flight Charts

AACO has an MoU with Jeppesen which covers paper-based flight charts. The MoU was complemented in 2018 by the Electronic Flight Charts Project which comprised discussions with major electronic charts providers that aim at facilitating members' adoption of latest technologies, sharing experience and best practices, and enhancing flight efficiency.

Security Information

Following the conclusion of the Security Information Project, AACO signed an MoU with MedAire that facilitates members' cooperation and access to relevant and timely information affecting their operations.

Emergency Response Planning

The Steering Board continues to work on the objectives of the ERP Project as follows: Coordinate support between members, share experience and best practices, and promote cooperation between all stakeholders involved in emergency response planning. Members have also started exercising the activation of the Mutual Assistance Agreement and are looking at cooperation opportunities in adopting new technologies that facilitate ERP training.

MRO Project

The project continues to provide benefits to members in the engineering and maintenance domains as well as enhance their collaboration and facilitate sharing of experience and best practices amongst them. Membership in the project reached 10 member airlines with the accession of flynas and Tassili Airlines. Members also kicked-off in 2019 a new collaboration initiative aimed at mutual support between AACO member airlines in Aircraft On Ground (AOG) situations.

Human Resources

AACO Regional Training Center in 2018

- 91 courses conducted which were attended by 1,120 trainees.
- Significant savings achieved in training costs to AACO members estimated at USD 1,137,745.
- 137 scholarships provided to member airlines.
- 7 free courses conducted for member airlines. Five courses were conducted in Cairo and two in Amman. Those courses were attended by 97 participants.
- 7 scholarships secured to Toulouse Business School from the European aircraft manufacturer ATR.

AACO Regional Training Center until June 2019

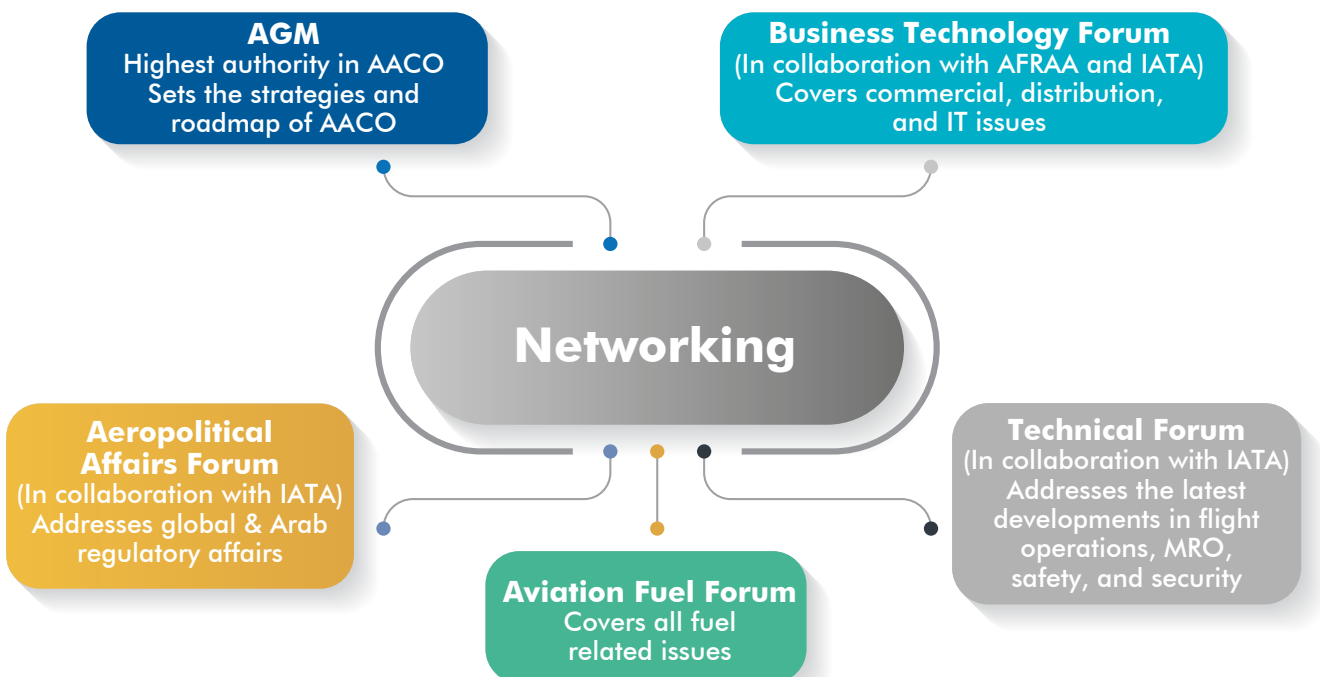
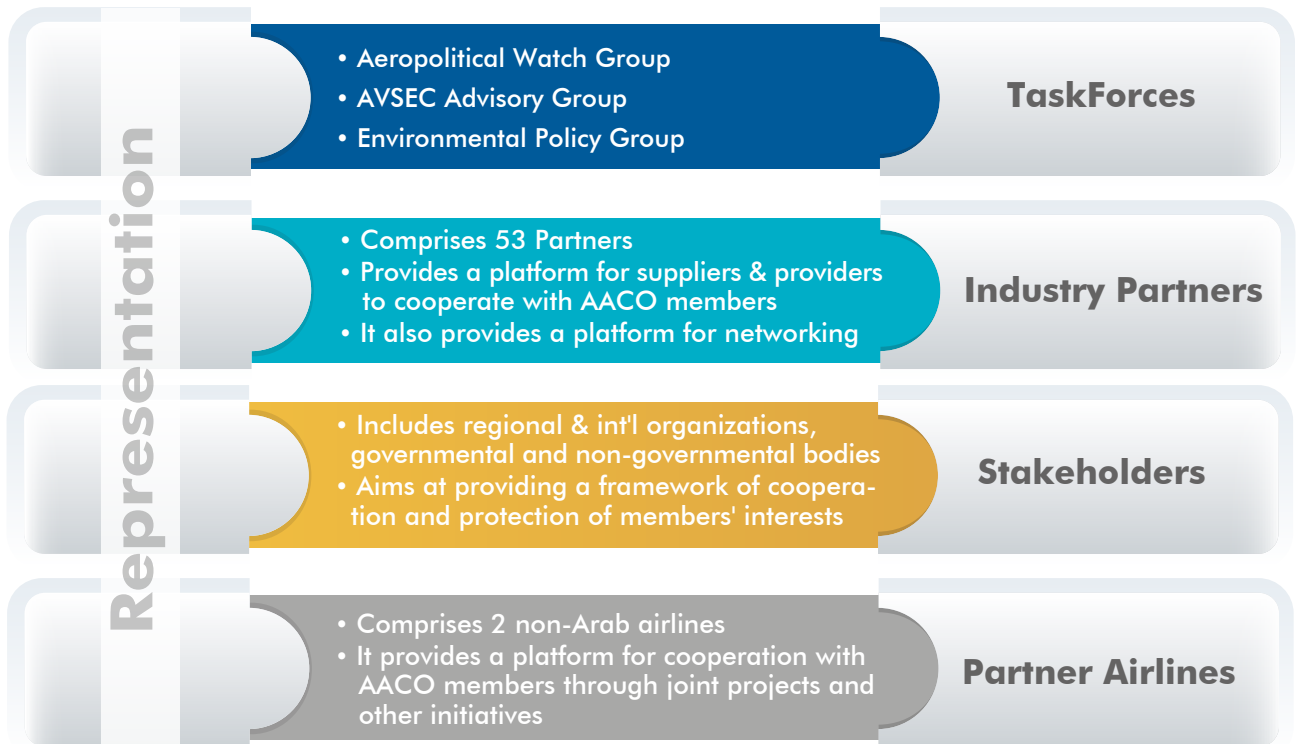
- 44 courses held; an increase of 10% compared to the same period in 2018. The courses were attended by 607 trainees.
- Important savings achieved in training costs to AACO member airlines estimated at USD 707,763.
- 65 scholarships provided to member airlines.
- 4 free courses conducted which were attended by 67 participants.



Awareness & Networking

AACO's Community, Partners, Forums, and Relations

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



AACO PUBLICATIONS

Every
365
Days

Annual Report



Arab Air Transport Statistics 2019
AATS



Every
183
Days



Every
90
Days



Every
60
Days



Every
7
Days



Every
30
Days







الإتحاد العربي للنقل الجوي
QAC  52nd AGM
الجمعية العامة الثانية والخمسون

4 - 6 November 2019 - Kuwait

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