

AACO 42nd AGM

Arab Air Carriers Organization Annual Report 42nd Annual General Meeting – Jeddah 2009

17 - 19/10/2009



Annual Report of the Arab Air Carriers Organization

42nd General Assembly - Jeddah 2009

AACO's Mission

To promote cooperation amongst Arab airlines, and to serve their common interests through service excellence.

AACO's Objectives

To invest in the synergy of interaction between members through establishment of joint projects.

To promote the highest safety standards, providing a framework for a better economic environment for airline operations.

To promote high standards of consumer driven services, and high quality cost effective framework for human resources development.

Members of the Executive Committee



Eng. Khalid Abdullah Almolhem
President of AACO and Chairman of the Executive Committee

Eng. Khalid Abdullah Almolhem, Director General
SAUDI ARABIAN AIRLINES

Capt. Abdulkalek Saleh AlKadi, Chairman
YEMEN AIRWAYS

Mr. Adel Abdulla Ali, Group Chief Executive Officer
AIR ARABIA

Eng. Samer Majali, Chief Executive Officer
GULF AIR

Mrs. Ghaida Abdullatif, Vice Chairman - Director General & CEO
SYRIAN ARAB AIRLINES

Capt. Sabri Saad Shadi, Chairman
LIBYAN AFRICAN AVIATION HOLDING COMPANY

Eng. Hussein Massoud, Chairman & CEO
EGYPTAIR HOLDING COMPANY

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Milestones

2009 will go as the worst year in the history of air transport. The crisis rocking the world, that started in the real estate market in the United States at the beginning of 2008 and turned into near-total financial collapse at the end of last year, is **unprecedented**. Analysts agreed that it is difficult to predict the course of this crisis. Although the world did witness financial and economic collapse in 1929, the impact of that collapse was felt only in the United States and in few other industrialized countries. The difference between 1929 and 2008 is that now the economy is global, most of the **international trade is free flowing**, and that the **financial system** is already a **global network** in every sense of the word.

The air transport industry had barely overcome its major crisis which began in 2000 and continued after the 9/11 terrorist attacks, followed by the SARS epidemic and the Iraq war. One year of positive results in 2007 was soon followed by the burden of skyrocketing fuel prices in 2008, and the financial and global economic crisis in 2009. In the past, the industry resorted to liquidity accumulated during good years to cover losses of bad years. But this crisis came at a time when the industry's **resilience was almost drained** over 6 years of crises and only one year of recovery, especially that the core of the current crisis is in **unavailability of cash**. Interesting enough were the forecast levels of expected losses for the year 2009: the year began anticipating losses of about US\$ 4 billion. At mid-year these figures rose to US\$ 9 billion. In the month of July, forecast losses rose to **US\$ 11 billion**. In practice, this not only means the loss of liquidity that is very difficult to replenish, but the loss of 8% of traffic, wiping out years of growth.

IATA has identified through the **Istanbul Declaration** in 2008 the structural elements that this industry is facing, namely: **restrictions on the freedom of market access**, and of **ownership and control**. Although the freedom of market access, known as Open Skies, has become the label of many bilateral agreements, the second major element that can put the air transport industry on an equal footing with the rest of the service industries is still restricted, in fact severely restricted: the freedom of cross border mergers and acquisitions.

Although the **air transport industry in the Arab world continued its growth** in 2008 and early 2009, the **burden of those two restrictions** on the industry is equally felt, if not more in the Arab world. Passenger traffic in the Arab world registered 8.1% growth in 2008, and is expected to record 1.5% in 2009. The number of passengers in 2009 is expected at 112 million passengers, one-third of the population of the Arab world. However, **AACO members are playing a growing role in the global transport market**, benefiting from a number of positive elements, most importantly the geographical positioning of the Arab world, modern fleet, product quality, the expansion of infrastructure, and well-equipped airports in our region. AACO members recorded 11.2% growth in passenger traffic in 2008, and 8.2% in the first seven months of 2009. In their operations, AACO members utilized about 700 most modern aircraft in 2008, the youngest fleet in the world in terms of average age.

Milestones

The structural problem facing the air transport industry is as present in the Arab world. Even though the **Damascus Convention** (Multilateral Arab Agreement for Liberalization of Air Transport) entered into force, and the last phase of the **gradual bilateral program to liberalize transport** on bilateral basis came into effect in 2007, the Arab world **did not actually undergo a fundamental transformation** at the level of market access, or at easing the barriers to cross border ownership and control for investors in the Arab world. This issue along with that of Euro-Arab relations, were the core of the first Arab Aviation Summit held at the initiative of AACO, ACAC, and the European Commission. The meeting addressed **how to overcome barriers delaying the full realization of the Damascus Convention**. The parties also addressed the **future organizational relationships with the European Commission**, and issued a **joint declaration** underlining a set of principles of high value to the Arab airlines.

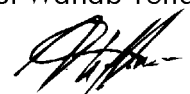
The major development at the regulatory level in 2008 and 2009, which captured the highest interest in the industry, was the growing **environmental concern of global warming**. As the EU Emissions Trading Scheme became law, and given the strict deadlines set by that scheme for airlines to comply, AACO heavily pursued this matter in order to raise **awareness** among its members and to **provide solutions**. On the other hand, AACO pressed on its work on the **policy** to reduce the contribution of air transport in climate change. The talks involved all members and other regional organizations including the League of Arab States, in addition to IATA and ICAO. The objective of these consultations is to **defend the interests of AACO members** through arriving at a global position to be adopted at the Copenhagen Climate Change Conference. This position comes in support of ICAO assuming the role towards reaching an international agreement on this issue, **sparing** aviation the consequences of **regional** or national emission cap and trade **schemes** like the European scheme.

At the **cooperation level** between AACO members: work is continual on the Joint Purchase of **Fuel**, **Ground Services**, **Arabesk**, **Technical Cooperation**, and at the **Regional Training Center** to meet the economic and financial crisis by increasing marketability and competitiveness, and by improving the level of services and human resources.

Times of crises may provide good opportunities to ponder on ways of doing business, to reform and modernize what needs to be corrected and updated in order to meet future challenges. Indeed, upon the mandate given by the General Assembly, the Executive Committee of AACO ran a comprehensive review of the **Vision, Mission and Objectives of AACO**, as well as a revision of **work procedures**; the committee will submit its proposals to the General Assembly.

No doubt that a meeting at the gateway of the Holy Mosques calls for a higher degree of purity, and of commitment to work perfectly on what we are entrusted with. In this regard, it was not possible for AACO, the Secretariat General, or I to do what we hold in trust had it not been for the support, participation, guidance and care conferred on us by AACO members at various levels, especially by the Chairman and members of the Executive Committee, Chief Executive Officers, and their assistants. It is indeed a great honor that we are gathered on this sacred land again to do good for what we are entrusted with. To His Excellency Eng. Khalid Almolhem my special thanks, and that of all my colleagues at the Secretariat General for inviting the General Assembly to convene in Jeddah. To his distinguished assistants our thanks and gratitude for their efforts to make this honorable audience feel at home.

Abdul Wahab Teffaha



Secretary General

Arab Air Transport

Regulatory Environment in the Arab World

Introduction

- Trends of Arab governments vary towards economic and regulatory regulations of air transport, particularly with regards to liberalization of air services, movement of people and goods, and airlines' ownership.
- Despite programs in place to liberalize airspace on bilateral and multilateral basis, the role of aviation in Arab countries is still governed by national agendas.

Cooperation between Arab Airlines and Civil Aviation Authorities

- Rationalization of air routes
 - Revisiting taxes and charges
 - Linking Arab cities through codeshares
 - Enforcing oversight on airports' charges
 - Encouraging exchange of maintenance and overhaul activities between Arab airlines
 - Speeding up the signature and ratification of the Cape Town Convention "UNIDROIT"
 - Establishing a new unit for the management of air traffic flow that may become the nucleus for Arab Control
- Airlines and civil aviation authorities, within the framework of ACAC and AACO, work on forging stronger cooperation to deal with regulatory developments at the regional and international levels. AACO and ACAC met at the level of Director Generals of Arab civil aviation authorities, and Chief Executive Officers of Arab airlines in November 2008.
 - The parties recognized that the establishment of a single Arab air transport market, and the dealing with the trend of consolidation and mergers, that will be the dominant factors in aviation require Arab countries to assume an open door policy to Arab capital ownership in airlines, similar to the EU Right of Establishment, to encourage Arab investment in the Arab world, even at a bilateral or sub-regional level.
 - The civil aviation authorities and Arab airlines proposed regulatory recommendations for the stimulation of the Arab air transport market, including:
 - The rationalization of air routes in the Arab world, and the avoidance of diversions which are both costly and negative in their impact on the environment, and to speedily adopt the proposals made by Arab and international organizations in rationalizing these routes.
 - To revisit taxes and charges levied on civil aviation.
 - To allow Arab airlines to operate codeshare flights between Arab cities, and to support operations under codeshare arrangements to points beyond the Arab world.
 - In the light of the trend towards privatization or commercialization of airport operations, to enforce oversight on the issue of charges that these airports apply to ensure that charges are in line with the principles adopted by the International Civil Aviation Organization (ICAO).

- ACAC Safety and Security Committee to consider measures that would lead to the mutual approval of engineers' and mechanics' licenses, and maintenance centers in order to promote the exchange of maintenance and overhaul activities between Arab airlines.
- To call upon states to speed up the signature and ratification of the Cape Town Convention "UNIDROIT".
- To cooperate to establish a new unit for the management of air traffic flow that may become the nucleus for the Arab-Control, and to cooperate with the European Union to explore possible joint opportunities in the European project SESAR.

Developments of National Policies on Air Transport

- Damascus Convention came into effect February 2007
 - Arab civil aviation authorities and Arab airlines recommend setting a roadmap for the implementation of the Damascus Convention
 - Some Arab countries unilaterally apply open skies policy: Oman, Kuwait, UAE, Bahrain, and Lebanon
 - 20 bilateral open skies agreements between some Arab countries
- There are 20 bilateral open skies agreements between some Arab countries, namely: Bahrain, Jordan, Morocco, Oman, Qatar, Syria, Egypt, Saudi Arabia, United Arab Emirates and Sudan. The last of these agreements was between the United Arab Emirates and Sudan in June 2009.

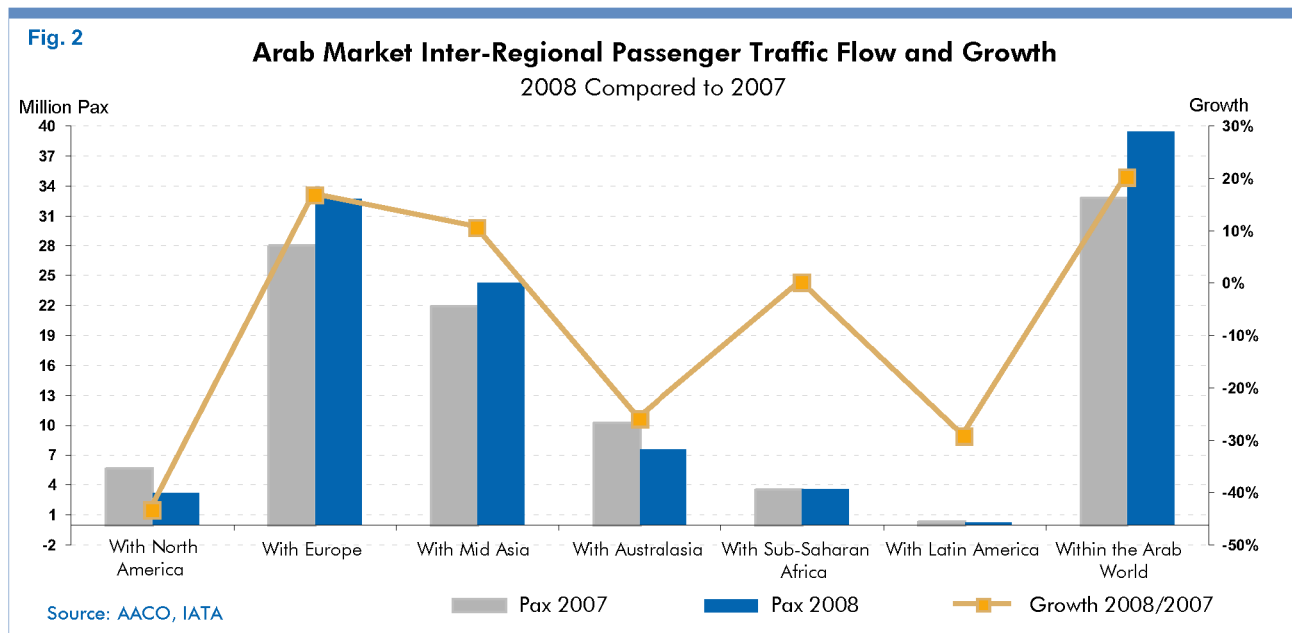
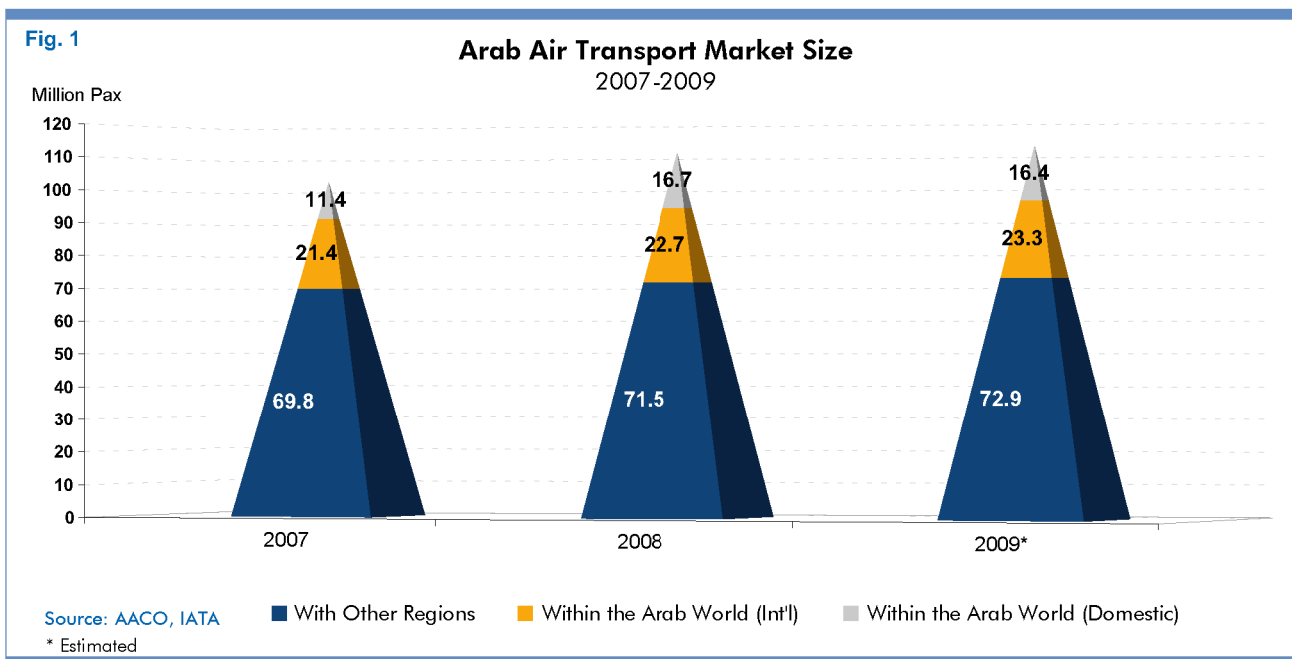
Arab Airlines' Ownership and Privatization Programs

- Most Arab airlines are government owned
 - Partial privatization procedures for Royal Jordanian, Kuwait Airways, and Saudi Arabian Airlines
 - Some openness to the establishment of private airlines, including low cost airlines
- Privatization is taking place at 3 Arab airlines, in addition to the launch of some new private airlines and low-cost carriers:
- **Royal Jordanian:** The Jordanian government has offered 71% of the capital of the company for sale since December 2007.
 - **Kuwait Airways:** Privatization procedures of Kuwait Airways have started following a law issued in January 2008 that permits an investor to own 35% of the shares, the government 20%, staff 5%, and the remaining 40% to be publically traded for Kuwaitis . Kuwait Ministry of Transportation announced that the procedures are running in accordance with the plan aiming at transforming the airline into a private company by the end of 2009.
 - **Saudi Arabian Airlines:** A master plan for privatization of the airline started in 2006. A year later, the airline received full approval for a plan that extends over five years to turn the six strategic units of the airline into independent divisions in preparation for privatization under the umbrella of the Saudi Arabian Airlines Holding Company.
 - The company has so far sold 49% stake in its catering unit in September 2007 to a group of companies, and 30% of the cargo unit in 2008. Additional shares in the Cargo and Catering units may be offered in 2010 and 2011 through an IPO.
 - 30%-49% stake of the maintenance unit would be sold to a strategic investor. The company will follow suit for Ground Handling, Technical, and Civil Aviation Services units, and the Prince Sultan Aviation Academy. The current plan does not envision the privatization of the airline's core unit before 2011.

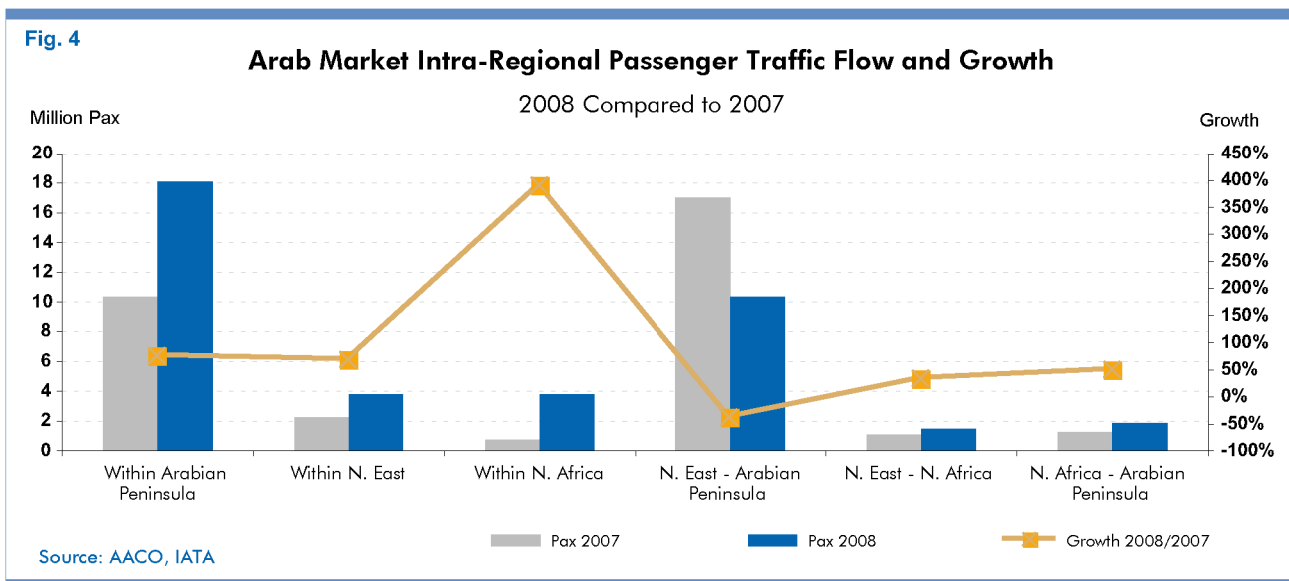
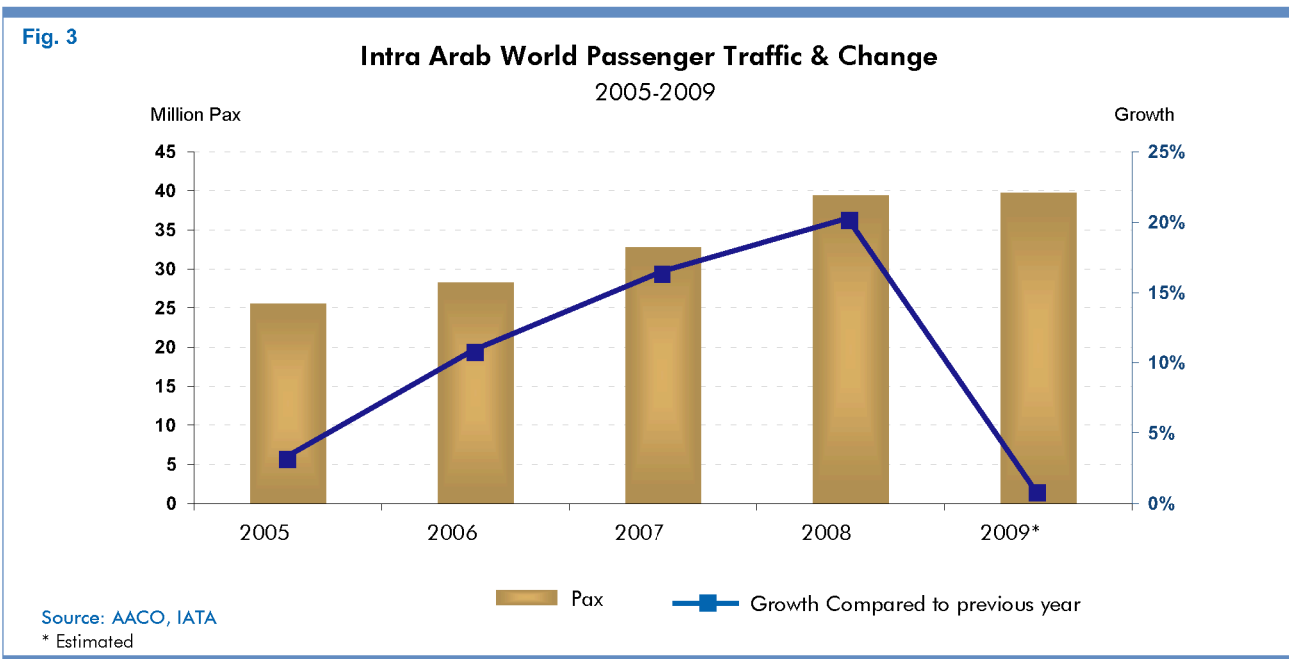
- We notice some new national policies that permit the establishment of private airlines, including low cost carriers. The reason may be the increasing competition from foreign low cost airlines, especially in the neighboring markets of the Arab world. In those markets, the benefits of an open market policy are apparent through boosting tourism, and competition that is driving down the cost of travel.

Passenger Traffic in the Arab World

- Despite the economic slowdown during the second half of 2008, the Arab air transport market achieved 8.1% growth in 2008 compared to 2007. The number of passengers in the Arab world in 2008 was 111 million passengers compared to 103 million in 2007. It should be noted that the market figures of the Arab world in 2007 have been recalculated due to the change of our data sources for the 2008 figures. The Arab air transport market is expected to grow by 1.5% in 2009. (Figures 1 and 2)



■ Passenger traffic inside the Arab world recorded a growth of 20.1% in 2008 compared to 2007; traffic is expected to grow by 0.7% in 2009 compared to 2008. (Figures 3 and 4)



AACO Members' Operations

Revenue Passenger Kilometers

Member airlines registered a growth rate of 11.2% in 2008 in RPKs compared to 2007. The global growth for the same year was 1.6% compared to 2007. AACO members' traffic growth was 8.2% for the first seven months of 2009 compared to the same period in 2008, in contrast to a worldwide decline of (-6.8%) for the same period.

Available Seat Kilometers

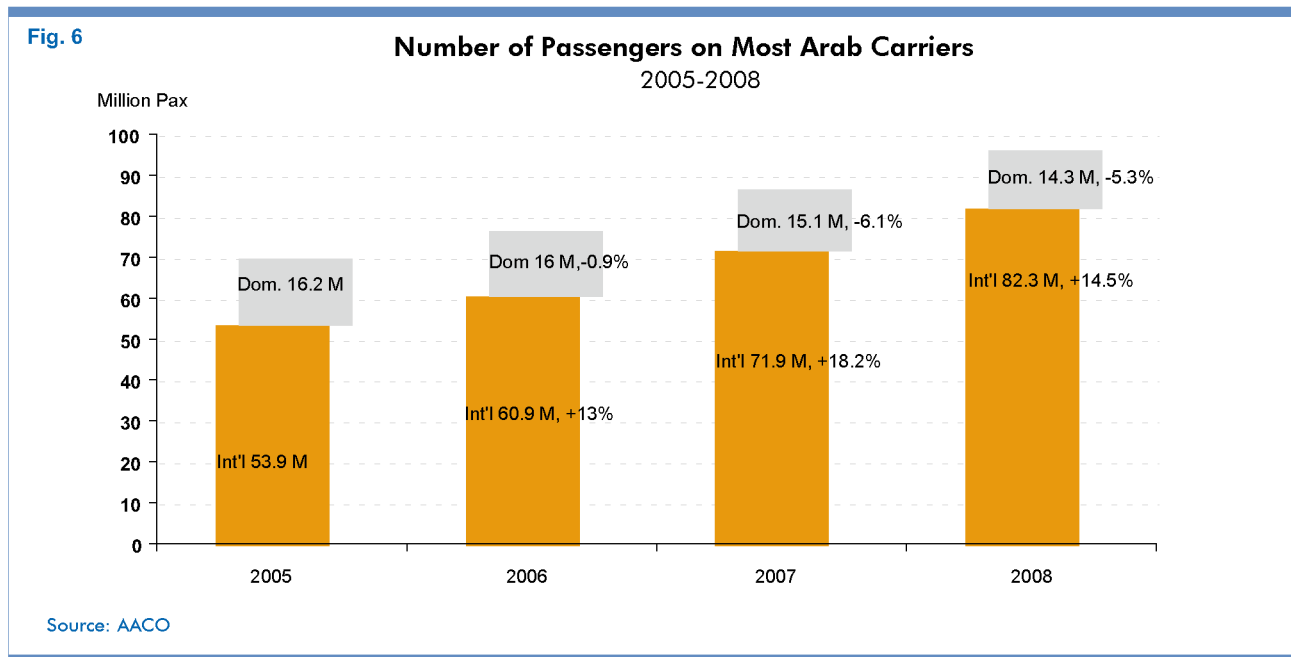
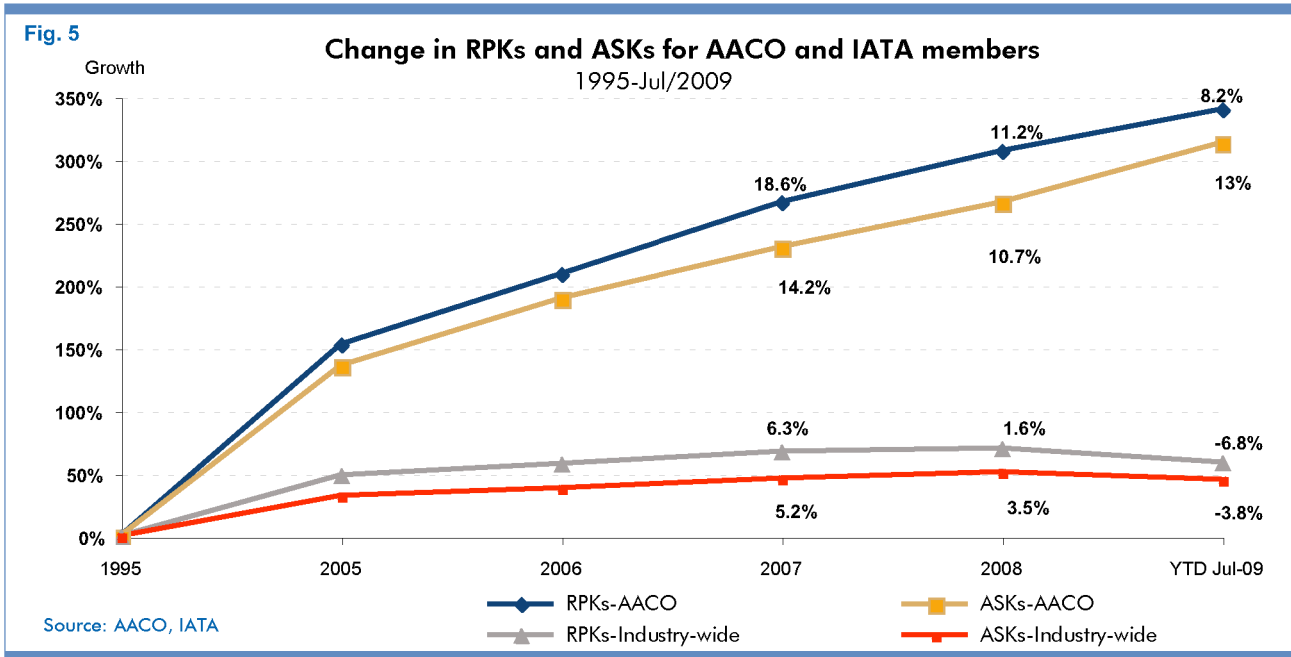
AACO members registered a growth rate of 10.7% in 2008 in ASKs relative to the year 2007, while the global growth for the same period was 3.5%. Arab airlines ASKs grew by 13% during the first seven months of 2009 compared to the first seven months of 2008, in contrast to a worldwide decline of (-3.8%) for the same period.

Load Factor

Load Factors at AACO members increased by 0.3% to 72.2% in 2008, up from 71.9% in 2007. In contrast, the global figure declined by 1.1% to 75.9% for the same period. It is important to mention that there might be some differences in the numbers shown for 2007 due to the change in the number of reporting airlines.

Total Number of Passengers

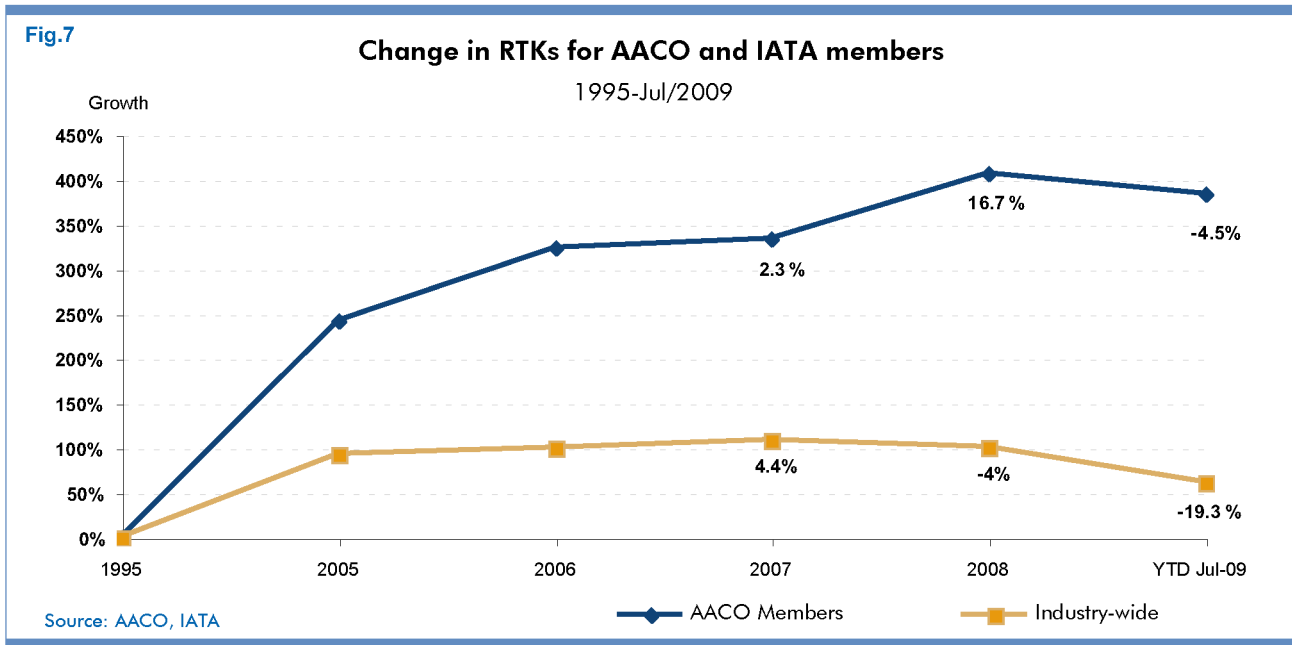
The total number of passengers carried by AACO members reached 96.6 million passengers in 2008, an increase of 11.1% over 2007. (Figures 5 and 6)



Cargo in the Arab World

Arab airlines recorded a growth of 16.7% in 2008 in RTKs compared to 2007, in contrast to (-4%) global decline for the same period. AACO members also recorded a growth of 13.8% in ATKs, increasing their collective Weight Load Factor by 1.5 percentage points to 60.5%.

Cargo traffic for Arab airlines declined by (-4.5%) during the first seven months of 2009 over the first seven months of 2008, compared to a worldwide decline of (-19.3%) for the same period. (Figure 7)



AACO Members' Fleet

Current Fleet and Contracted Aircraft

Arab airlines added to their fleet 109 aircraft in 2008, among which 57 were brand new aircraft, in addition to another 52 aircraft that are likely to be leased-in, reactivated, or converted aircraft (Figure 8). Arab airlines are scheduled to receive 89 aircraft in 2009, among which 39 aircraft have been already delivered during the first seven months of 2009. (Figure 9)

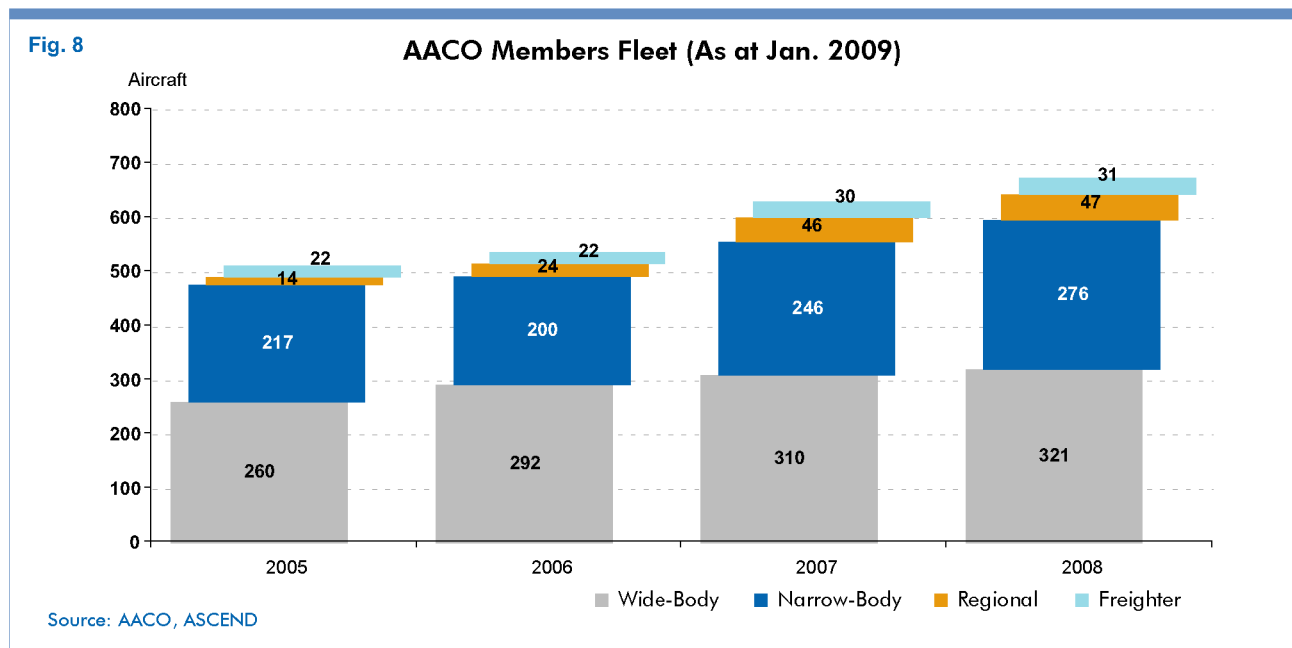
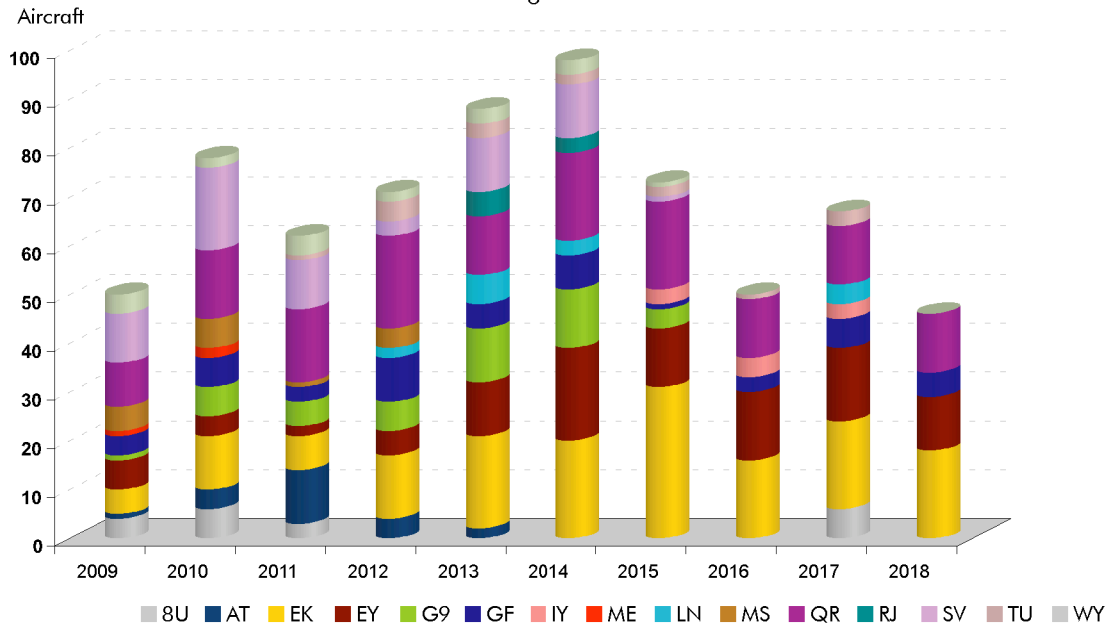


Fig.9

Number of New Aircraft Expected to Join the Arab Airlines' Fleet

As at August 2009



Source: AACO, ASCEND

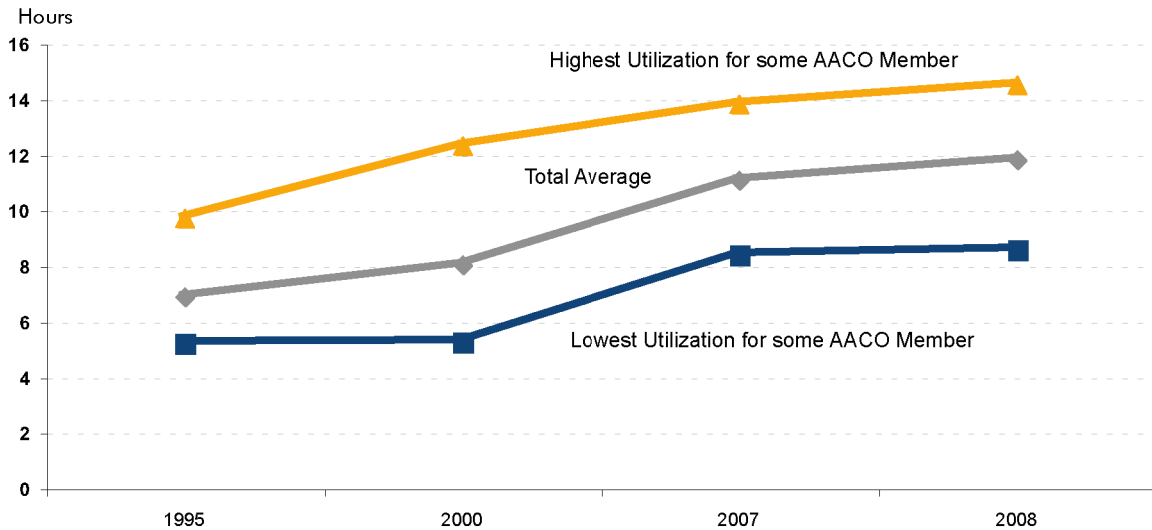
Average Aircraft Utilization

The rate of daily aircraft utilization increased in 2008, indicating optimal capitalization on the aircraft value. It also signifies the increase in long-haul operations. (Figure 10)

Fig. 10

Average Aircraft Utilization for AACO Members

1995 - 2008



Source: AACO

Yield and Unit Costs

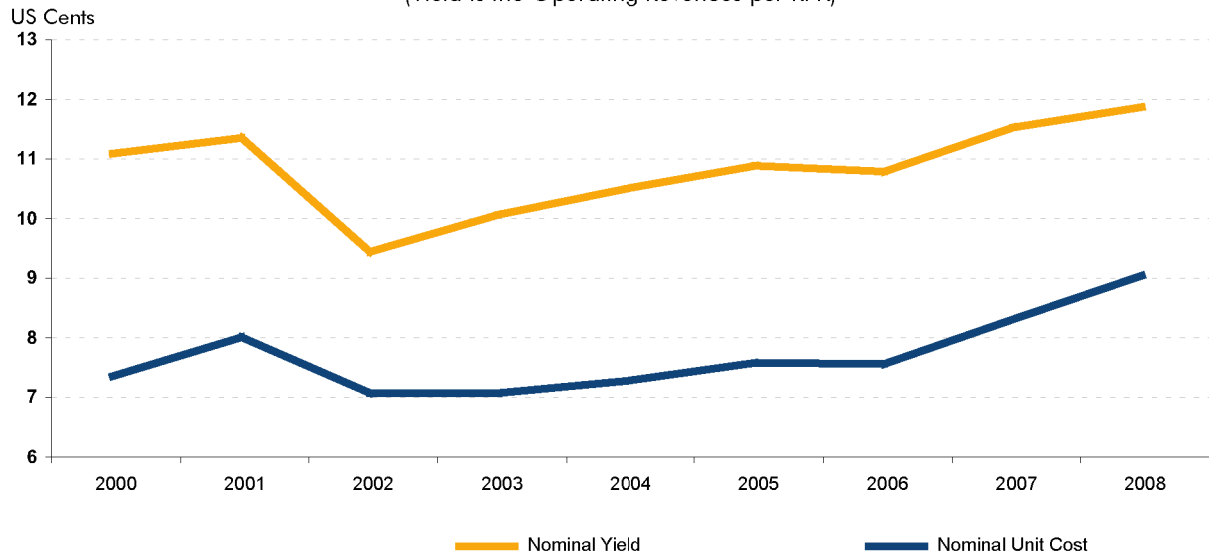
Yield

Yield of 11 Arab airlines increased by 3% in 2008 due to higher demand for travel. Unit cost increased by 8.8%, mainly due to the increase in fuel unit cost. (Figure 11)

Fig.11

AACO Members' Yield and Unit Cost

(Yield is the Operating Revenues per RPK)



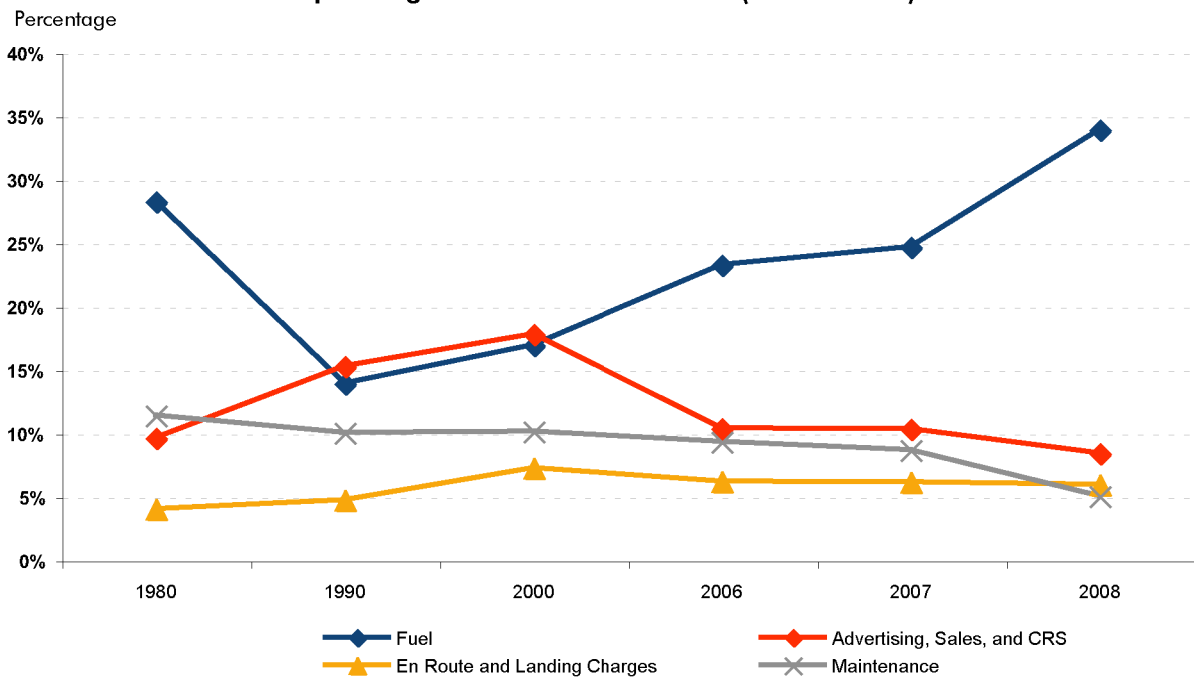
Source: AACO

Changing Costs

In addition to the financial crisis during the second half of 2008, airlines suffered from the steep rise in the price of jet fuel; in July 2008, jet fuel prices hit a historic high, at US\$ 168 per barrel. Given the financial results of 11 Arab airlines, fuel costs rose by 43.5% over 2007 to constitute 33.9% of operating expenses, which in turn rose by 20.6%. (Figures 12, 13, and 14)

Fig. 12

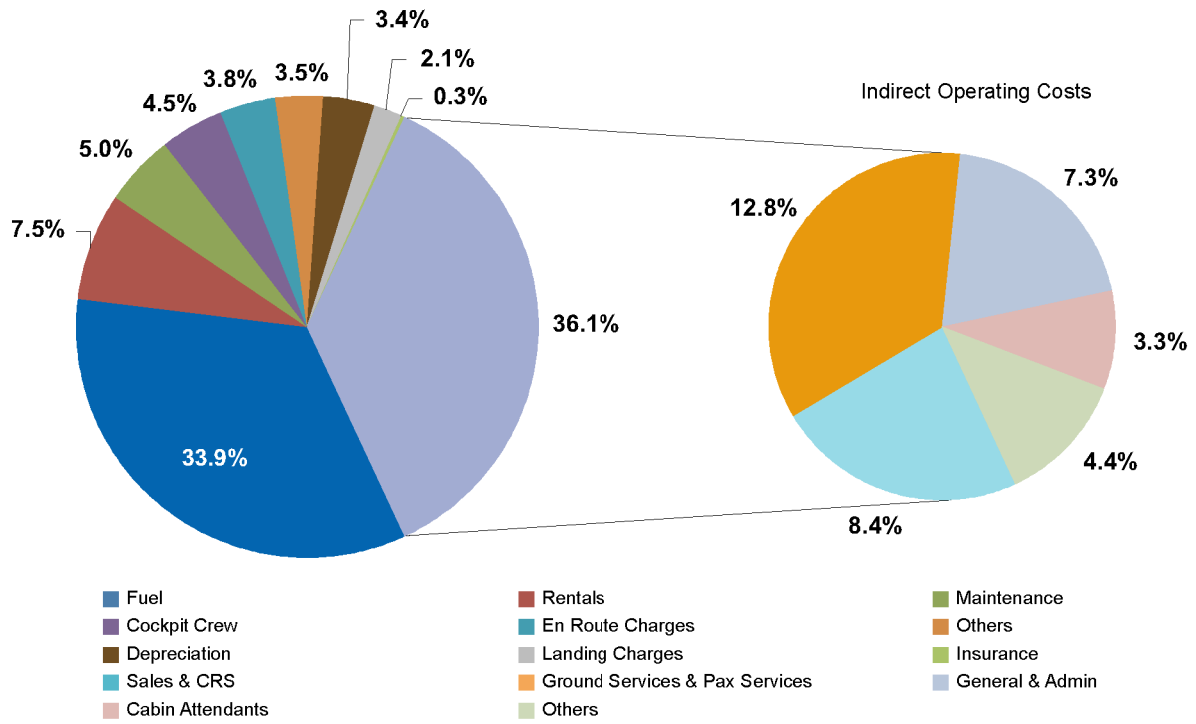
Contribution of Some Operating Cost Components in the Total Operating Cost of AACO Members (1980 - 2008)



Source: AACO

Fig.13

Cost Distribution - 2008

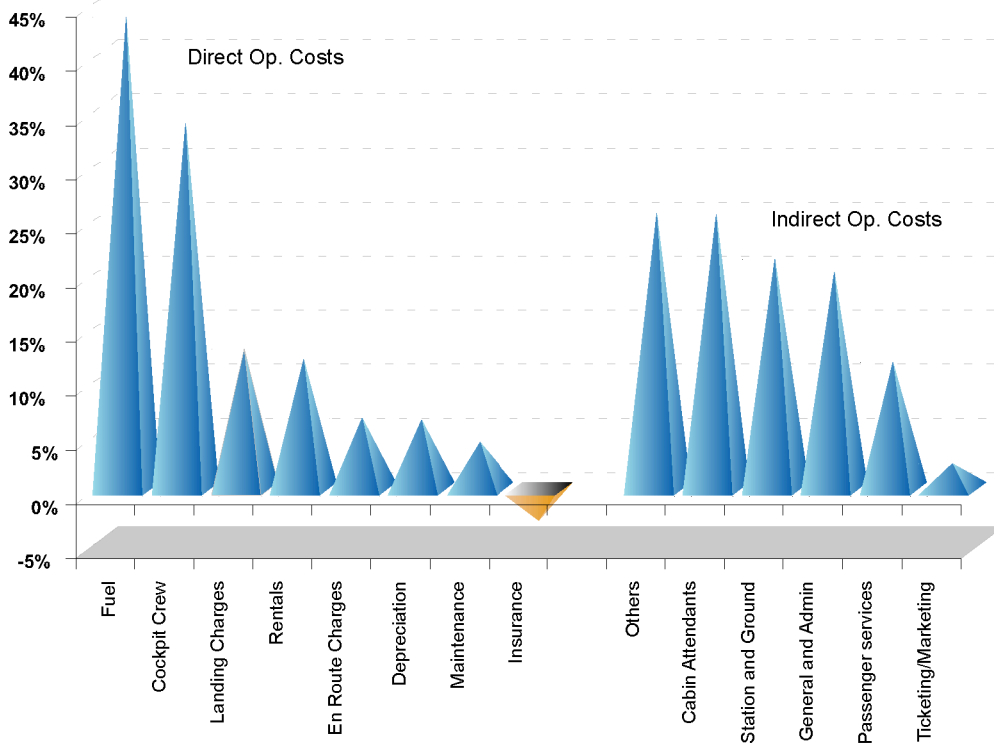


Source: AACO

Fig. 14

Year-on-Year Change in Operating Cost Items

2008 Compared to 2007

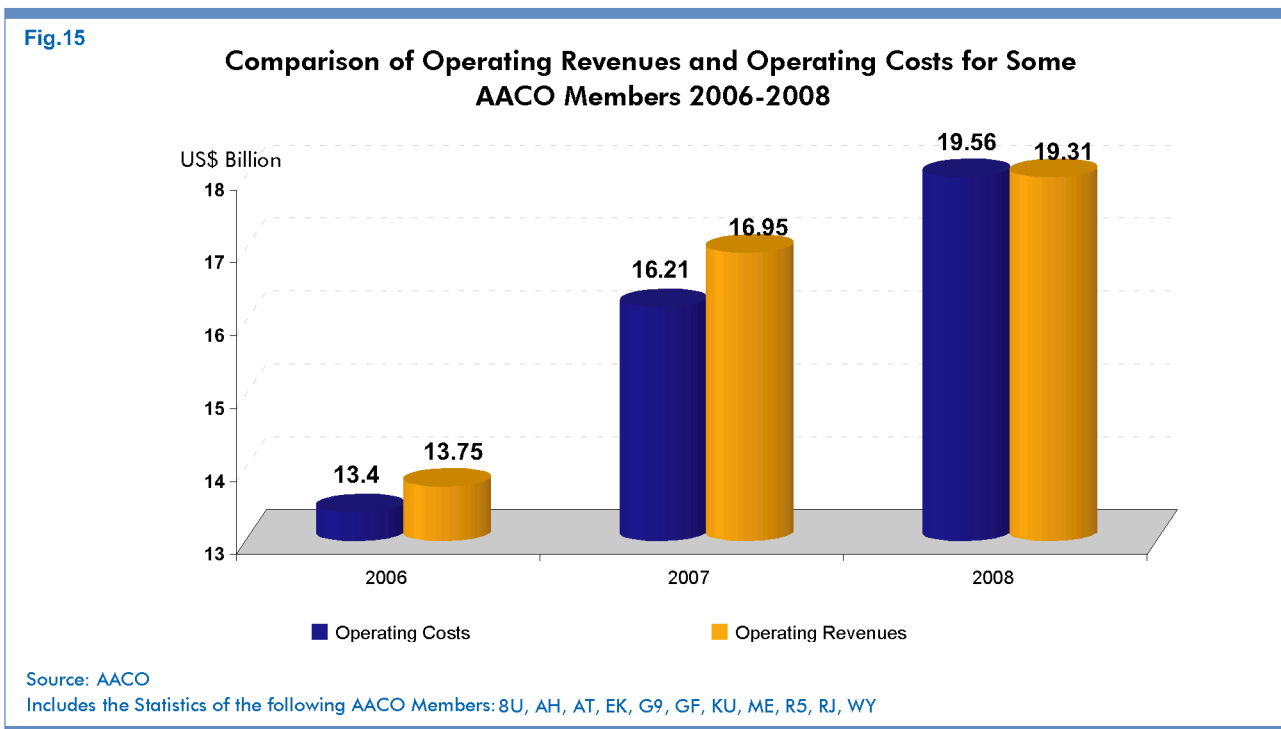


Source: AACO

Financial Results

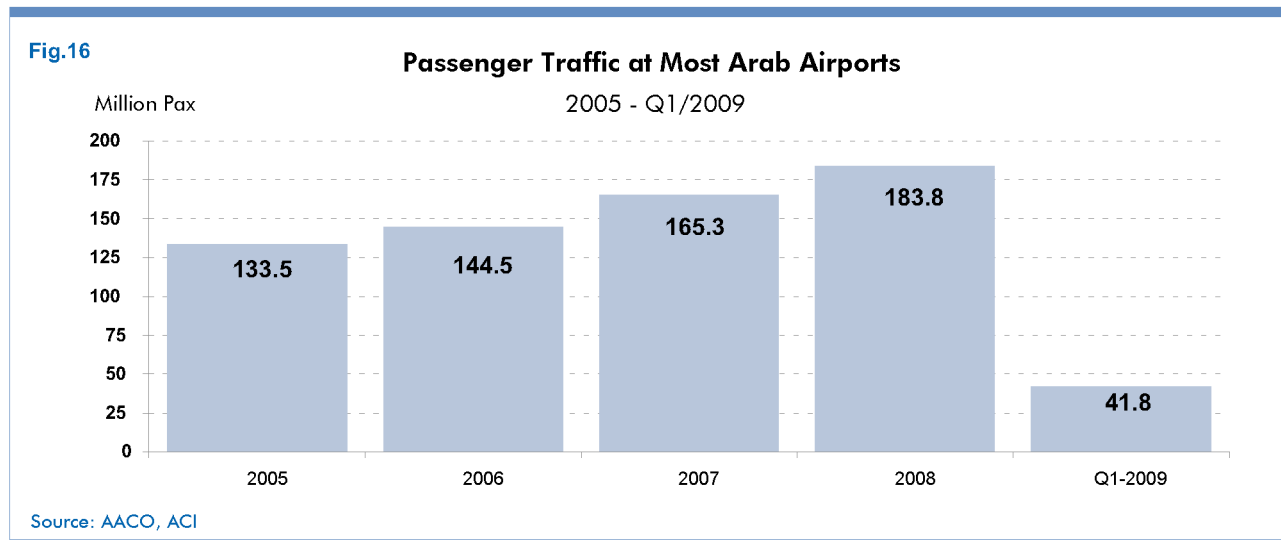
The global economic downturn on one hand, and the rise of fuel prices on the other, increased operating expenses of 11 Arab airlines by 20.6%, while operating revenue for the same airlines rose by 13.9%, resulting in operating losses worth US\$ 247 million approximately.

Among the 11 airlines, the highest operating profit was US\$ 284 million, and the highest operating losses reached US\$ 429 million. Figure 15 shows a comparison between operating income and operating costs.

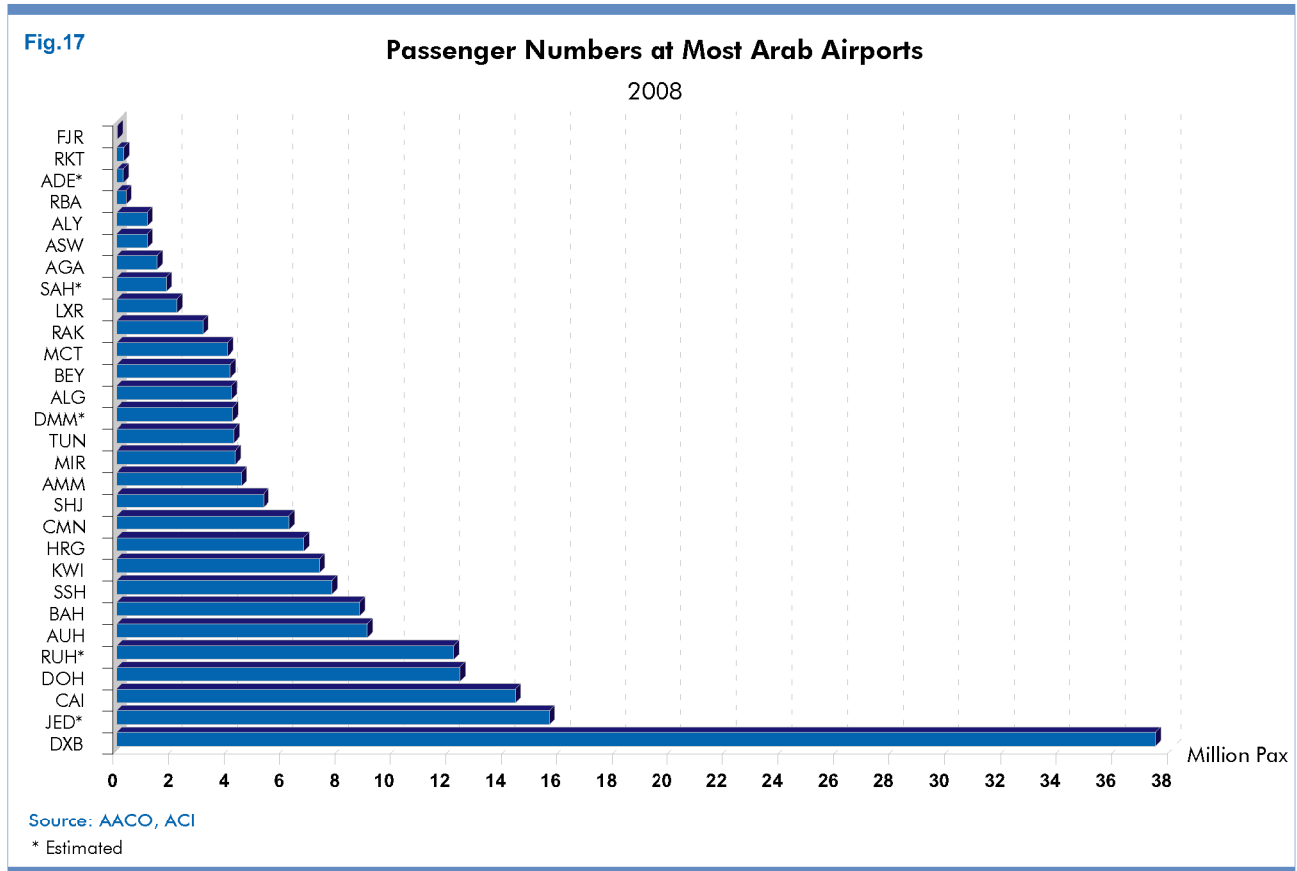


Passenger and Cargo Traffic at Arab Airports

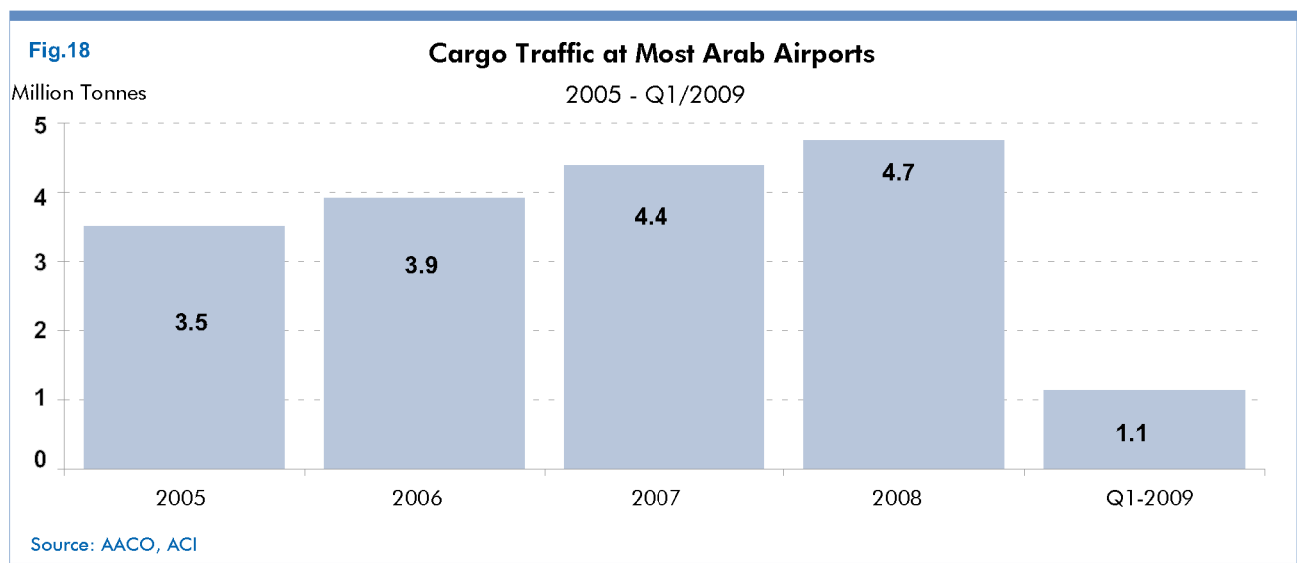
Passenger traffic through Arab airports increased by 11.2% in 2008 over 2007, touching on 183.8 million passengers, while international passenger traffic increased by 0.1%. The number of passengers in Arab airports reached 41.8 million passengers during the first quarter of 2009, almost the same figure recorded during the first quarter of 2008.



Most Arab airports recorded good growth in terms of passenger numbers during 2008 compared to 2007. In the lead came Alexandria airport in Egypt with an annual growth of 51.3%. On the global scale, Abu Dhabi International Airport led the world's airports that handle more than 5 million passengers a year, with a growth of 30.2% over 2007.



In addition, Arab airports reported a significant growth in Cargo traffic in 2008, reaching 8.14% over 2007 despite the global slowdown in cargo volumes; world's airports recorded a decline of (-3.7%) in cargo traffic. Tonnage through Arab airports in the first quarter of 2009 was 1.1 million tonnes, increasing by 2.1% over the same period in 2008. (Figure 18)

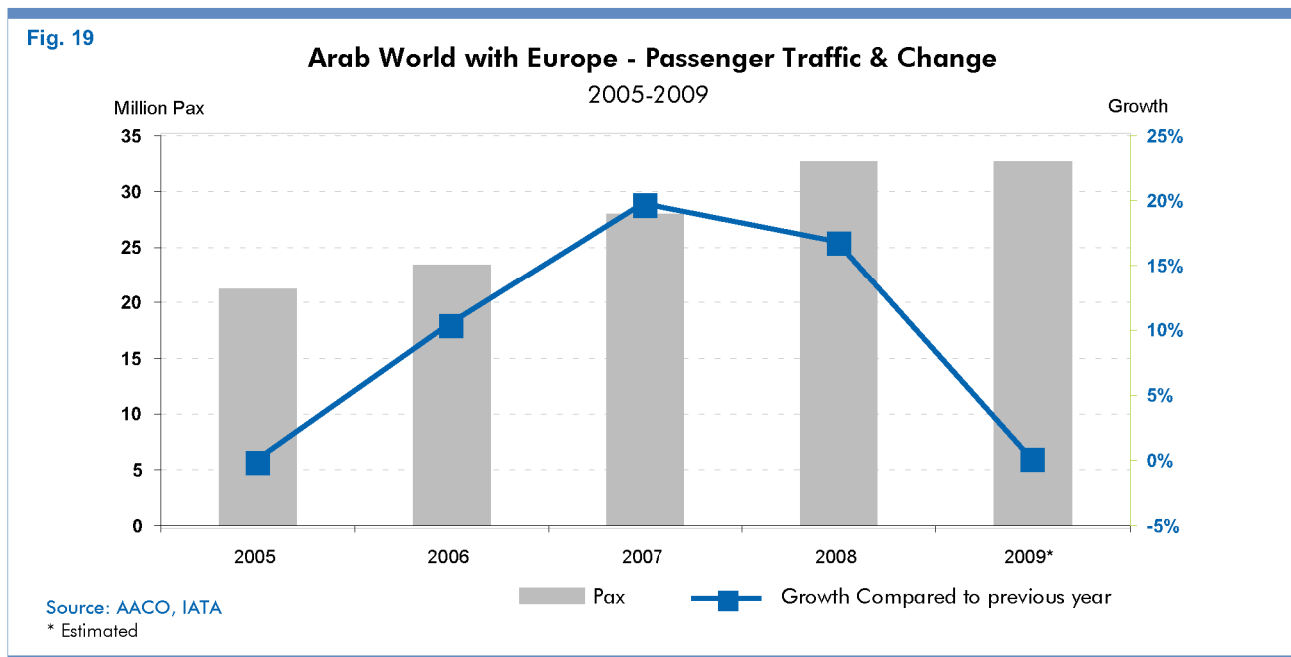


International Relations

Arab World and Europe

Passenger Traffic with Europe

Passenger numbers between the Arab world and Europe increased by 16.7% in 2008 compared to 2007; traffic is expected to grow by 0.03% in 2009 over 2008.



European Regulatory Environment and the Arab World

EU External Aviation Policy

- The European Union began to review all bilateral agreements that do not conform to the European Nationality of the operator, as is the case in the Single European Sky. The European Union mandated the European Commission to conduct horizontal agreements to bring existing bilateral agreements between European and non-European countries in line with the community law by removing nationality restrictions in these bilateral agreements.
- The European Union is also working on establishing a common aviation area with neighboring Mediterranean and Eastern European countries through Euro-Med agreements. The European Union also works on establishing open aviation areas with countries around the world, starting with the United States.

Aviation Relations of some Arab Countries with the European Union

In December 2006, the EC signed a Euro-Med agreement with Morocco. The European Union mandated the EC to start negotiations with Jordan in November 2007, and with Lebanon and Tunisia in October and December 2008 respectively, towards the conclusion of a Euro-Med air transport agreement.

The European Union signed a “horizontal” agreement with Lebanon in July 2006, with the United Arab Emirates in November 2007, and with Jordan in February 2008.

Joint Declaration by ACAC, AACO, and the EC

- ACAC and AACO signed a “joint declaration” with the EC on air transport relations between Arab countries and the European Union on November 16, 2008.
- The joint declaration includes the general principles that can be used in the bilateral negotiations between Arab civil aviation authorities and the European Commission on air services agreements. The joint declaration confirms the principle of reciprocity regarding commercial opportunities that could include ownership and designation.
- In particular, the Arab side can request reciprocity in return for accepting the principle of European community designator.
- Both parties encourage the implementation of reciprocal provisions enabling flexible codeshare agreements.
- The European Commission encourages the recognition of regional reciprocity, allowing Arab airlines to be owned and controlled by Arab investments from various countries.
- Both sides expressed a strong wish for taking the current cooperation in the field of civil aviation to a new level in a wide range of areas. In particular, the two sides intend to strengthen their future technical cooperation in areas such as aviation safety, aviation security, air traffic management, environmental protection, application of competition law and economic regulation of the air transport industry. Both sides support the development of air transport between European and Arab countries towards removing obstacles for doing business and implementing regulatory convergence to guarantee a common level playing field.
- As for the environmental cooperation, both sides agree to work closely together to establish an Arab joint environmental bureau in order to promote sustainable solutions to the environmental challenges that face aviation.

EU External Aviation Policy: EuroMed Agreements, Open Aviation Areas, and Horizontal Agreements

Joint Declaration by ACAC, AACO, and the EC

- Principle of reciprocity regarding commercial opportunities
- Enhancing future technical cooperation in areas such as aviation safety, aviation security, air traffic management, environmental protection, application of competition law, and economic regulation of the air transport industry

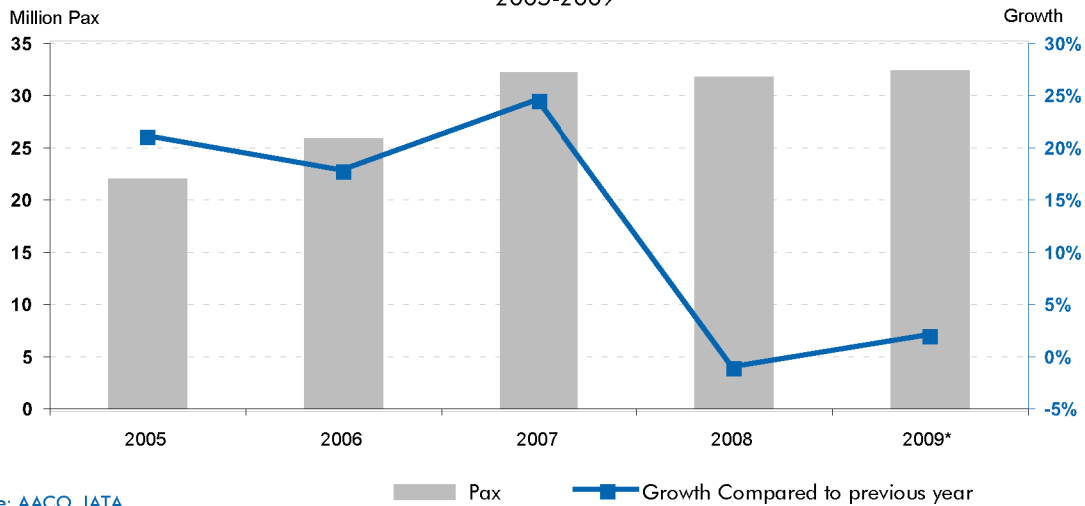
Arab World, Asia and Australia

Passenger Traffic with Asia and Australia

Passenger traffic between the Arab world, Asia and Australia declined by (-1.2%) in 2008 compared to 2007. Traffic between the two regions is expected to grow by 1.9% in 2009 compared to 2008. (Figure 20)

Fig. 20

Arab World with Asia & Australia - Passenger Traffic & Change
2005-2009



Source: AACO, IATA
* Estimated

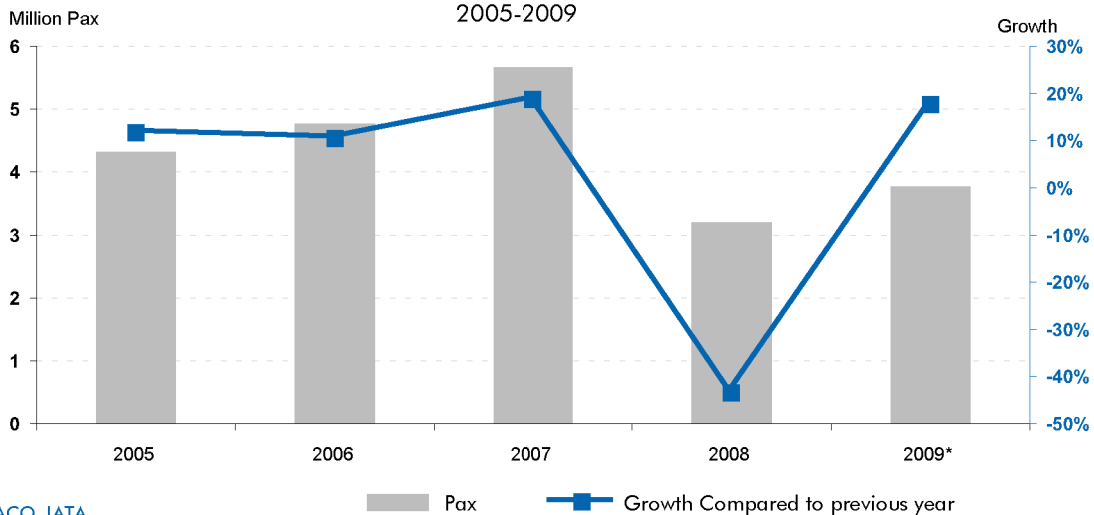
Arab World and America

Passenger Traffic with North America

Passenger traffic between the Arab world and North America dropped by (-43.5%) in 2008 compared to 2007. Traffic is expected to grow by 17.6% in 2009 over 2008. (Figure 21)

Fig. 21

Arab World with North America - Passenger Traffic & Change
2005-2009



Source: AACO, IATA
* Estimated

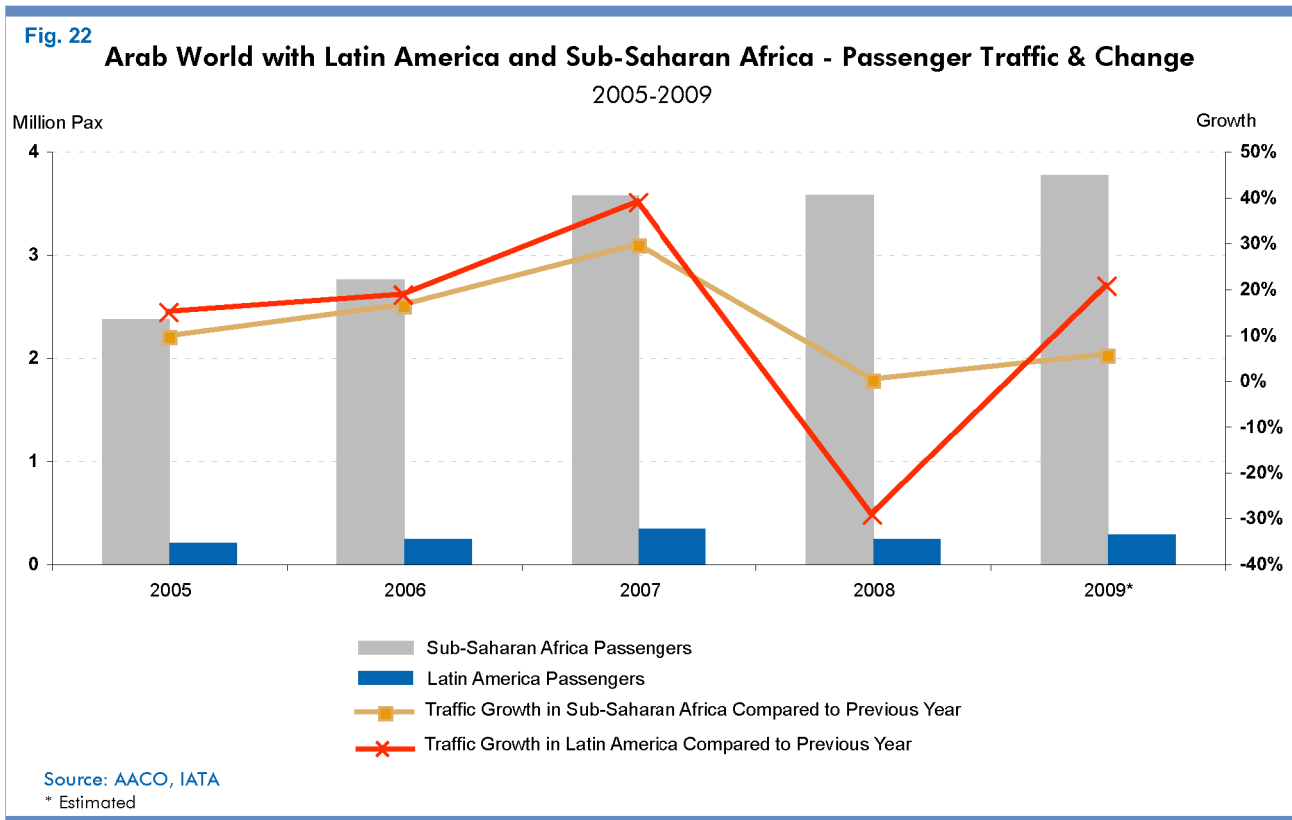
U.S. Regulatory Environment and the Arab World

Since 1992, the United States has signed 94 bilateral agreements for the liberalization of air transport with various countries, including agreements with seven Arab countries: Jordan, United Arab Emirates, Bahrain, Morocco, Oman, Qatar and Kuwait.

Bilateral Agreements between the United States and 7 Arab countries

Arab World with Sub-Saharan Africa and Latin America

Passenger traffic declined by (-2.5%) in 2008 compared to 2007 for both between the Arab world and regions combined. For 2009, passenger traffic with Sub-Saharan Africa is expected to grown by 5.5%, and by 20.5% with Latin America over the previous year.



European – American Relations

- Size of European – American aviation market was 60 million passengers in 2008
- First Stage Liberalization started in March 2008
- Second Stage Liberalization aims at reaching a transatlantic open aviation area
- Talks are targeted to be concluded before end of 2010

- The first phase of the Open Skies Agreement between the European Union and the United States came into effect on 30 March 2008. The first phase allows the liberalization of air services between the two sides by removing all restrictions on routes, pricing and number of weekly flights between the two markets.
- The second rounds of talks are aimed at turning the skies between the United States and the European Union into a common aviation market across the Atlantic, allowing mutual investment, and removal of any restrictions on air services, including the right of cabotage. Both sides expressed their interest to conclude talks before the end of 2010.

AACO and Industry Issues

Environmental Issues

Introduction

The environmental concern is building up in the light of global warming and the increase in greenhouse gas emissions.

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. One of the latest governmental approaches was to include the aviation industry in the European Emissions Trading Scheme. Australia, United States, New Zealand and Japan are also developing emissions Cap & Trade schemes that would include the aviation industry.

The Kyoto Protocol, which expires at the end of 2012, does not account for emissions from international aviation in any country's emissions target. The United Nations plans to hold a climate change conference in Copenhagen in December 2009, to reach a post-Kyoto agreement which could include aviation in its environmental targets.

European Union Emissions Trading Scheme (EU ETS)

- The European Law states that all aviation activities in, out and within the EU will be subject to the European Emissions Trading Scheme starting January 1, 2012.
- Airlines subject to the scheme will be reporting to allocated EU member states that will administer their adherence to the requirements of the scheme.
- Arab airlines have been allocated the following states:
 - **United Kingdom:** Egypt Air, Emirates, Etihad Airways, Gulf Air, Kuwait Airways, Libyan Airlines, Qatar Airways, Royal Jordanian, Sudan Airways, Syrian Arab Airlines, in addition to Oman Air.
 - **France:** Air Arabia, Air Cairo, Afriqiyah Airways, Air Algerie, Iraqi Airways, Middle East Airlines, Royal Air Maroc, Tunisair and Yemen Airways.
 - **Belgium:** Saudi Arabian Airlines and Egypt Air Cargo.
 - **Portugal:** Jordan Aviation.
- The law requires airlines that operate to Europe to submit their monitoring plans for emissions and Tonne-Kilometres (TKs) to their designated EU states by August 31, 2009, and at later dates for the United Kingdom and Germany which postponed this deadline. States will review the plans by end of 2009 and will give feedback to airlines to start monitoring their emissions and Tonne-Kilometers according to the approved plans, starting 1 January 2010.
- On March 31, 2011, following a verification process by accredited third parties, airlines must report their emissions and their Tonne-Kilometers of the previous year.
- European countries may impose penalties on airlines in case of late submission of the required reports, that could lead to a ban on airlines' operations to the European Union.

Impact of the EU ETS on Airlines

- Since the law has put a cap on free emission allowances that would be distributed to airlines amounting to 82% of the cap on the average annual emissions for the years 2004-2006, it is inevitable that the free allowances that the airlines will receive in 2012 will not be enough to cover flight operations to Europe in that year or beyond, given the growth in operations and traffic over this seven years period. AACO estimates that airlines around the world will have to buy about 20% of their emissions in order to maintain same level of flight operations to Europe; that figure would have been higher had it not been for the decline in global passenger traffic in 2009. Free emission allowances granted to Arab airlines, given their rapid growth that is far higher than the average growth of the global air transport industry, will constitute no more than 48% of the total emissions that Arab airlines need in order to maintain their level of operations to Europe. The initial cost for Arab airlines to buy the rest of the emissions in 2012 is estimated at about 100 million Euros, based on the present prices per tonne of carbon dioxide.
- The Arab fleet enjoys a comparative advantage over the world fleet in terms of meeting environmental requirements. The average age of Arab airlines' fleet is less than 8 years while the average age of airlines' fleet in the United States is 24 years, and 15 years in Europe. The environmental advantage of the Arab airlines' fleet stems from the fact that newer aircraft engines burn less fuel, and it is estimated that every 10 years fuel consumption rate is reduced between 3 and 5%.

- **EU Law:** Inclusion of all flights from, to and within the EU to the EU ETS starting 2012
- **Initial cost for Arab airlines** to buy the rest of the emissions needed to maintain their operations in the EU in 2012 is estimated at about 100 million Euros
- **The Arab fleet** enjoys a comparative advantage over the world fleet in terms of meeting environmental requirements. The **average age** of Arab airlines' fleet is **less than 8 years**

AACO's Work

- AACO established an environmental taskforce in 2007, comprising environmental managers and specialists from the Arab airlines.
- AACO has observed regulatory, political and technical developments, and evaluated best means to protect the Arab airlines' interests within this framework.

During this year, AACO's work on the environment was focused on four tiers:

1. Awareness
2. Policy
3. Providing solutions to members to comply with the requirements of the EU ETS
4. Action plan for the coming period

1- 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 data and news.

On the other hand, AACO remains in contact with various relevant parties like the European Competent Authorities, the EC, Eurocontrol, other governmental and non-governmental entities, environmental service providers, accredited emissions verifiers 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.

2- 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 various unaligned individual Cap & Trade schemes, a global scheme needs to be adopted that would take into consideration



Kyoto's principle of Common But Differentiated Responsibilities (CBDR) and Chicago Convention's principle of nondiscrimination between operators. Accordingly voicing a common position for the Industry at Copenhagen in December 2009 is very important whereby ICAO would have grounds for adopting details of a global scheme for the aviation industry.

3▀ **Providing Solutions to AACO Members to comply with the requirements of the EU ETS**

Finding solutions for AACO members to help them comply with the EU ETS requirements was one of AACO's priorities this year.

- ▀ AACO signed an agreement with "SITA" to provide consulting services for 12 member airlines.
- ▀ Bilateral agreements were signed between some member airlines and SITA to adopt "Aircraft Emissions Manager" developed by SITA.
- ▀ AACO contracted Lloyd's to review monitoring plans for 13 Arab airlines.

4▀ **Action Plan for the Coming Period**

- ▀ AACO will be following up on political and regulatory developments, and will participate in relevant conferences including the Copenhagen conference, with the League of Arab states delegation.
- ▀ AACO will be considering how to collectively deal with the CO2 certificates market.

Charges and Taxes

Effect of Aviation Charges and Taxes on the Wider Economy

- ▀ Some governments regard the aviation industry as an easy target for taxes. Moreover, airports and aviation authorities impose charges and taxes on the aviation industry to collect revenues for services that are not related to air transport.
- ▀ The increase in levels of charges and taxes reduce the economic value of the aviation industry.
- ▀ Charges and taxes affect fares, and this reflects negatively on the tourism sector.

Charges and Taxes Levied on Arab Civil Aviation

- ▀ Sometimes taxes amount to a level higher than the ticket value, discouraging air traffic in the Arab world. AACO has been mediating with civil aviation authorities and with oil and finance ministers to consider canceling or reducing charges that are imposed on the fuel bill. Over the past years, some progress has been made at some Arab airports.
- ▀ Charges usually imposed on the aviation industry come in the form of passenger charges, landing, runway lighting, parking, and others.
- ▀ Other air traffic control (ATC) charges are also imposed like en route and air navigation charges.

Landing charges represent 2.1% of the operational costs of Arab airlines, and en-route charges represent 3.8% of operational costs

AACO's work

In November 2008, ACAC Executive Council and AACO Executive Committee recommended reviewing taxes and charges that are imposed on air transport activities, and stressed the need to enforce oversight on airports that are privatized or whose business model has been changed to a commercial one, particularly on the charges that these airports may apply in order to ensure that these charges are in line with the principles adopted by the International Civil Aviation Organization (ICAO). AACO and IATA, in cooperation with Arab airlines, are communicating with Arab ministers of transport and Director-Generals of Arab civil aviation authorities in order to ensure the following:

- ▀ A 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 to assist them in verifying and justifying the costs involved in providing the services.
- Cost-relationship between charges and taxes and the cost of services provided, such 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.

Aviation Safety, Security and Operations

Global Issues of Safety and Flight Operations

The year 2008 was not a good year in terms of aviation safety. According to IATA, 2008 witnessed 109 accidents with a 0.81 hull losses per million flights of Western built jet aircraft, rising up considerably from the 0.75 rate recorded in 2007. However, the year 2008 also recorded the lowest fatality rate level since 2004, at 0.13 per million passengers. This is mainly due to the improvements in evacuation procedures, cabin crew operations and effective training, fire resistant aircraft interiors in addition to many other contributing factors.

The global accidents' breakdown in terms of type of aircraft was recorded by IATA as follows:

- 65% involving passenger flights
- 31% involving cargo flights
- 4% involving ferry flights

While AACO members enjoyed a 0 fatal accident rate during nearly half a decade, a fatal accident occurred in 2008, and another fatal accident in 2009. Nevertheless, investments in new aircraft, efficient engines as well as engagements in all aspects of global safety initiatives have been a notable mark of distinction encompassing all the member carriers of AACO, ensuring their commitment to the entire basis and requirements of aviation safety.

With safety being a constant challenge, AACO and its members are in continuous endeavor to partner with international institutions in order to improve safety levels.

Aviation Security: the Need for a Collective Approach

The fundamentals for efficient global aviation security depend largely on the collaborative efforts between airlines, airports, governments and other industry stakeholders in jointly consulting and developing cohesive security policies and procedures

Efficient mitigation against risks and emerging threats for the aviation industry is a constant challenge as long as aviation remains a critical element in the transportation and tourism sectors.

Terrorist groups with radical ideologies are the source of threats to aviation - these ideologies are mostly related to political demands, carried out by individuals with varied personal political and non-political demands. Nonetheless, both pose high risk levels. Neither could be underestimated knowing that such confronters are always anxious and under high levels of stress when implementing acts of unlawful interference. Moreover, both have been in regular – mostly unsuccessful - attempts to break the security chain.

However, when focus is not on credible risk following appropriate analysis, perpetrators would be able to break into the so called aviation fortress.



Mutual acceptance and harmonization have been a common call by all since 9/11. Exploring innovative ways which could properly flow and facilitate travel while maintaining the closest to 100% security such as the use of biometrics is essentially a collaborative must do item for all stakeholders.

Aircraft and Engine Developments

New technology can do much to improve certain features of aviation in terms of sustainable development over the next fifty years. Exploring new technologies is required to change the rules of the game while permitting an array of different solutions.

Generally speaking, a sustainable aviation industry could be achieved through technological development where progress can definitely be made in aspects such as noise pollution and CO2 emissions. There are potential commercial and other benefits to be gained through increased aircraft size, applying new landing and take-off procedures, optimizing air routes, use of lightweight materials and new aircraft design concepts such as the Blended Wing Body (BWB). Still, the market demands a radically different aircraft that integrate the expertise of the various technical disciplines, with the reduction of operating costs always in mind, fuel being the highest component of all.

The next decade would see more focus on the type of engines to equip the next generation narrow bodied aircraft. This is imminent as the latest development to aircraft general design was mainly focused on wide bodied aircraft (such as A380, B787 and A350).

The current crisis, which led to capacity cuts, deferrals and even cancellations of aircraft orders, is increasing pressure on the main airframe players to consider the formation of innovative single isles which could better perform during economic breakdowns and decreasing travel demand.

Both open rotor concept and the geared turbo fan (GTF) engines are on the favorable cost-saving track, mainly due to lower fuel consumption and dependability on alternative fuel sources. However, there is a long way before these engines demonstrate their final operational reliability to fit into narrow bodies.

It is very likely that engine manufacturers will make great efforts to introduce viable engine solutions which will possibly direct the design of future aircraft leading to multidisciplinary optimization.

Most Important Technical Development in Aircraft and Engine Manufacturing:

- Since the beginning of the jet age, fuel consumption decreased by 70% due to technological developments producing modern aircraft and engines, and leading to more efficient airline operations and new air routes
- Modern aircraft consume 3.5 liters per passenger per 100 kilometers
- The overall reduction in fuel consumption is mainly because of the radical improvements in engines
- The new generation of aircraft (such as A380, A350 and B787) target fuel consumption of less than 3 liters per passenger per 100 kilometers
- Aircraft today are 50% less noisy than their counterparts 10 years ago
- AACO members are among the most important contributors to environmental conservation through the modernization of their fleets
- AACO members' aircraft orders until 2018 are 683 aircraft, including new-generation aircraft
- New-generation aircraft use high-performance engines, in addition to the use of fiber and composite materials in the manufacturing of structures which contribute to higher operational efficiency

AACO Members Cooperation at the Technical Level

AACO has undertaken several initiatives at the technical level, which led to increased cooperation among members, and has contributed to reducing costs, especially in the following areas:

Emergency Response Management

AACO signed a special agreement with Kenyon International which provides a range of emergency management services, whereby AACO member airlines will be able to bilaterally sign individual contracts with Kenyon.

Moreover, AACO has developed a general Emergency and Crisis Management Guide, and a multilateral agreement between the member companies to support each other during emergency situations.

Aviation Security

AACO is currently working on a project at outstations that would reduce costs through the consolidation of security audits among member airlines by contracting specialized companies in this area.

Engineering and Maintenance

AACO has obtained special offers on highly utilized material such as oils and lubricants, as well as plastic spare parts for aircraft seats. AACO is also working on other collective deals similar to that with Jeppesen, which yielded excellent collective savings for members.

AACO is also in the process of developing an aircraft maintenance and engineering academic program with some universities in order to increase the qualified workforce in the region.

Arab Airports Development Projects

Projects to develop airports in the Arab region keep pace with the continuous growth of the aviation industry in the Middle East. The geographical location of the Arab region near the three major emerging markets, India, China, and the CIS, and congestion at the nearby European airports that face several constraints limiting their expansion, are two major elements that enhanced the role of Arab airports as a destination and a transit hub which come in favor of a bigger role for Arab airlines.

These factors, in addition to several others, contributed to Arab governments' decisions to expand Arab airports. Some of these other factors are: ownership of airports and its relation to freedom of decision making, availability of liquidity, regulatory framework, and availability of space. The expansion plans also come in tandem with plans set forth by Arab airlines to expand and modernize their fleet, and to extend their network of operations.

These projects aim to increase the operational capacity of airports to meet the growth in air traffic in the Arab region, and to provide the highest level of technical services and facilities to passengers, airlines, and other users.

Plans for the development and modernization of Arab airports come within the framework of national strategies for growth and development to place Arab countries as world class commercial, financial, and service hubs

Airport expansion projects in the past ten years were in response to future growth expected at the time. That being said, if the implementation of further expansion projects did not take place in a timely manner, it wouldn't have been long until Arab airports face capacity issues of overcrowding and delays. The following figures show the growth of a number of Arab airports - which carried out expansion projects - in passenger traffic and aircraft movements between 1997 and 2008.



Airport	Growth 2008 over 1997		
	Passenger Numbers	Aircraft Movement	Cargo Traffic
Sharm el-Sheikh International Airport	683 %	683 %	-
Sharjah International Airport	423 %	423 %	14%
Dubai International Airport	311 %	311 %	329%
Hurghada International Airport	299 %	299 %	-
Abu Dhabi International Airport	212 %	212 %	395%
Bahrain International Airport	154 %	154 %	209%
Mohammed V International Airport - Casablanca	124%	124%	35%
Rafik Hariri International Airport - Beirut	104 %	104 %	19%

The repercussions of the global economic crisis have not affected the development projects at Arab airports. In the last ten months, three new passenger terminals opened and operated at 3 Arab airports

Investment in the development and modernization projects of airports in the Arab world is estimated at US\$ 60 billion. More than two-thirds of those investments are in the Arabian Gulf; US\$ 21 billion of which are in the United Arab Emirates alone. The most significant projects in the following countries are:

United Arab Emirates

- **Al Maktoum International Airport** (the future largest airport in the world): total cost is estimated at US\$ 10 billion. The first phase of the project will end in June 2010, with a capacity of 9 million passengers. The second phase of the project will be completed by 2020, increasing the airport capacity to 160 million passengers and 12 million tons of cargo, using five runways.
- **Expansion and development of Dubai International Airport** (the sixth largest airport in the world in terms of international passengers): US\$ 7.2 billion are being invested in the expansion and development of the airport; establishment of Terminal 3 that opened in October 2008, and construction of Concourse 3. Upon completion of the project by end of 2011, the airport capacity would be 80 million passengers.

Dubai airports' combined capacity is expected to be 240 million passengers in 2020.

- **Expansion and development of Abu Dhabi International Airport**: at a cost of US\$ 6.8 billion. The opening of Terminal 3 in February 2009 has increased Abu Dhabi airport capacity by 5 million passengers annually, to a total of 15 million passengers a year. The opening of Terminal 3 and the second runway completed in 2008 will help meet the immediate demand for a limited period. Other expansion plans of the airport in the coming few years will increase the capacity to 20 million passengers annually and to 40 million once all the projects are completed.
- There are plans to expand and develop airports at Al-Ain, Ajman, Butain, Sir Bani Yas, Delma Airport, in addition to Ras Al Khaimah and Fujairah.

State of Qatar:

- **New Doha International Airport**: at a cost of US\$ 5.5 billion. Qatar Airways announced plans to invest US\$ 1 billion in the development of airport infrastructure to cope with growth in passenger traffic and fleet.

Saudi Arabia:

- **Expansion and development of King Abdul Aziz International Airport** in Jeddah at a cost of approximately US\$ 11 billion. Once completed in 2013, it will increase the airport capacity to 30 million passengers a year. By the end of the three stages of development, in 2035, capacity is expected to increase to 80 million passengers.
- The General Authority of Civil Aviation in Saudi Arabia announced plans to develop and build 13 domestic airports to meet the growing demand for domestic travel. Currently, development plans are taking place at 27 airports in the Kingdom, particularly in Riyadh, and Dammam. The cost of developing Madinah Airport which capacity would increase to 12 million passengers a year upon completion of the project, is US\$ 2.4 billion

State of Kuwait:

- **Development of Kuwait International Airport:** There are several development projects at the airport, in addition to a project which aims to transform the Kuwait International Airport into a regional hub for air cargo operations in the Arab region.

Sultanate of Oman:

- **Development of Muscat International Airport** comes at a cost of approximately US\$ 1.2 billion – to be completed by the third quarter of 2011. Oman has allocated US\$ 5 billion to develop several Omani airports. These projects include the development of Salalah airport, and building new terminals in Sohar, Duqm. Projects are expected to be completed in 2012.

Arab Republic of Egypt:

- **Development of Cairo International Airport (the second largest airport in the African continent):** The opening of Terminal 3 took place on April 27, 2009 for up to 11 million passengers annually, at a capacity twice the existing capacity of the two Terminals 1 and 2. There are other expansion projects taking place in Terminal 2 to increase its capacity from 3 million passengers to 7.5 million passengers annually, in addition to constructing a 4th new runway, building a new hotel near Terminal 3, and building "Cairo City" for air cargo.
- **Expansion and development of Sharm el-Sheikh International Airport (the fourth largest airport in the African continent):** The second largest airport in Egypt after Cairo International Airport, having increased its capacity to 7.5 million passengers a year. A third terminal is envisioned that would double the capacity to 15 million passengers a year by 2012.
- Plans to develop and expand the Hurghada and Burj-Al-Arab Airports.

Other Arab countries:

- There are a number of other projects in other Arab countries, such as upgrading airports in the Libyan Arab Jamahiriya at a cost of US\$ 3.5 billion, developing Baghdad airport at a cost of US\$ 2 billion, building the new Marwi Airport in Sudan, expanding Bahrain International Airport, in addition to comprehensive plans for the development of Amman Queen Alia International Airport and Marka in the Hashemite Kingdom of Jordan.

The collective capacity of Arab airports after completion of the development plans will reach more than 400 million passengers a year

According to Airports Council International (ACI) 2008 results, airports around the world have witnessed a marginal growth of 0.1% in passenger numbers, a decline in cargo by 3.7%, and a decline in the number of flights by 2.1% compared to 2007.

Middle Eastern airports on the other hand have maintained their growth pattern during 2008. Number of passengers increased by 5.8%, cargo grew by 1.6% and number of flights by 4.5%.



The highest growth rates in terms of passenger numbers in 2008 over 2007 for airports with operational capacity exceeding 5 million passengers annually were as follows: Abu Dhabi International Airport registered the largest growth, Sharm el-Sheikh, Sharjah and Bahrain ranked in the top five, Cairo and Hurgada International Airports ranked twelfth and sixteenth respectively.

Four Arab airports ranked among the top 5 airports in the world in terms of growth rates in passenger numbers in 2008

Four Arab airports ranked among the top 5 airports in the world in terms of growth rates in passenger numbers in 2008.

Using actual statistics of Arab airports in the Middle East and North Africa show even better figures than those announced by ACI:

- Increase in number of passengers by 11.2%
- Increase in freight traffic by 8.14%
- Increase in number of flights by 8.1%

Passenger traffic in world airports in terms of passenger numbers decreased by 6.6% and cargo traffic by 18.8% during the first six months of 2009, compared with the same period last year. Some Arab airports such as Beirut, Abu Dhabi, Dubai, Muscat, Kuwait, and Sharjah airports scored the highest growth rates in the world for the same period.

Several factors contributed to the growth witnessed at Arab airports:

- Arab airlines continued to receive new aircraft
- In view of the high demand, Arab airlines did not take measures to reduce their capacity, unlike several non-Arab airlines that resorted to such measures to face the decline in demand due to the global economic crisis. In addition, several non-Arab airlines, reallocated capacity from regions where traffic was affected towards the more profitable destinations of the Arab region
- Expansion projects at Arab airports are going according to schedule
- New airlines were launched in the region

Network Cooperation

Arabesk has successfully concluded its fourth year, bringing together 9 AACO members: Etihad Airways, Gulf Air, Middle East Airlines, Syrian Arab Airlines, Saudi Arabian Airlines, Royal Jordanian, Yemen Airways, EgyptAir and Tunisair, with the possibility of expanding the project to include a larger number of airlines in the coming term.

Despite the global decline in the number of passengers, due to less demand for travel around the world, the number of joint flights by Arabesk members increased by 40% in the first 7 months of 2009.

The project offers a broad framework for cooperation among airlines, especially that the travel markets of Arabesk project carriers are the largest Arab travel markets, and that the intra-Arab traffic represents more than half the size of the overall traffic of the project carriers, in the fastest growing travel market in the world. Moreover, traffic is divided between fixed and variable seasonal peaks; the first is the peak travel period of school holidays, and western calendar holidays. The variable peak season follows the lunar calendar, shifting holiday times around the year. Airlines have to efficiently and effectively manage capacity to meet the changing demand factors of seasonal traffic while at the same time airlines would enjoy a flow of traffic around the year.



During the transition to the e-ticketing environment, several larger airlines did not renew their interline agreements, as some wanted to restrict their interline cooperation to alliance members. This negatively affected airlines of small and medium-sized networks that require interline agreements to carry their passengers to beyond destinations that are not covered by their limited networks.

It remains that Arabesk carriers should take advantage of their extensive network, counting 174 destinations around the world, and to benefit from the modern Arab fleet, and the readiness of Arab airports to handle transit traffic following the expansion and modernization of their infrastructure.

Arabesk:

- 9 project carriers, possible increase in coming term
- Increase in number of joint flights
- Extensive network of 174 cities

Distribution

Booking and reservation methods have changed considerably with the growth of internet usage and e-commerce during the last few years. It is estimated that direct sales of travel products is 40% of total travel sales across the world. Despite these changes, airlines in general and Arab airlines in particular still require partnership with the Global Distribution Systems and travel agents, especially that travel agencies play a crucial role in the Arab travel market. In turn, airlines have to balance those requisites with the distribution bill.

The successful experience through Arabi contract with Galileo over two terms between 1996-2001 and 2001-2008, and with Amadeus between 2001-2008 prompted AACO to launch collective negotiations between 17 airlines and the GDSs in 2007. These negotiations resulted with 13 airlines signing a 10 year distribution contract with Amadeus until 2018; those airlines are: Syrian Arab Airlines, Saudi Arabian Airlines, Yemen Airways, EgyptAir, Kuwait Airways, Tunisair, Royal Air Maroc, Eithad Airways, Sudan Airways, Libyan Airlines, Qatar Airways, Air Algerie, and Afriqiyah Airways.

Royal Jordanian and Middle East Airlines have distribution agreements with Travelport, given the high market share of this GDS in the Jordanian and Lebanese markets, while Gulf Air and Oman Air have agreements with Sabre.

The partnership between the GDS and the national airlines allows the respective GDSs to retain the highest market share in the national markets, and airlines to control their distribution expenses, not to mention the quality of service offered to travel agencies and customers in the form of innovative products, training, and various facilities.

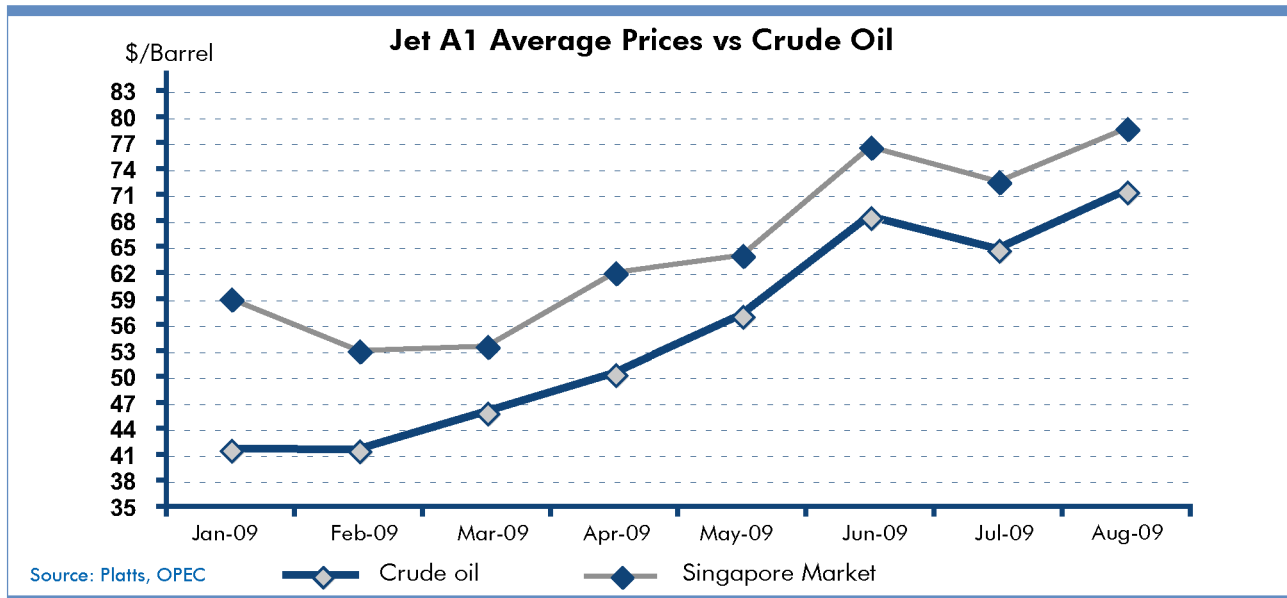
- Travel agencies and GDSs play an important role for Arab airlines despite varieties in distribution channels
- 17 airlines under the umbrella of various distribution agreements
- Fruitful partnership with GDSs

Jet Fuel

Fluctuations in Prices of Aviation Fuel

The fluctuations in the price of crude oil during last year were unprecedented since the first oil shock in 1973. The Fuel bill of AACO members increased by 43.5% in 2008 over 2007, reaching US\$ 6.6 billion, and amounting to 33.9% of their total operating expenses.

The highs and lows of crude oil prices renders forecasting the future level of prices an intricate matter. There are several economic, financial or geopolitical attributes to this phenomenon. (Figure below)



The lower exchange rate of the dollar in the first half of 2008, speculation and oil futures helped push up prices even more. Oil prices have reached all-time highs of US\$ 147.27 a barrel in the second half of 2008, followed by a decline of about US\$ 115 to the price of US\$ 32 per barrel in December 2008, the lowest level in four years.

The huge increase in production by OPEC, in addition to geo-political pressures, stabilized prices with a gradual increase. However, it did not take long for oil prices to pick up to an average of US\$ 71 per barrel in August 2009 affected by the political disturbance at some oil producing countries and the beginning of the economical recovery in the United States. On the other hand, OPEC expects the increase of oil demand by 1.7% in 2010, due to higher demand in the developing countries.

Joint Fuel Purchasing Program

The project focuses on increasing economic returns to AACO members through obtaining the best fuel prices in airports around the world

AACO supports group members through the development of the tendering process and mechanism, and through setting a framework for cooperation between airlines and fuel suppliers

Several achievements have been made over the last term, namely developing the tendering process, modifying the group structure, and setting percentages of participation of each airline in AACO's tenders.

The first and second tenders awarded in 2009 covered around 500 million gallon at 400 international airports. Returns of the project this year are by far the best since 1999. Moreover, there have been positive changes at several airports, namely, Paris-CDG, Dubai, Manila, Bangkok, African and American airports.



AACO, through the Technical Fuel Committee follows up on all developments related to bio-fuels, aviation fuel specifications, as well as the preparation of fuel systems Guidelines.

The project seeks to develop the hedging program through holding workshops, and through advising carriers of correct technical procedures to reduce the negative impact of price volatility.

In 2010, the group will pursue its plans to enhance mutual benefits and cooperation among AACO members, by including more members in the project, and encouraging project carriers to include all their airports in AACO tenders

The Impact of Alternative Fuel on Energy and the Environment

Challenges:

- Replacing jet fuel with a mixture of biofuel components extracted from Algae, Camelina, and Jatropa by 2011
- Reducing carbon dioxide emissions by 84% compared to oil and jet fuel during the life cycle of plants in question
- Reduce the cost of biofuels, and increase its production to meet the growing demand

Studies indicate that biofuels can be extracted from renewable agricultural biomass, primarily corn and soybeans, however the economical analysis showed the negative impact of this process on food market prices. Therefore research was directed at less expensive sources that would not compete with food crops, namely Jatropa, Camelina and algae for the production of fuel.

The higher cost of fossil fuel means that biofuels would eventually become an economically and environmentally viable alternative. A mixture of biofuels performed well as traditional jet fuel during a test flight earlier in 2009.

The use of biofuels would help reduce carbon emissions by 84% compared with oil and jet fuel. The aviation industry consumes about 1.5-1.7 billion barrels of jet fuel annually, equivalent to 70 billion gallons, with estimated carbon dioxide emissions of about 670 million tonnes, equivalent to 2% of the total global emissions of carbon dioxide emissions.

Biofuels will be used as an alternative to jet fuel during 2011. The challenge is to speedily increase its production to meet the growing demand for an environmentally friendly fuel.

IATA estimated in 2006 that airlines would use biofuels in 10% of their fuel consumption by 2017. More recent IATA studies expect 12% usage of biofuels by 2030. The European Union expects airlines to use the equivalent of 80% biofuels by 2050 in order to reduce emissions by 60%.

Ground Services

The project, comprising 16 Arab airlines, aims for closer cooperation among Arab airlines at outstations and coordination over important issues that affect their operations in those stations. The objective is to attain optimal service quality while controlling operational costs at those stations.

The Ground Handling Project has in place a number of successful collective ground handling framework agreements at outstations with Havas in Istanbul and FlightCare in Rome. The group has concluded a new joint ground handling framework agreement in Heathrow with Alitalia Handling. The group is currently working on a collective agreement in Frankfurt.

Moreover, the Ground Handling Steering Board is working on expanding the project by the end of the coming term to Paris and Indian airports, negotiating collective deals for First Class and Business Class lounges at outstations, and coordinating joint positions facing the emerging issues at those stations.



Regional Training Center

AACO Regional Training Center has signed agreements with IATA and Airbus Air Business Academy, and with other regional and international organizations and universities to provide specialized training programs in the Arab region.

The center provided training for 18,000 trainees since its establishment, of which 14,000 were during the last 5 years

A specialized Master's Program in Air Transport was successfully launched in February 2009 at Helwan University in Egypt

The Master's Program is the first graduate program of its kind in the region specializing in aviation. The first class comprised 32 students. The second class is scheduled for March 2010.

The Regional Training Center also developed an academic cooperation project with Concordia University for the implementation of two Diploma Programs in aviation security, in collaboration with ICAO.

The Training Center also has in place an academic cooperation protocol with the American University in Cairo. Postgraduate diplomas are offered by the university, while AACO retains the exclusive right to all management programs specialized in aviation provided by the university in the Arab region. Preparations are underway for a Diploma program in Disaster and Crisis Management in the aviation sector in cooperation between American University in Cairo, Kenyon International, and AACO.

Preparations are underway with the University of Balamand in Lebanon to launch an officially recognized aircraft maintenance diploma program - approved by the Lebanese Ministry of Education and the Lebanese Civil Aviation Authority. The program is designed in accordance with the requirements of the EU EASA beginning 2010.

The Regional Training Center is opening another branch in November 2009 in Cairo, hosted at Egypt Air new training facilities

The Training Center has achieved over US\$ 5.6 million for Arab airlines participating in the training activities in 2008. It also maintains its scholarship program granting free training courses for AACO members in collaboration with AACO Industry Partners.

Seven free courses were organized in the first half of 2009, at an average of 14 free seats per member airline; 168 scholarships were granted in 2008, with 115 scholarships in the first half of 2009

Arab Air Transport Database

AACO follows up closely on industry developments, and reflects them daily on its website, and through electronic and printed publications. These publications are:

Weekly Web News: Distributed electronically to AACO members and industry partners, and includes a weekly summary of the news featured on AACO website.

The Nashra: Industry's Pulse & Arab Aviation- is the official publication of AACO released monthly in English and distributed electronically to all parties in the air transport industry on the regional and international levels. This bulletin contains the latest developments in the Arab air transport industry, and the internal and global developments affecting it. The bulletin includes statistics on traffic and capacity in the Arab world, and fuel prices. It has a dedicated section for the latest news from AACO Industry partners.

Safe & Level: A bulletin on safety and security issues circulated monthly in electronic format.

3D-Insight: AACO's bulletin in cooperation with Seabury; the latest publication developed by AACO. It's circulated quarterly and contains quarterly statistics on travel in the Arab world, airline operations, airport traffic, and Arab airlines' fleet. This bulletin analyzes aviation issues and their effect on the Arab air transport industry.

Fuel Bulletin: Covers all jet fuel issues. It's circulated every six months in February and August to the Joint Fuel Purchasing group. The Fuel bulletin summarizes the work done by the group tenders, a review of changes in Fuel prices, and the latest technical and administrative developments related to fuel.

AATS – Arab Air Transport Statistics: Printed and circulated annually. It includes detailed statistics for Arab airlines' operations, fleet, market size, capacity, and the overall economic trend and its impact on the air transport industry. AATS allocates one page per airline member that outlines the performance of that member during the previous year.

External Representation and Regional Cooperation

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

The coordination and cooperation take place at various levels and includes the commercial, regulatory, legal, and operational aspects, through continuous communication with IATA, ICAO, ACAC, the Arab League, the European Commission, the U.S. Department of Transportation, and regional airline organizations around the world, Arab civil aviation authorities, environmental and aviation authorities in Europe, and several other parties.

AACO also has a solid base of industry partners under the Industry Partnership program since 1998, and today brings together more than 48 partners including aircraft and engine manufacturers, IT companies and global distribution systems, fuel companies, engines and aircraft leasing companies, consulting firms, ground-handling companies, financial firms and others. The program creates a mutually beneficial environment where partners benefit from AACO events and activities to strengthen their relations with member airlines, while AACO benefits from partner support in the various training programs and numerous other benefits to member airlines.



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