State of the Industry
Presented by Abdul Wahab Teffaha – Secretary General
Arab Air Carriers' Organization

Your Excellency Eng. Samer Majali, Chairman of AACO's Annual General Meeting
Your Excellencies,
Ladies and Gentlemen,

First, I would like to raise to His Majesty King Abdullah II ibn Al Hussein, May God protect him, my deep thanks and gratitude for bestowing his patronage on our AGM which is meeting for the 6th time in the Hashemite Kingdom of Jordan.

I also extend my thanks and gratitude to Her Excellency Minister of Transport, Eng. Wesam Altahtamouni, and Their Excellencies from the government of the Hashemite Kingdom of Jordan, for honoring us with their presence at the opening of this event, and also my gratitude to Eng. Samer Majali, the Chairman of our AGM, and the Board Designee CEO of Royal Jordanian, for hosting this AGM.

Ladies and Gentlemen,
Air transport was never, throughout its history, far from crises. Unfortunately, and because of the nature of the air transport network, this industry is impacted by global events with regional and international repercussions. However, air transport simultaneously, and throughout its history, has proven to be one of the most vibrant economic activities with an ability to rise beyond crises quickly and in ways that are not even expected by the most optimists. The most recent proof for that was in being able to come back from almost a complete halt between 2020 and 2022. Most analysts, including us, did not expect this industry to go back to the level of activities of 2019 before 2025 and even 2026. Yet, reality has proven that those estimates were wrong, as the industry's recovery did not take more than one year, leading in 2024 to record higher levels of traffic than 2019.

The graph on the screen shows the ability of this industry to overcome crises. It highlights that 2024 traffic will be higher than 2019. The total number of passengers expected to be carried this year around the world will be 5 billion passengers, of which 2 billion internationally, higher than 2019 by 8.2%. As for the Arab airlines, the total number of passengers will reach 260 million, of whom 236 million on international flights, that is higher than 2019 by 11.9%. Airlines of the world achieved 82.4% load factor in the first 6 months of this year. The load factor of AACO members in the same period was 80.4%. The total traffic of airports around the world is expected to be 9.6 billion passengers, of which 4.3 billion internationally, higher than 2019 by 3.8%. As for Arab Airports, it is expected that passenger traffic will reach a total of 475 million, of whom 400 million internationally, an increase of 21.6% compared to 2019.

As for air cargo, global traffic measured in ton-kilometers is expected to reach 278 million in 2024, an increase of 9.3% compared to 2019. Meanwhile, air cargo traffic for Arab airlines is expected to reach 34 million ton-kilometers in 2024, an increase of 12.7% compared to 2019.

This growth has been achieved in spite of the delays in the supply chain that affect our growth and operational costs.

I have already mentioned that air transport is one of the most capable economic sectors to recover from crises, even those sectors that are related to aviation. A case in print, at the time where traffic is increasing, the supply chain for the aviation industry is still lagging in producing what is needed by the airlines.

The ability of the air transport industry to overcome crises is based on a number of enabling factors that are as follows:
Firstly, air transport has become part and parcel of our way of life. Moving of people and goods by air has become a commodity that represents a foundation for providing people with their basic needs, similar to telecommunication, electricity, and ground transportation.

Secondly, air transport is considered the backbone of one of the important economic activities. Many states view that developing the services industry, especially the ones related to tourism, provide a substantial added value to sustainable economic development and to creating new job opportunities, while job opportunities at the production of goods sector are decreasing. Countries all over the world, especially the industrial ones, are increasingly leaning towards mechanizing the production of goods. Therefore, many of the job opportunities that used to be available in the industrial sector are declining. This dimension takes a larger meaning in the Arab world. Travel and Tourism around the world contributes 10.3% to the global GDP and 10% in job opportunities. In the Arab world, the contribution of Travel and Tourism in GDP is 14.4% and in job creation is 10%. Therefore, if supporting and strengthening the air transport industry around the world is a priority, it is for us a higher one, since developing tourism occupies a high priority in our countries' development plans.
Thirdly, because many states around the world, especially the developing ones, consider air transport an economic lever for achieving their development plans, they invest heavily in providing the infrastructure for growing air transport and enabling it not only to accommodate the current traffic but also to be able to grow and accommodate future traffic for decades to come.

Ladies and Gentlemen,
However, then again, the industry faces many challenges. As in addition to the periodic economic crises, and the current supply chain crisis, this region in particular, faces instability due to the war that has started over a year ago and, unfortunately, has recently expanded to other countries.

Furthermore, the industry is facing additional challenges resulting from the approach that some governments are adopting in dealing with aviation's impact on climate change in a selective manner, and sometimes unrealistically, which is resulting in adding burdens on airlines leading to weakening the enabling factors that I mentioned earlier. To put the record straight, I will start by emphasizing that air transport is totally committed to eradicating its impact on climate

change. Nonetheless, it is important to mention some facts in this regard.

International and domestic air transport around the world contributes 3% to global CO2 emissions. International air transport contributes by 1.9%. You can see the level of contribution of the other sectors in global CO2 emissions on the screen. The contribution of agricultural and livestock production to CO2 emissions is six folds that of the air transport sector, meanwhile, the states that impose harsh and punitive requirements on airlines and passengers, actually hugely finance agricultural and livestock production. We are aware that the latter sector is essential to food security and that there's a need to ensure the competitiveness of that sector. We are not asking, at all, that governments implement the same punitive requirements on that sector, nor are we asking that governments provide the air transport sector with the same financial support, however, we are asking that, at the least, those governments substitute their punitive policies with incentive-based policies to incentivize the air transport sector to address its environmental footprint.

The air transport industry was the first industry to take the initiative to remove its environmental footprint before most governments had even applied regional or national environmental measures. The industry had agreed, under the umbrella of the International Civil Aviation Organization (ICAO), to establish two programs for that purpose; The first is the Carbon Offsetting and Reduction Scheme for International Aviation, or what is known as "CORSIA", that aims at removing any emissions resulting from air transport that exceed 85% of 2019 emissions, for the short to medium term; and the second is the long term global aspirational goal to reach net zero emissions by 2050. CORSIA would contribute to the removal of 1.4 billion tons of CO2 emissions resulting from air transport by the year 2035. Accordingly, to achieve the second target, the industry needs to address and remove the remaining 517 million tons of its emissions by the year 2050.

ICAO expects that in order to reach that target, the industry needs to use sustainable aviation fuel that is estimated to contribute by 55% to

reaching that target. Meanwhile, technological advancements for aircraft and engines are projected to contribute by 21%, and infrastructure improvements are projected to contribute by 11%. This leaves 13% of emissions that the industry should offset, through buying certificates, to reach that target. IATA, on the other hand, expects sustainable aviation fuel to reduce 65% of emissions, technological advancements of aircraft and engines to reduce 13% of emissions, and infrastructure development to contribute by 3%. This means that the industry would need to buy certificates to offset 19% of emissions.

Since climate change is a global issue, states have agreed under the umbrella of ICAO to address aviation's impact on climate change only through those two programs. Despite their agreement under ICAO on the exclusivity of those two programs, many states have opted to enact their own legislations that bring additional and sometimes parallel targets as those set in the two programs. Some states have enacted mandates for the uplift of sustainable aviation fuel by 2% of the total jet fuel in 2025, reaching 70% sustainable aviation fuel in 2050. Such mandates were first limited to the European Union and the United States. Yet, after agreeing on a medium-term aspirational vision, at the ICAO Conference of Alternative Aviation Fuel (CAAF3), to reduce CO2 emissions by 5% through the use of sustainable aviation fuel, low carbon aviation fuel and other cleaner energies by 2030, those mandates started to proliferate, starting from Singapore to Brazil, India, United Kingdom, Türkiye, Canada, and others.

Those mandates, including the aspirational vision agreed upon at ICAO's CAAF3, have introduced new challenges to airlines:
First challenge is that most of those mandates do not reflect the actual production levels of sustainable aviation fuel, at least till 2035. For example, it is expected that there will be an 800,000 tons shortage of sustainable aviation fuel in 2025 and around 5 million tons in 2030 and 26 million tons in 2035, to achieve the targets set only in the EU and UK mandates.

The **second** challenge is that some mandates, in particular in the European Union and the United Kingdom, impose penalties if the

levels of SAF production do not meet the mandated targets. Those states believe that penalties would incentivize the production of SAF. However, the fact is that the SAF producers are passing on those penalties to airlines, although the mandates are on the producers and not on the airlines, at least till 2030, which poses the question that if the producer is not taking responsibility of the penalties, and that the airlines and passengers are, then where is the incentive for the producers to increase production levels?

The **third** challenge that we face is that airlines would pay the penalties that are imposed on producers, and would also buy the available sustainable aviation fuel that would reduce their emissions, however would not be able to use the penalties to comply with their environmental requirements under the EU Emissions Trading Scheme because producers would be the ones using the SAF certificates they gain for producing SAF to comply to the Refuel EU law. Meanwhile, airlines that would be able to have access to purchasing SAF will not be able to use the certificates they gain for the use of SAF to comply to their offsetting requirements under CORSIA. Even further, buying SAF from outside the EU would not be credited to airlines to use the SAF certificates in the EU due to the differences in the SAF sustainability criteria between those recognized under CORSIA and the ones recognized in the EU.

Fourth, let's talk numbers; In the EU and the UK alone, airlines are expected to pay in penalties USD 2.7 billion next year, USD 20.6 billion in 2030, and around USD 107 billion in 2035. Add to that, buying available SAF and CORSIA carbon certificates would add a cost of USD 2.3 billion in 2025, USD 17.4 billion in 2030 and USD 36 billion in 2035. These estimates do not include the cost of Jet fuel, nor do they include the cost resulting from aircraft and engines advancements, and they are only limited to states that have so far adopted legislation related to aviation's impact on climate change. Airlines around the world that are achieving a net profit margin of only 3%, will face an increase of 0.2% to their total cost as a result of energy cost only, and 3.6% on their total costs in 2030, and 14.6% in 2035. The outcome would be a massive increase in the cost of travel resulting in a pressure on the consumer's ability to travel with what comes with

this in terms of reduction in growth and contribution to job opportunities.

Ladies and Gentlemen,
Airlines around the world aim at achieving net zero emissions by 2050. However, reaching this target requires that relevant policies take into consideration the economic value of the air transport sector in sustainable development and job creation. The long-term aspirational goal should give stakeholders the needed time to develop the infrastructure and the necessary technological advancements for aircraft and engines. Technological advancements should be the main solution to reach that target. Despite that, it is unfortunate that regulators are focusing only on changing the necessary energy sources which are of course a part of the solution, but not the only one.

Technological advancements such as innovations in engines and aircraft have enabled airlines to reduce their emissions by more than 50% per every passenger-kilometer flown in 30 years from 1990 till 2019. So, if those advancements achieve the same reduction in emissions in the next 30 years between 2020 and 2050, then airlines wouldn't need to buy carbon certificates to offset their emissions and their need for sustainable aviation fuel would decrease by 30% and be more achievable with reasonable prices. Accordingly, focus should be on technological advancements and infrastructure development in tandem with cleaner energies in a comprehensive manner, instead of only focusing on one of the pillars that all analysts agree would be very costly and won't achieve the required results within 30 years.

Ladies and Gentlemen,
Appropriately, AACO member airlines adopted a strategy to deal with this issue and that could be summarized as follows:

1- Reaching an international framework by ICAO for the mutual recognition of the reduction in emissions based on the laws of the countries concerned.
2- To call upon states to adopt incentive-based policies for the production and use of sustainable aviation fuel and low carbon aviation fuel.

3- Refraining from passing on the penalties that are imposed on producers on to airlines.
4- Establishing a global Book & Claim system for sustainable aviation fuel.
5- States to register their local environmental projects to be mandated by ICAO's Council to issue carbon offset certificates under CORSIA.

Ladies and Gentlemen,
Your Association has endeavored to serve its members and the aviation industry as a whole and has contributed, along with your esteemed airlines' experts, to come up with practical solutions for the issues that we are facing, and at the same time to have your voices heard and bridge your communication with various governmental and non-governmental parties at the regional and global levels. At the end of last year, AACO had signed a Memorandum of Understanding with SITA to develop a solution to manage environmental sustainability costs, which SITA developed under the name "Eco Mission", whereby AACO members worked with SITA to test and develop this solution to meet the need of the aviation industry to manage its environmental sustainability requirements and to ensure utmost transparency for regulators and travelers. We are launching "Eco Mission" today. This is a step in the right direction in airlines' journey to achieve their environmental sustainability targets.

This year we are celebrating the 80th anniversary of the Chicago Convention and of the establishment of the International Civil Aviation Organization (ICAO), which is our umbrella, our meeting ground, and the basis we depend on to maintain this industry as a bridge of communication, empathy and added value to the whole world. Here, I salute ICAO, represented by the president of its Council, Salvatore Sciacchitano, and its Secretary General, Juan Carlos Salazar, and especially my dear brother Mohamad Rahma, ICAO air transport director, for continuing to play its role in unifying us all as governments and airlines.

Mr. Chairman,
Ladies and Gentlemen,
Before concluding, I would like to address a dear brother who had served airlines around the world and in our region, for over 30 years; my dear friend Hani Alasaad, the president of SITA for the Middle East and Africa. I also welcome his successor, Selim Bouri, who had moved to SITA from another partner of ours, that is Airbus, wishing both of them all the best in their future.

I also thank the Chairman and members of the AACO Executive Committee for what they did and are doing in serving all AACO members and the global aviation industry through their commitment in supporting our joint work. I also thank all AACO member airlines and their representatives at AACO working groups that are at the roots of AACO's activities and efforts. In addition, I thank the sponsors of this AGM, our partner airlines, and industry partners for all the support that they provide us with so AACO can play its role and its reason for existing and that is to serve its members and the air transport sector.

I would like to invite you all to review our annual report and annual statistical bulletin which are of course available in electronic form through AACO's App on your phones and tablets. Finally, I wish to reiterate my thanks to the colleagues at Royal Jordanian for their work and for hosting this special event, and to my colleagues at the Secretariat General for their dedication to work and their constant mindset that our mission is to serve our members and do what brings them benefits. Just as I am proud of leading their work, let me say to you on their behalf that we all are proud to serve you.

Thank you,