

State of the Industry
Presented by Abdul Wahab Teffaha
Secretary General of the Arab Air Carriers Organization
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**Mr. Chairman of the Annual General Meeting,
Members and Guests,
Ladies and Gentlemen,**

Allow me at the outset to reiterate my sincere thanks to the AGM Chairman Mr. Mohamed Salah Boultif, to his assistants and to Air Algérie staff for the generous hospitality and the excellent arrangements for this AGM.

We have included in your folders AACO Annual Report and our yearly statistical publication Arab Air Transport Statistics – AATS. We hope that those documents will add to your knowledge on the Arab air transport industry.

Mr. Chairman,

I shall focus in my report on three axes that I believe are the center of attention of Arab airlines:

1. Arab – Arab aviation relations.
2. Arab – Europe aviation relations.
3. AACO priorities for the coming period.

But before I begin to speak about those axes, I would like to mention some facts and figures that shed some light on the development of the Arab aviation during the past 10 years. Arab airlines' traffic share of global traffic was 3.3% in 2001 and has grown to more than 10% in 2011. This simply means that the Arab air transport industry witnessed a quantum leap in the last decade; it did not limit itself to organic growth, but rather greatly participated in drawing the global air transport landscape. In addition, the

number of passengers of Arab airlines' increased by 192% in 2011 compared to 2001, while the global increase was 41% during the same period. Similarly, Arab airlines' RPKs increased by 274% compared to 58% globally. This illustrates Arab airlines' increased use of advanced aircraft technology to expand the Arab direct route network from the Arab world to the whole globe. On the other hand, Arab fleet increased by only 87% in 2011 compared to 2001, versus 10.1% for the world fleet. This means that Arab airlines accommodated the increase in RPKs through the increase in average seat capacity of the fleet, and jacking up aircraft utilization which resulted in higher operational efficiency. It is worth mentioning that the Arab fleet's average age decreased during the last decade from 11.3 to 7.4 years, which further indicates the high economical efficiency of the fleet, and reflects the positive impact on the environment through decreasing the fleet's carbon footprint in terms of emissions per Ton-Kilometer.

The global position of Arab airlines is not random nor did it come from state aids as subsidizing travelers worldwide is not something that Arab governments' cherish. This position is the result of sound strategies that benefit from the geographical position, technology advancements and the acknowledgement that passengers' delight is the most important element in the air transport equation. In addition, those strategies are founded on a competitive cost structure that provides the passenger with added value through competitive prices for a distinguished service level. Moreover, our governments acknowledge that providing the air transport with adequate infrastructure, and avoiding targeting airlines with excessive taxation, provides a substantial contribution to the economic development of Arab countries.

The strategy of Arab airlines lays the foundation for the future of this industry: this industry is a competitive "service" business with brands predicated in providing the global traveler the best service at the lowest possible price rather than that traveler flying out of loyalty for flags. Accordingly, the status of Arab airlines created the right conditions for three Arab airlines to join global alliances this year, bringing the total of five Arab airlines as part of those alliances. Furthermore, this position enabled two other Arab airlines to build strategic alliances and invest in other

airlines. Those new partners see in Arab carriers strategic and essential partners to strengthen their competitive position.

The reason I included those facts is not ceremonial at all, although the above figures are a reason to congratulate AACO member airlines, their leaders, staff and governments for an accomplishment that no other sector in the Arab world was able to accomplish, especially when the aviation industry is perhaps the only economic sector that operates at such a high competitive level. The reason for stating those facts is simply to look into how to ensure the sustainability of this model in the Arab world, especially that its benefits go beyond the success of Arab airlines to reach the full Arab economic cycle. Therefore, I believe that the continuation of this success lies in the axioms I referred to at the beginning of my speech as follows:

First: Ensuring sustainability of success through developing inter Arab aviation relations:

The Arab air transport market currently serves around 140 million passengers, which represents a ratio of 40% of the 320 million people living in the Arab world. The passenger to population ratio is 110% in Europe and 200% in the United States. Since the United States is one country, I will only focus on the European model, which shares with the Arab world a similar geo-political structure in having a multitude of sovereign countries, albeit that although the geographical landscape of European countries allow for alternative means of transportation, such as trains, which is not possible in the Arab world due to its vast geographical nature. So if we target an Arab air transport market at the same passenger to population ratio as Europe, the number of passengers traveling to, from and within the Arab world will increase from 140 million to 352 million passengers – more than twice as many passengers as Arab airlines carry on their entire network. And when we know that more than 50% of the Arab population is less than 25 years of age, and this young population is highly connected through telecommunications and media, we can deduct that a target ratio of 110% is not far-fetched.

But how to achieve that target? In order to answer this question, we don't have to "reinvent the wheel"; we can rather just embrace a successful model adopted nearby: in Europe. To apply this model, we need to acknowledge that removing restrictions on market access, on ownership and control, at least on the regional level, and freedom of movement of people and goods between Arab countries would lead to increasing the Arab air transport market from 140 million passengers to more than 320 million. The purpose of this target is not only to widen the customer base of Arab airlines, but rather to help create millions of jobs that will be enabled by freeing the movement of people and goods, freeing market access to airlines and allowing Arab investments to be treated as national ones.

Those steps must be implemented on the same economic bases predicated by the European Union by applying liberalization with safety nets which prevent monopolies, capacity dumping and subsidies. With regards to the latter, which is a very controversial topic nowadays, it is paramount to remember that the European model of liberalization gave airlines 10 years to gradually adapt with free market access, and gave European governments the chance to pump huge amounts of money into their airlines in case the process of liberalization required the restructuring of troubled airlines. Actually, European governments paid to some European airlines, for the purpose of restructuring, around 9 billion Euros since the full liberalization took effect. This sum excludes of course the amounts that governments poured into their airlines prior to creating the single European air transport market. Therefore, the Arab countries can adopt the same principles applied in Europe. The Arab countries may provide, within a specified period of time, the Arab airlines what it needs in order for the airlines requiring that to restructure, consolidate, and work according to market economy principles and completion laws. A final thought in this area: the Arab legal instrument to implement the above actually exists, except for the visa issue which requires a political effort to employ the latest technological advancements in order to overcome this major obstacle. This instrument is the Damascus Convention which was signed by 13 Arab countries and ratified by 8. The implementation of the provisions of the convention will bring us to the primary target I mentioned earlier, which is expanding the Arab economy, and to the secondary target of

creating a single Arab air transport market of twice the current number of passengers.

This brings me to the second axis: **Ensuring sustainability of success in Arab aviation relations with Europe**. The European will for regional cooperation with the Arab world is already there. It is expressed both in the Euromed project, and in the latest communication by the European Union which stipulates that the forthcoming external aviation policy of the EU includes negotiating open skies agreements with GCC countries. Indeed, the EU has already negotiated and concluded agreements with Morocco and Jordan, and seeks the same with all Mediterranean Arab countries. Moreover, the EU and ACAC had previously signed the Muscat Declaration which states that the future target is an Arab – European framework for aviation. What we should focus on in this domain is the following:

- A- In the absence of a single Arab body mandated to negotiate on behalf of Arab countries, similar to the European Commission, it is paramount that Arab countries agree, first amongst themselves and then with Europe, on a framework of principles to be included in all bilateral agreements that were or will be concluded on a bilateral basis between the EU on one hand, and each Arab country on the other.
- B- The same framework of principles needs to be incorporated in the bilateral agreements between Arab countries that have agreements with the EU, in order to avoid creating agreements between Arab countries individually and the EU that expands the reach of European airlines to operate between signatory Arab countries without providing Arab airlines with the same opportunities, in between the Arab countries as well as with Europe
- C- Reaching that framework of principles to guide aviation relations between the European Union and the Arab world must be given priority over concluding bilateral agreements.

It is worth mentioning that the Council of Arab Transport Ministers has thankfully endorsed a suggestion to hold an Arab – European conference to discuss the above issues. The Council directed ACAC to prepare the

structure of that conference, and report back with that structure to its meeting currently held in Alexandria – Egypt.

The positive developments taking place between some Arab and European airlines indicate that the two regions are moving towards constructive relations that ultimately serve the consumer. This positive course needs to be developed at the regulatory level to reach a regulatory framework that promotes future collaboration.

Furthermore, and still in the area of Arab – European relations, I would like to address the environmental issue without repeating what was raised in several earlier occasions including AACO 44th AGM. Simply, we hope that the EU will not trigger a global trade war from which no one will benefit, not even the environment. The right address for dealing with the environmental issue is ICAO. Therefore, we hope that the EU will give ICAO the chance to do its work and retract from what almost every nation considers as extraterritoriality by the EU. The air transport industry is keen on bearing its responsibility in reducing its environmental footprint, and wants governments to bear their responsibilities in that area through the four pillar strategy, including market based measures which was initiated by IATA and supported by all industry stakeholders,. ICAO, based on the decision of its general assembly in 2010, is vigorously trying to reach a global agreement that addresses the environmental footprint of international air transport. The EU succeeded in putting this issue on top of the priority list of the industry. Therefore, we repeat our call to the EU to give ICAO a chance to do its work without holding a drawn sword over the heads of both the industry and consumers.

Mr. Chairman,

Finally, I would like to conclude with the third axis I have mentioned; our priorities. It goes without saying that safety is the primal priority for any party working in civil aviation. We are supporting IATA and ICAO's efforts in this area which are indeed driving the global efforts in enhancing the safety record of all airlines including AACO members. The other AACO priorities are guided by AACO's mission and objectives striving to ensure the sustainability of success of Arab airlines. In the aero-political arena, we communicate, through the convenient frameworks, with the Arab League

of States, from which we receive utmost collaboration and understanding, and with the European Commission, with which we have built professional and transparent relations that respect the principles of true dialogue. In addition, AACO deals with ACAC in many areas where we always try to assist ACAC in understanding the opinions and perspectives of Arab airlines, and to build on previous successes which were only possible through solid cooperation: Damascus Convention, Sharm El Sheikh Declaration and Muscat Declaration.

On the operational level, AACO continues to prioritize bringing economic value to its member airlines. Therefore, we continue to work on joint projects, increasing the awareness on industry issues, and developing human resources. All of this is done in strict adherence to competition and anti-trust laws.

Mr. Chairman,

Allow me finally to welcome Maximus Air, Nas Air, Petra Airlines and Tassili Airlines for their desire to join AACO's family. I would like as well to welcome IAG, the parent company of British Airways and Iberia, for joining AACO as a Partner Airline. I would also like to extend my thanks to our Members, Partner Airlines and Industry Partners who stand by AACO especially in the development of human resources. Special thanks go to the AGM Chairman, and to the Chairperson and members of AACO Executive Committee for allocating time in their busy schedules for the joint work under AACO's umbrella. My last and continuous thanks go to my colleagues in the Secretariat General who carry the heaviest burden of AACO's work. On their and my personal behalves I hope that we have succeeded in serving you.

Abdul Wahab Teffaha
Secretary General