

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

First of all I would like to reiterate my thanks to the Chairman His Excellency Akbar Al Baker, his assistants and the staff of Qatar Airways for the hospitality they have accorded to all the participants of this AGM.

As usual, we have included in your files the annual report of AACO and its annual Arab air transport statistical bulletin which we hope will provide a greater knowledge of this industry in the Arab world.

Mr. Chairman,

I will focus in my report on three major axes, which I consider as crucial in the continuation of the Arab air transport's success story:

- 1) The role of the Arab air transport sector, its growth horizons and challenges
- 2) The aeropolitical dimension, particularly with Europe
- 3) The inevitability of developing airlines' distribution channels

Mr. Chairman,

If anyone wants to witness the importance of the pivotal role that civil aviation plays in economic development, then one should come to this place and its neighborhood to see firsthand the positive and visible effects on the economic development resulting from allowing air transport to play its natural role of providing human and trade links. Those who attended AACO AGM in 2001 in this same place can sense, from a quick look at what Doha has become, the impact of the total development process which air transport plays an important role in its materialization and sustainability. We are fortunate in the Arab world to have governments with a positive outlook towards aviation that sees in it a catalyst for development, job creation, and a tool to expand that scope to include technology fields which go along with what the modern economy requires in openness to the world.

As we live in a region which greatly depends on air transport in the movement of peoples and goods, and because this region is generally witnessing a good economic growth, and because this region has plenty of attractions, and because this region has hospitality as an inherent element in its culture and a major component of its social values, because of all that, we have witnessed a growth in the Arab world air transport market that is the highest in the world scoring an increase from 79 million passengers in 2003 to about 160 million expected by end of this year, which represents an average growth rate of 7.2 percent annually while the same average for

the industry was 5.9 percent. Since Arab airlines are particularly remarkable in their services and competitive prices and in reaching out to delight the customer rather than merely transport him, these airlines were able to benefit from the geographical location of the Arab world to transform their hubs into the most important global hubs of the twenty first century. Arab airports in 2003 dealt with 113 million passengers while in 2012 they handled 255 million with an average yearly increase of 9.5 percent versus an increase in the global yearly average of 5 percent. The use of Arab airports as global hubs was not confined to passenger traffic, as cargo traffic recorded during the same period an average annual growth of 8 percent against a global average of 2.8 percent, manifesting the increase in economic activity and trade to, from and through the Arab world.

This growth is based on two pillars as far as infrastructure is considered: Airports, where we pleasantly see continuous development projects through investments exceeding now 65 billion dollars. As for the second pillar without which growth cannot continue, is the development of air traffic management systems. Here, unfortunately, we see that the progress does not move at the same pace as the development of airports and the expanding presence of Arab airlines. This issue is a priority for AACO in conjunction with ACAC, ICAO, IATA and CANSO, but I wanted to highlight it in my report today as we have reached a stage which necessitates galvanizing efforts to an urgent remedy for the bottlenecks, which has started to emerge in some parts of the Arab airspace, by establishing new routes, reducing restrictions on civil aviation movement in military zones

and the introduction of better technologies that can expand air transport management and its capacity.

Mr. Chairman,

AACO members were able to develop their operations horizontally by expanding them and vertically through increasing them to their incumbent destinations. In spite of the instability in some Arab countries, member airlines have recorded an increase of 14.2 percent in the number of passengers in 2012 and of 15.4 percent in RPKs, substantially exceeding the respective average global growth rates of 4.6 percent and 5.7 percent. But most importantly, our members' growth was coupled with exercising control over capacity so that it matches demand, which resulted in an increase in load factor by 2 percentage points reaching 76.1 percent, and which is expected to be maintained at the same level in 2013.

Mr. Chairman,

Ladies and Gentlemen,

The growth in load factor per se does not mean that the airline operations are based on sound economics. Some may say that the increase in load factors can be the result of adding capacity in conjunction with competition based on prices only in order to fill this capacity and nothing else. If that was the case, the result should have been an increase in unit cost and a decrease in yield, hence recording operational and net losses. The fact of the matter with AACO members is far from that: members' average unit cost is less by 12 percent than the industry. Average yield for members is

less by 11 percent than that of the industry. However it is important to note here that the yield of AACO members is higher than the unit cost by the same margin recorded by the industry. This healthy situation has led many AACO members to record positive financial results which reached at a member airline 11 percent in operating margin. This enabled Arab airlines to record net profits in 2012 of about 400 million dollars despite the fact that some members recorded net losses in that year.

Mr. Chairman,

The Arab air transport market and its business models are still evolving. While the number of passengers in this market was one third of the number of population some years ago, this ratio reached around half the number of population in 2012. But if we compare that with the ratios in Europe and in the United States, we find that it is still far from reaching the level where we can say the Arab market has reached its maturity. This opens up the opportunity for Arab and other airlines to benefit from this great potential to develop the Arab air travel market. On the other hand, the business models in the Arab world are also evolving. The majority of seats offered in the Arab world, 51.3 percent, comes from independent airlines. This percentage is 17.7 in Europe and 7.7 percent in the United States. Low Cost Carriers' ratio from the offered seats in the Arab world is 11.8 percent while it is in Europe 33 percent and 25.4 percent in the United States. Major alliances, with Arab and non-Arab components, offer 36.8 percent of seats in the Arab world while the share of these three alliances is 49.4 percent in Europe and 67 percent in the United States. These

indicators lead to identifying two priorities to invigorate the Arab air travel market: the first is to free market access according to the provisions and economic rules of Damascus Convention and the second is to allow airlines to consolidate through removal of restrictions on ownership and control of the airlines in the Arab world, which is also achievable using the Damascus Convention. These two priorities require methodical efforts to transform the Damascus Convention from almost a declaration of principles to a reality. We know this transformation is not easy especially when some Arab airlines have not yet reached the stage which would allow them to enter immediately into a total liberalization process. If this is the barrier, then let the solution be an agreement on a timetable to which the non-signatory countries to the Damascus Convention can commit in order to take the necessary steps to implement this convention. Liberalization of air transport has become the norm. Non-liberalization is the exception. Clinging to the exception will only lead to unpreparedness in dealing with liberalization when it happens.

Mr. Chairman,

It is quite noticeable that at the time we are calling upon Arab governments to liberalize market access and remove national ownership and control rules, we witness in some other parts of the world calls insinuating to protectionism ideas. The recent declaration by the European Commission on their future plans for external aviation relations has a lot of positiveness when it comes to expanding partnerships with the neighboring countries to the European Union; however, it also has some ideas which cause for

concern when this declaration identifies some states not with the objective of reaching comprehensive agreements, but to induce changes in the current bilateral relation between European Union and those states on the pretext that the current situation is adversely affecting the competitiveness of the European airlines and airports. The relations between the Arab world and Europe are much deeper and greatly more important to be looked at from a short term narrow angle. A number of Arab airlines were actually established by our partners in Europe. Europe is the number one trading partner of the Arab world and it is the most adjacent to our countries and in fact the most connected with us on cultural, social and human levels. We hope that the forthcoming dialogue between GCC states and the European Commission will strengthen the bridges of this historical relation between the two regions. We also hope that the relations between these two regions be built on a regional approach for both parties and not confined to one. The model provided by the European Union by establishing a single aviation European market is indeed the one adopted by the Arab world to establish a single Arab aviation market through the Damascus Convention. European policy generally was predicted on putting the interest of the consumer above all else. It is in the interest of the consumer to have the freedom to choose what he or she wants to use and that the service providers continue to compete to win that consumer without imposing any restrictions on his or her choices for short term narrow considerations.

Mr. Chairman,

Since we are talking about the relations with Europe, I have to mention here what happened in the wake of ICAO 38th assembly.

After three years of hard work by governments and the industry and two weeks of discussions and votings which happened for the first time in ICAO history, and after all parties compromised to reach an agreement on establishing a global system for the aviation environmental footprint as of 2020, I guess that the least we can say is that we were surprised by a proposal coming from the European Commission straying away in substance from what was agreed in ICAO. Although this proposal welcomes the ICAO resolution to formulate a global system by the end of 2016 for implementation from 2020, the proposal brings back the scepter of trade war by its inclusion of emissions of third country airlines while flying in the European Union's airspace in case of landing at or departing from any of its airports. This specific proposal was rejected by almost all states of the world outside Europe during ICAO assembly. It was even rejected by some states in Europe. This proposal does not contribute to the positive environment which prevailed after the ICAO assembly. It also does not encourage countries to reach an agreement in 2016, for how can the countries of the world work seriously to reaching an agreement when they see one of the important parties to reach that agreement renege on a previous one and chooses a unilateral action that the rest of the world have already rejected. We hope that the deliberations in the European Union would lead to adhering to the historical achievement of ICAO in order to

build on it so that countries of the world can address the aviation footprint which can only be done through a globally agreed system and not through unilateral decisions.

Mr. Chairman,

Passenger rights have become a label for a plethora of regulations which add a burden on the airline without providing the consumer with a corresponding benefit. The biggest problems with these regulations can be summarized in being impractical, confusing and overlapping by having varying requirements by different states from an industry which is global by nature. AACO sees in the IATA AGM resolution on adopting guiding principles for the global application of harmonized passenger rights regulations an important step to remove the conflicting current regulations and their complexity. AACO believes that ICAO is the right place to achieve that kind of harmonization in order to formulate global principles for passenger rights regulations.

Mr. Chairman,

One of the most important issues the global industry under the leadership of IATA is working on is the subject of developing the relationship between airlines and consumers. It is the right of the consumer and it is in his interest to see in total transparency the product he is buying from the airline. It is also right to the airline and in its interest to display its various

products addressed to meet with the varying wishes of the consumer. It is also the right of the travel agent to manage his or her relationship with the customer with full knowledge of the nature of the products offered by various travel vendors and specifically by airlines. And finally it is also in the interest of suppliers of reservation and inventory management technologies as well as Global Distribution Systems to develop technological capabilities that will show differentiation and will enable the concerned to benefit from airlines' products. These suppliers are our partners and they provide airlines with important services by enabling customers around the world to access their inventory. But these suppliers have to develop their systems from the ability to only book and buy offered capacity to displaying the varying qualities and attributes of airlines' products. The way for this required evolution starts with applying the standard stipulated in resolution 787 which established the NDC initiative. The IT industry has already proven its creativity. This industry can develop systems which will enable airlines to offer a product and not only display a box representing a seat. What we hope for in this domain is to marry the expertise and reach of GDSs with the modern capabilities of IT to achieve distribution channels which provide the customer with the ability to choose a complete product rather than commoditized one.

Mr. Chairman,

Ladies and Gentlemen,

AACO continues to deal with all of these issues I mentioned and many more with dimensions that are driven by the dimensions of the industry and member airlines. Through steering boards, work groups and staff of the secretariat general, AACO has focused its efforts on a large number of issues: Environmental development, aeropolitical issues within the Arab world and other regions, joint projects in distribution, fuel, MRO, groundhandling, and human resources development in many fields including safety and security in addition to the production of many electronic publications and statistical bulletins. All of these activities contribute to supporting the status of your association on regional and international levels. They also contribute to providing member airlines with a tool to achieve direct benefits within the framework of AACO objectives. This would not have happened without your great support and that of our partner airlines and industry partners as well as Arab organizations led by ACAC and airlines' associations led by IATA. Here I would like to voice special thanks to the Chairman of the executive committee, CEOs of member airlines and colleagues in steering boards and working groups. From AACO team to our members and partners I say we are proud to serve you.

Abdul Wahab Teffaha

Secretary General