

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

**Mr. Chairman,
Members, Partners and Guests,
Ladies and Gentlemen,**

First of all I would like to reiterate my thanks to His Highness Sheikh Ahmed Bin Saeed Al Maktoum, President, Dubai Civil Aviation Authority, Chairman & Chief Executive, Emirates Airline & Group, and Chairman, Dubai Airports, for inviting AACO AGM to convene in Dubai for the first time, and for his kind hosting of this event, especially on this year which marks the centennial of commercial aviation. I would like also to thank Sir Tim Clark, President, Emirates Airline and Chairman of AACO 47th AGM, and his assistants and the staff of Emirates for the excellent arrangements and 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 Statistics bulletin. It is worth mentioning that these publications are the most comprehensive digest of the Arab air transport industry and its working environment. Therefore I hope they will provide a greater knowledge of this industry on the regional and global levels.

Mr. Chairman,

My report for this year will include an overview of the Arab air transport sector, especially its strengths and weaknesses, its available opportunities and the threats it faces. In addition, I will address some strategic issues that are of interest to our members and AACO's work with regards to those issues.

Mr. Chairman,

Any close observer of the Arab air transport industry would wonder on the extent of the impact of the instability in some Arab countries on the overall picture of the Arab air transport sector. Naturally, the air transport sector, in this region,

and indeed globally, cannot be detached from the economic, political, and social developments. However, it is important to put things in perspective with regards to the effect of the situation on the air transport sector: the air transport markets of countries facing difficulties constitute only 22.1% of the aggregate Arab market, and those countries' airlines RPKs constitute only 9.4% of the Arab airlines. Moreover, amongst those countries, the Tunisian air transport market in 2013 grew by 22.7% compared to 2010. Yet, the remaining countries facing instability are witnessing a weakness in their growth profiles.

Looking at the global landscape, air transport in North America is stabilizing after the mergers that occurred in the United States. The economic crisis in Europe is still negatively affecting the European air transport industry and its airlines. Finally, we are still witnessing the gradual movement of the air transport center of gravity Eastwards to Asia, in addition to the growth of the Arab air transport market in line with the growth of Arab airlines and their global expansion.

Despite the current crises, the Arab air transport market grew by 10% in 2013, and is expected to grow by around 12% in 2014. In addition, the conservative outlook to the medium term foresees growth opportunities which will allow the Arab air transport market to reach 271 million passengers in 2020, up from 156 million passengers in 2013 and 65 million passengers back in 2000.

However, the point-to-point direct air transport market does not constitute the only opportunity available to Arab airlines. The geographical position of the Arab world allows its airlines to use it as a link to connect non-Arab countries through sixth freedom operations, similar to what other airlines have done since the dawn of commercial aviation. Accordingly, and in addition to the 128 million passengers carried in 2013 on-board Arab airlines to, from and within the Arab world, the geographical position of the Arab world allowed Arab airlines to carry an additional 25 million passengers through the region, which constitutes 16% of those airlines' operations. But the geographical position is not the only attribute which allows such growth; the most important attribute that Arab airlines have is providing their customers with value for money, and with a seamless travel experience through their hubs. So if the geographical location is a strength point, establishing the right links with the customer remains the most important

element: Arab airlines, through learning from the experience of existing hubs such as Amsterdam, Frankfurt, Singapore, Paris, London etc..., were able to transform some Arab airports to the hubs of the 21st century through cost optimization, maximizing use of technology, presenting the customer with services which attract her/his loyalty, and benefiting from an infrastructure which ensures seamless movement.

Arab airlines, which were able to carry 153 million passengers in 2013, are expected to carry around 217 million passengers in 2020, among which 40 million will be transit passengers, representing 18% of their total passenger uplift.

However, and aside from those strength points, there are weaknesses which threaten the growth of the Arab air transport sector. The most important weakness we are currently facing is air traffic management. Arab governments, which acknowledge the role of air transport as a catalyst and an integral part of sustainable development, were never reluctant in continuously expanding the region's airports. But the successful growth story has resulted in a shortage of airspace capacity and in shortenings in its management. Since the resolution of AACO 46th AGM on the issue in 2013, we have worked hand in hand with ACAC, ICAO, IATA, CANSO, and with some of the concerned states to develop solutions to those deficiencies. Indeed, some of those solutions are being put to implementation, which is an achievement for which we thank the states which have done that. Yet, the optimal solution of that issue will have to go through three major milestones: firstly the renovation of air traffic systems and equipment, secondly coordination between civil and military authorities for flexible use of airspace by civil aviation when national security does not require it to be limited to military use, and thirdly (and most importantly) to develop a traffic flow management coordination mechanism on regional and sub-regional levels which should evolve to cover the whole region. Without such mechanism, we will be relocating bottlenecks from one place to another without fully solving the airspace congestion issue.

The airspace capacity is now the most urgent issue, yet it is not the only weakness facing the air transport industry in this region. Another major weakness would be the protectionist regulations in some countries, which threaten the

future of the Arab air transport sector if such mindset becomes strategic in nature rather than being temporary measures to be removed gradually according to a defined timeline. I would like here to refer specifically to the Damascus Convention which frees market access and hence creates a single Arab air transport market. It is maybe becoming cliché to continuously talk about the need to increase the number of the convention's signatory and ratifying states, but pursuing whatever brings value to the customer is an essential target to anyone who works in aviation, and which in turn would surely benefit the Arab economy and Arab airlines. The Damascus Convention contains provisions which protect the market against capacity dumping, price wars, and un-economic operations. In addition, it provides good grounds for gradual liberalization and hence allows airlines to adapt to competition in an open skies environment. However, liberalization alone is not enough to cultivate the available opportunities in the Arab air transport market. In order to benefit from the growth opportunities and hence the contribution of air transport in the economy, an essential condition is the facilitation of movement of people and goods. The measures taken by some Arab states to facilitate visa issuance, and those taken by some European states to create a single touristic visa resulted in significant added value without any uncontrollable downsides.

Speaking on protectionism, we still unfortunately witness calls in Europe and the United States insinuating to protectionist views, disregarding the fact that it was those regions which were the pioneers of liberalization, market economics, and of allowing the customer to be the juror in the product competition. The deterioration of the competitiveness of some airlines in Europe and the United States and their airports is not due to the increased competitiveness of other airlines locally or globally. It is however due to measures applied by the regions' governments which consider airlines cash cows and burden airlines and airports, unlike other transportation sectors, with heavy regulations which negatively affect them. The main reason behind the deterioration of competitiveness of some airlines and airports is mainly this unfair position towards this sector and the historical lack of development in infrastructure both on airports and air traffic management levels. To be more specific, I would like here to refer to the consultation paper that the European Commission issued on amending directive 868/2004 on fair competition. The language in the paper implies a protective

mentality which, if applied, will create a bigger dispute than the issue created by the infamous EU ETS, in its original extraterritorial form.

That consultation paper follows the same line of thinking with regards to considering that EU laws can be applied globally, without consideration to national sovereignty. AACO has provided its comments on the paper, and while we welcome dialogues on issues which are either unclear or confusing, we would appreciate that the European Commission takes into consideration the fact that its regulations can be only applied to its countries and institutions, as other countries have their own laws and regulations which do not necessarily mirror European ones. Moreover, and in order to agree on the points of disagreement, such agreement should be based on mutual acceptance rather than one party dictating its point of view. We are sure that the European Commission, which overlooked some of the initial conditions it adopts when signing open skies agreements with several countries, can follow the same steps when negotiating with Arab countries by considering the peculiarities of the Arab air transport industry and the individual regulations in Arab countries.

Mr. Chairman,

The growth opportunities of the Arab air transport sector, be it to, from, within and through it, are massive. We have grown in 2013 compared to 2000 by 349% in passenger numbers, and by 641% in RPKs. In addition, our hub operations have increased from 4 million passengers in 2000 to 25 million in 2013. This growth journey can still continue in its exponential slope as I am sure that these numbers can replicate or even increase with the ability to reach the customer and present him with the added value of our member airlines' products compared to their competitors.

The above numbers assume only organic growth with regards to the relationship with the customer. Therefore, I believe that they are very conservative as such relationship cannot stay without giant leaps forward. The relationship between airlines and the customer is currently based on the 70's and 80's technologies which have only received a facelift at best, and which therefore do not provide airlines with the chance to design their products' attributes according to their customers' needs.

IATA's NDC is an important step in the right direction. Yet, more work is required to allow airlines to fully benefit from the technological advancements. Our IT partners and other players are required to upgrade their technology infrastructure so that the customer can enjoy the same experience he/she enjoys in his/her interaction with suppliers in other industries.

Other industries were able to harness the power of IT to transform shopping into a unique experience, dealing with individual customers' needs rather than considering them reservation numbers. Our industry must move to that environment and not remain hostage to outdated technologies which present our products as commodities rather than products which appeal to the customer's needs.

Mr. Chairman,

I don't want to elaborate more, especially that the Annual Report highlights the main industry issues and the work of your association vis-à-vis those issues. But I would like, at the closure of my speech, to present to you the areas in which AACO works through translating its vision, mission and objectives into specific targets upon which work plans are built. AACO was able to efficiently cover four main areas. The first area is joint projects in distribution, fuel purchasing, training, ground handling, technical, MRO etc... It is evident that member airlines' joint work under the umbrella of AACO contributes considerably to improving operating economies of members, and hence to the competitiveness of the services presented to the customer while at the same time adhering to the competition and anti-trust laws. The second area is defending member airlines' interests in regional and international forums. This area covers issues related to aero-politics and environment among several, and is considered the most important area in AACO's work as its value is not quantitative but qualitative and can only be realized through joint work. The third area of AACO's work is information management and increasing awareness of members on issues of interest. This area's objective is achieved through ten publications which cover all air transport disciplines. Finally, the last area is networking among members and all stakeholders through forums and conferences, with the AGM on top of these.

Mr. Chairman,

Ladies and Gentlemen,

The last issue I am obliged to address is the unfortunate tragedies that befell on Malaysia Airlines. I would like here to express AACO's profound sympathies to the families of the missing and deceased. We believe that it is imperative to use technology to develop, with the involvement of the industry and manufacturers, measures to ensure that no aircraft is lost without knowing its whereabouts and the circumstances surrounding such incident. On the other hand, and since controlling the use of airspace is the responsibility of national authorities, or international bodies which have such authority, the only means available to airlines to realistically assess the risks involved in using a specific air corridor is to share information on risk assessment amongst carriers. Therefore, the industry and concerned stakeholders should look into developing a mechanism for such sharing of information.

Mr. Chairman,

In closing, I would like to express to you, our AACO members, my sincere thanks and appreciation for the support we are receiving. I would like as well to thank our partner airlines, industry partners, ACAC and all associations, led by IATA, for their cooperation to coordinate and harmonize our work. I would like also to voice special thanks to the Chairman of the Executive Committee and its members, CEOs of member airlines and colleagues in Steering Boards and Workgroups. On behalf of AACO team, I say we take pride in serving you.

Abdul Wahab Teffaha

Secretary General