

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

**Your Excellency Mr. Chairman of AACO 48th AGM,
Your Excellencies,
Ladies and Gentlemen**

It is the fifth time that AACO's General Assembly meets on this blessed land, in the Bride of the Red Sea – Jeddah. I would like therefore to begin by reiterating my heartfelt thanks to the Patron of the AGM, His Royal Highness Prince Khalid Al-Faisal bin Abdulaziz Al Saud, Adviser of the Custodian of the Two Holy Mosques and Emir of Makkah region, and to His Excellency Engineer Saleh Bin Nasser Al-Jasser, Chairman of the General Assembly and Director General of Saudia for this kind invitation under which you have undoubtedly begun sensing the depth and originality of the hospitality we are enjoying in this country and by its people.

It is also very appropriate for AACO to celebrate its fiftieth anniversary in the hospitality of Saudia, one of the thirteen pioneers who met through a constructive initiative of the League of Arab States and who saw that the future of Arab air transport should be within the framework of positive cooperation that ultimately enhances Arab airlines' services to the consumer wherever he was. The success of AACO was through focusing on the interests of its member airlines and the industry as a whole. Over the past fifty years, AACO has been able to support its members' quest for highest safety and security standards, developed and sustainable environmental policies, active contribution in the development of human resources, interaction with regulatory bodies to support and protect the interests of Arab airlines, and launching joint projects between member airlines to enhance their operational efficiencies, in addition to providing forums for members and partners to enhance the knowledge base and reflect the positive image of Arab Airlines in international fora.

Mr. Chairman,

The Arab air transport market grew from 3 million passengers in 1965, which constituted less than 1% of the global air transport market, to about 185 million passengers in 2015, constituting around 6% of the global air transport market. Arab Airports dealt in 1965 with 3 million passengers and grew to become global hubs in every sense of the word as they are dealing with more than 325 million passengers in 2015. This growth journey was accompanied by a parallel expansion of Arab airlines: From operating 86 aircraft in 1965 with an average age of about 12 years, to operating 1,200 aircraft in 2015 with an average age of 7.2 years, and from airlines which carried 2.2 million passengers in 1965 to global carriers which transported about 195 million passengers in 2015.

Mr. Chairman,

To illustrate the journey of Arab airlines over the past fifty years, we have included a considerable amount of information about this journey in the annual statistical bulletin – AATS – and in AACO Annual Report, included in your folders. There is no doubt that the developments in this region reflect the importance of the air transport sector across the globe. This sector has evolved over the past fifty years from a means of transport for the elite to becoming the primary means of transportation for the peoples of the earth, as well as one of the main economic pillars through the transport of goods, especially perishable and high-value ones.

But if I am to choose three elements which transformed air transport from a means of transport for the elite to an essential contributor to economic development and job creation, especially in developing countries, I can summarize those elements by the following:

- The development in aircraft and engine technologies which allowed the increase in sector length and capacity and allowed airlines to target new customer segments, while at the same time enhancing the operational efficiency of aircraft.
- Open skies policies which allowed airlines to innovate, develop their product, and focus on operational efficiency and at the same time provide the customer with the freedom of choice to select the airline that meets his/her requirements and provides him/her with value for money.
- The focus on infrastructure development in airport and airspace which enabled its adopters to anticipate the growth in air traffic, and allowed airlines to grow and expand their footprint on the global air transport landscape.

Mr. Chairman,

The combination of the three elements above was actually the reason why Arab airlines and others are the fastest growing airlines in the world, and why our airports are witnessing the highest growth in passenger numbers. This combination also allowed the Arab air transport sector to become a key economic lever which provided the global customer with the opportunity to enjoy the authentic Arabian hospitality and the personal care that our culture bestows upon the guest. To look for evidence, let us review the developments over the last ten years:

1. Arab airlines' total number of passengers increased by 189% compared to an increase of 105% at industry level.
2. AACO members' RPKs and ASKs grew respectively by 324% and 288% while the global growth was 95% and 82% respectively.
3. The number of passengers at Arab airports increased by 124% while the global growth was 80%.
4. Productivity of Arab airlines' employees increased by 109% compared to a global growth of 26% on industry level.
5. Moreover, Arab airlines have been operating the youngest fleet in the world with an average age of 7.2 years and naturally the best environmental footprint.

Mr. Chairman,

Even if taken by themselves, these numbers are astonishing ones. However, the most important outcome of these figures is their contribution to economic development in

our countries. The strategies of all countries, and especially developing ones, to consider tourism an essential contributor to sustainable economic development, job creation, and global competitiveness can only be achieved through an effective air transport sector. An additional plus for the Arab world is its location which provides a golden opportunity for the region to be used as a transition point for global transport, especially with the development of aircraft and engine technology which allows this role.

Arab airlines, which leveraged the economic contribution of air transport and the location of the region, are not unique in the world: Airlines, since the early days of air transport, have always been keen to leverage the geographical position of their hubs to strengthen their operational economics. However, what is unique in Arab airlines' experience is that these airlines did not only benefit from their geographic location, they even integrated that location into their final product which resulted in the rise of several attraction points in the region to become primary touristic destinations as a direct result of airlines' promotion of their geographic location.

But does this mean that the future is rosy and that there are no hindrances that, God forbid, would challenge this success and make it more difficult? In addition of course to the clear and current pressure that surrounds us globally as a result of the elevated terrorist threat and the deepening of the regional crises which will adversely impact the world air transport, I believe there are the following possible threats.

1. **Protectionism:** Until the end of the last century, the air transport industry operated under a protective cover on the grounds that it is a young industry, represents an extension of the states, and is a strategic tool that cannot be dealt with like any other business sector. But after more than seventy years of protection, it was proven that protectionism is neither beneficial to the consumer, the national economy, nor to the airline itself. The fact that airlines are national strategic tools is unchallenged which is also true for some other economic sectors: Even when some countries did not own any airline or any commercial bank, it had to intervene, as did other governments in the world, when faced with the possibility of collapse of some airlines and major financial institutions for reasons beyond their control in order to protect these organizations. It pumped hundreds of billions of dollars to enable the continuity of its economic strategic tools. The fact that any institution is a strategic tool does not mean it should be given permanent protection from free market operational conditions and especially competition. Reciprocally, any institution operating under market competitive conditions does not mean that it is not a strategic tool. What is strategic for any country on the macroeconomic front is growth and job creation. Open skies policy proved to produce a three-fold success: Consumers have benefited from lower prices and competition's positive impact on service levels, the economy has benefited from increased activity, productivity, growth and job creation, and the airlines benefited through focusing on providing the best services at the best prices and developing into effective institutions which depend on their attractiveness to the consumer instead of being his only option. Any call to revert back to the protectionism will not benefit anyone including its protagonists: Recent history has proven that

- operating under protectionist regimes will lead to stagnation and the inability to face competition when it arrives. This manifested itself in the disappearance of well-established airlines which were not able to adapt and restructure to face competition.
2. **The lack of infrastructure development:** The lack of infrastructure development in airports and air traffic management is perhaps the second greatest threat to the air transport industry after protectionism. We are fortunate in the Arab world that our governments generally see the importance of air transport in the economic development process, and made commendable efforts to develop airports in order to cater for the expected growth on the short and medium terms. However, unfortunately the development of airspace infrastructure did not receive the same level of attention. This led to the emergence of bottlenecks in some areas which are affecting the growth prospects of airlines. AACO has put this issue at the top of its agenda. We are collaborating with ACAC, ICAO, IATA, CANSO, and most importantly with concerned governments in order to develop a strategic plan to address this issue. I can say today that this joint work is starting to produce results with the implementation to start gradually between now and 2018 and include the modernization of air navigation systems, enhance civil/military cooperation for flexible use of airspace, and the development of regional frameworks for traffic flow management.
 3. **Taxes and charges:** It is very unfortunate that some countries in the world have adopted the unproductive model of targeting air transport with taxes and charges on the assumption that this sector is complacent to any burden thrown at it. This has led to the aviation sector being the most targeted sector for taxes and charges in areas such as Europe and the Americas. It is relieving that several Arab governments do not follow this approach as they acknowledge that economic development, including the development of the tourism sector, does not correspond with the increase in taxes and charges on air transport.
 4. **Unproductive legislations:** There are many examples in the world where some governments are unfortunately developing legislation and laws that only lead to confusion of the customer and disputes with other countries. The most prominent examples in this area are the environment and consumer protection issues. On the first front, the aviation industry, including AACO, is working closely with IATA and concerned parties so that ICAO succeeds in its efforts to reach a global agreement next year on how to deal with carbon emissions from aviation. This is the only road that can lead to benefitting the environment rather than imposing new taxes. Regarding the issue of consumer protection, there is unfortunately a big debate on the subject. It is important here to note that it is in the interest of airlines to maintain a good relation with the customer; it is part of their products and competitive offerings. However, several governments want to have specific legislation for consumer protection. In this regard, and based on the guidelines developed by IATA and ICAO, AACO developed a template that airlines can use to discuss the issue with their governments in case those governments would want to develop consumer protection legislation. Perhaps the most important point to mention on this front is that any legislation should take into account the economic environment of the country concerned and the nature of the relationship between the consumer and the airline, and should

completely avoid extra-territorial application so as to avoid conflicts with other legislations on the international level.

Mr. Chairman,

There is no doubt that the air transport industry witnessed last year two tragedies which require efforts to prevent similar occurrences; I am referring here to Malaysia Airlines Flight 370, which unfortunately disappeared along with its passengers and crew, and Malaysia Airlines Flight 17, which was downed over Ukraine. It is natural to see deliberations between governments on those issues; however what concerns us is first to pursue efforts to find out what happened to MH370, and second the work accomplished by AACO, IATA and ICAO to promote the importance of providing airlines with the ability to track their aircraft anywhere in the world. And as a result of the Technical Forum which was held recently in Abu Dhabi, AACO is following up on this matter with SITA and others to accomplish this goal. On the other hand, one of the lessons learned from the tragedy of MH17 is the need for information access on threats to all airlines which fly through an area that can be dangerous. Based on AACO 47th AGM resolution, AACO established a security advisory group composed of members willing to share information on threats over air routes, and which has proven invaluable at several milestones this year. The presence of this Group will assist members in dealing with dangers that may affect aviation. In fact, in view of more recent events and threats that are spreading all over the world, I believe that civil aviation security throughout all touch points from airports, to cargo to aircraft and passengers needs to be addressed with the highest possible urgency and straightforwardness in order to make sure that aviation continues to be the lifeline that it represents to the peoples of the world.

Mr. Chairman,

AACO has been able to serve its members and partners through four main pillars: In addition to raising awareness on the developments in the industry through forums and publications, managing a database that is the most comprehensive on air transport in our region, and advocating the important role of Arab airlines in economic development, joint work between AACO members remains the backbone of the added value that members derive from their association, and has become a unique model which AACO was able to develop as a result of the belief of the CEOs and our colleagues at Arab airlines that, in spite of the continuous competition environment between airlines, there are common issues that can be better tackled through collaboration than individually.

Mr. Chairman,

At the ending of AACO Golden Jubilee's celebration, it is important to recognize the founders of AACO who spared no effort to develop the organization. Allow me here to mention a small group of people who were also instrumental in the development of AACO: The Late Ramzi Armanios, the first Secretary General who worked at EgyptAir and who laid AACO's foundation during his one-year term, the Late Salim Ali Salaam, the second Secretary General who led AACO's journey for a long time from his position at Middle East Airlines, during which he established the permanent Headquarters of AACO in Beirut and developed collaboration frameworks between members, and the Late Adli

Dajani, the first full-time Secretary General who contributed to raising AACO to a professional organization which provides its members with economic value; May God Have mercy upon their souls. It is also important to note that AACO would not have been as it is today without the support to those pioneers from members on the executive and other levels.

Finally Mr. Chairman,

I wish to welcome Mauritania Airlines International and Badr Airlines who have joined the AACO family. I also would like to extend my congratulations to you, and through you, to Saudia colleagues for the seventieth anniversary of Saudi Arabian Airlines. Our pride in AACO's Golden Jubilee does not stem from pride in AACO itself, but from our pride in our members and partners, and most importantly, our passengers who put their confidence in air transport as the most effective and safest mode of transportation.

Allow me, in conclusion, to thank you for your leadership and to thank your team for the authentic hospitality that we enjoyed. I would like also to thank the Chairman and members of the Executive Committee, CEOs of member airlines and colleagues at members and partners for the continuous support to AACO's work. On behalf of myself and my colleagues with whom I am proud to work I can say:

We are proud to serve you...