

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

Mr. Chairman,
Your Excellencies,
Ladies and Gentlemen,

First I would like to reiterate my gratitude and thanks for the High Patronage of this AGM by His Majesty King Mohammed VI. I would like also to mention with thanks and pride the kind invitation and the generous hospitality that Royal Air Maroc under the leadership of Mr. Abdelhamid Addou / Chairman of the AGM and Chairman & Chief Executive Officer of Royal Air Maroc has provided to all the participants. AACO comes back to Casablanca for the fourth time in its 51 years of history. I witnessed personally the last two AGMs, the first held at this hotel in 1986 and the second one held in 1996 in a hotel not far from here. Since those AGMs, the Arab air transport industry witnessed great strides which were simultaneously accompanied with an evolution in AACO's work.

In 1986, AACO member airlines constituted 6% of total RPKs, operating 272 planes with an average age of 17.5 years. In 1996, these numbers became 7%, 407 and 14.8 respectively. We come back today 20 years later with numbers that no one has imagined then. Our share of international air transport is 14.3% and our fleet count is 1,215 aircraft with an average age of 7 years, which is the most modern fleet of any region of the world. In tandem with those numbers, Arab airports grew from 29 million passengers in 1986 to 48 million passengers in 1996 and to 325 million passengers in 2015. This growth does not only represent traffic to/from and within the Arab region, it also represents the evolving pivotal role that members play on the global scene. Our members transported last year 194.6 million passengers with an increase of 5.7% over 2014. These numbers included 23.6 million transit passengers who flew through our airports which recorded a 16.4% increase over 2014.

The growth in air cargo was no less astounding. This growth scored 23.6% increase on board our members in 2015. As such, air cargo became an essential pillar of members' operations which allowed them to occupy the highest ranks in freight transport around the world.

Mr. Chairman,
Ladies & Gentleman,

The reason I mentioned those numbers is not limited to focusing on AACO members' development and the infrastructure that facilitated this growth. The main reason is to

link this growth with the contribution of this sector to the economic development and creation of jobs in our countries which help create a healthy economic environment. The contribution of air transport and the sectors that rely on it to the GDP of our region is now 7.3%, which is more than double the percentage contribution of air transport in the global economy. It is worth mentioning that this contribution in one of the Arab countries exceeds the Arab average by 5 times, which proves that allowing air transport to grow without impediments is an essential lever for sustainable development. The vast geographical expanse of the Arab world and the weakness of alternative modes of transport make this sector a backbone for the economic development in the region that cannot be overlooked. Moreover, air transport has become a necessary tool to develop tourism in our countries. In fact, air transport has evolved to become the cornerstone for a strong tourism sector that further contributes in sustainable development. There are other factors which made our story of success possible, among which two are of prime importance:

Firstly: Arab governments' embrace of our role through creating a healthy regulatory, economic and taxation environment that allows air transport to prosper, and through developing the infrastructure that supports the growth and expansion of the sector.

Secondly: the geographical position of our region, coupled with the advancement in airframe and engine technologies, allowed the airlines to present themselves as preferred global connectors for customers around the world.

Although we haven't been the pioneers in transforming our airports to global hubs, as this model was pioneered by airlines in Europe and some parts of Asia, and even though we are not the only ones who adopt this operation model, we have in fact succeeded, with other airlines of the world, to provide services with added value that transformed the air travel from a mere transport experience to a delightful one. As a result, a number of Arab airports joined the list of established global hubs like Amsterdam, London, Frankfurt, and Paris, and which also includes more recent ones like Istanbul and Singapore, to become the preferred hubs for the global traveler.

**Mr. Chairman,
Ladies and Gentlemen,**

The air transport industry has witnessed numerous crises which impact – even if they occurred in specific areas of the world – was felt beyond their areas of occurrence to hit the industry as a whole because of the intertwined networks of the airlines and the global nature of the economy and indeed the traveler. These crises did not prevent the air transport sector from continuously growing to carry 3.56 billion passengers last year, which is five times the number that was carried in 1980. Prior to that date, air transport was considered “different” than the other economic activities, and therefore in need of absolute protection since it was part and parcel of

the national identity of the countries of the world. This protection was there for many decades during which the airlines were shielded from competition, while the customers were limited in their choice of travel to a specific number of airlines which in turn agreed on what would be the fare and how it is prorated. In the decades preceding 1980, the airlines used to agree, under the protection of their governments, on almost everything: number of seats offered, the fares that those seats will be offered with, maximum pitch between one seat and the other, maximum level of food and beverage that can be provided according to the class of service, pool agreements that benefited the airline which was not chosen by the customer to share the revenue with the chosen airline, imposing royalties on an airline if the opposite one could not or did not operate; and many many more protective measures which shielded this industry from competition. In spite of all of these measures, airlines recorded deep losses which were passed in earnest to the governments, because the air transport sector was viewed as part of the national identity. And in that environment, the travelers were the weakest link: they were not allowed to choose and they paid fares which were, on average more than three times the prices that are available today in real terms. After 1980, liberalization was introduced, first in the United States then in the European Union and then followed by many others, thus removing from airlines a great deal of this protective shield. This resulted in the growth in the number of passengers from 748 million in 1980 to 3.6 billion in 2015, bringing tremendous added value to the global economy and in particular the economy of developing nations. And with the emergence of new developing economic powers, the center of gravity of aviation started moving east: The United States and Europe represented 88.4% of the global traffic in 1965 while the developing countries' share was 9%, this ratio decreased since to become 51% for the United States and Europe while the developing world increased its share to 42%. It is estimated that the share of developing nations will increase in 2025 to 52.2%.

Imagine for instance that open sky policies did not exist, and that reducing the barriers for free global trade did not even happen. Imagine a world that has no airlines that can connect any two points around the globe with one or two stops at the most, or that no low-cost carriers that allow hundreds of millions of passengers by to travel by air rather than by land or sea or even not to move at all, ever existed. Of course, with such an operating environment, airlines will avoid competition and would not need to develop their products and services. That would have definitely led to having the consumer, aviation's contribution in economic development and millions of job opportunities, the biggest losers.

**Mr. Chairman,
Ladies and Gentlemen,**

I wanted to focus on the reemergence of protectionism because probably it is one of the biggest threats that may impact air transport and the role it plays in economic

development and the creation of millions of job opportunities. Yet, there is a number of other issues that I believe need to be highlighted to sustain the growth of air transport and its positive contribution in national economies. These issues can be summed up as follows:

Firstly- infrastructures' capacity:

The lack of development of airports and airspace capacities results in choke areas that need to be mitigated. Although this issue is not as pressing in our region as it is in Europe and some other parts of the world, we still face the issue of airspace capacity in the region which requires a quick solution so it doesn't turn into a major crisis.

Airspace development in the region is one of our most important priorities. It was the focus of our advocacy efforts with the concerned authorities in the Arab states in cooperation with international and regional organizations. We are witnessing in this area an acknowledgment from the authorities on the need to develop the airspace infrastructure which we believe should be built on three axes: upgrading navigational aids, a matter which a number of countries have already done, implementing flexible use of airspace through civil/ military coordination which is gaining momentum and acceptance in the concerned states, and the implementation of regional air traffic flow management mechanism to avoid relocating congestion points from one country to another.

Secondly- Security:

Safety and security are always the very highest priorities for all air transport stakeholders. In that regards, I would like to applaud the pioneering role of the Kingdom of Saudi Arabia by holding the first Global Ministerial Aviation Summit dedicated to safety and security. This summit adopted the Riyadh Declaration on aviation security and facilitation which encompassed several practical measures that we hope will lead to enhancing the level of safety and security of this sector.

Thirdly- Government regulations:

The general landscape in the Arab region is marked by a positive atmosphere for aviation vis-à-vis government regulations. Recently however, certain trends have emerged to apply regulations that may negatively affect air transport and may indeed affect the travelers themselves. One of the most notable issues in this area is consumer rights. We totally believe it is the right of the governments to legislate in this area despite our belief that this issue at its core it is a commercial matter that differentiates one airline from the other. With all due respect to the right of the states to legislate, we wish to urge them that legislations touching on aviation issues need to be discussed with the stakeholders and be in line with aviation's working environment, to adhere to ICAO principles, and to include assigning the responsibility for any disruption in delivering a certain service to the party(ies) which may have caused that disruption.

**Mr. Chairman,
Ladies and Gentlemen,**

The last major crisis that befell on air transport occurred in late 2008 and beginning of 2009 which was the global financial crunch that affected the whole world. This crisis also coincided with a record increase in oil prices, both leading to serious problems for aviation. Air transport was able to surpass this crisis through restructuring and consolidation, especially in the United States.

There are indications that we may face in the near future a return to a global economic slowdown, this time with oil prices going in the opposite direction of 2008. A number of airlines in our region and elsewhere have actually succeeded to derive maximum benefits from the available opportunities during crises, and I believe this will happen again. In spite of the possibility of economic slowdown or even recession, the long-term destiny of air transport cannot but be in favor of growth.

**Mr. Chairman,
Ladies and Gentlemen,**

Your association has worked last year and this year as well on a multitude of issues that touch the industry as a whole and air transport in the region specifically. A major portion of our activities was aviation and environment. AACO played an important and constructive role within the overall industry framework represented by IATA and through the important ICAO Assembly that was held in Montreal two months ago. This ICAO assembly led to an historical agreement on mitigating carbon emission from aviation which comes in the wake of Paris Agreement on climate change. We all hope that the parties to the Paris Agreement will honor their commitments because any blow to the commitments of that agreement will likely lead to weakening the ICAO one.

The alternative will be taxes, charges and levies which will target airlines to raise funds that have nothing to do with the environment, and moreover will likely be imposed on all our operations rather than our growth beyond 2020 according to the ICAO agreement. If happened, it will be a very bleak alternative to the ICAO agreement.

AACO also liaised with various governments especially Arab ones and ACAC to advocate possible implications of some regulations on air transport and airlines. One of the most important issues we have raised with governments is passenger rights, with the cooperation of ACAC and IATA. AACO also continues to serve and expand joint projects which deliver to members an added economic value for their work in AACO. These projects include fuel, training, distribution, MRO, ERP, exchange of security information, and ground handling together with other activities that mark the modus operandi of AACO.

**Mr. Chairman,
Ladies and Gentlemen,**

We have elaborated on the issues I have raised in AACO's annual report which we have changed in form and substance in a way that I hope will meet your satisfaction. We also distributed to you the annual statistical bulletin which is indeed the most comprehensive about air transport in the Arab world.

We all hope, God willing, that the future will witness continuous growth for Arab airlines and that the pressure that we live under, in some Arab countries which unfortunately witness a period of instability, will be relieved. Here I would like to thank wholeheartedly all AACO members, especially the ones belonging to countries witnessing precarious situations, for their commitment to work collectively with the rest of AACO members in spite of the tremendous difficulties they are facing.

Finally, I would like to thank you Mr. Chairman and your team for everything you have done and still doing to make this AGM a remarkable event, similar to the ones held in Morocco previously. I wish also to extend my thanks and gratitude to the Chairman of the Executive Committee and its members who have dedicated time from their already busy schedule to serve the members and the industry as a whole. My thanks also go to our partner airlines and industry partners which we are proud of their support in raising the knowledge and awareness of our members. Finally, please allow me to thank my colleagues in AACO Secretariat General for their dedication, relentless efforts, and commitment to our permanent credo:

We are proud to serve you...