

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

Mr. Chairman,
Your Excellencies,
Ladies and Gentlemen,

I would like on the outset to reiterate my gratitude and thanks for the High Patronage of this AGM by His Highness Sheikh Dr. Sultan bin Muhammad Al-Qasimi, member of the Federal Supreme Council Ruler of Sharjah. I would like also to express my sincere thanks to the AGM Chairman Mr. Adel Abdullah Ali, Group CEO of Air Arabia, for the efforts of Air Arabia in making the AGM delegations feel at home. This is not surprising for the Emirate of Sharjah, which occupies a growing place on the international travel map, especially in giving the cultural dimension special consideration in its sustainable development plan.

Mr. Chairman,
Ladies & Gentleman,

Many questions have been raised in recent years over the continuous success of Arab airlines in spite of the fact that many of the present crises are taking place in our region. Indeed, I even sometimes ask myself these questions and I try to foresee the future of air transport in light of the plethora of problems we are facing in our region.

However, and as it is said, one can only foresee the future through considering historical development, and in order to put things in perspective, I would like to share with you what was the growth of the Arab air transport sector and that of Arab airlines during the past 52 years since AACO was established. As you can see on the screen, that period was full of events that affected passenger traffic of AACO members and the Arab air transport market negatively sometimes and other times positively. For instance, the June 1967 war broke out only two years after the establishment of AACO and annulled that year's growth. After that, we witnessed years when there was growth followed by years when growth was flat. However, passenger traffic of AACO members did not record a noticeable decline in traffic during those 52 years except in 1983 and 1987 due to the war between Iraq and Iran, in 1991 due to the invasion of Kuwait, and in 1999 due to the Asian Financial Crisis. In spite of all those crises, and especially those which took place during the past six years, i.e. since 2011, Arab airlines recorded a yearly average growth in RPKs and ASKs of 12% and 12.3% respectively during that period. In addition, and if we look at Arab airlines' growth through the whole historical period, we find that passenger traffic of Arab airlines grew by 96 folds between 1965 and 2016 compared to a 20-fold growth recorded globally during the same period. If those growth figures show anything, they reflect the robustness of the growth factors in our region, and that Arab airlines, which were able to record massive growth levels across the years, will continue, God willing, to do so in the future.

Another element that manifests the strength of the Arab air transport market is the passengers to population ratio. Passenger traffic in the Arab air transport market grew from 3 million passengers in 1965 to around 301 million in 2017. This meant that the ratio of passengers to population grew from just 3.1% in 1965 to 72.3% in 2017. Moreover, if we look at those numbers during the past decade considering the events that took place in that period which included wars, political changes and the decline in oil prices, we find that the passengers to population ratio increased during that period from 33.1% in 2006 to 69.9% in 2016. We therefore conclude that those numbers emphasize the resilience and sustainability of the Arab air transport market's growth, and that the market is still far from reaching the point of mature growth, a phenomenon usually associated with market maturity similar to the situation in the USA and Europe.

**Mr. Chairman,
Ladies & Gentleman,**

The bottom line is that crises are an integral part of our world, and here I don't mean the Arab world but rather the whole world. However, historical evolution of air transport and the expansion of demand for travel, which became an essential human need rather than an elitist product offered to a limited group of people, led and will inevitably lead to a continuous and unstoppable rise in air traffic.

In addition to the above, the following elements reinforce the growth potential of the Arab air transport market:

1. The first element is the fact that 60% of the Arab world population is under the age of 25 years. This is a generation which grew in tandem with the growth of information technology and its wide spread. This has allowed that generation to continuously communicate with friends regardless of geographic boundaries, and has equipped them with the ability to distinguish and choose the products which best suit their needs, including travel products. This means that the Arab air transport market will deal with more than 250 million new potential passengers in the coming period, which is in itself a huge growth source for our airlines.
2. The second element is the geographic location of the region which allowed Arab airlines to play a pivotal role in inter-continental transport, coupled with the technological evolution of airframes and engines which allowed our airlines to make all parts of the world accessible to the traveler with only one stop on the way. Naturally, the high growth witnessed in transit traffic was not equally recorded by all of the region's airlines and airports, where a number of Arab airlines and airports emerged as global hubs. The following airports registered impressive growth rates in transit traffic in 2016 compared to 2006: Abu Dhabi airport registered a growth of 575.3%, Doha airport recorded a growth of 419%, Dubai International Airport recorded a growth of 377%, Sharjah airport witnessed 346% growth, and Cairo airport registered a growth of 217%.

Having said that, the geographic location which allowed these airlines and airports to expand their clients' base is available to other airlines in the region. I am sure that other airlines will also expand their hub operations in the same manner which will allow them to play a bigger role in the economic development of their countries through placing their airports on the global travel map and hence increase their countries' presence on the international business and tourism maps. Our region is seven hours away from at least five billion people,

- equipped with an advanced and evolving infrastructure and the drive to provide the travelers of this population mass with delightful travel experiences.
3. The third element is the focus on hospitality as a major attraction point in our airlines' product. This has strengthened our customer base with passengers who want to be treated as guests rather than just travelers.
 4. The fourth element is the gradual liberalization of the Arab air transport market which allowed airlines to operate to regional destinations instead of restricting travel to international gateways. This liberalization has also allowed the establishment of new airlines, including low-cost ones, which created new market segments of passengers who would have not otherwise traveled by air. This change in the Arab air transport regulatory environment, manifested in the liberalization and openness to enable new airlines with different business models, helped create a competitive environment that primarily benefited the customer. It also benefited national economies through the positive impact of traffic increase on those economies, and benefited airlines as it promoted competition among them thus driving them to operate economically and efficiently.

**Mr. Chairman,
Ladies & Gentleman,**

The twelve progress indicators adopted by the World Economic Forum (WEF), presented on the screen, show the significant development that took place in the Arab world since 2010, especially in the areas of Health and education, technological readiness, and business sophistication. Although we have not yet reached the levels achieved by emerging and developing countries in Asia, we are moving in the same direction of developing our living environment, which also supports the development and growth of the air transport market as it goes hand in hand with economic development in any region of the world.

The above made the air transport sector's contribution in the Arab GDP reach 7.3% which is twice its global average, with that contribution in some Arab countries exceeding the, already high, Arab average. This makes air transport an essential lever to sustainable development in our region.

**Mr. Chairman,
Ladies & Gentleman,**

Yes, there are crises, and yes, they certainly affect air transport and its growth. But for all the reasons I have mentioned, I am sure that the Arab air transport sector and Arab airlines will continue to play a key role in fostering economic development, and in putting our countries in a position to take advantage of crises to plan the next stage of expansion and growth. Accordingly, and since AACO is one of the tools that Arab airlines use to assist them in their work, AACO has focused its activities recently on the following three sectors:

The first sector is to advocate for Arab airlines and their role as important economic drivers in their countries to authorities in the Arab world and elsewhere, and to advocate what we see appropriate to develop the Arab-Arab aviation relation, and to

further develop those relations with other regions. In that regard, AACO worked with the League of Arab States, the Arab Civil Aviation Commission, the European Commission, ICAO, and IATA on a number of issues that directly affect Arab airlines' activities. I would like to address some of those issues:

The first issue is security and facilitation: Following the ban on the carriage of large electronic devices in aircraft cabins, AACO communicated with all stakeholders to emphasize the importance of dealing with aviation security issues on the global level through ICAO. This will ensure the development of global, harmonized, and risk-based standards to address threats facing international civil aviation. AACO also emphasized the importance of collaboration between states and stakeholders to ensure the implementation of security measures while avoiding disruption to air transport operations. AACO also supported efforts to address new and emerging threats, the most important of which being cyber security.

The second issue is aeropolitical matters. We are currently witnessing an increase in calls for protectionism on national levels by some parties. This does not only threaten the development of air transport, it even affects the global economic order which is founded on openness and collaboration among states. In that regard, AACO calls upon states to adopt liberal air transport policies which allow the growth of this sector and hence increase its contribution in sustainable development. The positive contribution of liberalization is an established and agreed upon fact by all air transport experts around the world: A study conducted by InterVistas, the renowned consultancy firm, concluded that liberalization of market access increases traffic by 9% and reduces ticket prices by 7%. It also increases the number of potential passengers by 17.6% and raises employment by 1%. Accordingly, AACO calls upon the concerned willing to address fair competition to do so through discussions over air service agreements, while emphasizing the need to consider sensitivities related to states' sovereignty and the maturity of states' respective air transport sectors.

AACO also calls upon states willing to introduce passenger rights' regulations to adopt clear and transparent regulations that avoid extraterritoriality, consider the distribution of responsibilities among stakeholders in the air transport chain, and maintain the competitiveness of airlines.

On the other hand, AACO calls upon states to avoid imposing aviation charges and taxes which returns are not used to develop the sector in order to avoid the negative impact of those practices on demand for air transport and consequently on national economies.

The third issue is airspace infrastructure which is a priority in AACO's work due to its direct effect on the sustainability and safety of air transport. In that regard, AACO works in collaboration with all stakeholders to enhance this infrastructure according to the priorities of Arab airlines which include enhancing the Air Routes infrastructure and the implementation of Flexible Use of Airspace, fostering the implementation of Performance Based Navigation, and devising and implementing a regional Air Traffic Flow Management mechanism. On this note, I would like to express my thanks and appreciation to the authorities in the United Arab Emirates which implemented a full airspace restructuring program during the past few years. This programme will surely increase the country's airspace capacity and enhance its management. Having said that, it is also imperative to focus on regional collaboration between states in enhancing the

airspace infrastructure in order to reap the full benefits of that project while avoiding the emergence of new bottlenecks in the region or at its interfaces.

The fourth issue is aviation and the environment. In that regard, AACO continues to collaborate with all stakeholders to raise awareness and support the development of a mechanism to implement the Global Carbon Offset and Reduction Scheme for International Aviation in a manner that ensures the sought results while at the same time protects airlines' interests in terms of ensuring the confidentiality of data furnished by airlines for the implementation of the scheme, and ensuring that Carbon markets are not restricted through the adoption of criteria that limit the availability of certificates which will result in raising the price of those certificates, but rather focus on ensuring that certificates are against effective and credible emission reduction.

The second sector on which AACO focused its activities is to provide a platform for Arab airlines to address cost optimization issues in full consideration to applicable competition laws. This has covered activities related to jet fuel, ground operations, Global Distribution Systems, Emergency Response Planning, maintenance operations, flight operations, human resources development, and other areas that members agreed to address.

The third sector is to raise awareness on industry issues where AACO expanded the role of its weekly, monthly, and quarterly bulletins, and that of memos covering developments in the industry and dealt with those developments through AACO bodies. In that regard, I would like to put in your hands AACO Annual Report and the annual Arab Air Transport Statistics publication which is the most comprehensive database on air transport in the Arab world, hoping that you and your teams will find them useful.

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

AACO exists only to serve its members and the air transport sector, and to foster collaboration between all stakeholders in order to contribute to creating a better environment to deal with this dynamic industry which is a power for good to our societies. This would have not been possible without the tremendous support we are receiving from you, our members, and from our partner airlines and industry partners. It also would have not been possible without the great cooperation we are receiving from the League of Arab States and its institutions, and from ICAO and IATA.

Finally, I would like to thank you Mr. Chairman and your team for everything you have done and still doing to make this AGM as remarkable as the previous AGMs. 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 schedules to serve the members and the industry as a whole. My thanks also go to this AGM sponsors. At the end, I would like to thank my colleagues in AACO Secretariat for their relentless efforts and their commitment to our permanent credo:

We are proud to serve you...

