

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

Allow me at the outset to thank the Chairman of the Assembly for the excellent arrangements and the generous hospitality, accorded to all of us by Etihad Airways.

Mr. Chairman,

No one expected what the current year will bring. The world has just ended the first decade of the third millennium with optimism for exiting an economic and financial crisis it had not witnessed since 1929. The air transport industry recorded its best financial results ever in 2010, benefiting from the processes it employed during the last decade, namely restructuring, cost rationalization and consolidation. However, the Arab saying: "winds blow counter to what ships desire" proved to be correct for the ships of the modern age and the backbone of global trade and movement of people: The Airplanes.

Airlines of the world just started their recovery from the global financial crisis of 2008 and 2009 that had the highest toll ever on the airlines, when they found themselves slipping back in 2011 into an economic crisis which began in the European Union but apparently will spread to the whole world. The difference between facing this new crisis and the ones of the last decade is that many airlines have already consumed most of their wits to restructure and rationalize their cost in facing those crises.

And to add to this, airlines are facing escalating costs especially for fuel. In addition, airlines will have a new cost item added to their long list of expenses; carbon emissions cost; which will be there regardless of whether or not the EU ETS will be implemented. Airlines will also have to deal with

rising financial pressure that is out of their control pertaining to taxes, charges and new regulations emanating from the continuous belief of many governments of the world, especially in Europe and America, that no matter how much taxes and charges they impose on this industry, and no matter how heavy the regulatory burden they put exclusively on the airlines, this industry will stay complacent, even if it complained. On the other hand, the industry still lives in a regulatory regime which has not evolved in tandem with the evolution of the regulatory regimes governing other global sectors. These other sectors benefited from the regulators' evolution and are now enjoying regulations that facilitate their work, as is the case with telecommunications and information technology, which form, along with global aviation, the biological parents of the global economy.

The collective impact of those factors will force the industry to face, yet again, a difficult period. The emerging economic crisis, coupled with the ease in which some governments exercise downward pressure on the travel and tourism industry, along with the pressure of a regulatory regime which prevents airlines from consolidating in order to globally spread their exposure to crises, shall coalesce to produce a difficult environment for the airlines, hoping that it will not last long. I also hope that governments will be encouraged by this crisis to abandon some of their unsupportive policies towards an industry which represents the most important component of a value chain that represents 7% of the global GDP, and that supports the creation of hundreds of millions of jobs, whether directly, or indirectly through industries that rely on its existence.

Mr. Chairman,

Ladies and Gentlemen,

2011 was not less "interesting" in the Arab world than what the industry is facing globally. The changes which have taken place, and still are, in this region affect the Arab air transport market which is, by the way, the biggest market for the Arab airlines. We hope that these changes will have a positive impact on this travel market and will give it a new push towards greater development.

In 2010, Arab airlines were able to grow by more than 17% in RPKs, largely exceeding the global average growth. And in spite of the gloomy global

scene, it is also expected that Arab airlines will continue to witness growth in 2011 by 7%. Naturally, AACO members recorded varying levels of growth. There are airlines which grew exponentially, other airlines grew moderately, and few even retracted. The reasons for growth are many. They all emanate though from one source; the Arab airlines' strategy which draws opportunities from crises through developing new markets and increasing their market share in markets they already serve. These airlines understand that information technology and the huge development of telecommunications have enabled the consumer to be savvy, in control of his/her choices and in the driver's seat. And to convince this consumer that his/her choice of these airlines is the correct one, Arab airlines employ the following catalysts:

- Quality of service: offering the consumer what exceeds his/her expectations at all touch points.
- Added value: focuses on making use of a competitive cost structure to offer the consumer exceptional service at competitive prices.
- Geography: Arab airlines benefit from the location of the Arab world between large aviation markets, and with the help of aircraft technology, they offer the consumer the ability to travel from one point to any other point in the world with only one stopover.

Have the Arab airlines been able to achieve this level of global competitiveness on their own without a facilitating role from their governments? Of course not. We in the Arab world are proud that Arab governments, in general, accord the aviation industry its due importance by considering it a contributor, and even an engine for the sustainable economic development. This indeed is the model that needs to be followed by other governments of the world rather than being considered by some as a "Stigma" on the concerned airlines. It is indeed the duty of the governments to facilitate and enhance the growth of their economic institutions and to ensure that these institutions are equitably and fairly dealt with in international circles. This duty is exercised everywhere in the world, at least in getting market access rights for the airlines. However,

some Arab governments play an extra positive role by planning in advance for the development and expansion of infrastructure to accommodate for the expected traffic and to develop their travel and tourism sectors. The fact that Arab governments develop the infrastructure efficiently completes the value chain of the travel services that the Arab airlines constitute one of its important links.

This model of governments developing the infrastructure and facilitating the operations of airlines is the correct one, and is the same role that governments play to develop the infrastructure of other modes of transport. The fact that some governments in the world do not provide the air transport sector with the same facilities as other transport sectors is discriminating against this industry and is indeed the exception to macroeconomics' rules of best practices.

However, the positive position of Arab governments towards aviation does not negate the necessity to complement this position with a number of developments to strengthen the ability of Arab airlines to deal with future challenges. In this context, my viewpoint of the main challenges which the Arab aviation sector will need to deal with in the foreseeable future, in addition of course to the fundamental issues of safety and security, are as follows:

Firstly, the environment:

The Arab airlines pour significant investments in buying new airplanes. Hence, the Arab fleet, which currently counts around 900 aircraft, is the most modern in the world with an average age of 7.3 years. This modern fleet greatly contributes to improving the environmental footprint of Arab airlines. Those airlines are estimated to have an average carbon footprint, in terms of CO₂ per ton-kilometer, 20% lower than the industry's average.

This high ground did not prevent the Arab airlines from actively contributing to the search for solutions to the environmental impact of aviation. In response to the global movement led by the International Civil Aviation Organization (ICAO), and to the unilateral initiatives particularly the one of the European Union in implementing the emissions trading

scheme, AACO developed a framework on how to mitigate the environmental impact of the Arab air transport industry. This framework is based on the principles of the Chicago Convention, Kyoto Protocol, ICAO resolution no. A37-17/02 of 2010, and IATA's four pillar strategy related to the environment.

AACO believes that unilateral and regional environmental initiatives, which ignore the boundaries of their jurisdictions, such as the European scheme, will not succeed in resolving the environmental issue. The environment represents a global concern and should be addressed by global solutions. AACO believes that ICAO is the sole entity that may provide global solutions in the aviation field. ICAO has an established track record of finding global solutions for global issues. That was the case with the liability limits and even in the environmental issue of noise abatement. Airlines in the Arab world want in effect to shoulder their share of environmental responsibilities. But they want to do that within a framework of global solutions respecting the sovereignty of countries over their airspace, and in a manner which will account for the positive environmental contributions by stakeholders and which would ensure that any revenues resulting from those solutions will go to improving the environmental footprint of aviation and not to the governments' coffers.

Secondly, Intra-Arab Relations:

The Arab air transport market affords significant opportunities for growth. The young demographic structure and the ratio of passengers to population pave the way for the development of a travel market which should reach 400 million passengers by the end of the decade from the 130 million passengers expected in 2011. Such an opportunity is conditional upon the proper implementation of the Damascus Convention for the liberalization of air transport amongst Arab countries, and the removal of restrictions on the movement of peoples and goods. It is perhaps pertinent that Arab countries take into consideration, while approaching liberalization, the European experience in terms of committing to specific economic rules and a specific timetable, whereby Arab countries would agree and commit to an executive action plan based on a specific timetable to implement the Damascus Convention. This Convention is the only means to establish a single Arab aviation market and to open up consolidation opportunities for Arab airlines. The fundamental objective of this Convention is not political

but economic, enabling Arab airlines to reach scales and scopes which enable them to play their role in the development of the economy and job creation.

Thirdly, EU-Arab Relations:

AACO has been calling for establishing an Arab European regulatory aviation framework parallel to the Euro-Mediterranean one in order to achieve a declaration of principles which Arab countries and the European Union may be guided by in developing their aviation relations. So far, Morocco and Jordan have already joined the European aviation market. It is evident that this move will be beneficial to the countries concerned at the macroeconomic level. However, it is also evident that it will provide the Arab airlines in those countries with new daunting challenges. The European airlines, especially in the low cost business model, have benefited from their experience in the single European aviation market for a long period of time. These airlines have learned how to deal with the challenges of liberalization. A Euro-Arab framework of principles should take into account a transitional period for the willing Arab countries and should ensure an equitable access to slots for all parties concerned.

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

AACO has achieved its targets of 2010 successfully and is working relentlessly to achieve its 2011 targets in spite of the difficult situation of the industry in the Arab world, which delayed some of AACO's initiatives for few months. However these initiatives were launched and will be completed by the end of the year or early next year at the latest. The success in meeting our targets would not have been possible without your support and the support of the Chairperson of the Executive Committee, Mrs. Ghaida Abdullatif, together with the members of the Committee and the CEOs of member airlines and their assistants. The changes, which were approved by the AGM of 2009 and implemented gradually since last year, by replacing the standing committees with taskforces and steering boards for the joint projects and specialized forums, have improved AACO's work and increased its efficiency tremendously by only holding meetings that are viable and that bring benefit to the member airlines. The contributions of the chairmen and members of the taskforces, the steering boards, and the

forums have been invaluable in achieving our targets. My thanks and gratitude go to all of them and to you, ladies and gentlemen, and to our partners, which this year witnessed the inclusion of Jet Airways and Turkish Airlines as the first two partner airlines of AACO. I would also like to thank my colleagues in the secretariat general for their tremendous and continuous effort.

Mr. Chairman,

I would like to reiterate my thanks to you and through you to all your assistants for hosting the AGM and for your splendid hospitality, wishing you continuous success in further developing Etihad Airways and in enhancing the role of Abu Dhabi as one of the major global hubs of the twenty first century.

Abdul Wahab Teffaha
Secretary General