

State of the Industry By Abdul Wahab Teffaha – Secretary General Arab Air Carriers Organization AACO's 40th AGM

*Your Excellency President of AACO
Distinguished Members and Honored Guests
Ladies and Gentlemen,*

At the outset I would like to reiterate my heartfelt thanks to the President of AACO, Engineer Nachaat Numir for his invitation of the General Assembly to return to Damascus for the fourth time in the life of AACO, and also to thank him and his staff for all their great efforts to make this assembly a special event by all measures. I would also like to add my voice to that of our colleagues in Syrian Arab Airlines in welcoming our members, industry partners, IATA, and other international and regional organizations. In addition of course, we welcome the distinguished speakers who will undoubtedly energize us with their views during the strategic dialogue meeting this afternoon.

Ladies and Gentlemen,

Presenting a report on the State of the Industry, especially in the Arab region, or even in other parts of the world, implicates repetition of previous reports that were submitted either through AACO, or through other Organizations, research centers, and such. Allow me today to break this tradition, and to focus on key topics that were neither routine, nor carried forth from year to year.

In my report to you, I will concentrate on the following topics that have characterized the Arab air transport in 2006 through 2007:

- 1- Size and growth of Arab airlines and their global positioning
- 2- The regulatory environment and development in Arab air transport liberalization and privatization
- 3- The change in the form of international cooperation in air transport, and the need to develop the regional position

First: With regard to the positioning of Arab airlines, I begin to say to our colleagues in the whole world that Arab airlines, especially those that mark high growth rates, who play a global role, and who are turning their major airports into international hubs, I say that we are proud of this growing function. We affirm that this role would not halt. This growth shall continue, regardless of what is said of Arab airlines, for the most part in answer to the prattle about Arab airlines that score exceptional growth rates.

Air transport industry grew in the 20th century in part through some airlines, particularly those in Europe, then in the Far East. Those airlines embarked on a calculated risk, benefiting from their countries' geographic bearing, leveraging their major airports to become hubs between different regions of the world. These companies have grown to become a catalyst in the development of the practical implementation of air transport freedoms philosophy. In turn, Arab airlines in the twenty-first century are taking advantage of their geographical position, high-quality service, ease of transit in their airports, and of the facilities available to travelers to become the global hubs of this century. They are taking advantage of the technological developments in aircraft and engine manufacturing that make air travel from practically any point on the globe to another possible with one stopover. Also, the Arab world hubs are providing a needed alternative for a congested infrastructure while the construction of an additional terminal in a European airport can take more than 10 years, in spite of its indispensability, and that some are voicing ideas to limit the growth of air transport to mitigate the environmental impact. The Arab airlines mostly operate at an average load factor getting closer to 80%. I am sometimes surprised that the blame which befalls some Arab airlines eventuate with calls for the adoption of more liberal international air transport policies. I am puzzled! Is it required to praise liberalization for the benefit of some airlines but not when it benefits the others?

As for financial subsidy, why don't we first agree on the definition of subsidy for airlines? Let us not forget the practices of some governments who fly the highest banner of air transport liberalization, but support their respective airlines through bankruptcy laws, insurance subsidy allocations, or through designating the major airport development to their own airlines. AACO is against operational subsidy for airlines and we believe that the issue of subsidy requires a fair and balanced approach.

Ladies and Gentlemen,

The second issue that I want to emphasize is the evolution of the regulatory Arab environment in the domains of market access and privatization. Despite the good efforts of the Arab Civil Aviation Commission (ACAC), in coordination with AACO, for the gradual liberalization of airspace and the multilateral convention for the

liberalization of air transport, in spite of this, the evolution of the Arab regulatory environment is very slow, except when this development is based on national decisions and national agendas, as was the case for the United Arab Emirates, Lebanon, Bahrain, Oman and a few more countries. The other avenue in the development of the regulatory environment comes when Arab countries are proceeding with regulatory evolution with other regions, as is the case of Morocco and the European Union. The problem in the development of the Arab regulatory environment on the levels of market access and privatization is that we follow the European experience, which is an effective example, but without the constitutional and legal tools that paved the way for it. The absence of these tools will always lead to a significant time lapse between Arab political decisions and their application on the collective Arab level, at a time when resolutions on the national level advance towards implementation with relative speed. The continued absence of such tools and the adoption by Arab states of the regulatory environment development on national agendas only, will lead to diverse environments and a fragmentation of policies, which would preclude the presence of a coherent Arab regulatory environment in the foreseeable future. We as Arab airlines need to have an open Arab regulatory environment and need to deal with others while making full use of the combined weight derived from the regional dimension as opposed to national one.

The third issue that I want to address is the initiative carried out by IATA to Simplify the Business, which included several issues, most importantly was the withdrawal of paper tickets from the market and their replacement with electronic tickets. Indeed, all Arab airlines have implemented electronic ticketing, having, within the framework of AACO, selected their preferred providers; To that effect, the deployment of etickets in the Arab world has reached high levels. However, the implementation of electronic ticketing faced two major problems; the first was to create the necessary interfaces between airlines to carry on issuing interline tickets, and the second problem was enticing Ground Handling agents to adopt techniques that enable them to identify electronic tickets and to issue boarding passes. These issues have proven more complex than had originally been anticipated, which prompted IATA to extend the deadline for the withdrawal of paper tickets from the end of 2007 until the end of May 2008. In the meantime, another issue has surfaced, and it will affect the continuation of interlining between airlines in the electronic environment. For reasons relating to the cost of establishing links, or due to lack of slots by some providers or airlines on the time needed to create those links, or maybe perhaps because of a commercial decision by some airlines to change the existing interline base, it has become evident that some bigger airlines that used to interline with Arab airlines and others, will no longer do so. This will give advantage in the competitive stance of bigger carriers against some Arab airlines.

At no point did airlines expect the withdrawal of paper tickets to be exploited for commercial or competitive advantages, but this is reality, and it should be dealt with accordingly. The positioning of Arab airlines allows them to continue exercising their right to participate in air transport, and to interline, provided they succeed in securing a network of relations that accord them a negotiating edge with some big companies to continue interlining, or to find alternatives of these companies, thus enabling some of the Arab airlines to continue their interline sales without falling into a weak competitive position in some regions. AACO, upon the directives of the Executive Committee, has contacted some airlines to provide this bridge required for the continuation of interlining within an electronic ticketing environment, and to permit these companies to make choices without substantial commercial impact. On the other hand, Arab airlines have held several interline agreements amongst themselves for this very purpose.

*Mr. President
Ladies and Gentlemen,*

International air transport is facing four major additional challenges that will affect the future of this industry on all aspects. The first issue that predominantly takes hold of the attention of airlines around the world, is the global environmental impact of the air transport industry. Recent environmental changes raised the degree of interest in what the air transport industry contributes towards global warming, and brought the issue under the spotlights. AACO supports IATA's efforts to highlight the low contribution of air transport in the emission of greenhouse gases, and the effectiveness of this mode of transport, being the most sophisticated and closest to admissible environmental conditions. However, as far as AACO is concerned, it is important to highlight the Arab airlines' standpoint, which features an excellent record in terms of environmental impact, given that the average age of Arab aircraft fleet is less than 8 years. The Arab fleet is by far the youngest in the world, as Arab airlines continuously replace older aircraft and take receipt of modern ones, with lower engine emissions. Moreover, Arab airlines operate to points where there is no practical alternative to air transport.

The second issue is security, which has turned into a heavy burden on air passengers. Although AACO stresses the need to maintain maximum degrees of caution where security is concerned, we also call on governments worldwide to adopt modern techniques in the implementation of security procedures, replacing some procedures that can be replaced, especially those that cause passenger annoyance, with techniques that serve the purpose without a security risk exposure. The air transport industry, which has invested a great deal to streamline its business, starting with electronic tickets, and issuing "2d" boarding passes to alleviate congestion at airport check-in counters, see their efforts go to waste because

congestion has shifted from check-in counters to security control queues, which to say the least, is counterproductive when it gets to facilitating passenger points.

As for the safety, it is still the first priority for airlines around the world. Arab airlines maintain an excellent safety record, and demonstrate keen interest in periodic checks under IOSA. Many Arab airlines have undergone auditing and obtained IOSA certification, some of them for the second time, and the rest are on the verge of completing the audit before the end of 2007. This shows the strong commitment of Arab airlines, and their regard to safety as a top priority.

The fourth and final issue is cost. With high oil prices and user charges, airlines around the world face great challenges. Airlines have managed to absorb these increases, through passing part of the increase to passengers, and managed through better cost management to take up the other part without significantly affecting the profit margins. It seems that the days when the price of fuel did not constitute more than 10% of the costs are long-over, and it seems that airlines have grasped this and gone further with restructuring costs on these basis, and structuring their revenues according to cost. In terms of charges, IATA remains the most effective tool to deliver the industry's voice to both regulators and operators, highlighting the negative impact of the changes that is not associated with equitable services.

Mr. President

Ladies and Gentlemen,

The fortieth AACO session has been one of the most impetus terms for AACO. The Regional Training Center has doubled its activities, and the number of trainees reached 12,000 trainees, mostly in the last five years. Upon the directive of the General Assembly, AACO pressed on collective negotiations on electronic ticketing, reservation systems and departure control systems, as well as the future relations with Global Distribution Systems and lastly, payment gateways. AACO was very successful, and you will see in the special AACO members meeting the detailed results of this work, all of which gives an added value in excess of US\$ 150 million annually to work within the framework of AACO. AACO continues the Joint Fuel Purchasing as one of the major projects, and embarks with a more comprehensive deal with market information data. not to forget Arabesk that has become a major tool for 9 of AACO members to build up network cooperation, and also remains an important tool for building relations with other airlines. Work has started on the Technical domain, in the area of emergency response programs and the areas of maintenance and engineering. The committees and task forces today play an active role in the service of members, and provide added value for their teamwork.

Mr. President

Ladies and Gentlemen,

At the end of my report I would like to pause for a moment to thank the President and members of the Executive Committee, and the Chief Executive Officers of member airlines for their support and patronage to AACO and to its functions. I would also like to extend my thanks to the Chairmen and Members of Committees and of the Task Forces; especially the Customer Systems Task Force, which for over two years dealt continuously with complex and tough issues, and have come to a resounding success. I would also like to thank all our industry partners who have placed their trust in AACO, and who have extended their support to AACO and its members to provide better services. I also thank all my colleagues at the AACO Secretariat General for their distinctive efforts during this term.

Also, allow me to offer on behalf of AACO to Engineer Nachaat Numir, the President of the 40th term, and the Chairman of the Board of Syrian Arab Airlines, a commemorative gift, thanking him for his efforts, guidance, and wisdom that marked his presidency of AACO, and to thank all his staff of Syrian Arab Airlines for all their efforts to make this session worthy of Damascus and its future.

Abdul Wahab Teffaha
Secretary General