



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

Your excellencies

Mr. Chairman

Ladies and gentlemen,

Fortunately, the forecasters who predicted that air transport activity would not return to the 2019 levels before 2025 or 2026 were incorrect. The reason for that is simple. The party that closed borders and airspace, and actually prevented people from traveling, realized that complete lockdowns and airport closures did not prevent the spread of the Covid 19 virus, and if anything, it contributed to a sharp economic decline, the loss of tens of millions of jobs, if not more, and the loss of skilled personnel who will be difficult to quickly replace. While expectations were that the traffic will go back to 2019 levels in 2025 or later, it is expected now it will be exceeded in 2023.

Despite the fact that the air transport industry has become used to dealing with recurrent crises, particularly in the previous three decades, yet the crisis caused by the pandemic is unprecedented since the beginning of commercial air transport in the world. This is the reason why we are still 17.6% less than when we were in 2019 in terms of RPKs, 8% less in the number of jobs, 7% less in terms of revenues, and 40% less in tourists' numbers, despite the immense activity that we have witnessed in 2022. Unfortunately, the only element that has exceeded 2019 level was fuel prices which have surged by 57.7%. The War in Ukraine, in particular, led to a sharp increase in all prices, and more harmfully, a huge widening in the crack between crude oil and JET A1 prices. This crack expanded from

around 7\$ per barrel in 2021 to more than 55\$ per barrel in June and 44\$ more recently.

On the other hand, a new crisis is looming on the horizon, that is in the escalation of inflation rates, coupled with the increase in oil prices and the geopolitical situation. The increase in oil prices is not represented only by the increase in its market levels. An additional burden is also due to the appreciation of the US Dollars versus other world currencies, which led to a tangible increase in the operating costs at a time when airlines are struggling to reach an equitable yield that may compensate for what they have lost and continue to lose because of the COVID crisis. The high inflation rate, which is reaching about 10 percent in 2022, augers a contraction in economic activity, which will have a detrimental influence on the airlines' efforts to exit the crisis.

Therefore, Mr. Chairman, Ladies, and gentlemen,

The air transport industry is barely sensing its way out of the darkest crisis. Unfortunately, we are still far from going back to a healthy and sustainable economic situation.

Mr. Chairman, Ladies, and gentlemen,

Surpassing a crisis does not mean ignoring the past and focusing solely on the future. For, if there is any benefit from a crisis, it is learning from its lessons and transforming it into an opportunity to come back stronger than before through enacting specific measures drawn from the lessons learned so that we not only gain experience from them, but also use them as a springboard to compensate for what was lost and expand future benefits.

Accordingly, and in my opinion, there are two main lessons from the COVID crisis:

The first is in how the governments deal with a global crisis.

There is no doubt that everyone was surprised by the gravity of the COVID pandemic. Therefore, we must always be prepared for such an event. Hence, we call upon governments, individually and through the international governmental organizations, not to forgo the lessons of the COVID crisis and take the following steps:

1. Revive the international health certificate in a digital form.
2. To call upon governments to adopt the CART guidelines, developed by ICAO and WHO, and ratify them as standard procedures based on scientific criteria and corresponding risk management.
3. To avoid taking unilateral measures regarding air services.
4. To respect the international air services agreements, (bilateral or multilateral), and abide by their provisions when having to impose any urgent health measure for air travelers from any territory of the parties of those agreements.

Since April 2020, AACO, in collaboration with ACAO, ICAO, and IATA, has tried to arrive at international standards that may be adopted by governments in a manner that makes biosafety procedures harmonious, transparent, and clear to travelers. Despite this collaborative effort delivering specific recommendations within four months of that date, unfortunately, many governments chose the unilateral path and made air travel difficult and complicated.

The heavy price paid by the global economy and peoples, in terms of losing jobs and altered livelihoods, urge governments not to overlook what happened. There are safety and security standards that are universally recognized. Why not have universally acceptable biosafety standards?

Indeed, ICAO latest Assembly has adopted a resolution that is in line with the above requirements. We strongly support this resolution, and we call upon its implementation in a speedy manner.

The second lesson is the level of technological advancement, not only on the scientific level, which enabled scientists to develop vaccines against the virus in only nine months, whilst it used to take years and even decades to do so; the technology advancement has changed the lives of many people in how they behave, how they conduct themselves, and how they interact with technology as a facilitator for livelihoods and a means for its continued existence. People have shown a willingness to embrace digital technology to ensure that their livelihoods are sustained, and their needs are satisfied, despite the presence of physical barriers to their mobility. People have

transformed their shopping behavior into a digital one and, although temporarily, people adapted their gatherings to become digital.

Digital transformation is at the top of the priorities of the industry as a group and as individual airlines. Airlines have made a number of strides to transform their dealings with the customer from physical interaction to digital one. They phased out paper tickets in 2008, installed check-in kiosks at airports, and developed digital portals to sell their products and facilitate customer relations within the technological boundaries that are still predominant in the aviation world.

Digital technology on its own has gone bounds and leaps beyond the environment in which the air transport industry lives. Airlines are in an urgent need to work in a digital ecosystem based on two important elements that are: decentralized processing and modular capabilities and dealing with the customer as a human being rather than a number.

IATA has developed an excellent vision under the banner of “Offer and Order”. It includes a substantial transformation on all levels that would require reforming the digital infrastructure of airlines and travel stakeholders.

To be more specific in identifying the areas of AACO’s work in this discipline, according to the directives of the Executive Committee, AACO’s focus is around the following areas:

1. Digital transformation at the level of the customer, so that the relationship between the customer and the airline becomes resident in a travel market environment in order for the customer to fulfil all his/her requirements in one location rather than jumping from one to the other.
2. Knowing the customer by his or her digital identity so that the relationship with the data of that customer does not end by the end of the journey but is used to build a dynamic relationship with him or her.
3. Governments need to recognize digital identity in an interactive way so that travel can be processed by changing the physical validation to a digital one. Modern technology assures almost perfectly that a digital ID is much more immune to manipulation than a paper one which can be easily forged. Ensuring the bona fide nature of the

traveler and the authenticity of his or her visa in a digital, decentralized and secure way would also ensure relieving that customer from the burdens which we have come to know all too well during the COVID crisis and the huge complexities that emanated from it.

Moving to a completely digital environment will have a transformative effect on how airlines interact with their customers, replacing the centrally static interaction that has been the norm for the past six years with an interactive one that matches the aspirations of the customer with the currently available and state of the art technology.

Mr. Chairman, Ladies and gentlemen,

The lessons learned through COVID must not lessen the magnitude of the challenge that humanity faces today, namely climate change. Dealing with climate change and its devastating impacts affects us, along with every other industry and every person on the planet.

The issue of climate change as it pertains to air transport is based on three primary pillars:

❖ **The first pillar is the long-term aspirational goal of the air transport sector**, in which the aviation industry committed, whether at the level of AACO or IATA, to set an aspirational goal of achieving net zero carbon emissions by 2050. In addition, the Montreal high-level meeting in July issued a statement that was recently adopted by ICAO Assembly and included a set of principles that ICAO members will use to develop an integrated framework for achieving this aspirational goal.

But let's take a moment to assess the challenge of this goal. Zero net carbon emissions by 2050 is a target that necessitates the availability and integration of the four components listed below:

- 1- **Development of engines and aircraft technologies** that contribute between 25 and 30 percent to the net reduction of emissions. This is attainable but demands considerable investments from stakeholders, yet greater government funding for research and development is

required so that the final product's price is not so high as to place a significant financial strain on airlines.

- 2- **Sustainable aviation fuels:** The development of engines without CO₂ emissions is under development. However, it is known that this technology will be limited to only small and narrow-body aircraft for short-haul flights. This is a solution for 20% of the emissions if the entire fleet of small aircraft were to be replaced. 80% of emissions come from flights which cannot rely on this technology by 2050. Therefore, sustainable aviation fuels of all types, including low-carbon fuels, are the only option for these flights. The industry also needs governments' assistance and investment within the scope of ICAO-adopted criteria for sustainable fuels. If this is not implemented, the usage of sustainable fuels will be so expensive that it will have a drastic impact on the air transport sector.
- 3- In many countries, **airports and airspace infrastructure** management is a complicated structure that raises emissions by at least a global average of 6 percent. Since this is a sovereign matter, resolving this issue and contributing to the quick reduction of air transport emissions will provide a powerful push for achieving the objective of net zero emissions. It is fair for some governments to impose on customers and operators, the costs of their failure to fulfil their obligations and demand that these parties pay the price for their incompetence.
- 4- **The first three contributors are hoped to be the solution.** However, in the various scenarios analysed by ICAO, IATA, and AACO to achieve net zero emissions by 2050, it was obvious that airlines will need to buy carbon offsetting certificates to close the gap between the emission reductions to be achieved by the first three contributors and the actual goal of zero emissions. Buying carbon offsetting certificates would represent an additional burden that will not be resorted to unless the other contributors fail to meet their obligations to contribute the maximum that they could. In this field, we have two options: either governments, manufacturers, and suppliers of all types of sustainable aviation fuels do what is necessary to enable airlines to meet the 2050 goal at the lowest possible cost, or airlines meet the goal while bearing huge financial burdens that will put pressure on the travel market and negatively affect the economic growth and job opportunities.

We've all seen how the COVID pandemic's disruption of air travel wreaked havoc on the economy and jobs. Imagine, for example, that the decline in aviation activity is not due to a pandemic, but rather to high costs that exceed many consumers' ability to continue traveling.

❖ **The second pillar refers to the short-term goal**, specifically the "CORSIA" global scheme, which was adopted by the ICAO Assembly in 2016 for implementation beginning in 2020. The latest ICAO Assembly decided to use 85 percent of 2019 emissions as the baseline, with emissions over this level being compensated from the beginning in 2024. It also decided to lower the individual obligation to offset emissions from 20% to zero between 2030 and 2032, and from 70% to 15% between 2033 and 2035. Our hope was the adoption of emissions of 2019-only as the baseline instead of what was originally agreed upon in the ICAO assembly resolution of 2016, which is the average for 2019-2020. When ICAO adopted Resolution A39-3 in 2016, it was assumed that this average would be a higher line than in 2019 alone. However, the onset of the pandemic and consequently the 80% decline in operations made the inclusion of the year 2020 very costly for airlines. Although we were in favor of emissions of 2019 only, even though it is below the average that was within the original design elements of CORSIA, we always believed that reaching an agreement in ICAO on a baseline would outweigh the consequences of not having an agreement which would result in having the worst option, which is the average of 2019 and 2020. Despite the fact that the recent decision entails additional costs on the airlines captured by CORSIA, however, it is still much preferable than having no agreement.

❖ **Third pillar: proper sustainable aviation fuels regulations**

The transition of the aviation industry from total reliance on fossil fuels to sustainable fuels requires not only investments and time for this fuel to become commercially and competitively available, but also the following fundamental conditions for it to be the most effective means of decarbonizing air transportation:

First, governments incentivize airlines to use sustainable aviation fuels by removing associated taxes and fees, hence reducing the price of SAF.

Second, governments must agree on international standards to account for all airline certifications.

Third, allowing airlines to use Book & Claim without any geographical restrictions.

Fourth, the harmonization of sustainability criteria to accredit and certify sustainable aviation fuels as eligible aviation fuels, and if harmonization cannot be achieved, all stakeholders' sustainability certificates must be recognized.

Mr. Chairman, Ladies & Gentlemen,

Air travel has become an essential part of the human life. It is a major contributor to economic growth and a major job creator, not only in the air transport sector but also in other industries that consider this sector their backbone, such as the tourism industry. In recent years, the industry has been severely hit. However, it has proven that it is the first choice for employment, tourism, visits, education, exploration, and human interaction. Many have believed that virtual means will replace business trips, meetings, and conferences. How incorrect they were! We were born to meet and interact with one another, hence there is no alternative to this industry or to its primary function in society.

Your Association has endeavoured to assist its members and the aviation industry as a whole during the crisis, as it has played a major role at various levels and in collaboration with the Arab Civil Aviation Organization, ICAO, IATA, and other stakeholders in an effort to mitigate the effects of the crisis. We hope that our efforts met your expectations. Even though there were instances when we were unsuccessful, we never gave up trying. For this, I would like to thank the AGM Chairman for presiding over our General Assembly, and I thank my friend, Tony Douglas for all the support provided to AACO during this session. Also, the members of the Executive Committee for their ongoing efforts to guide the work of AACO, and all members' CEOs, colleagues of the various AACO Steering Boards, and Task Forces who have always lived up to the responsibility that we have all shouldered. I would also want to thank my colleagues at Etihad Airways for their efforts and hosting and organizing this special event, as well as the AGM sponsors and our partners from airlines and industry for their unwavering support. In closing, I want to finish by thanking my colleagues in the Secretariat General for their dedication and passion in serving our

members, partners, and the industry as a whole. We have always been very proud to serve you and will continue to do so.

Abdul Wahab Teffaha
Secretary General
Arab Air Carriers' Organization