State of the Industry
58th Annual General Meeting

by
Abdul Wahab Teffaha - Secretary General
Arab Air Carriers' Organization (AACO)

Your Excellency Mr. Abdelhamid Addou, Chairman of the General Meeting of the Arab Air Carriers Organization,
Your Excellencies,
Ladies and Gentlemen,
Our Distinguished Guests,

First, I would like to reiterate the gratitude of the Arab Air Carriers' Organization for the high patronage of this AGM by his Majesty King Mohammed VI, may God support and bless him. I also wish to thank Royal Air Maroc, led by Mr. Abdelhamid Addou and his team, for inviting the AGM to Rabat, and for the excellent hospitality that was accorded to all of us. My appreciation also goes to the representatives of the international and regional associations, as well as the esteemed industry leaders who will be part of our proceedings today.

Mr. Chairman,
Ladies and Gentlemen,

The air transport industry has completely recovered from the severe recession it endured between 2020 and 2022. This industry's activities have exceeded its activities in 2019 in some regions by the end of 2023. In 2024, those activities recorded growth over 2019 across the world. The industry was able to score record results in two key areas along its recovery path, the first is at the level of passenger load factor, and the second is at the level of total revenues versus total costs.
At the industry level, after surpassing 2019 RPKs in 2024, traffic is expected to grow by a further 5.8% in 2025 compared to 2024. The industry's passenger load factor is expected to reach 83.9% in 2025, up from 83.5% in 2024. As for the Arab airlines, RPKs are expected to grow

by 4.3% in 2025 versus 2024, with passenger load factor rising to 82.3% this year compared to 80.56% in 2024. Those results enabled the airlines of the world to achieve an operating margin of 6.4% in 2024, expected to reach 6.7% in 2025. Arab airlines, after recording 12.2% operating margin in 2024, are expected to reach an 11.8% margin in 2025.

However, there are several challenges that the industry is facing. I will start with the immediate challenge that the airlines are dealing with today, which is supply chain disruption. The backlog of orders by airlines with the manufacturers has increased from less than 7,000 aircraft in 2019 to 17,000 in 2024. In 2019, 1,611 aircraft were delivered, while only 1,422 aircraft were delivered in 2024. Accordingly, the ratio of retired aircraft versus new deliveries decreased from 44.4% in 2019 to 40.6% in 2024. The situation with the Arab airlines is the same. The percentage of retired aircraft versus new entries went down from 14.9% in 2019 to 8% in 2024. This means that the fleet of the airlines around the world is getting older, which leads to increase in maintenance costs, higher fuel consumption, and thus to greater environmental footprint.

On another front, and as part of the challenges we are facing, we see an insurgence of trade barriers, which has contributed to a slowdown in air cargo activity, coupled with ongoing geopolitical tensions, these factors have placed additional pressure on air cargo operations, including those of our member airlines.

Mr. Chairman,
Ladies and Gentlemen,

What I have mentioned so far represents the main and immediate concerns that airlines are facing today. Yet, another challenge is emerging and proliferating. That is the sustainability challenge.

It is important here to recall that in 2010, the IATA AGM issued a resolution calling for carbon-neutral growth as of 2020 onwards. This decision was the prelude to ICAO's adoption of a strategy in sustainability at its assembly in 2013, which paved the way to adopting CORSIA at the ICAO Assembly 2016. With the 2010 Resolution, the air transport industry was trying to avoid a patchwork of environmental measures. The indication of the possibility of a patchwork started with the EU declaring that it would apply the EU ETS to all international flights into and out of the EU, which created several disputes due to its extraterritoriality. It is also pertinent to remember that ICAO's resolution about CORSIA of 2016 has identified 4 pillars to achieve carbon-neutral growth as of 2020:

1- Technological advancements in airframes and engines.
2- Operational improvements through operational efficiency by airlines, and the development of infrastructure in airports and air traffic management.
3- Production of Sustainable Aviation Fuel.
4- Introducing market-based measures through offsetting international aviation's carbon emissions.

As we are now in 2025, approaching the end of the first phase of CORSIA, which is from 2024 to 2026, let's see what happened at the level of those 4 pillars:

1- It is obvious that technological advancements, despite the great efforts of our partners, the aircraft and engine manufacturers, will not provide the airlines in the medium term with the breakthrough needed to substantially reduce their environmental footprint.
2- In spite of airlines doing everything in their powers to improve their operational efficiency, states, on the other hand, especially in congested areas, and in particular in Europe, have not implemented what they had decided decades ago on the Single Sky (SESAR) and expanding airport infrastructure capacities, which could have led to an immediate reduction of emissions by at least 10%.
3- When it comes to supporting the production of Sustainable Aviation Fuel, there are two contradicting patterns that have been employed so far: The first is what the USA is doing through incentivizing the production of SAF, which indeed led to higher levels of production, so far. The other pattern is employed by the EU, which decided to set targets for suppliers to comply with, and penalties on the suppliers if they do not deliver those targets. Those penalties were immediately passed on to airlines and then to customers. The European pattern resulted in delivering only 60% of the quantity of SAF that the European air transport aviation requires in 2025. It is highly unlikely by 2030, when the mandate of supplying SAF increases from 2% this year to 6%, that the gap that exists between what is required and what is available will be filled.
4- By the end of 2025, the industry will need to comply with CORSIA, offsetting 121.4 million tonnes of CO_2. The available offset

certificates, that received all the necessary accreditation from the states concerned, are 18.4 million certificates only. Despite the announcement of many projects that can produce offset certificates, if the certificates are not accredited, airlines will not be able to use them. Therefore, and since the current available number is 18.4 million, airlines captured by CORSIA should offset 103 million tonnes for 2024-2025, by using the other tool for reducing emissions, which is SAF. This requires 38.4 million tonnes of SAF with a minimum carbon intensity of 85%, while the available certified CORSIA SAF is around 182,000 tonnes. The situation will be more severe by the end of Phase One of CORSIA by the end of 2026, if no additional carbon offsets become available, through states' processing the necessary accreditations according to the Paris Agreement and CORSIA, which so far have not been finalized. It is pertinent to mention here that offsetting 1 tonne through SAF will cost around $950, while doing that through offset certificates will cost around $25 only.

What is even more important than all of what I have mentioned is that states had unanimously agreed that CORSIA shall be the only sustainability measure for international civil aviation. The reality is that this commitment has not only been ignored by several governments, but rather the unilateral and regional initiatives through SAF targets, mandates and penalties, which are, to say the least, not realistic. This patchwork, which we all tried to avoid by having CORSIA, has been given a boost by GFAAF through calling on states "to use a toolkit… that includes targets and mandates".

Add to all the above, the varying standards of SAF. SAF according to ICAO's standards is not considered SAF according to the EU, and vice versa. This situation will compel airlines to shoulder a double burden with respect to their flights departing out of the European Union to third countries. As under the requirements of the REFUEL EU, a portion of the fuel uplifted at European airports should include sustainable aviation fuel. Thus, airlines will pay for this sustainable fuel and, in return, receive proof that they have reduced their emissions using EU sustainable fuel. However, these airlines will also be required to offset the same emissions that were reduced through using EU SAF by buying CORSIA certificates or CORSIA SAF, to cover the same emissions previously reduced by SAF produced in accordance with EU standards. For instance, by the end of 2025, Arab airlines will have paid for 182,000 tonnes of sustainable fuel used on their flights departing from the European Union to other countries and will have received emission reduction certificates equivalent to 490,000 tonnes. Yet, since these certificates are based on sustainable fuel produced in accordance with EU standards rather than CORSIA standards, they will be obliged to purchase additional offset certificates or CORSIA-compliant sustainable aviation fuel to cover the same emissions, at a cost ranging between 12.3 and 465.5 million dollars.

Mr. Chairman,
Ladies and Gentlemen,

The expected result of all the foregoing will be an increase in the total costs of the industry by 8.8% in 2030, and by 12.9% in 2035. This increase will lead to suppressing the growth of the industry, and to reducing its contribution to economic development and job creation. Let's not forget Travel and Tourism contributes 10% in the Global GDP, and 10.6% in job creation, with a carbon footprint that represents 2.5% of the global carbon emissions.

As if this is not enough, some governments are considering imposing additional taxes on travel to finance aids to developing nations to deal with climate change effects, ignoring that the Chicago Convention of 1944 gave ICAO, which is doing a sterling job, the exclusive jurisdiction over international aviation affairs. Demonstrating once again ICAO's distinguished work, its latest Assembly recognized the production of Lower Carbon Aviation Fuel (LCAF) as one of the key tools for achieving environmental targets, particularly in meeting CORSIA requirements. ICAO also called for accelerating the development of LCAF standards and the start of production of this type of fuel.

Airlines are committed to take responsibility for their environmental footprint. What we hope and wish for is that other stakeholders, particularly states and energy suppliers, assist the airline industry by putting their end of the equation in place.

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Mr. Chairman,
Ladies and Gentlemen,

Guided by the Executive Committee, AACO conducted several activities that will assist its members in dealing with their concerns, listed hereafter:

1- **Sustainability Requirements:**
The current and future profile will include new dimensions: Part is required to meet the obligations of the global, regional and national sustainability requirements, and the other part is required by the customer, both individually and at the corporate level with regards to the industry's environmental footprint. To deal with the first part, SITA, in cooperation with AACO, developed the ECO MISSION solution, that is being deployed with an increasing number of airlines, to enable the airlines to manage their day-to-day operations, with the optimum balance between costs and environmental regulatory requirements. The other side of the equation, which is dealing with consumers, we have achieved through a landmark cooperation between 2 aviation technology providers to develop an end-to-end solution that will enable airlines to manage their flights optimally and be transparent with customers with accurate and credible data. Those 2 companies will announce later this morning the start of that cooperation.

2- **Digitizing the Relationship with Customer:**
AACO has addressed digital transformation through the establishment of the Digital Transformation Taskforce, so that airlines use state-of-the-art technologies in the processes that start from the booking, issuing the boarding tickets, completing the check-in procedures, going through the border control and expanding that gradually from the hub airport onto the network of the airlines concerned. AACO cooperates in this area with Amadeus and SITA to implement that transformation by members.

3- **Transformation of Sales Ecosystem:**
Based on IATA's Offer & Order initiative, AACO, through the DTTF, is designing a roadmap for airlines to be able to benefit from this

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paradigm shift gradually, and through adopting the best of breed from various service providers.

AACO, on the other hand, continues to work to assist the members in achieving better economics through several joint projects which include GDS deployment with Amadeus, Fuel, Maintenance, Repair and Overhaul (MRO), Emergency Response Planning (ERP) and Training through our Regional Training Center (RTC).

AACO will continue to empower and expand its analytics, to spread awareness about important industry issues through its various publications and reports about industry development.

Lastly, AACO continues to be the voice of the members through cooperating with other stakeholders, first of which are the Arab civil aviation authorities, through the close cooperation with ACAO, and through cooperation with ICAO, IATA and other international and regional associations.

Mr. Chairman,
Ladies and Gentlemen,

I also thank the Chairman and members of AACO Executive Committee for what they did and are doing in serving all AACO members and the global aviation industry through their commitment in supporting our joint work. I also thank all the AACO member airlines and their representatives at AACO working groups that are at the roots of AACO’s activities and efforts. In addition, I thank the sponsors of this AGM, our partner airlines, and industry partners, for all the support that they provide us with so AACO can play its role and its reason for existing and that is to serve its members and the air transport sector.

I would like to invite you all to review our Annual Report and Annual Statistical bulletin which are of course available in electronic form through AACO’s App on your phones and tablets.

Finally, I wish to reiterate my thanks to the colleagues at Royal Air Maroc, led by Mr. Abdelhamid Addou, for their work and for hosting this special event, and to my colleagues at the Secretariat General for their dedication to work and their constant mindset that our mission is to serve our members and do what brings them benefits. Just as I am proud of leading their work, let me say to you on their behalf that we are all proud to serve you.

Thank you.

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