State of the Industry
Speech by Mr. Abdul Wahab Teffaha - Secretary General
Arab Air Carriers Organization
43rd AGM - Cairo 20 October, 2010

Your Excellency Eng. Hussein Massoud, Chairman of AACO
Your Excellencies,
Ladies and Gentlemen,

Allow me first to reiterate my thanks and appreciation to his Excellency Eng. Hussein Massoud, who has accorded AACO special attention and efforts in guiding its business as AACO Chairman, and particularly as Chairman of the Executive Committee. This attention was also coupled with tremendous efforts in making this General Meeting unique from all angles. We truly feel that the slogan Egypt carries to promote tourism, "You are at Home" is actually more than a slogan, it is rather a reality. I also extend thanks and gratitude to members, speakers, guests, partners and the press corps for participating in this gathering which is one of the largest AACO has ever seen.

Mr. Chairman,
Ladies and Gentlemen,

We have put in your folders, as usual, the Annual Report of AACO which sheds light on the issues that the Air Transport Industry deals with, and the role of AACO as an instrument in the hands of its members to deal with those issues. We also included in your files the Arab Air Transport Statistics (AATS), hoping that these two documents will deepen your knowledge of AACO and its members.

Mr. Chairman,

Apparently it is the destiny of the Air Transport Industry to live in "interesting times". A Chinese saying which goes like "May you live in interesting times" is almost universally thought of as more of a curse than a call for bliss. Indeed the "interesting" period last year and beginning of this year was multifaceted; On the one hand we were witnessing the worst economic crisis the world has seen since 1929. On the other, we were also anxiously awaiting the end of 2009 to see if COP 15 of the UNFCCC will produce an agreement. Simultaneously, we were dealing with a more congested and archaic global infrastructure, and also with service providers for that infrastructure who are quite complacent and content, especially in
Europe, that they can impose whatever charges they want on airlines, and that the latter party needs to absorb these charges in complete peace. However, what we haven't expected during that period is a natural occurrence which was handled with extreme heavy-handedness bordering on irresponsibility by the European Authorities.

The Iceland volcano eruption came, hopefully, just as the last act for a decade full of one crisis after the other that befell an industry knocked seriously off-balance but ultimately remained on its feet because there are people in it who are able to extract opportunity from crises, and because it is an industry that is irreplaceable.

Therefore, I would like to start my report where I finished off last year. The Global Economic Crisis refocused the attention on certain realities which perhaps became blurred during the modern times. We have seen governments focusing on revitalizing their national institutes and bailing them out of the crises, effectively creating the tools that would jump-start their national economics as a first priority. The second priority was for governments to deal with the immediate neighborhood because any continuation of a crisis in that neighborhood will adversely impact the economic stability of that region, as we have seen on how the European Union dealt with the Greek economic crisis. The globality of this crisis was the result of the globality of the institutions that created it. Perhaps that is the reason why the push towards globalization has somewhat, retracted, unfortunately so, leaving governments today focusing on their national agendas. In the same token and in spite of the liberalization principles and policies thereon, we have heard some of the air transport leaders calling for the restraint of the growth of other airlines who have already extracted new opportunities from the crises, advancing their global competitiveness. Those leaders based their restraining calls on nationalistic ideas which we industry people believe are relics of last century rather than valid ideas for the 21st one. That makes us wonder: are the calls for globalization and freedom of market access and of ownership only valid when they fall in the interest of certain airlines, and invalid once other airlines benefit from them? Are those leaders actually calling for a return to providing customers with choices based on the flag that the airline carries rather than the value it delivers to them?

AACO has approved at its last General Meeting a resolution calling for the support and implementation of the Istanbul Declaration, and the Agenda for
Freedom which IATA initiated. This Agenda calls for the removal of obstacles from market entry and the national ownership of airlines. Many governments around the world, some Arab, have responded positively and signed the Montebello Declaration showing commitment to the principles of this Agenda. On top of the list of countries that signed this agreement were the European Union and the United States. Accordingly, we expect the European Union and the United States, the flag bearers for liberalization, to maintain the course and to show the world that the principles of the Agenda for Freedom are pursued for the interest of the citizens of the World, and not solely for the economic interests of their own airlines. It goes without saying that the implementation of this Agenda needs to take into account the maturity of the markets and airlines in the developing countries of the world, and their timetables for the implementation of the liberalization principles which respond to their macroeconomic and social requirements so that the implementation of free market access and removal of ownership restrictions does not clash with the higher national interest. However, it becomes awkward that calls for restraint are coming from mature airlines in long established mature markets and in countries that were always the spearhead for removal of market entry obstacles. These airlines are now complaining because they are no more competitive in a business model they themselves have created and followed for decades. Actually the Arab airlines did not create that model but only replicated and improved it. It is not fair for the calls for liberalization to be quickly forgotten and actually reversed when these airlines are no more the only beneficiaries from liberalization and when their cost structure is putting them in a disadvantageous competitive situation. Sometimes we hear accusations that Arab airlines, or some of them, are subsidized, although the overwhelming majority of those airlines are audited and their financial statements are made public. There is nothing in those statements to indicate a governmental subsidy. As for the case of the other Arab airlines that are new entrants and are being capitalized by their governments; Is being a government-owned airline, newly established and capitalized by its owners a unique occurrence for the Arab world? Was it not the case in Europe before privatization? Were not some of the major airlines in Europe given billions of dollars to restructure in spite of the fact that they were not new entrants? On the other side of the Atlantic, isn't Chapter 11 of the Bankruptcy Law providing protection from debtors, a sort of legal subsidy? The Arab airlines continue to grow and to be profitable because they provide the consumer with value for money, high quality product, convenient network, modern aircraft and ease of transit in modern airports which contribute to the consumer's delight by complimenting it with a nice shopping experience. And to respond to the question why the Arab airlines are able to
compete on price, I have the following answer: our cost structure is much lower than our competitors' due to four major reasons: Firstly, our modern fleet consumes a lot less fuel and hence contributes in lowering the cost in the biggest cost item which the airlines have. Secondly, we have lower cost for human resources, including social cost simply because more than 50% of the Arab population is younger than 25 years of age, and hence the human resources market is very competitive. Thirdly, the Arab world enjoys an investment friendly tax environment which again contributes to lower cost, and finally the Arab airlines do not have to spend almost 20 minutes on average to take off or land in Arab airports in every one of our flights because we do not have congestion in those airports. That's why we are able to maintain a competitive pricing structure and not because the airlines are subsidized.

Let us also look a little at the other side of the coin which is the macroeconomic value we provide to the developed economies of the world. Arab airlines provided a safety net for the manufacturers during this crisis. They also contribute towards the creation of thousands of jobs in countries where some of the airlines who want to restrain the growth of Arab airlines are located. Arab airlines will continue to grow and to play the role that other airlines used to play in the past century by turning Arab airports into the hubs of the 21st century. The Arab airlines are not at fault in maintaining a rationalized cost structure as opposed to the high cost structure that has accumulated over time at airlines that are calling today for our restraint. At the end of the day, Arab airlines’ contribution to the world is to provide the customer with value added services at competitive prices in a world where the customer is now in the driving seat, so let the customer decide.

Mr. Chairman,
The other major issue which we are still facing today is the issue of the airlines' environmental footprint. As I said earlier there were high hopes attached on COP 15 in Copenhagen under the UNFCCC. Perhaps the failure of this conference to reach a compromise between the historical and cumulative responsibility of the advanced economies in climate change, and the needs and requirements of developing nations has provided a breathing space for aviation to deal with this issue through the only forum which can deal with the global issues of aviation, that being the ICAO. Pace has gathered during the last months to reach a global scheme on the issue of aviation's effect on climate change in ICAO.
This pace was crowned by convening the 37th Assembly between 28 September and 8 October 2010. Indeed, the Assembly required all this period and until its last day to agree on a resolution about Climate Change, albeit with reservations by many countries.

We went to this Assembly in Montreal under the banner of a unified industry position with a number of principles and three specific targets: an average efficiency improvement of 1.5% per annum; industry Carbon Neutral Growth after 2020; and halving the industry emissions in 2050 over 2005 levels. We also went to the assembly with two requirements: that any global scheme by ICAO should include special measures for airlines in developing nations, and should recognize achievements done by airlines which have invested in their fleets before any global scheme starts. Since Arab airlines belong to developing nations and operate very young fleets, we had special interest in the last two merits, of course while supporting the industry targets. We also went to this event with high coordination and cooperation with the Arab Civil Aviation Commission, which convened more than three meetings with AACO for coordination purposes.

No doubt that the differences in the positions voiced at COP15 were all witnessed at the ICAO event. However, the huge effort done by the Presidency and the Secretary General of ICAO has led to a positive breakthrough in this area, despite reservations raised by many states. The following are some of the manifestations of this positive breakthrough:

1. The UNFCCC’s recognition of ICAO as the right framework to deal with international aviation and the environment.
2. General agreement on short term targets and medium and long term aspirational targets on the basis of a global annual average fuel efficiency improvement of 2% until 2020, and an aspirational global fuel efficiency improvement rate of 2% per annum from 2021 to 2050, and that states to strive to achieve a collective global aspirational goal of Carbon Neutral Growth from 2020 at the same level.
3. Finding a set of solutions to deal with the special circumstances of developing nations, whereby the Assembly decided in Article 15 of the resolution to exempt airlines of any country that does not represent 1% or more of total revenue tonne kilometers from Market Based Measures to mitigate their emissions, noting that all Arab countries, except for the UAE and Qatar, fall below the 1% threshold. In this regard, our view is that dividing developing countries according to their contribution was not the optimal solution for implementing the principle of Common But Differentiated Responsibilities for the
aviation industry. We would have liked to see special measures for all airlines of developing countries while implementing the principles of the Chicago Convention to carriers from developing and developed nations under the same operating conditions in order to avoid imbalance in measures applied on operators. However, one of the agreed principles speaks about the relationships between the Market Based Measures and the maturity of the markets. Even in that regard the markets of the UAE and Qatar are still developing and far from being mature.

4. Recognition of the Assembly of the past and future investments done by airlines that lead to improving aviation’s carbon footprint, as one of the principles to be followed in the Market Based Measures.

No doubt that in spite of this achievement, there are many questions surrounding the interpretation of certain clauses of the Resolution, whereby we are honored to have Mr. Raymond Benjamin with us today to shed light on many of these questions. However, the biggest question remains: What will happen to the EU ETS?

Actually the answer to this question is highly complicated. Many of who were at the Assembly believe that what was decided at ICAO will not replace, in the foreseeable future, the European scheme on the basis that the decision at the European Parliament provides for the re-consideration of this scheme only when countries take other actions equal or similar to the procedures established by Europe. Accordingly, the prevailing view, reinforced by statements of European officials, is that the EU ETS will persist. However, it’s worth noting that Clause 17 of the ICAO resolution urges states to review existing and planned MBMs for international aviation to ensure their consistency with the guiding principles as stipulated in the Resolution. Surely we will get more enlightened about the environment topic this afternoon once the Joint Aviation Forum is convened.

The importance of this achievement, which took place in Montreal, should not be underestimated as it sets certain principles and measures that were agreed upon by the world, even though many countries expressed their reservations to the resolution. Moreover, this Resolution should not diminish the importance of our discussions with the Arab Civil Aviation Commission and the Industry on how to deal with the future of aviation and climate change; an area which was not dealt with in all its aspects as yet.
Mr. Chairman,  
Ladies and Gentlemen,  

I do not want to take too much of your time, so I wanted to focus on the two issues I have presented today. However, your association has done a lot of work during the last term. This work encompassed the restructuring of how AACO interacts with its members leading towards providing members with a better tool they can use in maximizing operational economies through joint projects, and also in adding strategic issues like the issue of the environment which has occupied a very high place among the priorities of AACO during the last two years.

The last AACO AGM in Jeddah approved a rejuvenation of the Vision, Mission, Objectives and modus operandi of AACO. AACO implemented the AGM objectives under a close supervision and guidance by the Executive Committee. The new modus operandi which you have witnessed and will witness further in the future focuses on four axes:

Firstly, that AACO becomes an instrument for members to strengthen their economies of operations by reducing cost and improving revenues through joint projects.

Secondly, that AACO represents common grounds between its members, placing their collective interests, the way they see it, as the only avenue for its work.

Thirdly, that AACO provides a regional and global bridge for dialogue with regional and international fora, and to clearly represent and defend the joint interests of members in a way that will sustain the communication between AACO and these fora.

Fourthly, that AACO reinforces the common interests we have with our partners in the industry through forums and projects which AACO undertakes.

AACO annual report covers a number of angles and issues which the allotted time does not allow me to mention, hoping that your time will enable you to read them through. However, I would like to add just two small points that we believe will become more important during the next year and beyond: The Damascus Convention and the Arab-European relations including issues related to the EU ETS.
Mr. Chairman,

Finally, allow me to present to you personally my deep gratitude for your uninterrupted guidance to AACO's work and effective contribution in AACO's restructuring. I also thank through you – all the members of the Executive Committee who have given AACO, in spite of the pressures of their own responsibilities, a great deal of attention and effort to serve all of AACO. I also wish to thank all the Chief Executive Officers, my colleagues in the task-forces and Steering Boards for the efforts and patronage they have accorded us and for being in the service of all members.

Last but not least, I wish to thank our Industry Partners who constantly support AACO and its members. To all of them, and to all members from me and my colleagues at the Secretariat our highest appreciation, thanks, and pride in serving you.

Abdul Wahab Teffaha
Secretary General