

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

Your Excellency Chairman of AACO General Assembly,
Your Excellencies ladies and gentlemen,

First, I would like to reiterate my thanks to H.E. Eng. Saleh Al Jasser, Minister of Transport and Logistic Services, for his patronage of our AGM. I wish also to express my deep gratitude to H.E. Eng. Ibrahim A. Al-Omar, Director General of Saudia, the Chairman of AACO 56th AGM and the Chairman of the Executive Committee, along with his team for their gracious hospitality which they made sure it covers all the functions of this event.

Your Excellencies,

We will finish 2023, God willing, as close as it can be to the pre-Covid level of air transport's activity. We also expect next year that, we will exceed the level we have achieved in 2019. This year, it is expected that the total number of passengers globally will reach around 4 billion, of which 1.4 billion are international passengers. As for the Arab region, the total number of passengers is expected to reach 300 million, of which 277 million are international passengers. These numbers represent, vs. 2019, 91.7% and 75% respectively at the global level, and 89% and 90 % at the regional level. Looking at Passengers Load Factors, airlines globally recorded 79.1% during the first three months of 2023, while AACO members recorded a higher load factor than that of the global one reaching 80.7%, representing 1.7 percentage points lower on the global level and 6.6 percentage points higher for AACO members vs. 2019 recorded load factors. As for the number of passengers that were handled at Arab airports, in the first quarter of 2023, it reached 3.5% above the total number that was recorded for the same period in 2019.

This notable performance by AACO members can be attributed to a number of factors, first of which is the reasonable policy that was instated by the Arab states with regards to the containment of COVID-19, the advanced and continuous development of the infrastructure, the quality of service offered on board our members' flight, and most importantly dealing with the passenger as a guest and with the shipper as a partner. These factors collectively made this region the fastest in going back to the pre-Covid landscape, and the highest in terms of growth during the three years that the industry had spent under the yoke of draconian restrictions. Perhaps the cornerstone for achieving those numbers,

is the value that Arab States accord to air transport as a lever for sustainable economic growth and a catalyst for job creation.

Yet, this quick return to normalcy is being faced with substantial challenges. The dramatic increase in the cost of operations, especially the rise in fuel prices by 12.6% over 2019, coupled with the geopolitical tensions, particularly as a result of the war in Ukraine and the war that is currently taking place in our region, have led to high inflation rates that the world has not witnessed for a long time. Those factors are putting additional pressure on the cost of operations of the airlines and hence are impacting the ticket prices and freight rates. Moreover, the extended lockdowns, from 2020 until the end of 2022, disrupted the supply chain, and reduced the skills in aviation, to the extent that are causing long delays in aircraft deliveries that are needed to respond to demand. All of this comes at a time when the industry's accumulated losses reached 156 billion dollars in 2020 & 2021 combined, which will represent additional challenges that the industry will face for years to come.

Your Excellencies,

Many expected that using the virtual space will lead to replacing the material one. Thank God, their expectations didn't materialize. We see that the return to air travel was not limited to the people who used to travel before the pandemic. It rather included young travelers whom we have seen are more inclined to travel by air. Those young travelers are the future of the air transport industry. And although that their principal means of communication is through the virtual space, and because this particular space is based on surpassing geographical, political, ethnic, and racial lines, it resonates in the minds of the users of that virtual space the globality of human beings; and entices a passion to knowing materially other human beings and their cultures, with the least restrictions to movement and as close as it can be to their experience in the virtual space. The material experience, and interaction between human beings, as well as dealing with different cultures and civilizations, is what make us humans. Moreover, the accessibility to information, and being able to know instantly what happens anywhere in the world, has now become part of our way of life. And since, acknowledging opportunities should be accompanied by acknowledging their challenges, the future of air travel necessitates that we don't deal only with the aspirations of the travelers, but also their concerns.

Therefore, **your excellencies**, I believe we have two principal duties to be able to address the aspirations of the current and future travelling public. These two duties are simply how to make the travel experience an easy one, and how to reduce our environmental footprint to the point of eradicating it. Accordingly, and on the basis of these two specific duties, and here I underline the word duty and not task, the digital technology that the travelers are

ubiquitously using in their transactions to buy products, is the gateway to making the travel process an easy one, almost absent of complications, and to replace the burden that the passenger, the airline, the airport and the governments are experiencing today because of those complications. Therefore, the very first strategic priority that AACO Executive Committee has placed on us, is to invoke digital transformation in the travel processes in order to dismantle gradually those complications from the shoulders of the passengers, the airlines, the airports, and the governments. And hence, to enable the passengers to achieve almost the same experience in the customers' travel experience as the one that they are experiencing in their retail shopping. You will see today the result of that directive that the Executive Committee has given us. That was our first duty.

Your Excellencies, ladies, and gentlemen,

Now I will address the greater duty, that is the duty of gradually removing the environmental footprint of air transport in the next few decades. There are now two international programs that have been achieved by governments within ICAO. The first is CORSIA that has placed a ceiling for CO2 emissions that international aviation activities may produce annually at the level of 2019 emissions from 2020 till the end of 2023, and 85% of the emissions of those operations in 2019 starting from 2024 till 2035. Any emissions that exceed that ceiling, concerned airlines will need to offset through buying carbon certificates or through, I hope, other methods, like the use of cleaner energies. This ceiling is 517 MtCo2, which is equivalent to 1.4% of the global CO2 emissions in 2019. Although this percentage is relatively low, we are all committed not to exceed this net number until 2035.

The other agreement that was concluded within ICAO at its 2022 Assembly, was to adopt a Long-Term Aspirational Goal by achieving net zero CO2 emissions by 2050. This agreement is a commitment, before the traveling public and the world, that airlines will strive to contribute positively in the fight against climate change to the maximum level of reaching net zero carbon emissions as an aspirational goal by 2050.

It is however very important to remind everyone concerned of the pillars that were agreed upon in ICAO to enable airlines to meet CORSIA requirements and enable them to achieve net zero emissions. The pillars that were laid down to ensure that air transport continues to play its role as an economic lever and a sustainable one, are:

1. That the agreements reached within ICAO be the sole agreements to deal with the environmental impact of international air transport. Let's pause a little bit here. It is not useful that some states or groups thereof agree with the other states of the world within ICAO on the exclusivity of the programs agreed upon globally, and at the same time enact their own national or regional regulations. Would for example, the environmental regulations enacted in the European Union improve the environment in Europe, while the countries which didn't apply the same regulations will witness a

worse environmental record?. Isn't it evident that the environmental cause is a global one that will not be fragmented by unilateral, national, or regional initiatives, and that the only way to deal with global problems is through global solutions?

2. The second pillar that was agreed upon in ICAO is developing the air transport infrastructure. ICAO estimates that this contribution will contribute to an 11% reduction in carbon emissions in 2050. Yet who will bear the burden of any failure in developing the infrastructure and having the congestion at airports and air space to continue to result in avoidable emissions?. We hope that the same authorities that are enacting regulations to mitigate emissions will not ignore that 11% of these emissions can be removed without regulations regarding SAF or the development of engine and airframe technology. That removal needs only the implementation of decisions that were taken decades ago to improve the air transport infrastructure.
3. The third pillar is market-based measures, which means buying carbon certificates from sources which have reduced their carbon emissions. And here we have an awareness role to play with the governments, so that they register projects that are reducing emissions under the umbrella of the UNFCCC, in order for those projects to produce carbon offsets. So far, there are only two certified projects in the registry of ICAO that can produce carbon certificates.
4. The fourth pillar is about our partners in engine and air frame manufacturing. We all know and appreciate that engine and aircraft manufacturers are working vigorously to develop their products in a way that will reduce emissions. Yet we hope that we will see soon game changing technologies that will help the airlines achieve net zero emissions by 2050.
5. Lastly, one of the most important pillars that are included in ICAO's two programs, is the use of cleaner energies through the use of sustainable aviation fuel and low carbon aviation fuel. And in this particular area, we know that ICAO and IATA consider that the major contributor to achieving net zero emissions will be through the use of SAF and LCAF. We also see that there are two models for incentivizing the use of SAF: the first depends on incentives so that airlines would buy SAF in order for the producers to produce the needed quantities as is the case in the USA and other countries. And the other is through imposing mandates to use SAF gradually up till 70% of the total uplift of fuel by airlines by 2050, as enacted by the European Parliament in their RefueLEU law. Although this European law stipulated that the penalties for not producing the required level of mandates, which are naturally passed on to airlines, should be allocated for research and development of sustainable aviation fuel, the law also includes many provisions that will lead, one

way or the other, to subject all airlines operating from the EU to measure that will practically extend those measures beyond the EU. This law contains for instance provisions that require the EU states and the European Commission to amend the bilateral and comprehensive agreements to align them with the objectives of the EU mandate. It also includes a number of elements that would allow the EU states to extend its effects not only on the destinations directly operated from the European Union but may also include destinations outside the EU via other airports, under what the European law defines as traffic and carbon leakage.

Since we are very close to the third CAAF 3 Conference that will be held in Dubai between 20 – 24 November 2023, perhaps it is relevant to call upon the conference to agree on the following principles for the production of cleaner energies:

- Firstly, to call upon states to adopt policies supporting the production and the use of SAF and LCAF, built upon incentives, instead of taxes, penalties, or mandates.
- Secondly, any reduction in emissions from the use of SAF and LCAF needs to be credited to the airlines in whichever program they are operating under, be that CORSIA or otherwise, while avoiding double counting.
- Thirdly, to create an international mechanism of accounting for the use of SAF based on robust chain of custody approaches to enable SAF to be purchased by any airline anywhere in the world, regardless of local physical availability.
- Fourthly, to agree on the standardization of SAF certificates in order to facilitate the recognition of reductions in emissions when SAF and LCAF are used by airlines.

Your Excellencies, ladies, and gentlemen,

This session of the AGM was one of the most active in the history of AACO. The Chairman and the members of the Executive Committee have dedicated a lot of time, effort, and attention, not only to strategically direct AACO, but also to achieve solutions that provide added value to AACO's members. My thanks and gratitude go to H.E. the Chairman of the Executive Committee and its members for what they have done and continue to do. I also thank all the CEOs of the members and partner airlines and industry for all the support that we receive from them so that AACO can perform its role and its raison – d'être which is to serve the members and the industry at large. My special thanks go to our colleagues in international and regional organizations with whom we share advocating not only for the interests of civil aviation and the airlines but rather what this sector represents as an economic lever and a catalyst for job creation. I also thank the sponsors of this AGM.

I would like to invite you all to review our annual report and annual statistical bulletin which are available through the AACO's App on your phones and tablets. Finally, I wish to thank my colleagues in the Secretariat General and on their behalf, I wish to reiterate that we are proud to serve you.

Thank you.