

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

**Mr. Chairman of the AGM,
Your Excellencies,
Ladies and Gentlemen,**

Allow me at the beginning to express my happiness for our meeting in Kuwait at the AGM level for the third time in the history of AACO. I would also like to specifically thank His Highness the Prime Minister, Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, for bestowing his patronage on this AGM as well as thank His Excellency the Minister of Finance, Dr. Nayef Al-Hajraf, for opening it. I wish also to thank Mr. Yousef A. ALJassem Al-Saqer, Chairman of Kuwait Airways and Chairman of this AGM, for his kind hospitality, and I extend to him and to all colleagues in Kuwait Airways, and through them to the State of Kuwait, my warm congratulations on the 65th anniversary of this pioneering airline, with my wishes of many years of success to come in serving the State of Kuwait, its people, and the global traveling public.

**Mr. Chairman,
Ladies and Gentlemen,**

Describing the state of the industry should be based on an accurate review of the present and on forecasts for future trends in order to identify priorities to deal with these trends. In that regards, and at the level of the global economy, we have entered a period of declining growth that I hope will not lead to a recession: There is a pivotal group of countries, the G20, that underpins the global economic indicators, where the economic indicators for many of that group's countries for 2019 show a slowdown in GDP growth, as with some even witnessing an economic contraction in the second quarter of this year. The reasons for this slowdown are many, the first of which is trade wars and the exchange of customs duties, which have been accompanied by renewed political calls for retracting from globalization, if not for completely abandoning it, and for going back to focus on national interests and bilateral trade relations instead of the current global framework represented by the World Trade Organization (WTO). All of this comes after the longest period of economic growth that began in 2010 until recently, which started with the massive economic stimuli that were implemented in 2008 to address the global financial crisis.

On the Arab world's level, the average economic growth in recent years, particularly since 2011 with the numerous political changes, has slowed down from the level usually witnessed by emerging economies – which usually record an average economic growth more than double that of developed countries. But what differentiates our region from other emerging markets is its dependence on oil prices: Following the sharp rise in oil prices in 2008, the Arab GDP recorded an average growth of 5.8%, after that oil prices fell and the growth slowed down to 2.6% in 2018, almost the same growth rate recorded by mature economies. In addition to the economic slowdown, this region is facing several crises and conflicts that exacerbate the economic pressure and lead to a significant economic decline in countries facing crises, thus curbing their contribution to the region's economic growth.

In the aviation sector, we have witnessed significant growth on the global level since 2010, averaging at 6% annually in passenger numbers, which resulted in the global number of passengers to reach 4.4 billion last year. This has allowed airlines, especially in the United States, to achieve for the first time returns on investment that are equal to or greater than normal returns on investment in other sectors.

The economic stimuli after 2008 and the change in regulatory frameworks, particularly in Europe, have helped introduce structural changes in the world's second and third largest aviation markets, namely Europe and the United States. The transition into the single European air transport market since 1997 allowed European airlines to consolidate, thus providing them with flexibility to balance capacity and demand, and consequently enhance the robustness of their operating revenues. In the United States, the natural path of liberalization led to the concentration of the country's air transport industry, through consolidation, in a small group of airlines that dominate that large market. So now we see that the global air transport industry, through a limited number of big players, has been able to enhance and optimize its operations where its average load factor reached 82% last year, which translates into better ability to protect yields compared to a situation with additional excessive capacity over demand.

On the Arab level, and despite the crises we have been, and still are, facing in our region, Arab airlines have been able to deal with these crises through their competitiveness, and through expanding their footprint to become major players in global air transport by attracting inter-continental traffic through their hubs, while benefiting from the global economic growth and from balancing capacity with demand. As a result, the Arab air transport has been growing well since 2010, with Arab airlines' RPKs increasing between 2010 and 2018 by an annual average of 10.1%. During that same period, traffic at Arab airports also increased by an annual average of 6.8%, and AACO members' traffic share of transit passengers from their total passengers also increased from 10.5% in 2010 to 14.3% in 2018. Accordingly, Arab airlines are present on the global aviation map through their competitiveness which is fueled by the quality of their product, the modernity of their fleet, the competitiveness of their fares, the continuous development of their airport infrastructure, and, most importantly, by treating their passengers as guests so that we ensure they enjoy their travel experience rather than merely providing them with a safe and standard air transport services. However, this is becoming more difficult at the moment with the decline in global economic growth and the crises facing our region. Perhaps one of the indicators of this reality is that Arab airlines recorded a load factor of 74% last year; eight percentage points below the global average, which is highly unusual as the marginal difference between Arab airlines' load factor and the global average has not exceeded the five percentage points threshold in the past.

**Mr. Chairman,
Ladies and Gentlemen,**

The indicators for the near future do not forecast the high growth levels we have recorded in the Arab air transport industry in previous years, and those indicators are also of concern for the global air transport industry as a whole. Since we are as a region geopolitically similar to Europe, composed of a number of sovereign countries, albeit without a single market, the dynamics that facilitated consolidation in Europe do not exist in the Arab world. However, the good news is that Arab airlines are effectively managing capacity on the individual level to meet the fluctuations in demand. As a result, we have witnessed in recent years a slowdown in the number of new aircraft introduced into the fleets of Arab airlines: 214 new aircraft were added during the 24 months ending in September 2019 whereas 194 aircraft were removed from service. Not only this has supported good capacity management, but also resulted in the world's youngest, most efficient, and, most importantly, lowest emission producing fleet.

But does all of this mean that we are in crisis? As you can see in the chart on the screen, the development of the Arab air transport industry has always been moving in tandem with the crises in the region. Since AACO's inception in 1965, and despite the numerous crises, we have grown in passenger numbers at an annual average rate of 9%, Arab airports have grown at an annual average rate of 9.5%, and our presence on the international transport map has expanded so that transit traffic represents 14.3% of our operations as mentioned earlier. In addition, the Arab fleet

in 1965 comprised around 150 aircraft with an average age of 16 years, whereas it now comprises a total of 1,384 aircraft with an average age of 7.7 years.

This is about the past, so what strengthens our confidence in the future? It is the following:

1. The confidence of the passenger that Arab airlines' level of service is among the best, if not the best, in the world.
2. An airport infrastructure that is being constantly developed to anticipate the needs of future growth.
3. Our central geographic area which remains ideal for airlines to continue play a pivotal role in the global air transport.
4. Our cultural, historical, religious, and civilizational heritage, and our natural diversity that position the Arab region as an important touristic attraction.
5. The young population that provides ample opportunities for future expansion.
6. And above all, the future travelers around the world. Those are a generation that grew up in a world where information technology has enabled them to transcend geographical boundaries between countries.

However, the above elements require the continuous support of governments for the essential role of air transport in sustainable development and in job creation in sectors that depend on aviation. To put this into perspective, we need governments, Arab ones and others, to:

1. Continue adopting flexible policies with regards to traffic rights and market access. At the end of the day, competition between airlines serves the consumer and promotes sustainable economic development, while also serving airlines through requiring them to become more efficient. This calls for us to expand the adoption of Damascus Convention 2004 to liberalize air transport between Arab countries, and through which we can ultimately reach a single Arab air transport market that would provide new dynamics and a new structure for airlines in our region.
2. Expand airspace capacity through flexible use of airspace between civil and military purposes, and through cooperation with other regions to smoothly manage air traffic flows.
3. When considering taxes and fees on civil aviation, consider the negative impact of these taxes and fees on touristic attractiveness versus their direct impact on governmental revenues, while consulting with the concerned stakeholders in the air transport and tourism sectors before deciding on imposing new taxes and fees.
4. Consult with the concerned in the air transport sector with regards to regulating the relationship between airlines and their customers.

**Mr. Chairman,
Ladies and Gentlemen,**

The issues facing the air transport industry are not limited to adapting to economic, political or other changes, but also to regional and global issues that directly affect the relationship between airlines and their passengers as well as issues that affect aviation's self-perception as an industry for global good. The first of these issues is the role of airlines in dealing with climate change and how to improve their environmental footprint, even if the industry accounts only for 2.5% of global CO₂ emissions.

This was one of the main issues discussed at the latest ICAO Assembly. In that regards, we believe that addressing the environmental footprint of civil aviation can only be achieved through the collaboration between all concerned stakeholders. And as you surely know, the strategy adopted by the air transport industry, and endorsed by ICAO, comprises four pillars to address the environmental footprint of aviation:

The First pillar is the development of technology that should provide a major contribution to mitigating environmental impact. This is not a strange achievement to the air transport industry

which has reduced its emissions per ton-kilometer performed by 70% over the last 50 years through advancements in aircraft and engine technologies. **The second pillar** is to enhance the airport and airspace infrastructures, which should assist in mitigating the environmental impact of aviation whereas they are currently increasing that footprint because of congestion. **The third pillar** is the use of sustainable fuel with reduced net environmental impact. Unfortunately, we have not yet witnessed serious investment efforts to avail this fuel to airlines. And **the last pillar** is market-based measures, particularly those related to offset systems which, unfortunately, are now considered as if they represent the only solution.

On the other hand, a worldwide wave of taxes and fees under the banner of the environment is being discussed. I would like to ask here, if the aforementioned four pillars will effectively have a measurable positive environmental impact that can mitigate the environmental footprint of aviation, how could taxes mitigate this impact? For instance, taxes have been imposed in the United Kingdom under the banner of the environment and have contributed to governmental coffers between 1997 and 2018 by around 41 billion Sterling Pounds without reinvesting any of those amounts in improving the environment. Furthermore, there are some voices that explicitly call for avoiding air travel. This could have been feasible if alternative means of transport were available, but international air transport is most of the time the only economical and convenient means of transportation.

**Mr. Chairman,
Ladies and Gentlemen,**

AACO priorities, as guided by your General Assembly and by the Executive Committee, must be aligned with the priorities of member airlines. Accordingly, these priorities compel us, in AACO Secretariat, to focus our work on four areas:

The first area is the joint work through which each member airline, in strict compliance with competition and antitrust laws, deals with issues that positively impact its operational costs. A range of activities fall under this framework that include global distribution systems, fuel, ground handling at outstations, cooperation in maintenance, engineering and overhaul, electronic flight charts, the exchange of aviation security information, and cooperation in emergency response. These activities directly benefit member airlines that choose to participate in any of them.

The second area: AACO to be the voice of Arab airlines with regards to regional and international aeropolitical matters. In this area, and in addition to the work I have already mentioned on environmental issues, AACO works with all stakeholders on the issue of passenger rights to advocate to decision makers the value of advance consultation with stakeholders, and to avoid anything that would conflict with the laws of other countries or adversely affect the international air transport system. The same applies on taxes and charges which have become among the most pressing burdens on airlines and consequently on passengers. Regarding working with other regions, and as you surely know, the European Union adopted regulation 712/2019 on Fair Competition which replaced regulation 868/2004. In that regards, it is surely the right of any state or group of states to formulate its laws, but it is not the right of neither to impose its laws or standards on others. The dialogue that took place before the adoption of this regulation between the League of Arab States, the Arab Civil Aviation Organization, and AACO on the one hand, and the EU institutions on the other hand, was fruitful in addressing some of the sharp edges that existed in the initial draft. However, the implementation of the regulation by the EU institutions remains to be seen. The implementation, and I hereby repeat, must respect the sovereignty and right of other states to adopt economic, financial and social policies that they deem appropriate for their countries, and that this, or any other regulation, should not be used to impose a certain course of aviation relations between states. For instance, the states that prefer comprehensive agreements with the EU can follow this path, and states that are satisfied with the bilateral relationship with European countries also have the right to follow that path. On a separate note regarding the positive relationship with the European Union, the Arab Civil Aviation Organization

and the European Commission, with the support of Middle East Airlines and AACO, are organizing an Arab-European Aviation Summit that will be held in Beirut on 23-24 March 2020. While we are in the aeropolitics domain, I would like also to point out that the Montreal Protocol 2014, which amended Tokyo Convention 1963 regarding dealing with unruly passengers, still needs to be ratified by one more state to enter into force. I therefore call on our member airlines to advocate to their governments the ratification of this Protocol since, even if the Protocol enters into force, it will be only applied on operations between states that have ratified it.

The third area: To explore advancements and developments in order to raise awareness on everything that would affect our member airlines through our bulletins, statistical analysis, and the various forums that we conduct periodically in cooperation with IATA and others.

The fourth area: To focus on human capital development through AACO Regional Training Center – RTC which was established in 1996 following a generous grant from the European Union. Since then, 30,000 trainees have completed RTC courses. In addition, AACO RTC, with the thankful cooperation of ATR, has provided scholarships for graduate studies that have so far benefited 50 graduates. The Training Center is also diversifying the areas its courses cover to meet the needs of member airlines, including courses on cybersecurity which are held in cooperation with Naif Arab University for Security Sciences in Saudi Arabia as well as with other academic and professional security institutions.

**Mr. Chairman,
Ladies & Gentlemen,**

You have in your documentation today the annual publications we have issued for this AGM, namely AACO Annual Report and the annual Arab Air Transport Statistics (AATS) bulletin. These publications, which are also available in electronic format on AACO Mobile Application on your phones or tablets, contain a lot of detailed information on the state of the air transport industry as well as the issues that AACO is dealing with. In addition to these publications, AACO issues a number of monthly and quarterly electronic bulletins. Here, I would like to thank our industry partners for their support to our publications, and, most importantly, for their support in providing scholarships on RTC courses to our members which contribute to enhancing the most important source of strength and success of any organization, the human element. On another note, and as our airlines are airlines for travelers all over the world, we are launching today a weblink www.a4g.org which redirects to AACO current website which remains www.aaco.org, whereby A4G means "Airlines for the Globe".

**Mr. Chairman,
Ladies & Gentlemen,**

AACO's raison d'être is to serve its members, and its success lies when its members consider it a value-adding tool. However, we could not have achieved any success were it not for your and your colleagues' support. Those colleagues, led by the CEOs of Arab airlines, are there to serve their airlines, but they are thankfully volunteering to support AACO for the benefits such support bring to all members, so many thanks to you and to all of them. Special thanks also to the Chairman of our AGM and his team for making this AGM a special event. I would also like to thank the Chairman and members of the Executive Committee for their continuous support and guidance to AACO's work and to me personally. I thank also all our partners for their continuous support as well as those who have supported this AGM. At the end, I present this report on AACO's work and its vision on behalf of a team I am proud to lead, and I am honored to say on their behalf that we are always proud to serve you.