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A Conversation with
Abdul Wahab Teffaha,
Secretary General
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Organization.



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الاتحاد العربي للنقل الجوي
ARAB AIR CARRIERS ORGANIZATION

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| Afriqiyah Airways (2001) | Oman Air (1993) |
| Air Algerie (1953) | Palestinian Airways (1995) |
| Air Arabia (2003) | Qatar Airways (1995) |
| EgyptAir (1932) | Royal Air Maroc (1957) |
| Emirates (1985) | Royal Jordanian (1963) |
| Etihad Airways (2003) | Saudi Arabian Airlines (1945) |
| Gulf Air (1950) | Sudan Airways (1946) |
| Iraqi Airways (1945) | Syrian Arab Airlines (1946) |
| Jordan Aviation (2000) | TransMediterranean Airways (1953) |
| Kuwait Airways (1954) | Tunis Air (1948) |
| Libyan Airways (1964) | Yemen Airways (1962) |
| Middle East Airlines (1945) | |



Since its founding in 1965, Beirut, Lebanon-based Arab Air Carriers Organization has sought to promote cooperation among 23 Arab airlines headquartered in the Middle East and Africa and serve their common interests through service excellence.

By working to fulfill this mission, the organization has given the carriers of the Arab world a stronger voice and a means to work together. AACO has helped unite the region's carriers, enabling them to work collectively in several business areas, providing a foundation for future success. As part of its ongoing efforts to support and promote the region's airlines, the organization, which held its 40th annual general meeting in October, focuses on five key objectives:

- Promote the highest safety standards,
- Provide a framework for a better economic environment for airline operations,
- Promote high standards of consumer-driven services,
- Provide high-quality and cost-effective framework for human resources development.
- Invest in the synergy of interaction among members through establishment of joint projects.

The member carriers participate in several standing committees, devoted to issues such as fuel and information technology, that provides a forum for exchanging views and discussing issues affecting the air transport industry.

Since 1996, the organization has been run by Secretary General Abdul Wahab Teffaha, who was elected to the top position after serving for several years in the organization. Teffaha joined AACO as an assistant tariff analyst after receiving his post-graduate degree in socio-economic development and political sociology. He worked his way up the ranks, becoming assistant secretary general in 1992.

During his tenure at AACO, Teffaha helped develop a new strategy for the organization that gave the member airlines increased bargaining power through combined negotiations, resulting in better economics for the Arab airlines. The organization also quickly launched joint projects, including joint fuel purchasing, joint ground handling, joint MIDT processing and the establishment of a regional training center.

But his influence in the industry has expanded beyond the Arab world. He was instrumental in helping craft the International Air Transport Association's currency system for pricing airline tickets and its prorate system for revenue sharing among airlines. He also was a member of

the team that developed IATA's strategy beyond 2000.

Recently, Teffaha visited with Maher Koubaa, account director for *Sabre Airline Solutions*® to discuss the AACO and its role in the air transport industry.

Question: What are the major challenges AACO is helping Arab airlines address?

Answer: There are challenges specific to the region and others facing the entire airline industry. Those that are industry wide are recognized by everybody — costs that are beyond the control of airlines such as fuel prices, over flying, user charges and, to a certain extent, labor costs. These have increased tremendously during the past few years. At the same time, the pressure to increase revenues is getting greater and greater, so for the last 30 years, there's been a continuous decline in yields and a steady rise in costs. So a significant challenge for Arab airlines as well as carriers around the world is containing costs and driving up revenue while offering a compelling service.

Environmental issues are high on the agenda as well as safety concerns. And, of course, there are internal challenges that are still within the sphere of airlines' influence. It's a matter of remaining creative enough and innovative enough in terms of product development, product offerings and product delivery so the value proposition for the airlines will continue to be for the customer. Now these challenges are actually across the board for all airlines no matter where they are located.

The specific challenges for the Arab airlines, in addition to those mentioned, are basically in three areas:

- Deregulation — The Arab world takes, to great extent, a conservative approach toward market access. Almost 30 years after the liberalization of air transport in the United States and 10 years for Europe, the Arab world has not kept pace and still applies a conservative approach toward market access ... toward granting traffic rights. Working within an environment of regulatory constraints is not the best environment for the airlines, and I believe all airlines would want to be able to be free in terms of offering capacity that meets market demands and changing the dynamics of how they operate according to market changes.
- Changing the landscape — We are challenged by how to change the landscape of airline operations from the flag-carrier concept into a totally business-oriented concept, while at the same time delivering on the objectives that the owners have set. And let's not forget that most of the Arab

airlines are still owned by the government and, therefore, there are strict government requirements. It's extremely difficult to be a commercially oriented, business-oriented entity and at the same time respond to demands from the owner, which often go beyond business sense. For instance, securing jobs for people isn't always the priority anymore, serving destinations that are clearly not of commercial interest, outdated hiring policies at airports, etc. So I believe it is a big challenge and it's something that all the airlines that are owned by governments, especially in the developing world, would feel. The quicker privatization happens, the quicker airlines will be cut loose from these shackles of government ownership.

- **Fragmentation** — Until now, the Arab world has at least one national airline or one airline in every country — or perhaps even more than one national airline in every country. These airlines are serving a number of objectives: one of them is the creation of a new industry, a tourism industry, putting their country on the tourism map, promoting businesses and so on. And the airlines are playing a very important role in actually achieving these goals, like what Emirates did to Dubai, what Qatar Airways is doing to Qatar, what Etihad will be doing and is doing to Abu Dhabi, and so on. But ultimately, I don't see that this is going to be the norm in the Arab world. I believe that ultimately what needs to happen is a liberalization of capital movement, privatization of the airlines and, therefore, the possibility of consolidation among Arab airlines, and not only among the Arab airlines but between the Arab airlines and maybe some other airlines.

Q: Are you suggesting that Arab airlines create alliances and/or merge as a way to address some of the challenges they face?

A: I am talking about merging rather than building alliances. With alliances, everybody can accede if they want to. The issue — airline consolidation — goes beyond alliances. It's not only challenging for Arab airlines but also for the industry as a whole. There are too many players, too many airlines, too much over capacity globally, which has been plaguing the industry since it started. The industry is not being treated as a normal business and, therefore, is dealing with fragmentation. The existence of so many players does not allow any of them to achieve optimum return on investment in terms of economies of scale and economies of scope. This is very specific to Arab airlines as well; it is not about how many airlines or flag carriers each country has, it needs to be about how airlines are able to grow (vertically and horizontally) through organic growth, through expansion, and through mergers and acquisitions. When



All photos courtesy of Aithus



The AACO's 23 member carriers, including EgyptAir, Gulf Air and Emirates, have formed several committees to help collectively address critical issues such as fuel costs and technology.

this happens, airlines will be able to achieve economies of scale and scope that are not possible today.

Q: What is the AACO doing to help its member airlines address some of these challenges?

A: The AACO is involved in a number of joint projects that help airlines cut costs in the areas of fuel, ground handling and network optimization as well as leveraging our relationship with global distribution systems and deployment of electronic ticketing. So we have a large number of joint projects, and all of them deliver cost efficiencies that were not possible without the collective work of the airlines.

In the areas of revenue maximization, customer loyalty and product development, we were instrumental in bringing a number of Arab airlines into the area of market information data tapes processing, which provides better visibility for marketing and market segmentation to be able to respond to customer needs. In other areas, AACO, through its training center, is contributing to human resource development, which is extremely needed in the Arab world.

Our role is to raise awareness about our member carriers' major challenges and lobby for the airlines' objectives. We provide that through a network of relations and information so we can deliver a message we believe needs to be part of the collective mindset of the Arab airlines — and give it its rightful priority.

Q: AACO members include a mix of carriers including network carriers, low-cost carriers, flag and national carriers. How can such different kinds of carriers with different objectives and governance models possibly cooperate under the umbrella of AACO?

A: Well, it is about creating or identifying the common denominators among airlines. We don't, of course, force any airline to cooperate or participate in any projects. What we do is open the possibilities of participation if the airline is convinced that a project is good for it.

On the other hand, no matter whether a low-cost airline, network airline, flag airline, cost cutting is important. So everybody benefits from the fuel purchasing program because you are interested definitely in having a lower fuel bill. So that's the common denominator where everybody has an interest. It doesn't have to be that everybody needs to be a participant, but at least we have in every project a critical mass of airlines that are better off together dealing with a certain issue rather than dealing with it individually.

Q: AACO is rated by its members and industry partners as very successful. What really makes AACO effective?

A: I think three issues make AACO successful relative to airlines' concerns:

1. The pragmatism of the objectives and business plans. We don't look at AACO as merely a trade association. We look at AACO as a business, and there are stakeholders [who] need a return on investment. And we deliver that return on investment, and we try to make it the maximum return on investment that we possibly can. We are a business like any other business, and we deliver value to our shareholders.
2. The commitment of the stakeholders — the airlines. We are quite fortunate that airline executives don't only feel the value of the cooperation but also are committed to



cooperation. Now there is a culture of cooperation among airlines. And that culture, of course, was built over a period of time. It wasn't built overnight. It was built with hard work, with credibility, with commitment from airline executives to make the collective work succeed. Of course, they know that they are better off with the others than on their own. It is much easier to do things individually; it is much harder to do them collectively, but the dividends for the collective work are greater.

3. The AACO team. I am quite fortunate to head a team that is dedicated, high spirited and committed to AACO.

These three areas are what makes AACO vibrant and relevant to the airlines. Actually, it is more than relevant; it is important to the airlines. It is an important tool for the airlines to achieve better results.

Q: What were this year's main projects for AACO?

A: We have completed negotiations on the core reservations, inventory and departure control systems, and now we need to work with the airlines according to their choices on the finalization of that relationship with the core systems. We are about to finalize negotiations on global distribution system deployment, and we will deliver by the end of the year on those two.

We are also extending the coverage of the Arabesk alliance, including codeshares, third and fourth freedoms, and perhaps talk to other airlines outside of the region to start some cooperation arrangements with them. So, I believe Arabesk is going to be an area of major work in the next year and especially after what will happen because of the interline ticket issue. The bigger airlines are revisiting the value of their interline partners, and they are determining whether they want to interline with other airlines based on their value. That will definitely put a challenge in front of the smaller airlines that will not make it to the top of the priority list for bigger carriers. Smaller airlines need more interline agreements than big carriers or the alliances. So one of the issues we have identified and need to work on will include the help of *Sabre Airline Solutions*® because it's our technical consultant for Arabesk.

We are identifying where the Arab airlines need to have interline partners, which may continue to be the same ones in place today but may also change depending on the wishes of the parties concerned. So this, I believe is going to be very important because we will continue to do what we were doing before to deliver travel possibilities for customers. Of course, there is the continuation of the other work AACO is doing. In the airline industry, we always have something new — now the environment is



Qatar Airways, Royal Air Maroc and Royal Jordanian, in conjunction with 20 other AACO member carriers, work together on joint projects to help boost operational efficiencies and reduce costs.

on the agenda. We need to see how we can address that in a way that does not put everybody in one basket because the Arab airlines have the youngest fleet anywhere in the world. Therefore, the Arab airlines' commitment to the environment is quite obvious, and we can't just sit back and be treated like anybody who did not invest as much in its fleet renewal and be penalized if there were some sort of taxes or penalties on fuel consumption. We invested tremendously in the technology, and we believe we need to be treated according to that investment so people and airlines are encouraged to look for new technology. So this is also something we'll address the remainder of the

year and in 2008. The airline business is very dynamic, and I am sure that other issues are going to pop up for us to address.

Q: What is the AACO doing to promote safety?

A: We're comfortable with where we are on safety. AACO members have excellent safety records. All of them are also on the IOSA registry or will be by the end of the year. Some AACO members have already completed the IOSA, which is the international operations safety order from the International Air Transport Association. It has completed a second audit because it's a biannual program. So we are quite sure our safety record is very good. During the last four years, we have had zero accidents, but again, the improvement of the quality of service and product development is going to be high on the agenda as well.

Q: What changes would you like to see in the AACO during the next five years that will help strengthen the position of your members?

A: I believe it's not about changes, it is more about an evolution of the process where AACO gets more and more involved in areas where we haven't until now been involved as actively as we were in other areas. For instance, the technical cooperation area. During 2007, we started to place high emphasis on the technical cooperation area. We lacked the resources before, which resulted immediately in a couple of projects that are extremely valuable for the airlines — emergency response and maintenance and overhaul. We are just starting our focus on those two areas, and we already have two agenda issues we will address that will not only save the airlines millions of dollars, it will also elevate their emergency response readiness to much higher levels than today. The MRO is meant to save money and provide better inventory management. The airline industry is quite complex; it is becoming even more complex as it grows and evolves, and I think AACO needs to evolve into doing more complex tasks that are now being done either individually by the airlines or by AACO but with not the right size and scope. I see AACO not only as an alliance, but a highly integrated alliance the airlines can rely on to do a number of tasks collectively. We have behaved like an alliance; we actually started collective purchasing for fuel and other things such as ground handling 10 years before alliances started. But we have not publicized it as an alliance. The perception of AACO needs to be that this is a tool we can use collectively to do more. And I think this is what the way of the future is going to be.