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Middle East Aviation and Media Summit 2011

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Outcomes and Perspectives

Dubai, UAE
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Executive Summary

The inaugural Middle East Aviation and Media Summit was held in Dubai on January 24, 2011. The first-of-its-kind summit, organised by Air Arabia in association with CNBC Arabiya TV, sought to encourage a constructive dialogue among aviation sector executives, business leaders and the region's media community. The event provided a platform for insightful discussion on the current trends and challenges faced by the aviation sector, and had a special emphasis on low-cost airlines in the Middle East and North Africa (MENA) region.

The summit comprised a panel of expert speakers, including:

- Mr. Adel Ali, Chief Executive Officer, Air Arabia Group
- Mr. Peter Barnes, Customer Marketing Director, Airbus Middle East
- Dr. Mahdi Mattar, Head of Research and Chief Economist, CAPM Investment
- Mr. Shukor Yousuf, Editorial Director, Singapore, Standard and Poor's
- Dr. Shereef Ellaboudy, Assistant Professor, College of Business Sciences, Zayed University

Through lively debate and interactive discussion with media from Dubai and the wider Middle East region, the summit yielded a number of clear insights into the challenges and opportunities for the regional aviation sector, which are outlined in the following report.

The 2011 Middle East Aviation Outlook

Over the past decade, up until the start of the global financial crisis from which the region is now clearly recovering, the Middle East witnessed unprecedented economic growth, most notably in the Gulf region, where cities famously grew from the sand. Yet while the steel-and-glass towers of these burgeoning cities may have been the most visible manifestation of the region's economic boom, a young and rapidly growing population has fueled and will help maintain diversified growth.

Despite the impact of the global economic slowdown, business in the region continues to keep pace with the demands necessitated by continued growth. As regional economies have become increasingly interlinked, the need for greater human movement across the region is clearly visible.

Unlike the economies of so many other developed regions, the Middle East is still in the process of developing more a robust infrastructure to facilitate regional travel. Today, nevertheless, the Middle East aviation sector is growing rapidly and presents a unique growth opportunity for low-cost carriers, in particular.

Placing the aviation sector into global context, there are over 18 million flights in the world today that serve over 1 billion passengers and generate over US$425 billion every year.

The European Union has a combined population of over 491 million people, compared to the Middle East's 339 million, yet has over 62 low-cost airlines to the Middle East's seven. Considering that this segment still represents just seven per cent of total regional market share – compared to 25 per cent in more mature markets, such as North America – it is clear that the opening of new secondary airports is vital to ensuring that this growth can be sustained in the long term.

Secondary airports are able to maintain costs that are on average 20 per cent below those of their peers, partly because of lower operating expenses associated with their location outside major metro areas. In North America, Europe and Asia, we have seen an ongoing expansion of such secondary airports, which not only help low-cost airlines maintain low fares, but also support the economic development of the cities in which they are located.

Beyond merely a low-cost carrier ratio imbalance and a lack of secondary airports, consider that while well-developed rail networks transport millions throughout the United States and across Europe, air is currently the only method of rapid travel between Arab states.

The numbers alone suggest a host of opportunities for new carriers to exercise their respective competitive advantages in a regional sector that still has enormous potential for growth in the coming years. Regional demographics, however, only tell part of the story.

Aviation in the Middle East has grown significantly in its own right. Maintenance, Repair and Overhaul (MRO) and avio-techniques have been massively developed while average human qualifications within the regional aviation sector have seen great improvement over the years as nations in the Middle East invest large amounts of capital into developing the sector. In 2010 alone, Arab airports serviced approximately 228 million passengers, representing a 12 per cent year-on-year increase in passenger traffic.

While the aviation sector's contribution to the overall development of the region will continue to play a profound role, intra-regional Arab aviation remains the biggest market and constituted a full 34 per cent of Arab aviation in 2010.

The most telling indicator has been the impressive growth thus far in regional airlines' fleet size and projected growth; with a fleet 856 aircraft strong today, regional carriers are expected to operate an additional 680 aircraft by 2019. Today, the region has the greatest number of aircraft on order anywhere on earth. The Middle East is also home to the world's youngest fleet – with more on the way just about every day.

As a result of all this activity, Arab airlines are getting bigger. They are also getting better, with higher service levels and more competitive pricing. Yet considering the demographics of the wider region – with 100 million people under the age of 24 and a rapidly growing expatriate population – the supply of airline travel solutions is still just barely keeping up with demand.

With such a conducive environment for growth, regional air carriers have been eager to differentiate themselves from their competitors and encourage healthy debate in the region to best assess the region's realistic demands for the aviation sector.

Call to Action

In January, Air Arabia, the largest Arab low-cost air carrier, in association with CNBC Arabiya TV held the 2011 Middle East Aviation Media Summit to discuss pressing challenges and opportunities to the sector with other key regional figures in business and academia – the first event of its kind.

According to event participants, oil price shocks represent a very real challenge for regional air carriers, especially smaller airlines just entering the market. Unexpected price spikes are uniquely difficult for airlines to cope with, though carriers like Air Arabia have implemented careful systems to use fuel hedging to prepare for oil potential price fluctuations.

The aviation sector in the Middle East faces a multitude of challenges, but has time and again proved to be remarkably resilient. Led by low-cost carriers meeting the regional demand for value-for-money services, the aviation industry picked up in 2010 and will remain robust throughout 2011. That said, the lack of unified open-skies policies remains a significant challenge for all carriers in the region.

Despite the 2004 signing of landmark legislation by the Arab Air Carriers Organisation, which committed the entire region to the principle of open skies, full liberalisation of the region's airports has yet to take full effect.

Open-skies policies are now generating a range of significant benefits for the region. More competition has naturally led to lower prices, creating opportunities for more people to travel than ever before. This has an additional knock-on benefit for the regional economy: the creation of new jobs in related and ancillary areas.

A recent study on the impact of open-skies policies, which surveyed more than 190 countries worldwide, showed that countries that liberalise air traffic experience growth in air traffic of between 12-50 per cent. According to the same study, the creation of a single European aviation market in 1993 led to an average annual growth rate in traffic between 1995-2004 that was almost double the rate of growth between 1990-1994. Further, such liberalisation led to the creation of 1.4 million new jobs.

Here in the Middle East, the long-term impact of open skies will surely be similarly positive. Countries at the forefront of deregulation – such as Lebanon, Kuwait and the UAE – are already reaping tangible rewards, and passing along those benefits to consumers.

The current trend is towards opening up to competition, cutting red tape and incentivising private-sector participation in the sector. As they both fuel the economic expansion of the region and benefit from it, Arab airlines are poised to continue to experience levels of growth far above international averages.

Considering the enormous growth potential of the regional aviation sector, which is already the world's fastest-growing market in terms of passenger demand, ensuring that open-skies policies are fully implemented simply makes good sense. As more aircraft are delivered, and further new airlines are launched, it is critical that all these planes are allowed to fly freely – ensuring that passengers have the freedom to choose where and when they want to travel, and with the carrier they prefer.

The lack of unified open-skies policies, then, has held the rate of expansion of regional carriers. The general lack of private investment in the regional aviation sector has proved an equal barrier to growth

Today, in fact, many of the world's airports reel under the pressure of more planes and people than ever before. At the same time, airlines reaped the benefits of additional customers, and the industry blossomed with profits and a myriad of technological innovations that greatly increased comfort and convenience for passengers.

How did this happen? It is no coincidence that, since the 1970s, carriers from around the world have opened their doors to private investment from investors in their home country and abroad. Governments have often continued to own significant shares of the carriers they started, but day-to-day decision-making has become market-driven. Governments also deregulated the industry, as mentioned earlier, opening the skies and allowing for increased competition.

The Middle East's aviation industry is still in a nascent phase in many ways. Every Arab nation has a flag carrier that is largely or completely state owned. Like the carriers of Western countries in the past, many of these airlines are not open to foreign investment. Just as important, regional labour laws cap foreign participation in the workforce, limiting the contribution of global experts – and global best practice insights – in the sector. Yet like Western carriers in the past, Middle East airlines have been by and large very successful.

Foreign investment and deregulation are possible solutions to these potential problems. Governments see their carriers as an enormous boon to their economies, and as a source of employment for their citizens. And they are right to do so.

The Middle East is in a very advantageous position. Governments and Private Sector can work together and look at the experiences of other parts of the world, with older aviation industries, and see which the correct steps to take are, and which to avoid. Opening the industry here to increased private investment is a step in the right direction; timing it properly will require careful analysis and guidance. The only difficulty, according to participants in the Middle East Aviation and Media Summit, is finding the impetus to make it happen.

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