

# قمة العرب للطيران والإعلام ٢٠١٢ Arab Aviation and Media Summit 2012

## Arab Aviation and Media Summit 2012

### Outcomes and Perspectives

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### Executive Summary

Since Air Arabia and CNBC Arabia organised the first *Arab Aviation and Media Summit* in 2011, the aviation sector at both the regional and global level has changed dramatically. The political events of historical significance in the Arab world, coupled with weakening economies in the developed world, have put enormous pressure on the global aviation industry. Fuel price volatility, with costs increasing by an average of 36 per cent last year, has served only to amplify pressure on the sector's profitability. It was against the backdrop of these momentous forces that the 2012 edition of the *Arab Aviation and Media Summit* was held on April 30, 2012, at the American University of Sharjah, UAE.

Under the theme of "Mobility in the Arab World," leaders of the region's aviation industry, regulators, students and media from across the Middle East region came to hear from:

- H.E. Omar Bin Ghaleb, Deputy Director General, Department of Civil Aviation Authority, UAE
- Dr. Peter Heath, Chancellor, American University of Sharjah, UAE
- Mr. Abdul Wahab Tefaha, Secretary General, Arab Air Carriers Organization
- Mr. Fouad Attar, President, Airbus Middle East
- Dr. Majdi Sabri, Regional VP, International Air Transport Association
- Mr. Chris Taylor, Vice President, Spectrum Capital, UK
- Mr. Adel Ali, Group Chief Executive Officer, Air Arabia

The panel discussed the growth of the Arab aviation sector and how it has led to increased mobility in the wider MENA region, yielding clear insights into the challenges and opportunities before the regional aviation sector, noting:

1. As the Arab aviation industry has grown, it has greatly improved interconnectivity and passenger movement. This increased mobility within the Middle East has had a profound social effect while also making a significant contribution to the gross domestic product of countries in the region
2. Despite a challenging geopolitical environment, the Arab aviation industry is well positioned to fuel economic growth in the region
3. Oil price fluctuations, lack of a true open-skies policy, and the impact of the Arab Spring represent real challenges for regional carriers, especially those who operate intra-Arab services
4. Further privatisation would help improve profits for airlines and bring the Arab aviation industry a step closer to the maturity of the European and US markets
5. There must be a greater emphasis on providing people with the necessary skills and training in order to maintain the continued growth of the Middle East aviation industry

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## **Increased mobility = Increased GDP**

The Middle East aviation sector has fuelled a phenomenal surge in mobility within the region while, at the same time, playing a pivotal role in furthering economic activity. Despite ongoing geopolitical challenges and fuel price volatility, the aviation industry in the wider Arab world remains strong, with improved airline interconnectivity and passenger movement contributing significantly to the GDPs of countries in the region.

In fact, aviation's contribution to the economic growth is well recognised in the Middle East. Figures from Oxford Economics, an economic forecasting consultancy, show that the Middle East represents 3 per cent of global passengers, has 5 per cent of total jobs and 6 per cent of the GDP generated by air transport. This translates to 2.7 million jobs and accounts for US\$129bn in GDP. The numerous successful Arab airlines, as well as the world-class airport infrastructure that has been built, further reinforce the point.

Aviation has played a significant role in the economic transformation of many Middle East nations over the past decade, and this is set to continue during this era of change. Over the next two decades, international passenger numbers in the wider MENA region are expected to rise from the current 77 million to 220 million by 2030. In the UAE alone, travel and tourism is anticipated to rise to almost 15 per cent of the country's GDP within ten years and be worth US\$75.62 billion annually.

Given the upward trend of rising passenger traffic, it is not surprising that the International Air Transport Association (IATA) has increased the 2012 profit forecast for Middle East airlines from US\$300 million to US\$500 million. IATA attributes this to “relatively robust” demand on long-haul routes. By contrast, on a global basis, IATA has downgraded the industry outlook for this year, primarily due to spike in oil prices and worsening Eurozone crisis.

## **Open-skies policies**

Despite the rapid growth of aviation in the region, however, considerable challenges remain. The participants at the Summit expressed concerns about “red tape” in parts of the Arab world, which limits access to Arab carriers. Moreover, the absence of true open-skies policies continues to be a major challenge for the Arab aviation sector, restricting the industry from realising its full potential. The implementation of open skies policies in the region will create a level playing field.

The speakers gave an overview of the benefits that open skies policies in the region would bring, including boosting tourism, trade, logistics, technology and manpower development. The UAE, Kuwait and Lebanon aviation sectors are great examples of how liberalised regulations have dramatically altered the horizons of the aviation industry.

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A major roadblock to the liberalisation of the region's skies remains the protection of national flag carriers. The speakers suggested that the governments must change their perception and they have to realise that aviation is an industry. It is inevitable that airlines must operate without government subsidies and make profits in a competitive market.

Participants at the Arab Aviation and Media Summit 2012 again called for the speedy implementation of commitments made by Arab countries, and unanimously urged governments to ease regulatory controls and create a liberalised environment for airlines to operate. As regulatory barriers go down, passengers would benefit from an increasing number of carriers, resulting in a more competitive market with lower fares and increased focus on customer satisfaction.

### **Fuel price volatility**

Soaring fuel prices have impacted the profitability for airlines across the world. Moreover, as the outlook for the profits of airlines depends on fuel prices, escalating fuel prices are not only making operating aircraft more expensive, they are changing the sector's overall dynamics.

IATA projects worldwide airline profits of US\$3 billion for 2012, down from US\$3.5 billion projected last December, and US\$4.9 billion projected in September. The 2012 profit outlook is also below the estimated US\$7.9 billion in 2011 and US\$16 billion earned in 2010. This steep decline in the industry's profitability is primarily due to spike in jet fuel prices. As political tensions in the Gulf remain unresolved, experts expect crude oil and jet fuel prices to increase further this year.

### **Arab Spring**

The lingering effects of the Arab Spring unrest have put enormous pressure on Middle East carriers by impacting mobility in the region. The crisis has affected the tourism industry in countries such as Egypt and Tunisia, which have registered falls in visitors from overseas in excess of 50 per cent.

However, experts agree that the Middle East's carriers have emerged stronger quickly after the crisis, as validated by the latest passenger traffic figures released by IATA. According to IATA, Middle Eastern carrier traffic rose by 8.9 per cent in 2011, which reinforces the fact that air travel has become the preferred form of transportation in the region.

### **The emergence of Low Cost Carriers (LCCs)**

The speakers shared the opinion that low-cost carriers have emerged as major players in the region's skies, rapidly increasing their share of the market. Low-cost carriers have evolved into sustainable and innovative businesses, forcing traditional legacy carriers to change their business model. Although still lagging behind more mature markets, particularly Europe, the LCC market in the region is significant nonetheless. Looking to the future, no one doubts the growth prospects for the LCCs in the region.

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Considering that the LCC segment still represents just seven per cent of total regional market share – compared to 25 per cent in North America and Europe – it is obvious 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.

## **Privatisation**

The need for more privatisation in the Arab aviation industry is apparent and would play a major role in helping to improve airline profits. Governments and the private sector can work together and study the experiences of privatisation in more mature markets, providing a possible template for the industry here.

Opening the industry in the Arab world to increased private investment is a step in the right direction, but the full implementation of privatisation will require careful analysis and guidance. Once complete, however, it will take the sector a step closer to the maturity of markets like Europe and the US, experts noted.

## **Skilled manpower**

The general lack of skilled manpower in the regional aviation sector has proved an equal barrier to growth. The Middle East is home to 65 commercial, private and charter airlines with 1,029 aircraft in service, operating from 70 commercial airports. Experts warn that the lack of skilled and trained manpower available for the technical maintenance of aircraft is an area of real concern.

The panel urged educators and educational institutions in the region to focus on aviation, so as to equip the younger generation with the knowledge and skills necessary to meet the needs of the fast-changing aviation.

-ENDS-

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