

Securing the prize for the Middle East



Opportunities and challenges on the road to becoming a dominant global travel hub

Developed by Insights Management Consultancy and h2c consulting in partnership with Amadeus

Content

1.	Foreword	1
2.	Executive Summary	2
3.	Why aspire to be a global travel hub?	4
4.	Market spotlight: contribution to hub development	5
5.	What could stop the Middle East becoming a hub?	10
6.	What is driving momentum behind the Middle East's hub ambitions?	14
7.	The critical role of IT infrastructure	21
8.	Conclusion	23
9.	Appendices	
	Footnotes	24
	Global travel hub scorecard	25
	Expert spotlight	26
10.	About Amadeus, Insights Management Consultancy & h2c consulting	31

1 Foreword



Antoine Medawar
Vice President, Middle East and North Africa, Amadeus
www.amadeus.com

The recent past has been a rollercoaster ride for business in general and the aviation industry in particular. The recession has affected virtually every sector, both locally and globally, and the airline sector has been left reeling by crises such as volcanic ash, the swine flu outbreak and terrorist threats. These difficulties have revealed how vulnerable the travel industry is to external factors, which we cannot control, but which we can better anticipate in future. In this study we focus on what we can control, looking at ways the Middle East region can galvanise its position as a travel hub of the future. And in the Middle East, the future looks positive.

The region has remained relatively stable in the midst of the global turmoil of recent times, and has even seen growth across many sectors, including aviation and tourism. Investment in infrastructure developments such as new airport extensions (e.g. the planned Midfield Terminal at Abu Dhabi International Airport) and Burj Khalifa, the world's tallest tower, along with a strategic geographical location, continue to boost travel through the region. The IT industry also remains strong and airlines and travel companies in the Middle East have proven to be innovative in terms of technology adoption.

The Middle East is thus well placed to become the world's premier travel hub – although it is clear in this report that a number of things remain to be done in order for this vision to become a reality. We have commissioned this report to focus on what the Middle East must do to fulfill its potential as a dominant global hub. In the

report we set out the steps needed to make this vision a reality. The report reviews the current situation in the travel sector, addresses the key economic and political developments and examines the role of key players. We also explore the role of technology in supporting the Middle East reach its potential and detail what further expertise and infrastructure is required.

When developing this report, we interviewed several executives and leaders in the aviation and travel industries, whose views are collected in a special section offering reflections and insights on the state of the market and its future. Those interviewed included representatives from organisations such as the Arab Air Carriers Organization (AACO), Marriott and the Abu Dhabi National Corporation of Tourism and Hotels. We also conducted extensive desk research to understand how demographic, political and economic circumstances will shape the future of the travel sector in the region and beyond.

We hope you find the report insightful and that it stimulates further the discussion about how the region can succeed in its quest to become the most dominant global travel hub.

Antoine Medawar

2 Executive summary

In this report, we outline the factors that will influence the Middle East's success in reaching its goal of becoming the dominant global travel hub. Certainly, in light of recent financial and economic setbacks the aviation and tourism industries must work hard to attract new business and leisure travellers to the region.

Over the past few years, largely driven by huge oil and gas revenues, the Middle East has seen exponential growth in many industry sectors. In an attempt to diversify the region's industry from petroleum-derived incomes, national funds have been heavily invested in infrastructure projects such as commercial real estate (offices and hotels) and public transportation, including airports and national airlines. The boom in the aviation sector is poised to have a significant influence on future global air traffic and the Middle East's strategic geographical location will enable the emerging national carriers to connect most metropolises via a single hub. A global travel hub would bring transformative effects to the region's economy, allowing it to attract other industries and become more sustainable in the long term.



Whilst many factors and trends suggest that the prize of this position is there to be taken, there remain a number of significant barriers that may hamper progress unless action is taken to address them. History is littered with countries, businesses, sports teams and politicians that fail to grasp the prize that was duly theirs.

This is the risk for the Middle East. However, if the region can capitalise on its strengths it will succeed in its bid to become the world's dominant travel hub. The Middle East has already made significant headway in its journey to become the world's premier travel hub. The signs are positive:

- Comparatively strong gross domestic product (GDP) growth, especially when compared with the G7 countries (Canada, France, Germany, Italy, Japan, U.K. and the U.S.). Despite the global economic downturn, growth is expected to continue in the long term.
- Huge investments, especially in the oil and gas sector, which have historically resulted in an increased demand for business travel and in turn fuelled the aviation and construction industries. The aviation sector and tourism has been massively promoted in recent years.
- Government social and political goals focused on job creation, which on one hand can help create the pool of skilled labour needed to support the region's international hub ambitions and on the other can also lead to increased affluence and local and regional air travel.
- Its strategic location as a hub for passenger transit between Europe and the major growth market of Asia Pacific.
- Major investment in the air travel industry (airlines, airports and air control), including \$86 billion USD earmarked for Middle East airports in the coming years and predicted passenger and cargo traffic growth of 8% annually until 2015¹.
- Growing international, intra-Middle East and domestic tourism, with the number of tourists to the Middle East projected to double to 136 million by 2020 versus 54 million in 2008².
- Advanced use of IT, due to rapid establishment and development of new carriers in the past decade, who invest in new IT rather than possessing legacy systems. This IT is deployed for the efficient distribution of travel products and services, with airline tickets, hotel bookings and many other components of the travel and transport supply chain distributed via electronic channels such as global distribution systems and the Internet.
- Increasing intra-Middle East traffic as a result of low-cost carriers (LCCs) entering the market. In addition to tourism and business travel, visiting friends and relatives (VFR) and religious travel have gained significance and are expected to grow rapidly.

Although the region benefits from these assets, this paper also takes an objective look at the region's future and notes a number of factors which could hinder further growth and development including:

- Political and social instability in the Middle East region.
- Decline in growth in the global airline industry.
- Failure to improve the regulatory framework, covering issues such as cross-border coordination of large projects, harmonised visa regulations, measures to ease airspace congestion and lack of transparency in the financial sector.
- Poor integration of Middle East carriers with global air alliances such as Star Alliance and **oneworld**.

Clearly, the public and private sectors may be able to influence some of these factors to a greater degree than others. The region is fortunate, however, that its hydrocarbon exports should continue to provide, for the medium term at least, sufficient funds to finance whatever investments are needed to make the development of the global hub a reality.

If political stability is maintained and travel demand to the region can be expanded through international tourism, the Middle East should be able to successfully steer a course to reach its target to

become the world's dominant travel hub by 2025.

Nonetheless, in order to ensure continued growth, the aviation and tourism industries must therefore work hard to attract new business and leisure travellers to the region as well as capitalise on transit passengers.

The prize, benefits of which are detailed in the following section, requires focus and determination on behalf of the travel industry and governments to both address the challenges and seize the opportunities that emerge in the years ahead.

In general, there are significant opportunities for airlines (and travel agents) which could arise from the weak points in the current value chain, such as the disconnect between ground transportation and the flight. Passenger willingness to pay for a smooth travel experience seems to be a significant opportunity, with a variety of sources of value but one which has so far gone largely unexploited. New technologies offer the potential to access these sources of value by allowing airlines and agents to more closely tailor their products to match traveller preferences.



3 Why aspire to be a global travel hub?

At the outset, it is important to consider the question, what does the Middle East stand to gain from developing a global travel hub? At a time when airport developments in many parts of the world are under scrutiny on environmental and community-based grounds, the fact is that air travel is still a major stimulant for regional economies – and the Middle East is no exception. Increasing air travel has the potential to improve the economy of hub territories, stimulating job creation directly and indirectly through industries such as tourism, retail and conferencing.

3.1 Stimulating growth in other sectors of the travel and tourism industry

In the near term, growth in the air travel industry will have many knock-on benefits for the region's travel industry. It will prompt complementary growth in many other sectors, including tourism, hospitality and retail. A rise in the number of visitors arriving by air feeds growth in hotels, restaurants and shops, which then in turn act as a magnet for more visitors.

The Middle East is already something of a case study in this, having built a robust air travel sector while investing billions of dollars in leisure and business travel facilities, which have reached the highest international standards in terms of technology and service. These investments are important for direct job creation (for example in maintenance) and continue to drive indirect employment in areas such as parts manufacturing. Additionally, education is fostered throughout the region as skilled personnel are required to operate and maintain the travel and tourism supply chain.

3.2 Accelerating economic diversification

However, for the Middle East, there is an extra incentive to become a worldwide leading travel hub. The region is highly dependent on income from oil and gas exports and its governments are keenly aware of the need to diversify their economies as a buffer against future energy developments. While its fortunes are (for now, at least) somewhat linked to the oil and gas sector, air travel and allied industries represent a major potential source of alternative income to the region.

Nonetheless, this isn't solely about stimulating travel and tourism as a contributor to the regions' GDP. It is much more than that. By building the world class infrastructure and facilities needed to become the world's global travel hub, new industry sectors – such as media and entertainment, telecoms and technology, pharmaceuticals, green technology – will be attracted to the region. The wholesale economic diversification of the region requires it to become a centre for new growth industries that will fuel global economic growth in the next century. Building the world's global travel hub will catalyse this transition in the medium to long term.

The spectacular growth in this region reminds us of the power of aviation to drive economic development

”

Giovanni Bisignani, IATA's Director General and CEO³



4 Market spotlight: contribution to hub development

The Middle East consists of a number of significant travel and tourism markets, each with its own set of characteristics and dynamics, and it is important to look at these individual markets when considering the benefits to the region. This section provides an overview of recent investment and the state of the industry at present in the region's main travel destinations and explains why the travel and tourism industry is so vital to the future economy of the region. The four markets chosen demonstrate the diversity of the Middle East and its travel industry, both in terms of development and character. Dubai is an economic hotspot, which has seen many years of growth; Abu Dhabi, in some ways very similar to Dubai, has started its development from a lower level, and has consciously avoided the failures of its fellow emirate. Saudi Arabia, one of the biggest markets by population, is characterised by religious travel, and has high potential for inter-Arabian travel; and Bahrain is an

emerging, more liberal market, which is focusing on increasing business travel and tourism.

When comparing these markets, some major differences become apparent (see figure 1). For example, Dubai's leisure and business travel growth (excluding religious travel) is strongly driven by its hub function and attractions; whereas Bahrain's sector is still relatively small, but massive investments are proposed to expand the business sector in particular.

In order to achieve its ambition of becoming the world's dominant travel hub by 2025, the Middle East must have in its sight a key objective: to accelerate further the growth which has been achieved to date in the following markets.

Figure 1: Comparison of four markets (relative market size, 2009)

	Dubai	Abu Dhabi	Saudi Arabia	Bahrain
1. Intra-Middle East Travel	Large	Medium	Large	Small
2. Tourism	Large	Medium	Small (excl. 3.)	Small
3. Religious Tourism	Small	Small	Large	Small
4. Business Travel	Large	Medium	Large	Small (growing)



4 Market spotlight: contribution to hub development

4.1 Dubai

Dubai is a balanced destination with clear submarkets comprising city and beach hotels. Tourism accounted for 19% of Dubai's GDP in 2008. During the same year, the number of hotel guests increased 8.3%⁴. Europe, and notably the U.K., is the largest source market for Dubai. In 2008, U.K. and Ireland visitors increased by 14%, reaching 850,000.

The number of hotel rooms in Dubai grew 19%, reaching 59,372⁵ in the first nine months of 2009, up from 49,875 during the same period of the previous year. With a considerable amount of new room supply entering the market in 2010 (+26%) and 2011 (+19%⁶), it is unlikely that hotel performance figures will reach early 2008 levels in near term.

Currently, three and four-star hotel products are still under-represented - although they can produce a more steady revenue stream as their performance is less volatile than that of five-star assets in an economic downturn. A strategy that includes all hotel asset classes is expected to become commonplace in the long term in Dubai, even if the current pipeline does not show this.

The Dubai government has developed infrastructure, including the Dubai Metro, in order to accommodate additional tourists, giving the nation a comparative advantage for both business and leisure tourism relative to other Middle East cities. Today's challenge is to maintain the resources to service a pipeline of expansion with new hotels opening in 2010 and 2011. Average rate drops caused by the recession have had an impact on the luxury segment, which has now become more flexible, offering best available rates and working with online travel agencies such as Expedia.

In addition, in 2010 Dubai's Department of Tourism and Commerce Marketing launched a stimulus package for its tourism industry to attract and maintain its visitor numbers over the summer, demonstrating the importance of tourism to the emirate's economy.

Contribution to hub development

- > The infrastructure and facilities necessary to support a global travel hub, e.g. the Dubai Metro
- > The emirate is an established tourist destination which received 850,000 visitors from the U.K. and Ireland in the first nine months of 2008
- > A world-class hotel portfolio with primarily luxury accommodation, including the world's highest hotel and the first Armani hotel

For two children under 16, every family travelling to Dubai on Emirates in the summer can claim free flights, free meals, hotel stays and entrances to attractions.

Even though state-owned Dubai World nearly ceased operations in 2009 (the company was bailed out by Abu Dhabi), record projects continue. These include a new mega-cruise terminal in December 2009, the opening of the world's highest hotel (the 333-metre Rose Rayhaan by Rotana at Sheikh Zayed Road) in January 2010 and the opening of the first Armani hotel in Burj Khalifa (the world's tallest skyscraper). Despite temporary setbacks, most landmark construction projects are being continued, as well as further hotel projects by Kempinski, Ritz-Carlton and Mövenpick and others.

Further examples of Dubai's continued hotel market growth include Starwood and Marriott, which are both expanding their portfolios. Starwood is adding a W lifestyle hotel as well as a luxury segment St. Regis to its 15 properties by 2013, whereas Marriott is adding nine new properties to its portfolio between 2011 and 2012.



4.2 Abu Dhabi

Abu Dhabi is investing a great deal in its travel and tourism industry, with mega projects such as Saadiyat Island underway, including planned Guggenheim and Louvre Museums. This will offer a great variety of attractions and activities to a broad range of discerning traveller segments, covering the desires and needs of leisure and business customers alike. The conversion of Yas Island into an atoll with world-class hotels, theme parks, golf courses, mega malls, apartments and villas demonstrates Abu Dhabi's ambition to become a destination of choice for global as well as intra-Middle East travellers.

With the inauguration of one of the most modern Formula 1 race tracks in the world (a \$40 billion USD project featuring world's first Ferrari theme park, Ferrari World Abu Dhabi) and the opening of seven new hotels on Yas Island in November 2009, the emirate continues to gain international recognition.

"Abu Dhabi has been really successful as a hub. Although it does not fully serve the hotel business, because people are mainly transiting through the airport, we feel very confident about the hub's future, with a number of new routes opening. The year-on-year growth in airport passengers is around 30-35%, which creates awareness in other countries around Abu Dhabi", says Walid Harouni, Hotels Division Director of the Abu Dhabi National Corporation of Tourism and Hotels.

He adds: "Abu Dhabi is truly diversified, with places like Masdar (an eco-city) and Yas Island (a leisure resort) all complementing each other because the government is involved in the overall planning process and knowledgeable about future operations."

Today, construction areas in Abu Dhabi (as well as in Qatar and Oman) recall the early boom times of Dubai, although the emirate has taken precautions to not repeat Dubai's failures.

International chains such as Intercontinental, Rezidor, Hyatt, Forte and Ritz-Carlton (Marriott) have already opened or are planning to open new hotels in Abu Dhabi.

Walid Harouni remarks, "in future, we expect more leisure travellers to come from China, Malaysia, Japan and Germany. These markets are growing, especially China, and we have good ties with them. For the business market, we project a significant increase based on upcoming projects driving diversification away from the oil to the natural gas sector. This requires new professionals, boosting demand for budget up to the five-star properties."

For years, Abu Dhabi has been behind Dubai and now it's really a different destination, complementing and not competing with Dubai, while both emirates are growing

Walid Harouni, Hotels Division Director of the Abu Dhabi National Corporation of Tourism and Hotels



Contribution to hub development

- > Mega projects such as Saadiyat Island and cultural attractions such as the planned Guggenheim and Louvre museums are helping the emirate gain international recognition and will attract global visitors
- > By consciously avoiding the pitfalls Dubai has encountered, Abu Dhabi offers the prospect of more managed and sustainable growth
- > Development of a thriving multi-sector business community will drive increased business travel into the region

4 Market spotlight: contribution to hub development

4.3 Saudi Arabia

Despite the limitation of strict entrance visa regulations, Saudi Arabia's tourism industry has strong growth potential. Tourism contributed \$12.5 billion USD, 2.7% of gross domestic product, to the Saudi Arabian economy in 2008. Saudi Arabia is home to two of Islam's holiest cities, Mecca and Medina, and every year millions of Muslims come to Mecca for Hajj, the largest annual pilgrimage in the world and as a result, one of the main drivers for Saudi Arabia's tourism industry is religious tourism, which generated more than \$7 billion USD in annual revenues in 2009. From this base, visitor traffic is expected to further grow by 6.5% annually, from over 12 million in 2009 to over 15 million in 2013.

Business travel is also a growing area thanks to the country's position as the world's largest oil exporter, with other large industries such as oil and gas and defence helping to drive demand. In the long-term, business travel is expected to become even more important as the Saudi Government plans to focus on economic diversification. Enabling the private sector to play a greater role in the Saudi economy will support the government's goal of creating hundreds of thousands of jobs for Saudi nationals.

Tourism has become a focal point for Saudi authorities and government expenditure has focused on developing the religious tourism and business travel sectors. The government is also keen to develop its domestic tourism market in an effort to capture some of

the capital spent by the millions of Saudi citizens that travel abroad each year. Saudi tourists mainly travel to other destinations in the Middle East, and, despite the government's best efforts, the number of travellers to foreign destinations is expected to increase from about 8.1 million in 2009 to 10.8 million in 2014. Recent studies predict that international tourism expenditure will also grow to an estimated \$10.7 billion USD by 2013.

The hospitality industry is expected to grow alongside increasing tourist arrivals. According to recent forecasts, Saudi Arabia will count more than 330,000 hotel rooms by 2014⁷, up from 230,000 in 2008.

In 2009, a number of international chains, including Rotana, Hyatt, Accor and Raffles, became first-time market entrants. Hotels already present in the market are expanding, with Intercontinental, Al Hokair Group, Starwood, Rezidor and Wyndham opening new hotels in 2010.

Today, 40% of hotel guests are from states within the Gulf Cooperation Council (GCC) - with the biggest contingent coming from within Saudi Arabia itself, followed by visitors from Kuwait and the UAE. However, many hotels are already looking to capitalise on tourists from outside the GCC. One example is Mövenpick's Hajar Tower in Mecca, which is targeting pilgrims from countries like the U.S., U.K., Canada, South Africa, Pakistan, Senegal and Nigeria.

Contribution to hub development

- Business travel, due to its position as the world's largest oil exporter
- A guaranteed influx of religious tourists during Hajj, and throughout the year for Umrah
- Demand for low-cost carrier (LCC), intra-Arabian travel from a large population



4.4 Bahrain

Unlike some other countries in the region, such as Dubai, Bahrain's tourism relies mainly on regional visitors from the GCC, who accounted for 94% of leisure guests between January and September 2008. Europeans and Americans accounted for 5% of leisure and roughly 18% of business travellers. With the expansion of Bahrain's destination marketing on an international scale, and improvements in tourism product offerings, growing tourist volumes from outside of the GCC countries are anticipated.

The motorway linking Bahrain to Saudi Arabia brought in 78% of 2008 arrivals to the country and remains the foremost point of entry into Bahrain, followed by airport arrivals (21%). Although airport arrivals in 2008 increased by roughly 20%, car and bus travel is likely to remain the dominant mode of travel, even after aviation infrastructure developments are completed in 2013.

Tourism in Bahrain is highest in the summer months (with the low season from July to August), Ramadan, and around local events and exhibitions such as the Formula 1 Grand Prix, the Spring of Culture Festival in April and the Jewellery Arabia Exhibition in November.

In 2008, five-star hotels (a category predominantly represented by the large international chains) provided 28% of the market's room supply, while four-star hotels (mainly local brands) accounted for 38% of the market. The performance of five-star hotels showed strong results in 2008, with nearly 75% occupancy and average rates close to \$300 USD, as the downturn only started to impact Bahrain in December.

A significant number of new hotels are expected to enter the market in the next few years. About 1,396 rooms – another four hotels - are projected to open in 2010, and a further 885 rooms (three hotels) are forecast to open in 2011. In order to achieve its ambitious tourism goals, Bahrain is taking steps to provide an independent public-private tourism development authority.

The country has committed to creating the infrastructure improvements vital to handling increased visitor numbers – it also recognises the immediate need to expand its leisure offerings, and plans to do so in parallel with the finalisation of mega



developments. If Bahrain can follow through on this commitment, and allocate its resources appropriately, its ambition to strategically position itself as an international leisure, conference and events destination will be realised.

Contribution to hub development

- > Competition and diversity – Bahrain is emerging as a travel destination and offers new visitors from outside the GCC an alternative to Dubai or Abu Dhabi
- > Aviation infrastructure developments, which are taking place over the next three years
- > Bahrain is developing an independent public-private tourism development authority to create a comprehensive destination strategy

In these four markets alone, we can see the significant contribution of the travel and tourism sector to economic prosperity in the region. As the region seeks to diversify its economic base, the importance of travel tourism is set to increase even further. However, across multiple markets in the region, future growth is dependent upon the Middle East establishing itself as a dominant travel hub.

By exploring some of the potential barriers to achieving this goal, greater opportunities can be identified to promote further development of travel and tourism in the region.

5 What could stop the Middle East from becoming a hub?

Despite many factors in its favour, and the clear growth trend in key markets, the emergence of the Middle East as the world's biggest hub is not a given. Among the factors constraining the aviation market's prospects are airspace capacity shortages, different political systems across the region, scarcity of land in some of the smaller countries and a lack of technically skilled labour.

Another key issue in securing further growth is the need to improve the operational efficiency of civil aviation authorities, for example by reducing the number of no-fly zones.

But this is not all. Further obstacles exist which may stand in the way of the region achieving its goal.

5.1 Challenges to airline growth overall

While not a challenge specific to the Middle East, in light of recent setbacks affecting the airline industry it is legitimate to ask whether growth in the sector can be sustained in the long-term.

The list of setbacks that airlines have had to endure in recent years is extensive, ranging from high fuel costs and concerns over the contribution to global warming to terrorism attacks and the danger of high-altitude volcanic ash. This has led to a reduction in the attractiveness of air travel, particularly for business travellers, and greater adoption of alternatives such as train transport and teleconferencing⁸. Nevertheless, the airline industry has an enviable track record of resilience and innovation and is already working hard on issues such as environmental sustainability and impacts⁹. The UN World Tourism Organization predicts that, despite these pressures, international arrivals will continue to rise over the next decade, reaching nearly 1.6 billion by 2020¹⁰.

In the light of this capacity for adaptability and innovation, it is probable that the sector can and will continue to grow – although clearly any shortfall compared to current predictions could affect the levels of expansion predicted for the Middle East and other existing and potential global hubs.

5.2 Political and social misconceptions

In recent years, several sensationalist and high profile stories in the Western media about tourists to the Middle East have given rise to concerns about holidaying in the region. Reports about tourists being arrested for behaviour that is incompatible with Islamic religious beliefs has made headline news in many countries outside of the region. As a result, unease about individual freedom and self-expression has led to anxiety amongst some segments, such as young travellers, about travelling to the region.

A further damaging misconception is about the inherent political stability – or instability – of the region. Many years of much-reported conflict and civil unrest in and between Middle Eastern states such as Israel, Lebanon, Iraq, Iran and Yemen has fostered a less than favourable image of the region. This is unrepresentative of the actual political situation in the region – where many states are very stable, with strong government and a vibrant civic culture. This is especially true of states such as the United Arab Emirates (UAE) which operates as a federation of monarchies with, amongst other roles, a president; a prime minister; a Council of Ministers and a 40-member National Assembly.



5.3 Regulatory complexity

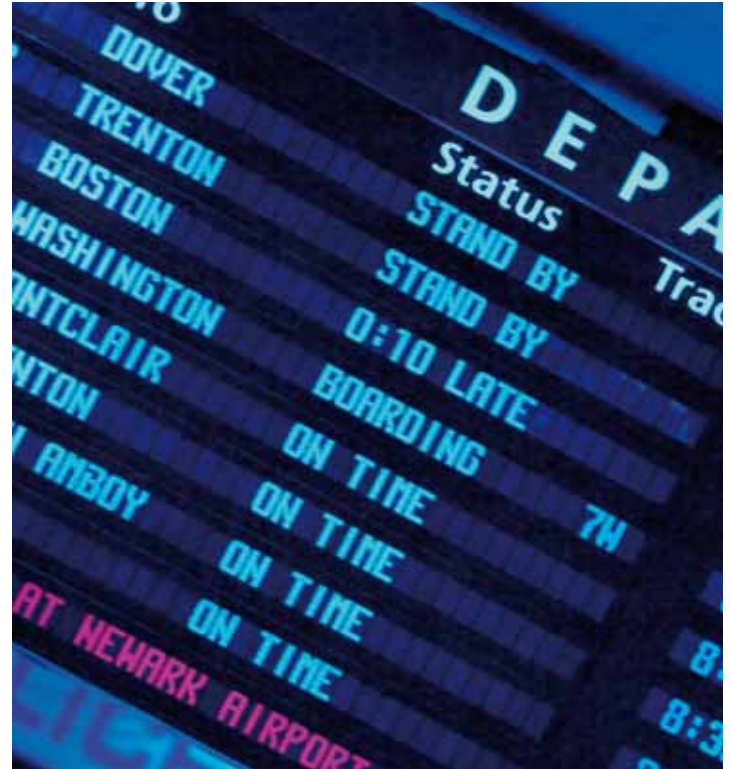
Today there are still a number of inefficiencies that must be addressed if the Middle East is to operate as productively as traditional hubs, for example, multiple aviation authorities serving a small geographical region. Governmental, legal and regulatory issues which must be resolved include the regulation or elimination of no-flight zones. It seems unlikely that anything as comprehensive as the Open Skies initiative between the U.S. and Europe will be established, since Middle East governments often have a significant stake in aviation projects and may hamper the progress of the market with tight regulations and restricted traffic rights. “This region should start thinking beyond national borders. Why not have a United Arabian Sky with seamless air traffic management and common technology standards? Governments must start thinking, coordinating and investing as a region”, says IATA’s Director General and CEO, Giovanni Bisignani¹¹.

Airlines, airports and aviation authorities in the Middle East need to interact effectively to ensure customers’ expectations are met. Visas, security, air control and many other issues, which differ from country to country and are off-putting for international travellers, need to be better regulated between states in the region, so that the visitor’s experience of immigration or transfer is as straightforward and swift as possible.

5.4 Lack of business transparency

Despite regional regulations currently making adequate financial and operational transparency difficult, private investments in the aerospace industry are expected to gain momentum in future, along with increasing deregulation and privatisation. Elsewhere, a number of non-Middle East airlines concerned about the effect of growing UAE carriers on their businesses have accused some of these carriers of receiving hidden state subsidies, including reduced borrowing costs. The impression is that UAE carriers are maintaining compromised relationships with their national airport and aviation authorities, wholly state-owned entities that share the same government owner as the airline. The accused carriers argue that they are not in a privileged position compared to foreign airlines, which could use the same cost base in the Middle East.

Within other sectors of the industry, there is support for greater transparency in terms of political support for airports. Abdul Wahab Teffaha, Secretary General of the Arab Air Carriers Organization (AACO), believes: “Airport and air navigation should be regulated by the government but operated by professionals. What the government should ensure is that operators are not taking advantage of their monopoly situation. The same applies for civil aviation authorities, which are regulators. If they manage an airport they need to play two roles. One cannot manage an airport or an infrastructure and benefit from the monopoly at the same time.”



5.5 Airport overcapacity

Although domestic aviation industries across the Middle East have prospered, problems have arisen from overcapacity and excessive investment: for example, Dubai, Abu Dhabi and Qatar, all in close vicinity to each other, continue to invest heavily in their transport, real estate and tourism infrastructure, driving air traffic. Some of this traffic, especially from the tourism sector, is sustainable and has future growth potential. On the other hand, the completion of mega construction projects will rein in business travel to some extent, and this cannot be compensated for by increasing tourism in the short-term. Currently, national airport expansion plans seem to ignore this trend, and this could lead to airport overcapacities in the mid-term. As a result, the efficiency of having three large airports (Dubai, Doha and Abu Dhabi) in the Gulf Cooperation Council (GCC) region is increasingly questioned.

5 What could stop the Middle East from becoming a hub?

5.6 Airline overcapacity and the prospect of consolidation

Middle East carriers are poised to overtake some of their international rivals in terms of fleet size over the coming 10 years (see figure 2).

Abdul Wahab Teffaha says: “The way Emirates, Etihad and Qatar Airways are growing in the short term, they will not cannibalise each other. I personally do not see the ability to sustain this model indefinitely. Within the next five to 10 years, there has to be consolidation, possibly triggered by the opening of Dubai World Airport. Consolidation does not preclude the possibility of overheating due to the fact that airline businesses are very cyclical and extremely susceptible to changes. Therefore, creating a cushion of stability by reducing the exposure to global competition is something that becomes important for every airline.”

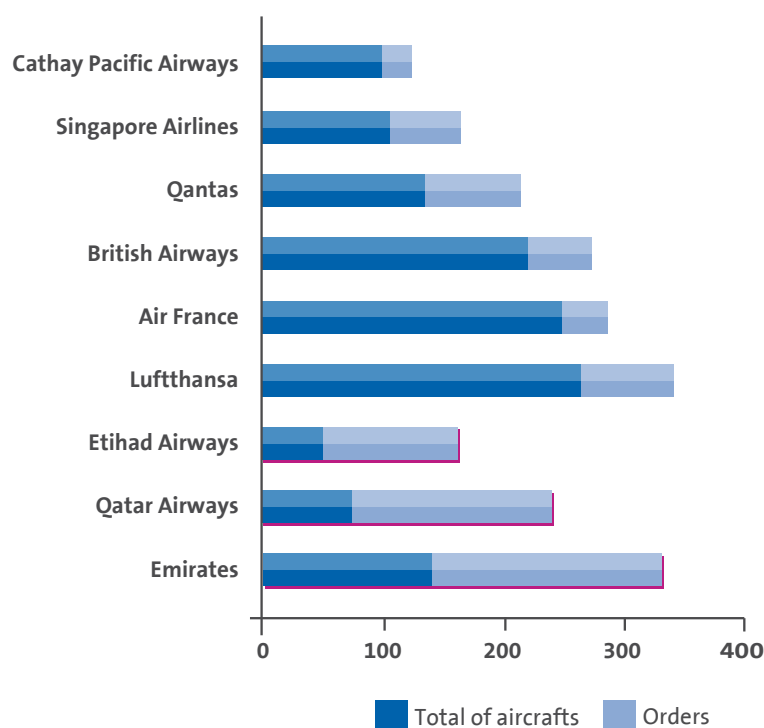
Protectionism may offer a way to fend off competition and absorb excess capacity, but this might be difficult to square with the need for greater fairness and transparency in business dealings, as detailed above.

The way Emirates, Etihad and Qatar Airways are growing in the short term, they will not cannibalise each other. I personally do not see the ability to sustain this model indefinitely.

Abdul Wahab Teffaha, Secretary General, Arab Air Carrier Organization

Figure 2: Comparison of Middle East airlines with legacy airlines (number of aircraft)

Major asia-Pacific, European and Middle East Airlines



5.7 The need to form alliances

The ‘big three’ Middle Eastern carriers—Emirates, Etihad and Qatar Airways—maintain an independent stance towards global alliances like oneworld, Star Alliance and SkyTeam. Currently, there may be good reasons for this.

Antoine Medawar, Vice President, Middle East and North Africa, Amadeus, says: “Entering into an alliance involves the introduction of rules and I feel that the success of the GCC airlines has a lot to do with strong independence and free behaviour. The carriers in the GCC want to do a lot and they want to do it fast and differently, and be the first to innovate and create value for their customers.” How long this stance remains a help and not a hindrance remains to be seen.

Star Alliance, oneworld and SkyTeam have been successful in partnering with the Middle East’s second-tier carriers, such as Royal Jordanian, as some of them are becoming more competitive through restructuring and investments in new fleets, products and networks. Etihad and Emirates maintain extensive code-share links with unaligned partner airlines (figure 3), straddling global alliance groupings: of Etihad’s 19 code-share partners, 16 are non-aligned carriers. Emirates has 16 airline code-share partners, although only seven belong to a global alliance (five from Star Alliance and one

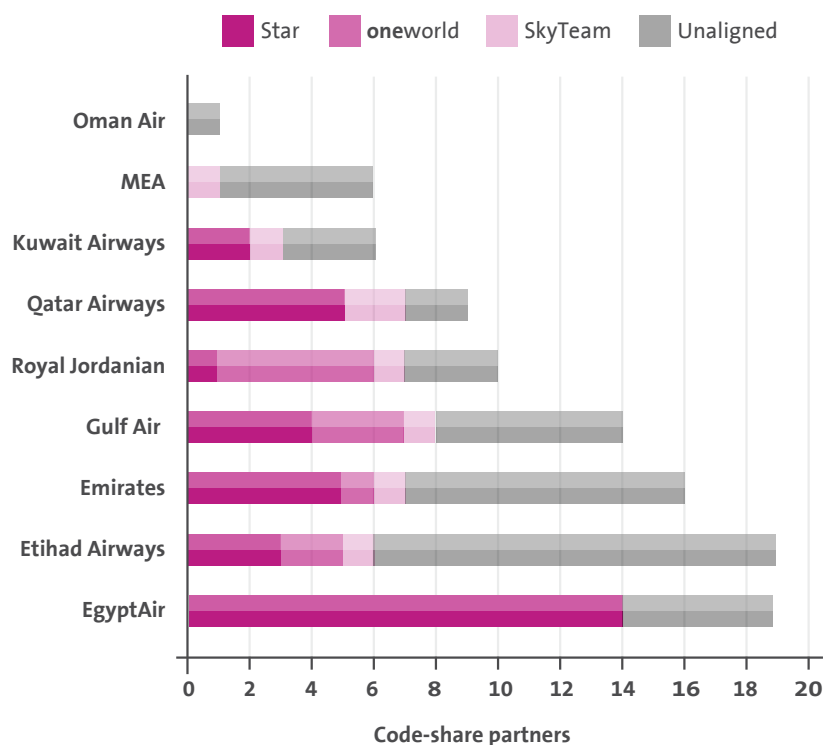
each from oneworld and SkyTeam).

EgyptAir (with 19 partners, 14 of which are Star Alliance peers) has followed another strategy, benefiting from its Star Alliance membership, as has Royal Jordanian, with code-share deals in place with five oneworld partners.

Today, global alliances remain under-represented in the Middle East, but that is expected to change in the next few years as the region’s airlines, and particularly the second-tier full service airlines, increasingly embrace alliances as part of their restructuring and development plans. At the same time, strong traffic growth rates, reflecting rising trade and tourism, are prompting the global alliances to actively court partners in the Middle East. It is likely that an active development period for alliances in the region will emerge in the near future.

AACO’s Abdul Wahab Teffaha adds: “Alliances require airlines to change certain aspects of operations or structure, which some airlines in this region are not interested in. Some airlines accept these tradeoffs because they see the bigger benefit of the alliance.”

Figure 3: Middle East carrier airline code-share partners by global alliance (February 2010)*



* Includes airlines that are pending to join the global alliances
Source: Centre for Asia Pacific Aviation & OAG

6 What is driving momentum behind the Middle East's hub ambitions?

The importance of airline hubs for travel, trade and tourism has significantly increased on a worldwide scale in the last few decades. Today, both business travellers and holidaymakers can reach nearly any major travel destination within one day, and it is possible that in a few years many of those travellers will be flying to or through the Middle East for a number of reasons. The major factors that could influence the region's emergence as a major travel hub are outlined below.

6.1 Changing patterns of world travel

A glance at the main airline routes today (see figure 4) shows major traffic flows spanning the Atlantic, with a clustering of hubs in Europe (London Heathrow, Frankfurt International) and the east coast of the United States (Hartsfield-Jackson Atlanta, New York's JFK and Newark airports).

There are also significant flows across the Pacific, from Asia Pacific to the U.S. west coast, and between Asia and Europe.

However, this picture could change radically in the next few years with the much-vaunted growth in influence of the BRIC countries (Brazil, Russia, India and China) and growing affluence across Southern Hemisphere emerging markets in Africa and Latin America. In particular, it is logical to expect that increasing access to, and appetite for, foreign travel among the many millions of middle-class citizens in China and India could create major business and tourism traffic flows between Asia, Europe and Africa.

Figure 4: World passenger airline routes¹².



Mario C. E. Freese – www.LX97.com/maps

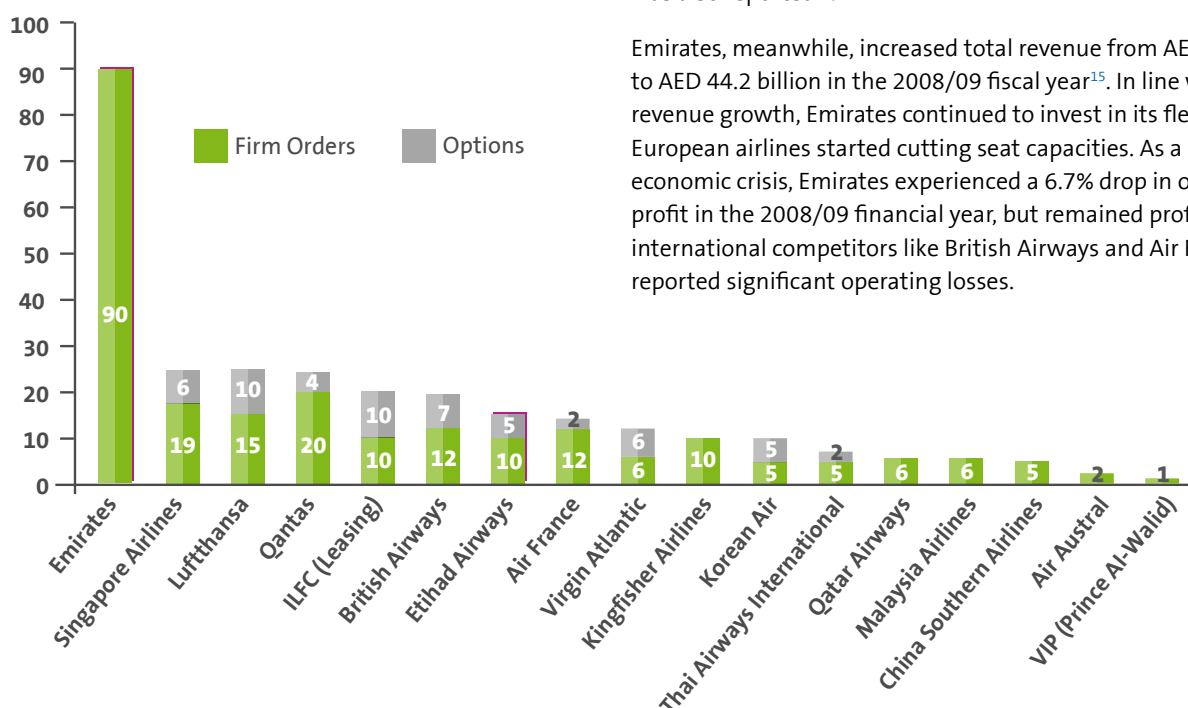
6.2 An already advantageous geographical position

This trend would in any case simply build on the current situation, where increasing levels of air traffic are starting to pass through the Middle East, because its central position connects more major global destinations via a single non-stop flight than any other hub. According to Abdul Wahab Teffaha, Secretary General of the Arab Air Carrier Organization, there are around 2 billion people within 2.5 hours' reach by air from the Middle East.

Businesses are moving to the region for this very reason, as Iain Andrews, Senior Vice President, Dubai National Air Transport Association (Dnata) Agencies, notes: "We have seen some very large organisations setting up their base in the region or moving here, because the travel links and connections are so good. It is much easier to connect with many parts of the world from here than from many other cities or key hubs in various locations around the world."

At a time when air traffic in general is suffering, the Middle East continues to gain an increasing share of the world's total air traffic as a result of increased transit passenger numbers, combined with tourist and business sector growth. Dubai, for example, has seen departures up 6.7% in the second half of 2009¹³.

Figure 5: Emirates and Etihad Airways ordered the most with 90 and 10 planes respectively



6.3 High aspirations and investment by airlines in the Middle East

This advantageous geographical situation is exploited by Middle East carriers, who are competing aggressively with 'legacy' carriers such as Air France-KLM, British Airways and Lufthansa, especially on routes between Asia and Europe. According to IATA, Middle Eastern carriers generated the fastest growth in passenger traffic at the end of 2009, with a 19.1% increase in December (and 11.2% growth for the entire year). Emirates and Etihad Airways, in particular, have been able to gain market share thanks to competitive pricing, high service standards and a dense route network. Even during the recession, these airlines maintained profitability and therefore continue to attract investment.

In addition, Middle East deliveries of the world's largest aircraft, the Airbus A380, will help boost the region's future position as a dominant global hub. As of June 2010, 106 out of 234 firm orders for the Airbus A380 had been placed by two Middle East carriers (figure 5).

Although the global economic crisis did result in reductions in some government and private sector aviation investment, Middle East carriers were not as severely hit by the slowdown as others were: for example, Etihad Airways managed to increase its seat-kilometre ratio by 25.4% and number of passengers by 11% in the first months of 2010. This resulted in a 2% increase in the seat load factor, from 73% to 75%; a higher utilisation of the premium classes on board was also reported¹⁴.

Emirates, meanwhile, increased total revenue from AED 40.2 billion to AED 44.2 billion in the 2008/09 fiscal year¹⁵. In line with the revenue growth, Emirates continued to invest in its fleet as most European airlines started cutting seat capacities. As a result of the economic crisis, Emirates experienced a 6.7% drop in operating profit in the 2008/09 financial year, but remained profitable while international competitors like British Airways and Air France-KLM reported significant operating losses.

6 What is driving momentum behind the Middle East's hub ambitions?

6.4 A vibrant and growing low-cost offering

Furthermore, growing regional passenger demand for shopping and pilgrimage has recently led to the emergence of a new generation of low-cost carriers (LCCs) such as Air Arabia (based in Sharjah Airport in the UAE), Jazeera Airways (based in Kuwait) and Flydubai, Emirates' low-cost airline. It is envisaged that LCCs will significantly increase intra-Middle East point-to-point traffic, a largely underserved segment.

Antoine Medawar, Vice President, Middle East and North Africa, Amadeus says: "LCCs have not taken market share from traditional carriers. In fact, I am convinced that they have created their own demand. LCCs are able to attract people that do not usually travel; this could be close to 80% of travellers who otherwise could not afford flying."

LCCs are expected to pose only a slight threat to Middle East's legacy airlines, as much of their business is complementary and does not impact on mid- and long-haul flights. Furthermore, LCCs are expected to boost the numbers of transit passengers, and in their secondary role as feeder airlines, LCCs could also accelerate momentum throughout the entire aviation sector. With an expanding LCC market, the development of low-cost airstrips and smaller airports in more remote areas may become a necessity.

Tom Rowntree, Vice President, Commercial, Middle East and Africa, Intercontinental Hotel Group (IHG), says: "The significant increase of market share from available LCCs has redefined the travel industry in the Gulf... Saudi Arabia, with its large and fast-growing population of over 28 million, will be a major LCC market. Today, Saudi Arabia generates about 40% of outbound traffic for the Gulf which will, in turn, provide large numbers of incoming travellers."

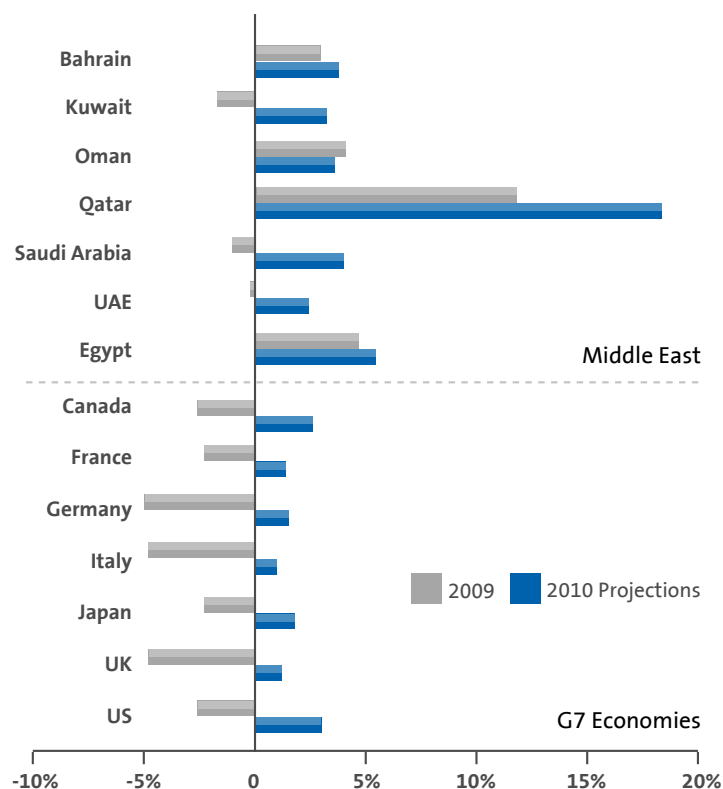


6.5 Continued economic growth in the region

The oil and gas industry has attracted large investments to the region and has driven massive infrastructure projects, including commercial and private real estate, with a consequent increase in the need for business travel. Despite economic setbacks in territories such as Dubai, Middle East countries generally continue to show comparatively strong GDP growth, especially when compared with the G7 countries (see figure 6) which are home to the world's largest aircraft fleets and travel hubs.

Today, Gulf Cooperation Council (GCC) countries (Saudi Arabia, Oman, Kuwait, Qatar and the UAE) are among the fastest-growing economies in the world, predominantly thanks to enormous oil and gas revenues which have driven an unprecedented building and investment boom.

Figure 6: Percentage of GDP change—Middle East versus G7



6.6 Continued investment in airport infrastructure

According to Frost & Sullivan's Middle East Airports Infrastructure Market report, Middle East airports will invest \$86 billion USD in expansion plans in coming years, with the figure expected to double after 2025. Even current economic uncertainties are not predicted to affect the growth of the region's commercial aviation sector, because of funding by national governments (see figure 7).

Although the lion's share of investments will be allocated to airport construction and terminal expansion, there is also significant potential for private infrastructure projects.

"The Middle East's investment to diversify away from oil and gas is becoming increasingly important – attracting the best talent and ideas and increasingly competing with European cities as global airport hubs and tourism centres. Our estimates suggest that up to US\$4 trillion USD worth of projects have been announced to develop travel, tourism and supporting infrastructure across the Middle East", says Rohit Talwar, C.E.O. of Fast Future Research¹⁶.

Several governments in the region are keen to adopt a build, operate and transfer model to safeguard the international standard of airports. As a result, passenger and cargo traffic are expected to grow at a compound annual growth rate of over 8% from 2008 to 2015¹⁷, suggesting that the Middle East will be the only region in the world with significantly higher traffic than now.

Furthermore, 'mega airports' for passenger and cargo traffic are established and expanding. Al Maktoum International Airport (which is part of the \$33 billion USD Dubai World Central development in Jebel Ali) has the ambitious vision to become the world's largest airport by 2022. Freight operations were launched at the end of June 2010, with the introduction of passenger operations planned for a later date. If completed as planned, the airport will have an annual cargo capacity of 12 million tons, more than three times that of Memphis International, today's largest cargo hub, and a passenger capacity of up to 120 million passengers per year, more than Hartsfield-Jackson Atlanta, currently the world's busiest passenger airport with 90 million passengers in 2008.

Figure 7: Major GCC Airport Investments

Airport	Country	Construction Measures	Investment (USD Billion)
Al Maktoum International Airport (JXB) at Jebel Ali	UAE Dubai	First Phase	11,0
Abu Dhabi International Airport (AUH)	UAE Abu Dhabi	Expansion	6,8
King Abdul Aziz (JED), Madinah and Tabuk Airports	Saudi Arabia	Upgrade	5,2
New Doha International Airport (NDIA)	Qatar	New build	11,0
Other GCC airports until 2014	GCC	Various	11,0
Total aggregated GCC airport investments until 2014			45,0

Source: Kuwait Financial Centre 'Markaz, Nov 2009

6 What is driving momentum behind the Middle East's hub ambitions?

6.7 Airport specialisation

The executive interviews carried out for this paper have provided different views concerning the right number and location of airports throughout the Middle East region. Although the statements depend on the country and industry, it seems that specialisation of airports will intensify over time: for example, Al Maktoum International Airport at Jebel Ali in Dubai will start its operations with cargo-only businesses, aiming to become the world's largest cargo hub. Dubai is poised to become one of the largest hubs for international transit traffic, "connecting the world"; Jeddah in Saudi Arabia has a strong focus on religious travel; and Sharm El Sheikh in Egypt will continue to concentrate on tourism. However, airports are specialising not only in the types of travellers they receive, but also the facilities they offer, which will enhance the airport experience of the end traveller. One particular example is Qatar Airways' Exclusive Premium Terminal at Doha International Airport.

This specific terminal is dedicated for use by First Class and Business Class passengers, and not only includes standard facilities such as check-in and duty-free shopping, but also conference rooms, spa treatment rooms, restaurants, high-end retail outlets and a nursery. Another example, which is very specific to the region, is the Hajj Terminal at King Abdulaziz International Airport (Jeddah), which caters for foreign pilgrims to Mecca. The terminal has a tent-shaped roof, can accommodate 50,000 pilgrims daily during the seasons, and is equipped with agents from Tawafa Organisations (who help arrange the pilgrimage). The nature of the traveller making use of the airport is likely to continue to determine the facilities on offer, as the end traveller's perspective becomes more important and more and more visitors expect to have access to services that cater to their needs, regardless of the reason for their journey to the region.

6.8 An increasingly attractive destination

While much of the Middle East's traffic growth has traditionally been associated with business travel and transit, religious travel (Hajj), visiting friends and relatives, holidays and shopping are all now helping to further drive air travel within the region.

As a result of the global economic slowdown (and following sharp growth of 18% in 2008), the number of tourist arrivals in the Middle East dropped 13% over the first seven months of 2009 compared with the same period of the previous year. Part of this decrease was caused by less travel to Egypt. Nevertheless, GCC countries (Egypt is not a member country) have generally shown a fair degree of resilience to the global economic downturn: one example is the UAE, which saw tourism grow 3% in the first quarter of 2009. Within the UAE, Abu Dhabi is aiming to more than double the number of hotel guests to 2.3 million a year by 2012, whereas Dubai's goal is to attract 15 million annual visitors by 2015, about double the 2008 figure.

In addition, the UN World Tourism Organization (UNWTO) predicts that the number of tourists to the Middle East will more than double by 2020 (from 54 million in 2008 to 136 million) due to continued investment in the tourism sector. During this period, the region is expected to see a growth rate almost double the world's average, according to Amr Abdel-Ghaffar, the UNWTO regional representative for the Middle East.

As one of the fastest-growing hotel markets worldwide, the Middle East has 457 hotel projects in the pipeline, with 57% already under construction (figure 8).

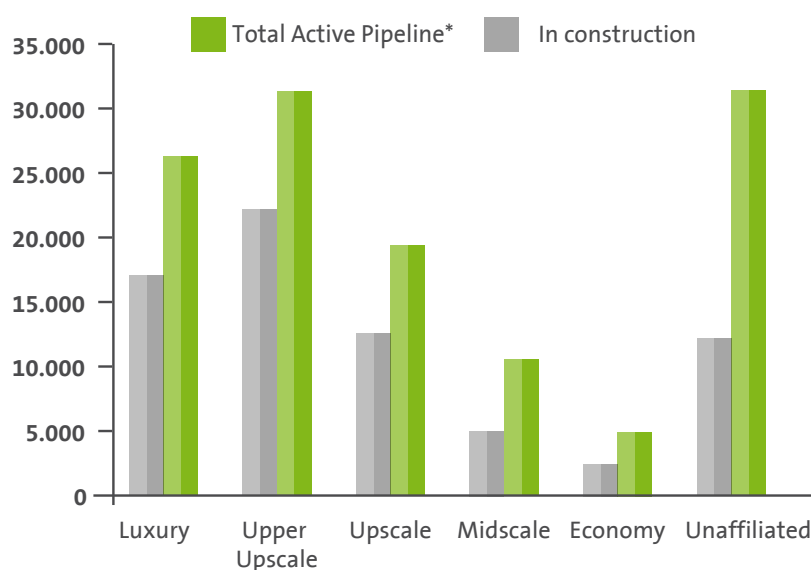


Figure 8: Middle East/Africa hotels pipeline by segment for February 2010 (number of rooms)

*Source: STR Global Construction Pipeline Report

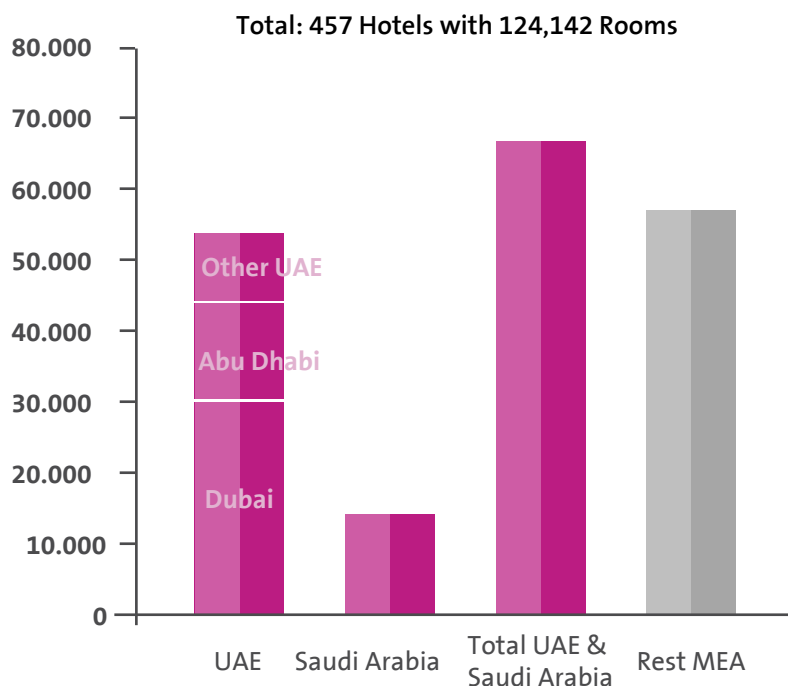
The most active hotel construction sites in the Middle East are in the UAE, with a total active pipeline of more than 52,000 rooms, followed by Saudi Arabia with more than 14,000 rooms (figure 9).

In total, 124,142 rooms have been reported to be in construction throughout the Middle East and Africa region. The UAE and Saudi Arabia together account for more than half of all planned property builds, underlining the GCC's role as growth driver in the region.

Although the number of Middle East hotel projects has slowed (from 145,786 rooms at the end of 2009) due to worldwide economic challenges and growing concerns of oversupply, the construction pace remains comparatively high. Ongoing room supplies are supported by both an increasing foreign and regional demand, which is expected to remain over the long term. The GCC's hospitality industry remains robust, justifying the \$7 billion USD hotel projects under construction between 2010 and 2013. In the short term, the Middle East can expect 98 new hotels with 29,226 rooms to open in 2010 and 115 hotels with 33,765 rooms in 2011¹⁸. These figures are unmatched in nearly any part of the world and illustrate the region's ongoing market dynamics.



Figure 9: Total active hotel pipeline, by country (number of rooms)



Source: STR Global Construction Pipeline Report

6 What is driving momentum behind the Middle East's hub ambitions?

6.9 Religious travel

Every year, 3 million pilgrims visit Mecca in the month of Hajj, and 2 million visit as Umrah pilgrims during the month of Ramadan, and this number is expected to grow significantly in the next decade. However, this is not simply intra-Middle East travel - several countries with high Muslim populations lie far from the Saudi Arabia: for example Indonesia, home to 200 million Muslims, or Nigeria, which is home to 74 million Muslims. As the majority of these far-flung pilgrims will travel by air, they help create the need for a global travel hub in the Middle East, as well as sustaining it through high international visitor numbers.

This religious travel will become cheaper and more accessible as global hub attracts new routes and airlines, and there is likely to be a corresponding and swift rise in the number of these travellers to the region. It is also possible that these new visitors, who perhaps have never been able to make the pilgrimage before or who are now able to complete it more frequently, may stay in the area before or after the pilgrimage itself, helping to sustain the hospitality industry year-round. This gives the Middle East a significant competitive difference from traditional hubs, who do not benefit from this guaranteed influx of visitors. Religious travel may also have an effect on the shape of the hub as it develops – this can already be seen in the development of a Hajj terminal at King Abdulaziz International Airport, as previously discussed, and in the continuing development of high-speed rail links within Saudi Arabia, which will transport pilgrims efficiently once they arrive in Saudi Arabia.

6.10 Traveller demographics

However, religious travellers are not the only traveller demographic particular to the Middle East. Two other, distinct demographic segments driving travel both to and within the region are high net worth individuals and newly enfranchised travellers.

High net worth individuals travel to and within the Middle East for both business and pleasure – in both cases requiring luxury accommodation and limousine hire, and often wishing to make use of specialised facilities, such as the Exclusive Premium Terminal at Doha International Airport.

The newly enfranchised traveller demographic is indicative of those in the Middle East for whom travel and tourism was previously inaccessible, but who are now holidaying, visiting family and friends and going on pilgrimages within the region. This is a result of the sudden proliferation of low-cost carriers, as well as improved rail and road infrastructure, and it is this demographic that is fuelling demand for hotels with a greater variety of asset classes in destinations such as Dubai. Travel and hospitality providers in the region must be aware and plan for the needs and expectations of these specific traveller segments, as they represent the opportunities particular to the region.



7 The critical role of IT infrastructure

In addition to the growth enablers and challenges mentioned above, a factor often overlooked in studies of travel industry success is IT. In fact, the level of sophistication of IT systems used in the travel and transport industries can be a critical success factor, helping improve distribution, increase efficiency, stimulate innovation and deliver competitive differentiation.

In this section we provide a brief overview of the situation in the Middle East.

7.1 An air industry IT overview

Large travel suppliers employ a Central Reservation System (CRS) for managing their inventory and reservations. The CRS is used as a single point of data entry for managing static (descriptive and graphical) and dynamic (fares and availability) content.

Travel suppliers distribute products and services to travel agencies and customers via two main distribution channels: Global Distribution Systems (GDS) and the Internet, either direct via a supplier's Web site or indirect via travel agencies that use Global Distribution Systems. It is important to note the distinction between distribution systems and customised IT solutions.

Travel distribution systems are generally powered by a GDS platform, which acts as an international network for the distribution of travel products and services from travel provider to travel agents. The GDS provides comprehensive real-time search, pricing, booking and ticketing functionalities to customers (typically on- and offline travel agencies connected to a GDS). IT solutions, meanwhile, offer travel suppliers an extensive portfolio of technologies which automate certain mission-critical business processes, such as reservations, inventory management and departure control for airlines.

7.2 The role of Global Distribution Systems for e-commerce

Aiming to reach a larger worldwide audience, numerous international airlines completed the process of connecting their proprietary CRSs to new, globally accessible IT systems in the mid-1980s. Since then, GDSs have reached a very significant share of total air bookings, and electronic commerce started to penetrate travel distribution, including reservations, inventory and departure control.

For almost thirty years, GDSs have been at the heart of the travel industry in terms of processing travel related transactions. The GDS has diversified and expanded distribution offers to hotels, car rentals, tour operators and cruises. Today, nearly half a million travel agents from 163,000¹⁹ agencies around the world book via the three major GDSs: Amadeus, Sabre and Travelport. These processed more than 1.1 billion GDS transactions in 2008, representing over \$268

billion USD in gross bookings. Traditional travel agencies continue to maintain a stronghold not only in Europe and Asia Pacific, but especially throughout the Middle East source markets. With more than 550 international carriers connected, airlines account for the largest share of the GDS transaction volumes. In addition, GDSs provide an expanding amount of content to online and bricks-and-mortar agencies.



7 The critical role of IT infrastructure

7.3 The Middle East picture

The GDS remains the most important channel for flight bookings and also plays a very significant role for the business travel market (figure 10), as business travellers typically book through a travel agency or travel management company, who traditionally use GDS for their search and booking. Online travel agents like Expedia also often rely on GDS-powered bookings, although both traditional and online travel agents are diversifying the ways they look for content and are increasingly searching for LCC content, whether it is in the GDS or online.

Using the same GDS platform provides synergies between these airlines and travel agents in the Middle East and North Africa region. Furthermore, common e-commerce and IT solutions equip member airlines with excellent tools to bring customer-oriented distribution technology to the travel agents, which continue to be very important in the travel value chain.

Numerous airlines have recently introduced ancillary service offerings (such as extra baggage, priority seating and so on) on their web sites. In order to enhance the customers' experience and provide a seamless integration with other connecting travel modes (such as rail tickets), GDSs are transforming their core systems into a full-service retail platform. Airlines can package, up-sell and promote special/complementary flight components, such as extra legroom, differentiating them from the mass market.

Significant enhancements in distribution are impacting three key areas:

- Delivering airline merchandising features including fares packaging, up-selling, displaying of product characteristics and advertising capabilities. This enables airlines to maximise their selling opportunities beyond simple price and route differentiation.

- Providing new functionality to ensure airline products are sold in compliance with commercial policies and guarantee revenue integrity.
- Offering a management graphical user interface that allows airlines to manage their distribution set-up through all the GDS points of sale, increasing the speed of implementation of new functionality and business policies in the channel.

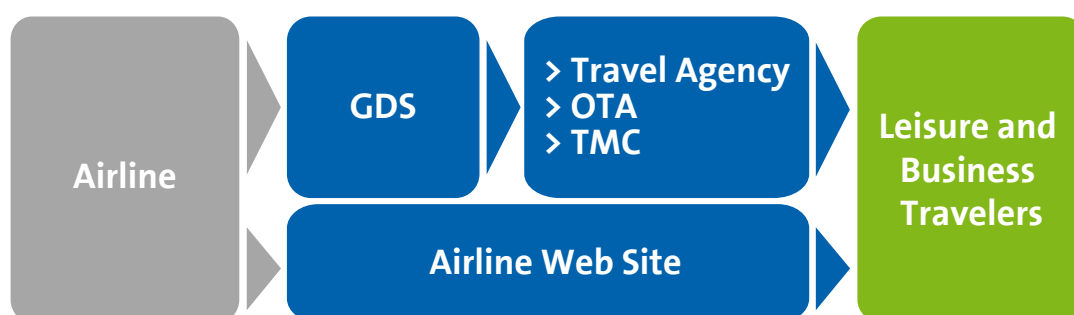
Access to advanced IT systems could be an important factor in the competitiveness of Middle Eastern airlines, says Denis Lacroix, Amadeus Vice President of Product Development, Sales and e-Commerce Platforms.

"Airlines in this region are much more experimental than their U.S., European and Asian counterparts," he says. "They could be characterised as innovative, creative and risk averse. For example, Etihad redeems Frequent Flyer Miles in cash, or vice versa".

"The implementation started three years ago, and some other airlines have followed this move. Middle East carriers usually request high-speed IT developments and implementations in order to catch up to or even to exceed the Western standard as quick as possible."

Considering online and ancillary sales, Mr. Lacroix explains that: "airline ancillary services are currently of lower importance as travellers in the Middle East region are more focused on high standard, full-service carriers. This will change as more LCCs come online. In the future, the airlines will have to distinguish between Middle East passengers and global customers. Currently, most airline Web sites are only available in two languages, Arabic and English. This is not sufficient in the mid term, when large seat capacities of the major Middle East carriers will become available online. At least the major carriers will require multi-national Web sites for their brand, possibly operated in the respective source market."

Figure 10: Airline distribution value chain



OTA: Online Travel Agency; TMC: Travel Management Company

8 Conclusion

The Middle East clearly has the potential to become a dominant global travel hub. This is supported by the presence of a rapidly developing and diversifying economic base, the Middle East's geographic location and the destination's increasing attractiveness for leisure and business travellers as detailed below.

1. The Middle East is growing

The Middle East is “an oasis of some good news” for the aviation industry; it is “the only region that is growing”, according to Giovanni Bisignani, IATA's Director General and CEO²⁰. The region is steadily emerging as a competitor to traditional travel hubs such as London Heathrow, Frankfurt, and New York JFK – already, Dubai International is ranked the third busiest in the world for international traffic, after London Heathrow and Hong Kong International.

2. While other hubs reach saturation, the Middle East has space to expand

Dubai's new Terminal 3, opened six months after Heathrow's troublesome Terminal 5 opening, occupies three times the area of the latter, and will continue to expand due to its lack of geographical limitation. Traditional hubs near cities are limited by lack of space, night-time curfews, the opposition of local residents and concerns about noise and air pollution. By making use of desert land, the Middle East has a competitive edge that sets its prospects apart from those of established hubs (see Appendix “Global travel hub scorecard” for further comparison with other global hubs).

3. The travel industry is boosted by economic diversification in the region

The economy of the Middle East, for so long dependent on oil and gas, must be entirely restructured and diversified to safeguard against changes in the energy industries. To this end, governments in the region have invested a great deal in the development of transport infrastructure and facilities.

4. A strategic location between East and West

The Middle East will play a major role in global travel as it connects the most frequented destinations worldwide. By 2025, when the world's population exceeds 8 billion, it is projected that 7 billion people will be within reach via a single flight.

The trends suggest that a global travel hub in the region will develop at a rate indicative of the large investment governments have made in key markets. That is to say, by 2025, the Middle East will be the world's dominant travel hub. The development of this hub will have a positive effect on industrial diversity, job creation, and greater collaboration between Middle Eastern national governments, aviation authorities and industrial bodies.

Nonetheless, while the signs point towards success, complacency is a threat that lingers on the horizon. There are clear steps that must be taken to ensure the Middle East fulfils its ambition to become the world's dominant travel hub.



Avoiding complacency: focus for action

- Build a more effective regulatory framework across the region that includes the alignment of visa regulations to speed up transit passenger processing and immigration, as well as coordinating air control and flight zones.
- Middle East carriers to explore further code sharing agreements and alliance membership to drive market share.
- Create more skilled labour by focusing on education initiatives and training to address the skills gap, which will benefit both the hub and wider economic development of the region and reduce dependency on imported labour.
- Promote greater financial engagement from both foreign investors as well as national governments in transport, accommodation and technology.
- Enhance greater financial transparency to attract more foreign investment.
- Mitigate the risks of overdevelopment by learning the lessons learnt in boom markets such as Dubai, where the effects of the global downturn have uncovered a number of economic inefficiencies, for example in the real estate market.
- Foster a greater understanding of traveller behaviour and needs in order to offer services and facilities that address the needs specific to those people travelling to, from and within the Middle East – for example, pilgrims to Mecca or high net worth individuals travelling for business.

9 Appendices

Footnotes

1. UNWTO Tourism 2020 Vision, October 2009
2. UNWTO Tourism 2020 Vision, October 2009
3. Speaking at AACO 42nd AGM, 19 October 2009
4. HVS
5. DTCM: Dubai's Department of Tourism and Commerce Marketing
6. Ernst & Young
7. BMI
8. See for example 'Beaming Into the Big Meeting',
The New York Times, May 3, 2010 (<http://www.nytimes.com/2010/05/06/business/06MEETING.html>), retrieved May 2010.
9. See <http://www.enviro.aero/> for a list of initiatives.
10. Source: UNWTO, Tourism 2020 Vision, October 2009
11. Speaking at AACO 42nd AGM, 19 October 2009
12. Image created by Mario C. E. Freese – www.LX97.com/maps
13. Source: OAG
14. Press release Etihad Airways, April 2010
15. Annual Report 2009 Emirates Group
16. Remarks made June 2010
17. Frost & Sullivan report
18. Lodging Econometrics research
19. PhoCusWright Whitepaper The Role and Value of Global Distribution Systems in Travel Distribution
20. Speaking at AACO 42nd AGM, 19 October 2009

Global travel hub scorecard

Key criteria for successful hub development or expansion	Travel hub			
	Middle East (DXB/AUH/JED)	Asia Pacific (SIN/HKG)	North America (JFK/ATL)	Western Europe (LHR/FRA)
Growth in air travel to and from region	✓✓✓	✓✓	—	—
Political and social stability	✓	✓	✓✓✓	✓✓✓
Economic stability and growing GDP	✓✓	✓✓	✓	✓
Stable and conducive regulatory framework	✗	✓	✓✓	✓✓
Investment in infrastructure	✓✓✓	✓	✓	✓
Industry co-operation and collaboration	✗	✓✓	✓✓	✓✓
Strategic location or easy access to growth regions	✓✓✓	✓	✓✓	✓✓
Scope for geographic expansion	✓✓✓	✗	✓	✗
Investment in the aviation and air industries	✓✓✓	✓✓	—	✗
Growing tourist location	✓✓	✓✓	—	—
Presence of a thriving LCC sector	✓	✓✓	✓✓✓	✓✓✓
Increasing demand for travel due to social or business reasons	✓✓	✓✓✓	✓	✓



9 Appendices

Expert spotlight

During the development of this report the authors spoke to a number of Middle East travel and tourism leaders, who offered a range of perspectives on the region's current situation and future prospects. Some of their comments have been reproduced in the main text, but below we include additional highlights from these conversations.

Abdul Wahab Teffaha, Secretary General, Arab Air Carrier Organization

Consolidation and regulation to be trademarks of the future

“The way Emirates, Etihad and Qatar Airways are growing in the short term, they will not cannibalise each other. I personally do not see the ability to sustain this model indefinitely. Within the next five to 10 years, there has to be consolidation, possibly triggered by the opening of Dubai World Airport. Consolidation does not preclude the possibility of overheating due to the fact that airline businesses are very cyclical and extremely susceptible to changes. Therefore, creating a cushion of stability by reducing the exposure to global competition is something that becomes important for every airline.

From a global perspective, I would consider the region's developing airports as 21st century hubs and those already fully operational as 20th century hubs. Effectively, the stagnation of existing global hub developments necessitates the creation of new ones, based on increasing world traffic, and the Arab world would be the best choice to create them.

Airport and air navigation should be regulated by the government but operated by professionals. What the government should ensure is that operators are not taking advantage of their monopoly situation. The same applies for civil aviation authorities, which are regulators. If they manage an airport they need to play two roles. One cannot manage an airport or an infrastructure and benefit from the monopoly at the same time.”

Tom Rowntree, Vice President, Commercial, Middle East and Africa, Intercontinental Hotels Group

Increasing numbers of LCC passengers will demand mid-scale hotel options

“The significant increase of market share from available low cost carriers (LCC) has redefined the travel industry in the Gulf. Affordable travel has opened up key destinations in the Middle East to travellers otherwise excluded from the market. With the expansion of budget carriers like Jazeera Airways, FlyDubai and Air Arabia, passenger traffic from most markets in the Middle East, Asia and some European countries, will increase tourism numbers substantially, bringing in more visitors to our hotels in the Middle East. Saudi Arabia, with its large and fast growing population of 28 million, will be a major market for LCCs. Today, Saudi Arabia generates about 40% of the outbound traffic for the Gulf which will, in turn, provide large numbers of inbound travellers.

From the hotels' perspective, having the right mix of brands available in the right location at the right price points is critical. Across the UAE and Qatar we are seeing maturity by the number of brands in the market as well as growth limitations considering the range of available brands. Looking back at the hotel industry 13 years ago, it was the upscale brands who dominated the market. Since then there has been growth in the limited-service and the mid-scale brands.

Among the growth drivers are the increasing importance of intra-regional traffic and new business coming through the Levant and South East Asian markets. Another key development is a shift in buying behaviour, with guests increasingly, booking hotels online or over their phones through dedicated mobile applications. The success of IHG's digital platforms is not only reflected through its web revenues (predominantly the brand website and TPis) which almost doubled in 2009 from the previous year. In addition, the introduction of a dedicated iPhone application has generated an impressive \$3 million USD in revenue since its launch in April 2010. The application which has been downloaded 70,000 times globally, is available to all IHG's Priority Club® Rewards members and is the first of its kind introduced by any major hotel group.”

Imad Elias, Chief Operating Officer, Rotana Hotels

Charter operations allow key resort destinations to flourish

“Air, land, rail and sea connectivity throughout the region must be further developed and extended for tourism and intra-regional travel to reach the region’s real potential. Also LCCs have a very positive impact on the region, but it’s still not enough. For key resort destinations to flourish, charter operations must be better structured and organised in this region. Sharm El Sheikh in Egypt is an example of how a destination can benefit from well-established charter operations. This is a must if other destinations, such as Ras Al Khaimah and Fujairah, are to reach their full potential. Beirut, and Jeddah in Saudi Arabia, should be two key sites that must be developed to complement the region’s positioning as a global hub.”

Jeff Strachan, Regional Vice President, Sales and Marketing, Marriott International

The location of a travel hub has important effects on employment and growth prospects

“The key demand factors vary across different markets. The UAE and Doha, for example, are very similar. All the Marriott properties are business hotels and demand has been predominantly driven by infrastructure growth such as government departments, construction and banking. Today, Marriott has no airport hotels, but in certain areas has to undertake a strategic repositioning, for example because of its proximity to the new airport in Doha. This hotel is highly likely to see a higher percentage of traffic as an airport hotel. Airport locations make sense and we have opportunity for growth in this area. If hubs are only created in the United Arab Emirates and Qatar, naturally we are going to see a lot of people drawn to these countries for work.

But if countries like Saudi Arabia, with a growing population, are not considered, we could be facing a jobs challenge throughout the Middle East. The King Abdullah economic city in Saudi Arabia is a good start, but more seems to be required to cope with peoples’ ability to earn money and their general wellbeing, including schooling, healthcare and education. Government economic, social and environmental policies are all interlinked, because at the end of the day it all comes down to mastering population growth, and over the next 15 to 20 years this is a pressing issue.”

Walid Harouni, Hotels Division Director, Abu Dhabi National Corporation of Tourism and Hotels

Abu Dhabi has a well defined vision for the future

“For years, Abu Dhabi has been behind Dubai and now it’s really a different destination, complementing and not competing with Dubai, while both emirates are growing. Abu Dhabi has been really successful as a hub. Although it does not fully serve the hotel business, because people are mainly transiting through the airport, we feel very confident about the hub’s future with a number of new routes opening.

The key success of Abu Dhabi is the structured control of what is happening and a very well defined vision of where to go. Abu Dhabi is truly diversified, with places like Masdar, Al Gharbia, Saadiyat and Yas Island all complementing each other because the government is involved in the overall planning process and knowledgeable about future operations. In 2009, hotel performance was very good. It declined slightly in 2010 because of the growing supply. But growth is expected to continue due to new transportation infrastructure in terms of roads and a planned Saudi rail system. In future, we expect more leisure travellers to come from China, Malaysia, Japan and Germany. These markets are growing, especially China, and we also have good ties with these countries. For the business market, we project a significant increase based on huge upcoming projects, driving diversification away from the oil to the natural gas sector. This requires a totally new set of professionals entering the country and boosting demand for budget hotels all the way up to the five-star properties.”

9 Appendices

Expert spotlight

Denis Lacroix, Vice President, Product Development, Sales and e-Commerce Platforms, Amadeus

Carriers in the Middle East are more experimental than others worldwide

“Airlines in this region are much more experimental than their U.S., European and Asian counterparts. They could be characterised as innovative, creative and risk averse. For example, Etihad redeems Frequent Flyer Miles in cash, or vice versa. The implementation started three years ago, and some other airlines have followed this move. Middle East carriers usually request high-speed IT developments and implementations in order to catch up to or even to exceed the Western standard as quick as possible.

The technical infrastructure is not the reason for lower-than-average online bookings when compared to the U.S. or Europe. Broadband Internet is available, especially in UAE, but other local and cultural issues still pose barriers, such as the desire for high service levels which cannot be provided by the Internet. As the positioning of most airlines is in the full-service economy/business/premium class, regional bookings are often made by someone else, such as a personal assistant. Therefore, savings via online booking are not a big issue. Today, e-commerce business volumes in Saudi Arabia are comparatively lower than for example in Europe, but the gap is not as large as one would expect. Airline ancillary services are currently of lower importance as travellers in the Middle East region are more focused on high standard, full-service carriers. This will change as more LCCs come online.”

Iain Andrews, Senior Vice President, Dubai National Air Transport Association (Dnata) Agencies

The geographical location of the Middle East is a key advantage

“We have seen some very large organisations setting up their base in the region or moving here, because the travel links and connections are so good. It is much easier to connect with many parts of the world from here than from many other cities or key hubs in various locations around the world. The region is very well covered- Brazil, India, China- making this a fantastic hub.

With major airlines like Etihad, Qatar, Gulf Air- all of this means that any part of the world is very easy to get to - particularly if we look at some of the developing areas like Australasia which is a lot easier for us to get to from here. Many Airlines/representatives/hotels are setting up. So there is a massive value in having this as a hub for the region.

We anticipate that the region will see growth in Abu Dhabi and Doha. We continue to gain tremendously. Carriers are gaining business from the increasing volumes of passengers wanting to come and visit Dubai as a tourist destination as well as continuing to benefit from transit passengers taking advantage of its ideal location as a hub.”

Adnan Aridi, General Manager, Alpha Tours

Online services will better manage future growth

“For us as a destination management company, and for the hotel sector as well, 2007 and 2008 was a very busy period with all businesses in Dubai doing well. People could afford to spend and corporate travel, including incentives, training, conferences and seminars were well booked. However, now all has changed, not because the demand is less, but because the supply in terms of the number of rooms available has increased. In 2008, there was still a lot of rigidity in dealings between the hotels and us as a DMC, whereas now, we receive better offers and there is much more supply.

For optimising business, we are currently focusing on online technology. Our objective is to launch our new Web site, which will incorporate B2B and B2C platforms, by June 2010. From that point, consumers will be able to book online direct through us and hotels will also be able to load their rates and availability on our Web site. Our online services will be able to better manage future growth, which is expected to mainly come from the U.K., GCC, Russia, Germany, China and India. Although the GCC source market is growing, there is a lot of further potential as the economy continues to prosper.”

Jyoti Panchmatia, General Manager for the Gulf Region, Travco

Tourist volumes will increase thanks to increasing affordability

“Affordability, for example compared to Asian hubs like Kuala Lumpur, Singapore and Thailand, is among of the key success factors for the Middle East’s hubs. Currently, we are losing out and will continue to do so. Financial viability and competitiveness is not just incumbent on the private sector but also on the government.

”

One of the upcoming game changers are LCCs, making travel more affordable, enabling people to travel more frequently. Currently, they are feeding into the major carriers and they are bringing more traffic. But once LCCs start operating those routes, then people’s choices will change. And if LCCs really want to compete with scheduled airlines, then both will feel pressures to adjust their cost. The increasing number of LCCs has changed our business travel strategies, but on the other hand, it is going to increase traffic within the region and eventually, when LCCs spread their wings into the neighbouring regions, tourist volumes will increase.”

Steve Harrop, Chief Executive, Destinations of the World (DOTW)

Middle Eastern tourist destinations are becoming more affordable

“The current market conditions are improving. If we look at Dubai as a tourist destination, accommodation is relatively cheap now when compared to other destinations. The pricing of flight tickets was high, but with the introduction of LCCs, I am sure they will make Dubai a far more affordable travel destination, rather than just a hub.”

”





10 About

amADEUS

Your technology partner

Amadeus is the chosen technology partner and transaction processor for the global travel and tourism industry.

The company provides distribution and technology solutions to help its customers adapt, grow and succeed in the fast changing travel industry. Customer groups include travel providers (airlines, hotels, car rental companies, railway companies, ferry lines, cruise lines, insurance companies and tour operators), travel sellers (travel agencies) and travel buyers (corporations and travellers).

Amadeus operates under a transaction-based business model that

offers IT solutions to virtually all players in the travel industry. The Amadeus system processed more than 670 million billable travel transactions in 2009.

Its solutions and services are used by its customer groups in different ways. Close to 90,000 travel agency points of sale and more than 57,200 airline sales offices use the Amadeus System to run their business. Many of the industry's other leading travel service providers use Amadeus' modular technology to optimise their distribution and internal operational requirements.

Amadeus is traded on the Spanish Stock Exchanges as of 29 April 2010 [AMS].

insights

Management Consultancy

Headquartered in Abu Dhabi with representative offices in the UK, Insights Management Consultancy provides business consultancy

services and representation for a wide spectrum of hospitality and service industry related clients. With over 20 years' hands-on experience, Insights specialises in hospitality, tourism and service industry consultancy in the Arabian Gulf and wider Middle East.

Insights offers a range of tailored services including strategy, advice, training and administrative functions, providing their partners

with a comprehensive understanding of the unique challenges and opportunities of doing business in the Middle East region. As vendor-free consultants, Insights offers unbiased and objective recommendations of regional and international suppliers when third party services are required.

Insights aims to give its clients 360-degree insights, both into the Middle East and international markets. That is why Insights has teamed up with world-leading specialists in research and distribution for the hospitality & tourism industries.

Insights Management Consultancy is the Gulf & Middle East Representatives of h2c consulting services.

h2c consulting

h2c consulting specialises in hospitality marketing and distribution solutions. Customised services such as strategy development, content optimisation, training, coaching and technology

integration support are provided for increasing our clients'

profitability and effectiveness. Making the best use of e-commerce, web-marketing, traditional offline channels and the supporting central systems belongs to h2c's core competencies. h2c's expert team stands for unbiased industry insight, innovation, specialised solutions and distribution profitability. The company's is committed to improve the client's competitive positioning by aligning strategy, technology and processes for optimal performance.

Previous publications



The Travel Gold Rush 2020

Pioneering growth and profitability trends in the travel sector
Developed by Oxford Economics in partnership with Amadeus
www.amadeus.com/goldrush2020



The Amateur-Expert Traveller

Three important trends in travel which are being accelerated by the recession
www.amadeus.com/amateur-expert



The Austere Traveller

The effect of corporate cutbacks on hotels
A report from the Economist Intelligence Unit
www.amadeus.com/hotels/austere_traveller



Future Traveller Tribes

Report for the Travel Industry
Developed by Henley Centre Headlight Vision in partnership with Amadeus
www.amadeus.com/travellertribes



Securing the prize for the Middle East

Opportunities and challenges on the road to becoming a dominant global travel hub

Developed by Insights Management Consultancy and h2c consulting
in partnership with Amadeus

For more information:

mediarelations@amadeus.com
www.amadeus.com/globaltravelhub