

Gulf Airlines Flying High

Part Two of a two-part series

With far-reaching networks of destinations linking cities across continents, expanding fleets of state-of-the-art aircraft, competitive economic advantages and modern airports at the heart of the globe, Gulf airlines are moving to the vanguard of today's global aviation industry.

In Part One of this series, we examined how the exponential growth and burgeoning success of Gulf airlines are impacting the future of the global aviation industry. This final installment of our two-part analysis of the Gulf carriers will discuss the growing role of Gulf airports as global aviation hubs.

Gulf carriers invent a truly global hub

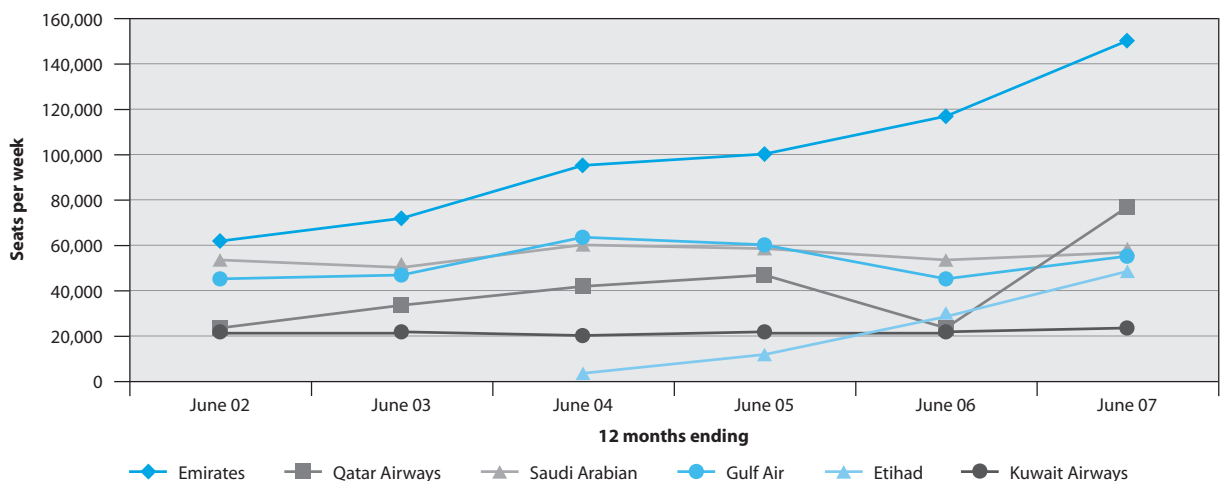
Some analysts believe that Emirates, to some degree at least, has based its hub development strategy on the mechanisms employed by the likes of Singapore Airlines, KLM and Cathay Pacific in the early 1980s. These carriers, also disadvantaged at the time by their limited passenger catchment areas, became successful once they looked at capturing market shares beyond their natural source of passengers. The Dubai Government – Emirates' unique shareholder – however, has added a new dimension to this strategy: it wants to turn Dubai into the first truly global air transport hub. Emirates is no longer looking to simply serve passengers within a three- to five-hour catchment zone, but to connect hundreds of millions of potential passengers living in a zone stretching from South America to Australia and South Africa. As such, the region is consequently the first in the world to offer non-stop services to/from any continent.

Experts forecast that many secondary cities – which currently lack intercontinental connections – will soon be connected to the Gulf, as huge seat capacities become available following the integration of new aircraft in the years to come. Services to secondary destinations, pioneered by Qatar Airways and Emirates, will then be systematised by all carriers. In 2007 alone, both carriers launched services to Bali (Indonesia), Ho Chi Minh City (Vietnam), Newcastle Upon Tyne (UK) and Venice (Italy).

The multiplication of non-stop flights to secondary cities located within the Asia Pacific region will be one of the biggest competitive threats to Asian carriers and their respective hubs. Already, there are rumours of new non-stop frequencies being planned for Surabaya (Indonesia) and/or Phnom Penh (Cambodia), for example.

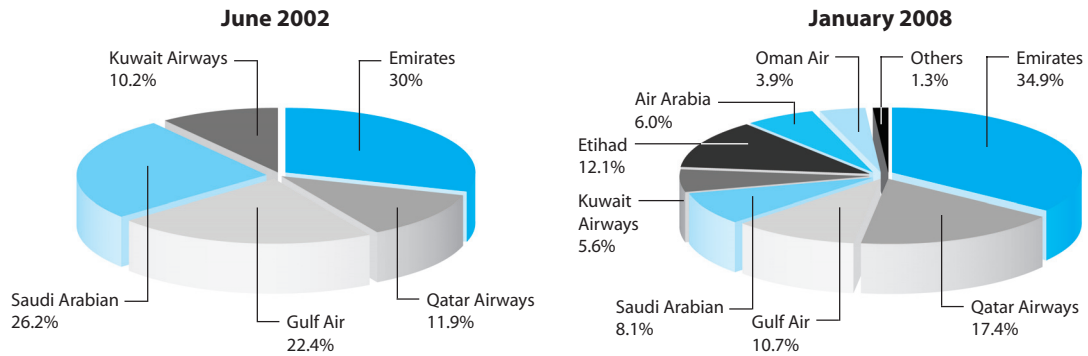
The Gulf carrier network in Asia has seen a sharp increase in the density of flights over the last six years, with the total weekly scheduled seat capacity for the Gulf's six full-service airlines reaching 417,630 units in June 2007 compared to 204,497 in June 2002. This represents a doubling of seat capacity over that period. The strongest growth rates were recorded by Emirates (+147.8%), Qatar Airways (+232.5%) and Etihad (+1,390%). Growth was more moderate at Gulf Air (+22.4%), Kuwait Airways (+14.6%) and Saudi Arabian (+8.3%).

Figure 1: Development of weekly scheduled seat capacity: Gulf carriers to Asia



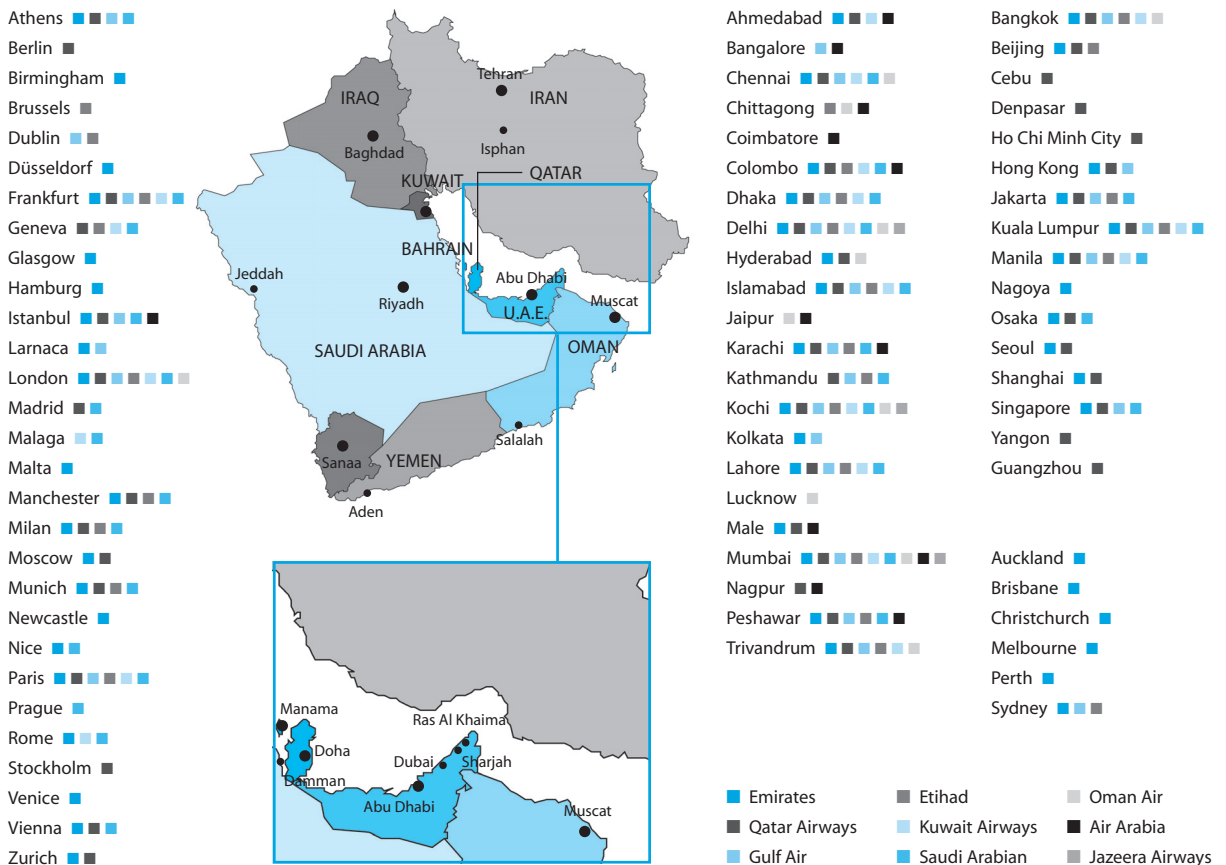
Source: SRS Analyser

Figure 2: Gulf full-service carriers: Market share in Asia in weekly available seats



Source: SRS Analyser

Figure 3: Gulf carriers network in Asia/Pacific and Europe (January 08)



Source: Airlines (Graphic from Luc Citrinot Consulting)

Recently added services include:

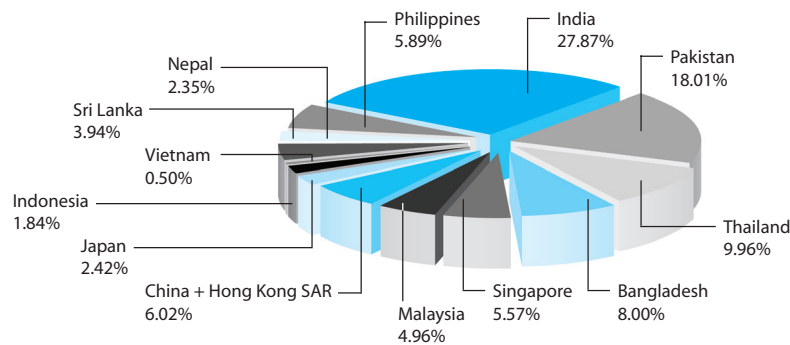
- Ahmedabad, now served by Emirates and Qatar Airways;
- Kathmandu, by Etihad from Abu Dhabi and Gulf Air from Damman (Saudi Arabia);
- Bangalore and Coimbatore, by Air Arabia;
- Guangzhou, by Qatar Airways from March; and
- Beijing, by Etihad from March.

Major gaps in the regional air coverage still remain; however, they are likely to disappear over the next five years.

- Northeast Asia remains poorly covered by Gulf carriers. China (PRC) only receives flights from Emirates and Qatar Airways to Beijing and Shanghai; however, Etihad and Kuwait Airways have already announced their intentions to seek a China route in 2008. Connections to Guangzhou, Shenzhen or even Macau SAR could be possible. In Japan, Tokyo has no service to the Gulf area, and in Korea (ROK), only Seoul is linked to Dubai and Doha. Potential secondary cities in the region could easily include Busan (Korea (ROK)), Taipei (Chinese Taipei), Fukuoka and Sapporo (Japan), and even possibly Xiamen (China (PRC)).
- Although Southeast Asia has better coverage from the Gulf, there is still potential for non-stop flights to new destinations, such as Bandar Sri Begawan (Brunei); Hanoi (Vietnam); Penang (Malaysia); Phuket (Thailand); Bali, Medan and Surabaya (Indonesia); Davao and Cebu (Philippines); as well as Phnom Penh and/or Siem Reap (Cambodia).

The high proportion of working emigrants in the Gulf Cooperation Council (GCC) from South Asia is one reason for the relatively high density of routes offered by Gulf carriers to and from that sub-region. Twenty-two cities in South Asia receive flights from nine Gulf airlines, including the low-cost carriers Air Arabia and Jazeera Airways. In June 2007, in total, South Asia captured close to 62% of all seat capacities offered in a week by carriers from the Middle East.

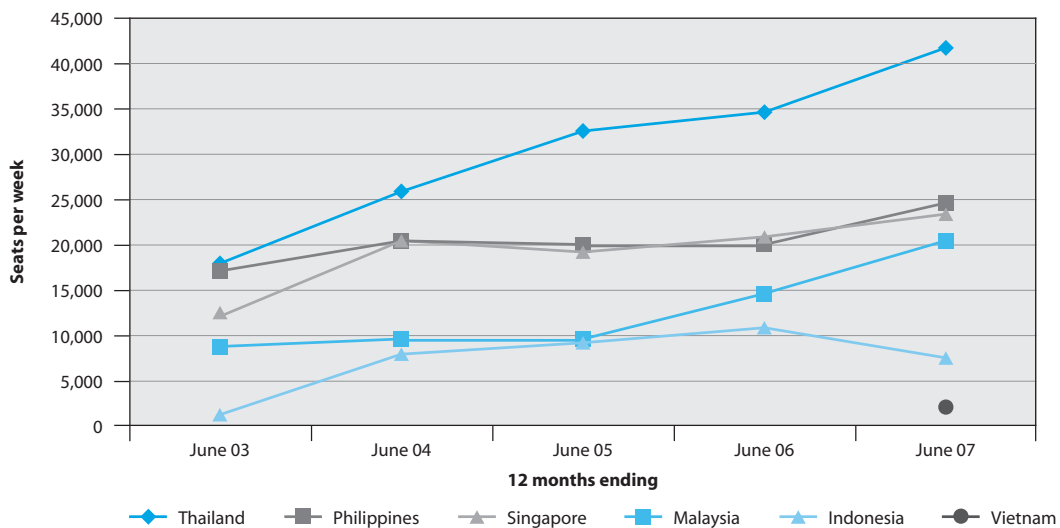
Figure 4: Weekly seat capacity, as at June 2007, between the Gulf and Asia, per country (in % market share)*



* Includes only flights from Emirates, Etihad, Gulf Air, Kuwait Airways and Saudi Arabian Airlines

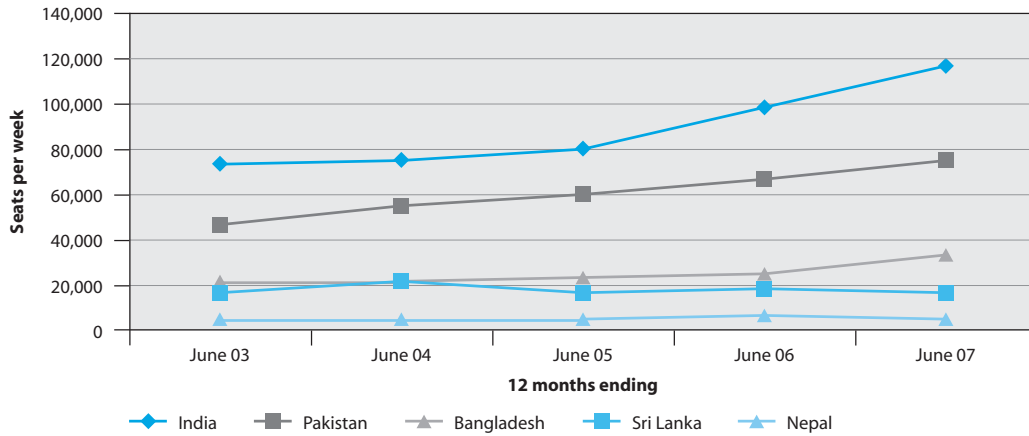
Source: SRS Analyser

Figure 5: Development of weekly scheduled seat capacity from major Gulf carriers to Southeast Asia (2003-2007)



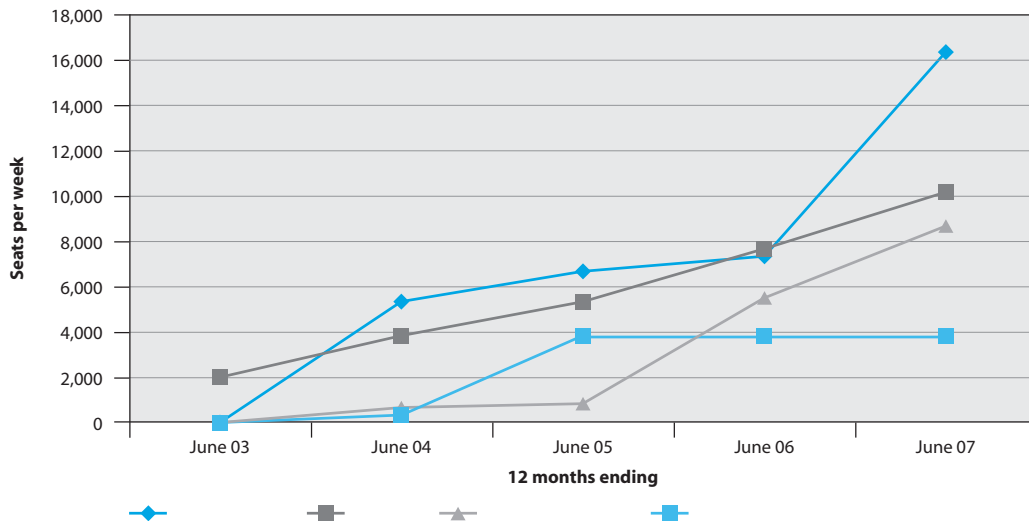
Source: SRS Analyser June 2007

Figure 6: Development of weekly scheduled seat capacity from major Gulf carriers* to South Asia (2003-2007)



Source: SRS Analyser, June 2007

Figure 7: Development of weekly seat capacity from major Gulf carriers* to Northeast Asia (2003-2007)



* Includes Emirates, Etihad, Gulf Air, Kuwait Airways, Qatar Airways and Saudi Arabian

Source: SRS Analyser, June 2007

Hub inflation

To sustain the development of traffic and boost hub and spoke activity to and from the Middle East, all countries in the region are currently embarking on huge expansion plans; collectively, these will provide a capacity for hundreds of millions of passengers over the next 15 years. In Dubai alone, the current airport and the future Dubai World Central in the Jebel Ali zone will be able to accommodate 190 million passengers per year. World Central is already dubbed as the largest airport project in the world.

Mega airport structures seem to be very popular in the region. Within the next five years, new structures that will open to the public include:

- Terminal 3 in Dubai, planned for 2008;
- A brand new air terminal in Doha in 2009;
- A new terminal in Abu Dhabi in 2010; and
- One in Muscat by 2011.

In total, the region is pouring some US\$25 billion into airport developments!

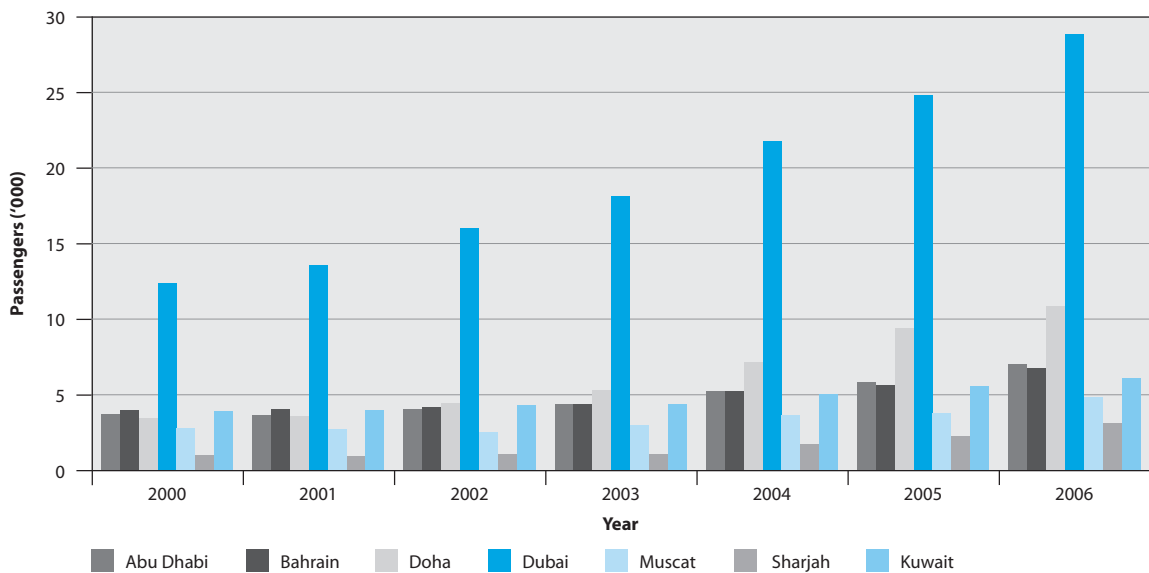
The largest hub for the Gulf Area and the whole of the Middle East is undoubtedly Dubai airport, which has experienced one of the fastest growth rates of any airport in the world. The rise of Dubai airport is just stunning: 9.1 million passengers in 1997, 28.7 million in 2006 and 60 million projected for 2010.

All airports in the Gulf area achieved record growth between 2000 and 2006, ranging from 50% to over 200%. Such sharp increases obviously add fuel to those dreams of developing mega-hubs and larger airports in the region, and three major markets worth watching in this regard are:

- The Dubai region – shaped by the triangle Abu Dhabi-Dubai-Sharjah, this region last year saw total passenger throughput of 39 million. A commuter train will soon circulate between the Jebel Ali airport and Dubai airport, and might in the medium-term be extended to include Sharjah and Abu Dhabi, leading to a further integration of the three Emirates.
- Qatar – the country welcomes close to an estimated 11 million passengers a year and is looking to be another global air hub.
- Saudi Arabia and Bahrain – traffic at Saudi airports is significant with Jeddah receiving 15 million passengers a year, Riyadh 12 million and Dammam over 4 million, although the body of passenger movements remain largely domestic and regional. Bahrain, linked by a causeway to Dhahran in Saudi Arabia (20 km away), could position itself as the “Global Air Hub” for the Saudi Kingdom.

Open-sky agreements across the region comprise another element that is gaining pace. Egypt is on the verge of signing an agreement with the GCC for a complete open-sky arrangement while the UAE continues with many liberal agreements with Asian countries such as Singapore and India, but also with Africa and many regional countries. Kuwait recently activated open-sky agreements with Europe, Canada and Vietnam and is seeking a similar agreement with India.

Figure 8: Development of passenger traffic at selected Gulf airports from 2000 to 2006 ('000)



Source: *Aéroports Magazine-Aéroportuaire Magazine-Airports*

Given the rapid and spectacular growth in the region, it is no surprise that all countries are embarking on huge airport infrastructure projects. The current strong growth is putting current infrastructure under strain as Civil Aviation Authorities have, to a large degree, been caught by surprise by the jump in traffic over the last decade. In addition, many airports must prepare for the handling of the new Airbus A380, with the added perspective of seeing several – if not dozens, once all are in service – of the 550-seater aircraft on their respective air aprons.

Table 1: Arab Airports Traffic

Year	Pax Traffic	Change	Movements	Change
1997	76,430,519		903,158	
1998	75,817,941	-0.8%	906,977	0.4%
1999	83,726,749	10.4%	965,777	6.5%
2000	93,802,527	7.0%	1,055,873	7.2%
2001	94,317,166	-0.7%	1,014,352	-5.7%
2002	101,073,426	7.2%	1,088,880	7.3%
2003	105,362,839	4.2%	1,164,695	7.0%
2004	125,269,156	18.9%	1,248,376	7.2%
2005	133,535,406	6.6%	1,309,513	4.9%
2006	144,515,002	8.2%	1,393,581	6.4%

Source: AACQ, ACI

Any passenger landing at one of the Gulf airports at the moment cannot fail to notice the plethora of construction sites. Across the region, some US\$40 billion has now been injected into the reconstruction, expansion or development of airport facilities, and half of the money is invested in the UAE alone. Among the top investments are the US\$8.1 billion in the new Jebel Ali International Airport in Dubai, the US\$5.7 billion expansion programme at Abu Dhabi airport, the US\$5.5 billion construction plan for Doha International Airport, and another US\$4.1 billion for a new terminal and various expansion projects at Dubai International airport. Other expansion projects are similarly taking place at Muscat, Sanaa, Sharjah, Bahrain and Saudi airports.

Table 2: Passenger growth at major airports in the GCC for the period 2000-2006

Airport	Growth (%)
Sharjah	+222.1%
Doha	+217.6%
Dubai	+133.7%
Abu Dhabi	+90.2%
Muscat	+75.4%
Bahrain	+68.5%
Kuwait	+56.3%

Source: respective airports

Abu Dhabi International Airport

In concert with the growth of its national carrier, Etihad Airways, Abu Dhabi airport will be completely reconstructed to integrate all facilities necessary for a highly efficient hub. The redevelopment, with a price tag of US\$5.7 billion, will double the airport's land area to 3,400 hectares with the construction of a midfield terminal as well as a second runway built 2,000 metres north of the current one. The future midfield mega terminal will offer an initial capacity for 20 million passengers a year from 2010, compared to 6.5 million passengers for the current air terminal and its two interim terminal structures. Etihad is also currently building an interim departure terminal capable of handling another additional four million passengers. In its final stage, Abu Dhabi airport will be able to accommodate up to 50 million passengers a year.

Bahrain International Airport

Work on doubling the size of Bahrain International Airport's passenger terminal started this year with a master plan in three phases, taking the total capacity of the airport to 45 million passengers a year. The first phase of the expansion will require an investment of US\$215 million. The number of departure gates equipped with air bridges will grow from seven to 16, with two of these being dedicated to the Airbus A380. Additional commercial and leisure spaces as well as the extension of the apron are also in the planning stage. After completion, Bahrain airport will be able to accommodate up to 18 million passengers a year. A new covered parking area will also house shops, airline offices and cinemas.

Doha International Airport

The new Doha International Airport is being constructed on a 1,700-hectare site, 4km from the old one, at an estimated cost of US\$5.5 billion. The first phase of the airport is scheduled to open in 2009 at a cost of \$2.5 billion and will be able to handle over 12 million passengers annually and be A380 capable. Even now, however, construction of the second phase is being fast-tracked to cope with demand from Qatar's national carrier. Both phases are due for completion in the fourth quarter 2009 – the original date for phase one completion. Combined, phases one and two will be able to handle 24 million passengers annually. With the completion of phase three in 2015, Doha will be able to accommodate up to 50 million passengers a year.

Dubai International Airport

As Dubai expects a passenger throughput of 60 million in 2010, the Emirate is accelerating the US\$4.1 billion expansion of the current International Airport, currently the largest airport development project underway in the world. The expansion will be completed in 2007 with the opening of Terminal 3 – concourse 2 and 3 – the expansion of Terminal 2 and a new cargo terminal. Terminal 3 and concourse 2 will be used exclusively by Emirates. The new facility will add 27 contact gates with 50 air bridges, including five gates to handle the A380 as well as new shops, lounges and a 300-bedroom hotel. Concourse 2 will be connected to the existing Shaikh Rashid Terminal via the Air Control Tower structure. Once Terminal 2 is operational, Dubai International will lift its passenger handling capacity from 22 million to 70 million passengers.

Dubai World Central Al Maktoum International Airport

This new mega project of the Emirate will create the first "Airport City" in the desert, 40 kilometres away from Dubai city, catering for a capacity of 120 million passengers annually and handling 12 million tonnes of cargo at its 16 air cargo terminals. The new Emirates Terminal 3 at Dubai's current airport is due to open in mid 2008 according to the Dubai Department of Civil Aviation. A dedicated high-speed rail-link will connect the airport to Dubai city. Around the airport, Dubai World Central Al Maktoum International will provide activities on an aviation-related free zone. The future airport is dubbed to be one of the world's largest. Recently, the airport's management also announced the construction of a low cost terminal which will receive budget carriers from 2008 onwards.

Kuwait International Airport

Kuwait plans to expand its airport step-by-step, lifting its total passenger-handling capacity from 5 to 11 million in a first phase, then to 20 million in a second phase and finally to 55 million in the long-term. According to Kuwait Civil Aviation sources, the airport is now active in the first two phases. The Kuwait government is providing the US\$680 million in funding.

Oman airports

Oman plans to accelerate the modernisation of Muscat Seeb International Airport since its national carrier will offer services to/from long-haul destinations. A brand new terminal capable of handling 12 million passengers annually is also being developed. Passenger capacity at Salalah International Airport will be increased to two million a year.

Saudi airports

Jeddah King Abdul Aziz International Airport is in urgent need of a terminal upgrade and expansion. The airport has a theoretic capacity of 12 million passengers but already receives in excess of 15 million a year. The current expansion involves the construction of two new terminals and the transformation of the existing south terminal into a 32-gate new facility. When completed, the airport could welcome up to 30 million passengers annually with a possible expansion to accommodate 60 million passengers. Completion is expected by 2010 with a total cost estimated at US\$1.5 billion. There are also plans to turn Medina into Saudi Arabia's 4th full international airport. Studies are now looking at the construction of a new international terminal, doubling the capacity from 1.6 million to over three million passengers a year.

Sharjah International Airport

Sharjah airport, the home base of low cost airline Air Arabia, will expand its airport space by almost four times to offer a total capacity of eight million passengers a year. Once completed, the airport will feature a new check-in area with 40 counters, additional departure and arrival lounges and a bigger duty-free area. The number of gates equipped with air bridges will increase from 3 to 6. Total cost for the enlargement is estimated at US\$62 million.

Table 5: Airports investment in the Gulf

Airport	Passengers traffic -2005 or -2006	Investment (US\$)	Current passengers capacity	Future passengers capacity	Year of opening
Bahrain Int'l Airport	6.70 million	815 million	3.5 million	15 million	2010
Kuwait Int'l Airport	6.05 million	2,100 million	6 million	13 million	2010/2012
Muscat-Seeb and Salalah Oman	Muscat: 4.77 million	300 million	3.5 million	12 million	2012
New Doha Int'l Airport, Qatar	9.37 million	5,500 million	8 million	24 million (phase I and II) 60 million (phase III)	2009
Abu Dhabi	7 million	6,800 million	7 million	Interim facility 2008: 2 million 50 million	2010
Dubai International	28 million	4,100 million	22 million	70 million	2008
Dubai World Central Al Maktoum Int'l Airport (Jebel Ali)	-	8,200 million	-	7 million (Phase I) 120 million	2009
Sharjah	3 million	62 million	3 million	8 million	2008

Sources: Streamline Marketing Group- Airports

PATA is pleased to announce that it has formed a strategic partnership with Rohit Talwar and his company Fast Future, to undertake more research into travel & tourism in the Middle East. Several reports are already being compiled and will be released during the course of 2008.



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