

# THE MIDDLE GROUND



Freight activity may be down but investments are up - and the Middle Eastern handlers are positive, finds Felicity Stredder.

Recent government investment has seen Sharjah Aviation's operation flourish at the airport

**W**hile cargo capacity has continued to outpace demand of late, performance of Middle Eastern carriers has already exceeded expectations in 2017, with freight volumes increasing 8.4% year-on-year in January. Growth has eased from the double-digit rates enjoyed over the past ten years, in tandem with a slowdown in network expansion by the region's major carriers, but there remains much to be positive about, with carriers here experiencing the strongest passenger traffic growth in 2016 – for the fifth year.

## Growth areas

Considerable effort is being devoted to aviation development in some regions of the Middle East, where e-AWB penetration, by way of example, far exceeds the global average, at 73% implementation. In fact, after becoming one of the first airports to introduce the e-AWB back in 2012, Abu Dhabi airport mandated 100% e-AWB last year. The UAE Government is bolstering technological development by actively investing in infrastructure and logistics, aiming to diversify its strengths rather than rest on the laurels

of the oil industry – something of an unstable platform. The UAE Government is investing 1% of income into R&D for airport technology with the objective of becoming an innovator in the field; part of a concerted regional effort that has seen investments of US\$60bn in airport developments throughout the Middle East, with the objective of reinforcing the overall sustainability of the economy.

## Market status

Reports from Middle Eastern handlers are upbeat in the main. “Despite political and security instability in the Middle East, as well as weak economic growth across the Gulf, the UAE benefits from its free-market economy, known as one of the best performing in the Gulf region,” begins Ivana Meyer, Head of Airside Operation at Sharjah Aviation Services. And whilst a decrease in international tourism has been observed, she continues, “the country’s economy is expected to receive a boost in the run up to the Dubai 2020 Expo.”

Sharjah Aviation is enjoying optimum operating conditions in the UAE, with recent investment from the Sharjah

## REGIONAL ECONOMIES

In many countries, the economic outlook is negative overall, with reports citing various areas of struggle, from growing unemployment in the likes of Jordan, Iran and Tunisia, where 50,000 employees stand to lose their jobs this year, to record low oil prices, affecting export revenues, dragging down economic growth and translating into drastic cuts to government investment projects.

Infrastructure investments related to the 2022 World Cup and the Vision 2030 development plan continue in Qatar, however, and hope to compensate for some of the downturn there. Meanwhile, the situation in other Middle Eastern countries is far more encouraging, including Bahrain, Iran, Israel, Lebanon and the UAE. Here, the economy has been gaining momentum, with Israel’s economy growing at its fastest rate in three years in 2016, which also led to the lowest unemployment rate on record. Bahrain and the UAE have improvements in the non-oil economy to thank for their uptick, with the latter also seeing a surge in exports in the last few months of the year. Lebanon is currently enjoying an upbeat sentiment on the political front in the light of the newly formed government, leading to improvement in business operating conditions.

Government catering for 25m passengers per annum, part of a major airport expansion project. "The airport has a steady annual growth in movements and passenger figures of 6% and 10%, respectively," Meyer concludes.

Over in Kuwait, NAS Group CEO Hassan El-Houry is equally positive. "In Kuwait alone, the ground handling market is valued at over US\$100m, which means the Middle East market is collectively worth around US\$2bn. That says a lot about the way the market is performing in the global context," he remarks, adding that the multi-million dollar expansions of airports and airline fleets in the Middle East will see these figures rise further.

Citing various areas of growth, Amr Samir, CEO of Link Aero Trading Agency, based in Egypt, reports that continuous expansion of the private jet industry is keeping the region at the top level of growth, but adds that "growth limitations are foreseen due to the lack of unified air space in the region and to the so-called grey market of illegal chartering activity by private aircraft owners."

In Israel, Laufer Aviation – GHI's CEO, Ran Marom, reports that 2016 was a peak year for passenger and traffic volumes. The boost saw both Ben Gurion and Ovda airport enjoying improved statistics – the latter drastically so, seeing a 97.8% increase in international passengers transiting through the airport compared to 2015, and 39.5% more flights. "This happened mainly due to the penetration of the low cost carrier at Ovda," informs Marom. Low cost carrier passenger traffic increased by 26.5%



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Ivana Myer  
Sharjah Aviation Services

in 2016 and other budget airlines have announced that they are looking to base aircraft in Israel.

**Other emerging trends**

Aside from the well-documented trend of underperforming cargo, there is much else to report on in the region. In Kuwait they are observing a boom in the airport lounge sector. "Lounge volumes continue to show strong growth as demand from non-airline customers continues to expand exponentially," El-Houry relates.

Menzies' Russell Doane, Senior Vice President, Africa, Middle East & India, observes new opportunity for competition. "The region has always been a fairly closed market, with legacy handling arrangements and monopolies being commonplace; however, although the region remains a challenging marketplace for the independent handlers, we are now seeing moves to open up previously closed markets, with a clear example being our recently announced joint venture with Oman Air at all locations across Oman." This encouraging trend away from

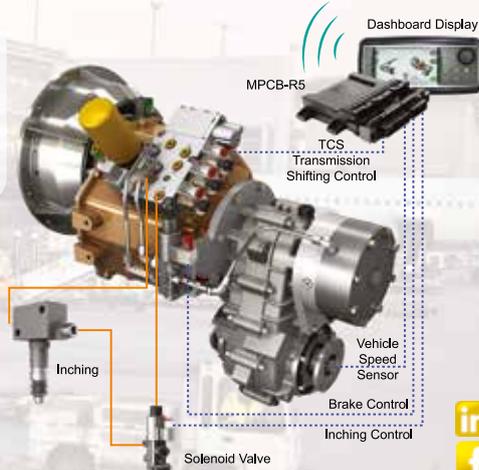
monopolistic activity, Doane relates, has seen the Oman Airports Management Company tender two concession agreements, one for a joint handling venture with Oman Air at nine airports, and one for a separate independent handling licence at Muscat. "The clear aim is to bring competition into the market, and in doing so to strengthen safety, security and performance standards and provide value to both airlines and their customers," declares Doane, hopeful that other operators in the region will follow suit and break away from a single ground handler market.

According to Samir, changes to trends regarding general safety have occurred in recent months. "In the wake of heightened regional tensions, security is moving up the agenda and budget priority spend has been shifting from passenger processing to passenger and airport security," he relates. "As the number of passengers in the Middle East region increases, airport operational efficiency is becoming a key factor and investments are being made in smart checkpoint solutions."



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**Financial pressures**

Although Laufer Aviation has enjoyed encouraging growth of late, operations in Israel have faced plenty in the way of challenge. “From 2014 to 2016 and continuing into 2017, the manpower costs in Israel have been dramatically increased by law,” conveys Marom. “Over a 24% increase in the minimum wage, welfare reform, additional days off at the employer’s expense and new labour agreements have all increased the employer’s costs by more than 35%. This has put us in a situation where we must take serious steps to increase our income,” he reveals of the extent of the damage. “We have started a process to contact all our clients in order to update rates. This is not an easy process as the airline customers are suffering from commercial competition, demanding them to reduce their tickets rates,” he says, relating the mutual struggle to salvage profitability that is shared by handler and airline alike.

El-Houry reiterates Marom’s concerns over financial burdens; however, rather than reluctantly increasing rates, here, they are being pressured to lower them. “One of the biggest challenges is the GCC Governments trying to increase non-oil revenue due to which there is pressure on all concessionaires to pay higher rent and residency fees, among others. So, costs in general are going up while we are under pressure from the airlines to reduce costs,” he explains of the dilemma. “For our airline customers, ground handling costs are one of the few ‘large ticket’ areas that they can target, with other costs such as fuel and insurance largely fixed.” Samir concurs: “It has become a great challenge to deliver services at a lower price while complying with our excellent quality and personalised customer service. We have had to adapt to the changing market conditions by becoming more flexible and dedicating more time to creativity and innovation in order to stand out from our competitors.”

In areas like Egypt and Sudan, currency instability and inflation exacerbate this

Booming operations have been undercut by the growing cost of labour, reports Laufer Aviation



problem, continues El-Houry. Shortages of skilled staff continue to put pressure on manpower costs, which contributes to financial pressures, he adds, “with above inflation increases often needed to attract and retain talent.”

**Yearly objectives**

In the light of the increased need to hire, train and retain skilled operational staff in both African and the Middle Eastern continues, NAS plans to roll out comprehensive training programmes, with a view to addressing the shortage of qualified personnel. “This ensures we equip the local employees with the required skill set for future employment in the aviation industry,” El-Houry relates, adding that NAS also intends to boost the use of technology in its operations to minimise traditional check-in transactions and the reliance on human resources.

Commenting on the necessity of providing added value to airline customers, meeting evolving demands and ensuring cost control, Doane explains that Menzies

intends to pursue a few specific objectives this year: “Focusing on key account management with major customers, continuing to grow our operations at significant hubs and bases, and building up a stronger complementary services portfolio, such as lounges and executive services,” he divulges. “We are also very keen to identify new airport opportunities and expand in emerging markets. We have our Africa, Middle East and India regional headquarters in Dubai and our presence in the Middle East means we are well placed to deliver on those objectives,” Doane concludes with confidence.

“Sharjah Aviation Services’ primary focus for 2017 will be on improving profitability while increasing customer satisfaction,” conveys Meyer. “The company aims to continue with its competitive approach, keeping abreast of technology advancements and adapting to changing business needs,” she relates, asserting that automated processes have become essential in achieving greater efficiency.

**Conclusion**

In conclusion, cost pressures stemming from unstable economies continue to threaten the profitability of operations: this is no new burden, much less one that will cease to exist. Business growth, though diminished, has exceeded industry forecasts and predictions for long-term progress remain bright, with passenger traffic through Middle Eastern airports expected to reach 571m by 2026. Combined with the active investment of the local governments in the sustainability of the industry, the future looks to be prosperous. **ghi**



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Menzies