

Does continued growth of Middle East sector rest on more than the price of a barrel of oil?

There was a time when the business jet fleet was very much booming in the Middle East, but is that still the case? Forecasts are talked up by business jet manufacturers and plans are going ahead for regional building projects but does this reflect what is actually happening in the business/VVIP aviation marketplace? EBAN talked to a number of active participants about trends, expansion, anti-corruption and the price of crude.

How healthy is the region's business aviation market at the moment? ExecuJet Aviation Group regional vice president Middle East Mike Berry remembers the frenzy of general aviation growth leading up to 2007/08 downturn, since when the market has been on a slow recovery. "This has again stumbled over the past year and a bit," he says. "There is instability across the region, political sanctions have been put in place and Saudi Arabia is cracking down on corruption." This may have dampened business jet sales in the same way as Xi Jinping's austerity campaign did in China, but just look at China now.

The market has significantly changed and evolved over the last 10 years according to Belgium-headquartered Flyinggroup managing director, Middle East, Mark Hardman. Conflict and political instability in parts of the region have had a significant negative effect. That said, a number of aviation activities remain solid and he sees signs of growth. "Personally, I believe this will be led by the UAE in the coming months and years," he says. Flyinggroup has recently expanded its aircraft management business into the Middle East and started charter missions from the region. It relocated its Hawker 900XP, filling a gap in the mid-size charter market where pricing, availability and service are key.

Gama Aviation Middle East commercial manager Oliver Hewson notes that there is a general feeling that fleet growth in the Middle East has slowed down in recent years,



Dubai South is an emerging master-planned city with a 6.7 sq km aviation district adjacent to Al Maktoum International airport. Once complete the airport will be the largest in the world with five runways, four terminal buildings, a business aviation terminal and capacity for 220 million passengers annually.

although he says it can be difficult to measure since many aircraft based in the region are registered elsewhere, and business aircraft traffic data within the region is not widely available. However in its 2018 Q1 data release Jet Support Services reported a decrease in business jet flight activity of 11.7 per cent in the Middle East year-on-year and a quarter-over-quarter increase of 5.3 per cent in average flight hours.

UAE-headquartered Titan Aviation Group managing director Captain Sakeer Sheik notes that business owners are working from a different model; instead of acquiring jets they



Flyinggroup MD Middle East Mark Hardman believes the UAE will lead regional aviation activity growth over coming years.

are now chartering them, and this helps them to assess and analyse the right fit. As a consequence charter business has increased and those jets that are in the market are now busier than ever.

However there will continue to be new aircraft deliveries to the region according to Saudi Arabia-based NasJet Private Aviation vice president sales and marketing Yosef Hafiz, since slots are generally booked in advance, but current economic conditions mean business jet deliveries have slowed down. He finds that some businesses are contemplating selling their jets and he too is seeing a stronger focus on charter.

Director of Abu Dhabi Aviation Dr Mark Pierotti feels there is a normalisation going on at the moment with the oil market in the region; the oil price is creeping back up. "There are a lot of players in the Middle East, a lot of people with private jets, and competition is challenging. Aviation is not solid or stable, no matter what discipline you are in. It is such a hard industry to make money from because both costs and risks are so high. All it takes is an AOG or an accident, or something international that's out of your hands, and it can affect you enormously. Any aviation discipline is a challenge."

Tackling the infrastructure

The region has long endured a lack of aviation infrastructure; its far flung cities are really only reachable in the mid-size or larger aircraft. To date the most extensive general aviation development has been around Dubai

South with the construction of a GA terminal housing three FBO operators: Jetex, Jet Aviation and Falcon Aviation, says Berry. And in the wake of commercial passenger terminal expansion works ExecuJet has also shifted its interim standalone FBO facility on Dubai South to a new location at the airport.

Hardman says he believes the investments at Dubai World Central (DWC) by Dubai South and the private sector in their aviation ecosystem speak volumes for the future of GA in the region. "In terms of tourism the UAE, Oman and Jordan remain popular," he says. "And what is more we are seeing increased requests for Cairo and Beirut, which is pleasing." He adds that Flyinggroup officially opened its Middle East office at DWC earlier in 2018 and is seeing considerable interest in its aircraft management, charter, sales and leasing products.

Traffic at DWC is increasing slowly



COO Captain Raman Oberoi has high expectations for Falcon Aviation's Dubai-based PC-24.

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but steadily adds Sheik. People tend to resist change so flyers are still reluctant to go those few extra miles to DWC, but he feels that it is only a matter of time until the new airport becomes a success.

Al Bateen Executive airport-headquartered Falcon Aviation has committed to building the necessary infrastructure to support the region's growing business aviation market. This base is home to its MRO facility and its own and managed fleets. The company opened an FBO at DWC in 2016 and is now developing another MRO facility there on a 24,000 sq m plot capable of accommodating up to four BBJ/ACJ-sized narrow bodied aircraft for base maintenance, and with a 13,000 sq m of apron. It has been in construction for 12 months and is pivotal to the company's overall long-term strategy to bring a 'one-stop MRO shop' to the region. Additional engineers have been employed and more dedicated MRO jobs will be added during 2019.

Hewson notes that one of the most exciting developments in the greater region is Saudi Arabia's recent focus on tourism development, including numerous hospitality projects and talk of making tourist visas more accessible. Gama Aviation is making further investment of around \$40 million according to global chief marketing officer Duncan Daines, into developing its FBO and MRO facilities at Sharjah International airport, and it plans to open a new business aviation centre towards the end of 2019.



Gama Aviation's Oliver Hewson talks of tourism supplementing oil industry business aviation activity



Gama Aviation's Sharjah FBO is less than a five-minute helicopter flight from downtown Dubai.

An interest in long range capability

Dassault Aviation showcased its ultra long-range Falcon 8X that can fly non-stop from Abu Dhabi to New York or to Adelaide at this year's Abu Dhabi Air Expo. Chairman Eric

Trappier said: "The Gulf is a key market for business aviation and operators place a high premium on the performance, robustness and advanced technology of Falcon jets, inherited from Dassault fighter aircraft programmes." The region's

first Falcon 8X was handed over in late 2016 and several 8Xs are already flying in the Gulf region.

Gulfstream also exhibited its soon to be certified G500 for the first time alongside its flagship G650ER. Of the 250 or so Gulfstream G650/

G650ERs in service globally the region is home to more than 25, including head-of-state aircraft in Jordan and Kuwait. The type's non-stop capability to the US is apparently the key to its popularity in the region.

Over the next 10 years,

Bombardier expects 250 deliveries to the region valued at \$10 billion, of which medium or large category aircraft will account for more than 90 per cent.

German market intelligence provider WingX managing director Richard Koe advises that over 70 per cent of Middle East flights were operated by large jets or bizliners, of which 20 per cent were the latter. By comparison, these types of aircraft fly no more than one per cent of European sectors. Their size and range suit the typical profile of regional owner and travelling entourage, and many are on government missions.

Right-sizing vs new and large jets

Berry says that ExecuJet Aviation Group has seen right-sizing and disposing of aircraft since the downturn of 2008. Through the subsequent recovery the region continues to have a mix of old with many new OEM models in demand. The wealth, together with the desire, in the region will always dictate that there remains a market for new and long range aircraft, be it for charter or for ownership.

Hardman adds that the choice of aircraft varies from owner to owner. He believes Bombardier has reported significant Middle East interest in its Global 5500 and 6500 following their launch at EBACE, and notes that Gulfstream, Airbus and Boeing still forecast significant Middle East growth and sales. "Saying this," he comments, "we are also now seeing market entrants with Beech and Pilatus products." Dassault products are finding a niche too as UK AOC holder Voluxis, formerly known as Interflight, has recently launched operations in the Middle East with a

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Falcon 2000 based in Dubai.

However, Hewson finds that aircraft owners and charterers in the region are still primarily focused on heavy metal: more often than not, there are large groups flying together both for business and pleasure trips, so a comfortable cabin and generous luggage capacity are necessary. European destinations are very popular so, naturally, larger jet types with long range capabilities are better suited for many of the requirements. However he is seeing an increase in business people from other parts of the world flying to the Middle East on premium airline products, and then chartering mid-size jets to hop around the Gulf for their investment roadshows.

Sheik believes that the majority of users are right-sizing and that this is the single largest change since the 2008 depression: "Manufacturers might not like it, but it is the reality. Those uber-rich individuals flying Globals and Gulfstreams will continue to fly them, but the majority of flyers are in the mid-size segment which has taken a bit of a hit." However he feels that it is only a matter of time before the situation turns around.

Hafiz feels that the Middle East's owners are becoming more cost conscious and the new trend is to find the right size jet, even if it is an older or smaller model, and to use it as a business tool and for family holidays. But he adds that business aircraft manufacturers are bullish on Middle East sales prospects despite continued downward pressure on oil



Yosef Hafiz of NasJets says Middle East owners are becoming more cost conscious.

prices. This is of course a double-edged sword, because low fuel prices have benefitted aircraft operators while depressing aircraft sales.

New blood replaces oil income stream

Saudi Arabia's wealthy population is choosing to fly private between major domestic cities to mitigate the long distances between them and the somewhat mediocre surface transportation. With corporate aviation on the rise generally around the UAE, oil issues may affect volumes of traffic but the volume and variety of jets on offer has produced a fall in rates making business jets relatively more affordable, so increasing demand across the Gulf.

While the kingdom's governing families can easily afford luxurious cabin fittings, their counterparts in the private sector have different requirements. They often need to



ExecuJet Aviation Group's Mike Berry says there will always be demand for new and long range aircraft in the region.



WingX MD Richard Koe says Middle East bizliner activity far exceeds Europe's.

reach remote areas, perhaps where oil, natural gas and other mineral reserves are located, that commercial flights do not serve or for which airlines can not offer the route or timetable flexibility.

Are Middle East businessmen looking increasingly to Europe and Africa to expand their business interests? Not necessarily says Hewson, who adds: "We are still witnessing strong foreign investment into the UAE, with many large companies from surrounding regions relocating their corporate offices here since it is easy to operate from, safe and with good transport links."

The Middle East business jet market has for years been driven by the oil and gas sector but since the price of oil fell a few years ago and oil companies embarked on cost-cutting programmes, the sector has less relevance as a source of revenue. WingX's Koe reflects that oil wealth supported a large number of owners and users and in a region underserved with transportation infrastructure, business aviation provided a valuable and flexible solution.

Wealthy families and governments are still active in the market but new business executive customers are emerging from other industries. Hewson says that the region is still very reliant on oil as the top export, however countries such as the UAE, Bahrain and Saudi Arabia are making efforts to diversify into the financial, property, tourism, commodities and healthcare sectors.

Saudi Arabia is pushing forward with new mega projects including Neom City in the north west corner, which will rely on renewable energy and robots; the Red Sea project where the building of a series of small islands will open up a new sector in the tourism industry; and the Oiddiya City project south of Riyadh that will be an entertainment hub four times larger than Walt Disney World in Florida. Hafiz says: "These projects are part of Saudi Vision 2030, which will focus on economic reform with less reliance on oil and more reliance on other streams of growth and income. Oil remains the primary source of income for most of the oil producing countries in the Middle East but there has been a big push to diversify and rely more on non-oil revenues."

Another driver of growth is the arrival of international business people looking to expand their operations to the region. CEO of Dubai-based FBO and flight support network Jetex Adel Mardini says that he is seeing many private jets coming from different parts of the world. "Many African owners fly to Dubai, for example. It's not just those based

here in the region, it's those coming from outside the Middle East who want to establish bases in Dubai. They come from CIS countries such as Ukraine and Kazakhstan, Africa, and Europe too."

Oil has been a consistent feature of life in the Middle East and Berry says that for now it still provides the fundamental revenue streams most governments need to meet fiscal spends. Sheik adds that many Gulf countries, particularly the UAE, Saudi Arabia, Oman and Kuwait, continue to develop tourism marketed to an international audience.

An oasis for business aviation

Despite its challenges there seems to be confidence in the Middle East charter market and a certain optimism about the future of corporate aviation in the Gulf. Koe says there is good reason to believe that the Middle East business aviation market will more closely resemble that of Europe and the US in the future. He refers to GI Aviation, which introduced Pilatus PC-12 city shuttle charters from the UAE last year and wonders if that may be a harbinger of things to come.

Falcon Aviation is bringing the PC-24 light jet to the region with deliveries slated for the second quarter of 2019. COO Captain Raman Oberoi says: "The PC-24 will be a smart addition to our charter fleet and we expect it to be based at our Dubai FBO." The FBO itself is attracting a steady base of loyal customers and the charter business is currently seeing more leisure customers to popular destinations like the Seychelles, Maldives and Europe. Incoming at the Atlantis Heliport, which Falcon Aviation also manages, were around 34,000 passengers last year. It has quickly grown to be second busiest heliport in the world.

"Oil still provides the revenue streams most governments need to meet fiscal spends"

Mike Berry, ExecuJet Aviation Group

Overall there is poor infrastructure, long inter-city distances, political instability and localised conflict. There is also considerable grey charter thanks to the shortcomings of the structured legislative and regulatory environment (MEBAA figures show that up to 40 per cent of all business aircraft operations are grey). The Middle East endures difficult operating conditions and a forbidding climate with a total citizen population that, when added together, is smaller than some 75 cities in China. Yet Sheik says that while the infrastructure is being built with oil income, leaders across the region are trying not to build the country's future on oil. That is very evident from the strategies being adopted by the rulers of the Gulf Cooperation Council states. Instead revenue will come from tourism and commerce. And perhaps the pressure on demand for oil will also be mitigated by alternative fuels and renewable energy sources. The sands of the desert kingdoms make the most incredible testing grounds for unpiloted, eco-friendly aircraft and there has been considerable interest already in that direction.

The Middle East, it seems, looks set to facilitate and encourage the hunger for business aviation around the region. ■

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