Executive Summary

The aviation sector makes a substantial contribution to Dubai’s economy...

- In this report Dubai’s aviation sector is defined as the airport operator, Dubai Airports, the aircraft ground handling company and the passenger and cargo services provided by all the airlines operating out of Dubai International.

- The aviation sector contributes to Dubai’s economy through a number of channels. We group these into two broad categories - the sector’s ‘economic footprint’ and its ‘catalytic benefits’.

...and today it supports 125,000 jobs in Dubai including direct, supply chain and induced jobs...

- The aviation sector directly employs 58,000 people and contributes US$6.2 billion to Dubai’s GDP.

- The aviation sector indirectly supports 43,000 jobs and contributes US$3.5 billion to Dubai’s GDP, through its purchases of goods and services from local businesses.

- The aviation sector supports a further 23,900 jobs and contributes US$2.0 billion to Dubai’s GDP, through the spending of those directly and indirectly employed in the aviation sector.

- Altogether, the aviation sector’s economic footprint today supports over 125,000 jobs and contributes US$11.7 billion to Dubai’s GDP.

...and a further 134,000 jobs in Dubai’s tourism industry...

- Aviation supports Dubai’s economy in more ways than its own economic footprint. The key sectors of travel and tourism, financial and professional services, and logistics all depend on the aviation sector for their success. Indeed, without the aviation sector it is hard to imagine Dubai as it is today, with its distinctive skyline and large retail developments, a
magnet for foreign visitors, expatriate workers and foreign businesses. We quantify these wider ‘catalytic’ benefits of aviation through two channels: tourism and connectivity.

- Travel and tourism, whether for business or leisure, make a large contribution to the Dubai economy. The overwhelming majority of foreign visitors who travel to Dubai arrive by air, and we calculate that their spending supports nearly 134,000 jobs and contributes US$7.9 billion to Dubai’s GDP.

- The connections created between cities and markets represent an important infrastructure asset that generates benefits through attracting foreign direct investment and talent, enabling business clusters, specialisation and other spill-over impacts on the economy’s productive capacity. We calculate that these ‘connectivity’ benefits contribute US$2.5 billion to Dubai’s GDP.

- Taking into account all the ways in which the aviation sector contributes to Dubai’s economy, we calculate that today it supports over 250,000 jobs and contributes over US$22 billion to Dubai’s GDP. To give a sense of the scale of these benefits, they represent around 19% of total employment in Dubai, and 28% of Dubai’s GDP.

…and also generates benefits for the global economy and consumers

- Not only is the success of Dubai’s aviation sector good for Dubai’s economy, it also benefits the global economy. It promotes global tourism. It creates connections between cities and countries. These connections represent an important infrastructure asset that benefits passengers, and businesses from many countries. It promotes strong competition, ensuring for passengers efficient and high quality air services.

- We calculate the economic benefits for 10 countries: Australia, Brazil, China, France, Germany, India, Mauritius, South Africa, the United Kingdom and the United States, focusing on the air transport services provided by Emirates Airline, Dubai’s home carrier.

- For Mauritius the tourism benefits are substantial, equivalent to 1.0% of GDP. For others the benefits are significant in absolute terms. For instance, the tourism benefits contribute over US$1.0 billion to GDP for both Australia and India.

- India, Mauritius and South Africa gain the most from improved connectivity, which contributes a further 0.1% to 0.2% to their GDP. Connectivity benefits are significant in
absolute terms for China (equivalent to US$1.4 billion of GDP), and for the UK and the US (US$0.8 billion each).

Consumer benefits, in the form of the difference between what the consumer is willing to pay and the actual fare, are high for travellers flying to and from Mauritius, South Africa and India, where consumer benefits are equivalent to 0.7%, 0.6% and 0.4% of these countries’ GDPs respectively. For India and the UK we calculate that consumer benefits exceed US$1.0 billion. The benefits were also significant in absolute terms for Australia (US$0.8 billion), together with China, Germany and the United States (US$0.5 billion each).

What factors account for the success of Dubai’s aviation sector?

The success of Dubai’s aviation sector derives from a number of strengths, which are the product of strategic decisions that the government of Dubai and the aviation sector have taken in the past. These strengths include: an awareness of aviation’s economic importance on the part of the government of Dubai; openness; a consensus based approach to investment; a focus on growth and linking underserved markets; and efficient operations. Added to these is Dubai’s favourable location at the intersection of Europe, Asia and Africa. We look at these strengths in turn.

Government awareness…

The government has played a leading role in Dubai’s economic development. The relationship between the government and the aviation sector is a consensus-based partnership that allows important decisions to be made quickly and carried through effectively. The success of the partnership is dependant on the government’s awareness of the importance of aviation to Dubai’s economy and the shared vision provided by the Strategic Plan of the Dubai Government.

…openness…

Dubai favours open competition among airlines. Over 150 airlines operate out of Dubai International, benefiting from its investment in aviation infrastructure and competitive landing charges. Moreover, Dubai’s Civil Aviation Authority has pushed for greater freedoms for all airlines to enable them to operate without undue restrictions on their commercial decisions. The main obstacle to this is restrictive air access rights elsewhere and Dubai has sought, through negotiation with other governments, to improve this situation.
Based on a comparison of airport charges, competition among the majority of the largest 100 international airports, including Dubai International, is conducted on a level playing field. For a minority of the largest 100 international airports, however, airport charges are seriously distorted by taxes. Among the ten airports with the highest airport charges, for instance, tax accounts for over half of the total charge.

Ranked according to their airport charges (whether taxes are included or not), Dubai International lies close to the middle of the largest 100 international airports, with roughly an equal number of airports above it as there are below it in terms of their charges.

We compare Dubai International to a panel of 16 airports chosen either because of their scale of operations, or for their proximity to Dubai. This panel comprises: Abu Dhabi, Amsterdam, Ataturk (Istanbul), Bangkok, Beijing, Cairo, Charles De Gaulle (Paris), Doha, Frankfurt, Hong Kong, Incheon, Jeddah, London Heathrow, Narita (Tokyo), Shanghai and Singapore. The average airport charge (excluding taxes) at Tokyo and the four European airports was US$55.5 per passenger, compared with US$26.6 per passenger at the remaining eleven airports. Among this eleven, Dubai International is most similar to Bangkok, Incheon and Shanghai in its level of charges. Excluding taxes, Dubai International’s airport charges are only 4% below the average charge for these eleven airports.

...a consensus based approach to investment...

Dubai’s aviation sector has benefited from its consensus based approach to investment that has helped Dubai Airports and Emirates expand together, supporting each other’s growth. This success has been possible because of the importance given to investing in transport infrastructure. Dubai’s Strategic Plan identifies transport infrastructure as a priority area for investment (‘world-class infrastructure designed to suit the requirements of all users’), and its guiding principles to economic development include: innovation in launching initiatives, speed and accuracy in project execution and unique relationship and partnership with the private sector.

...focus on growth and underserved markets...

Dubai’s aviation sector has benefited from a focus on growth that has allowed it to capitalise on the growing demand from passengers in Asia and Africa. In 2000, Dubai International had the capacity to handle 22 million passengers. Through heavy investment in upgrading its facilities, the airport had the capacity to handle 60 million passengers in
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2010. Over the same period, the actual number of passengers handled by the airport increased from around 12 million to 47 million.

- Emirates has targeted underserved routes. Through tapping into pent-up demand, the airline has increased passenger numbers six-fold over the course of a decade. Emirates has expanded its fleet almost four-fold to accommodate this demand. The success of this strategy is reflected by the airline’s overall passenger seat load factor that has averaged 76% over the past decade.

...efficient operations...

- While Dubai Airports is directly owned by the government and Emirates is owned by Investment Corporation of Dubai (ICD), a government owned investment company, this is not unusual in the global aviation industry. What is more unusual is that despite government ownership, Emirates is run on a commercial basis without government financial support.

- Dubai’s success is exemplified by the efficiency of Emirates’ operations. To help us to evaluate Emirates’ operating performance, we compare Emirates to a panel of 13 other airline companies during the financial year ending in 2009/10. These companies are: American Airlines, Air France-KLM, Air India, British Airways, Cathay Pacific, Jet Airways, Lufthansa, Malaysia Airlines, Qantas, Singapore Airlines, SriLankan Airlines, Thai Airways, and United Airlines. Among this panel of airlines there is a disparity between the average labour costs among the European and North American airlines and the rest (US$94,575 and US$49,510 per employee, respectively).

- Emirates operates a young and modern fleet of aircraft. This brings many benefits for Emirates’ passengers and also benefits the airline through lower maintenance and fuel costs.

- Among our panel of airlines, Emirates has one of the highest operating margins (0.6 cents per available seat kilometre). Only Cathay Pacific and Thai Airways operate with larger margins. American Airlines and Singapore Airlines manage to break even with slender operating margins. Six of the panel operate with a negative margin.

- Emirates profits have been sufficient to pay for all the investment in its fleet and repay its loans over the past decade. Moreover, contrary to widely held belief, Emirates does not receive government support through subsidies or other financial interventions, but has in
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fact paid out annual dividends to the government of Dubai totalling US$1.6 billion since 2002.

...and its strategic location

- Dubai’s aviation sector has benefited from the emirate’s strategic location within eight hours flight of most major destinations and two-thirds of the world’s population. For many air travellers who do not stay in Dubai but instead use it as a place to connect as they go to other countries, Dubai’s location is its principle attraction. However, tourism, trade and commerce in Dubai depends on Dubai’s aviation sector, and clear synergies have developed as the aviation sector’s success has assisted the growth of other key sectors which in turn have generated additional demand for air transport services.

Aviation’s importance to Dubai is expected to continue to grow over the next decade

- We expect the economic contribution of Dubai’s aviation sector to rise to 32% of Dubai’s GDP and about 22% of its employment by 2020.

Financial results for 2010/11

- Emirates released its annual report for the financial year 2010/11 on 10 May. Although its release came too late for the data to be incorporated into our analysis, the information contained in the latest numbers is consistent with our findings. Emirates continues to be profitable despite difficult trading conditions. In 2010/11, it reported its highest profit in its 25 year history. Robust revenue growth (25% higher on the year) was driven by strong growth in passenger numbers (revenue per passenger kilometre (RPKM) increased by 16.0% on the year), a 80% passenger seat factor, the highest in the airline’s history, and a rebound in the Cargo business as world trade improved (tonnage increased 12% on the year). The Annual Report, marking the company’s silver jubilee, notes that the airline has become the world’s largest airline by scheduled international passenger-kilometres flown.