Arab Aviation Summit 2016

Linking Cultures. Driving Economies.

White Paper
Fifth edition held under the patronage and presence of
Her Excellency Mrs. Lina Annab
Minister of Tourism and Antiquities, Kingdom of Jordan

Arab Aviation Summit

The Arab Aviation Summit is an industry initiative committed to improving the state of travel and tourism in the Arab world by facilitating a constructive dialogue for public-private cooperation.

This initiative takes place in a different Arab city every year and is considered an ideal partnership of the three key players in the travel and tourism industry: Public sector, Private sector and the Media community.

The summit has become a catalyst for destination awareness of the host city, highlighting its travel and tourism experience while debating the challenges and opportunities that exist in the wider Arab world.

Attended by Ministers of travel and tourism, Director Generals of civil aviation and tourism boards, airline manufactures and supplier, presidents of airlines, hotels and investment firms, CEO’s and senior executives, AACO, IATA, ICCA and over 120 member of the Arab press.

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Overview of the Arab Aviation Summit 2016

Growing from a position of strength over the years, the aviation and tourism industry is expected to play a key role in driving the region’s economy in 2017 and beyond. Middle East carriers started 2016 on a high note, reporting the strongest year-over-year demand growth in January at 10.9%.¹

The industry remains a critical force in the maturing of Arab economies and in their journey towards strong and sustainable growth. Aviation and tourism have long been fundamental in expanding employment opportunities, boosting tourist visits as well as marketing cities and destinations to potential investors looking to tap into young and emerging markets.

The impact of the aviation and tourism sector on local economies is significant. For example, spending $100 on aviation boosts the economy by $310, and every 100 job opportunities made available in this sector opens up 610 other employment avenues in the local market. Recognising and tapping into this multiplier effect will be crucial in the long run. In the meantime, the future of employment in the industry already looks ripe for greater efforts driven by incremental investments in training and development of future talent. According to estimates, the Middle East’s travel and tourism industry will account for more than 3.2 million jobs directly by 2025 – an increase of 3.1% per annum over the next decade.² Today, aviation alone provides 100 million job opportunities directly, accompanied by thousands of other indirect employment options that it creates across sectors.

The strategic location of countries in the Middle East and North Africa (MENA) contributes to the inflow of travel interest in regional markets. Forty percent of the world’s population live within four hours of the Middle East, 87% within eight hours and 100% within 16 hours.³ The encouraging numbers, however, also pose a challenge to the region’s aviation infrastructure, human resources, inter-connectivity and safety.

Though the significance of travel and tourism for socio-economic progress remains uncontested, questions still linger as the region grapples with several challenges to fully optimize its potential. The post-oil economic landscape and the realities of new subsidy reforms in the region will bear heavily on travel and aviation, and so will the competencies and professional readiness of the next generation of workers to assume key responsibilities. Regional conflicts, a local approach to open skies policies and the role of the private sector in a government-regulated industry are also important discussions that regulate the ebb and flow of the industry.

To reflect on these topics and more, over 200 industry thought leaders, government officials and journalists gathered for the Arab Aviation Summit 2016.
Summit 2016 by the Dead Sea in Jordan. This edition of MENA’s premier aviation event was held under the patronage and attendance of Her Excellency Lina Annab, Minister of Tourism and Antiquities, Jordan, and explored the theme ‘Linking Cultures, Driving Economies’.

2Arab Aviation Summit 2015 White Paper
3Arab Aviation Summit 2015 White Paper
The global aviation sector is worth $2.4 trillion in terms of total GDP (or 3.5% of the global GDP) by virtue of the pulsating, 24/7 activity that sees over 3 billion passengers and 50 million tonnes of freight transported every year.  

Aviation in 2016 gave several reasons for confidence amongst investors, governments and the travel and tourism community. According to a report by International Air Transport Association (IATA), the global market clocked over 3.8 billion air travellers this year, with forecasts projecting the figure to touch 4 billion in 2017 and register as high as 7.2 billion travellers in 2035 – a near double of travellers as of today. The forecast is supported by an annual CAGR of 3.7%. Jobs in the global airline industry are expected to reach 2.67 million, with productivity improving by 2.8%.  

Furthermore, aviation in 2017 will ride on the wheels of 4% forecasted increase in new destinations, improved frequency and more efficient technology. Close to 0.9% of the world’s GDP is expected to be spent on air transport in 2017, totalling $769 billion.  

The global aircraft fleet is forecast to increase by over 1,000 aircraft to end 2017 at almost 29,000 aircraft and 4.1 million available seats, while the number of scheduled aircraft departures is forecast to exceed more than 38 million next year. That’s an average of 73 planes departing every 60 seconds in 2017.  

Financial results from Q3 2016 indicated a strong quarter for industry profitability and cash flow, with low global oil prices contributing to savings on fuel costs. A rise of 3.6% in share prices in October further validated the positive sentiments.  

Strong performance of the global air transport industry is boosting economic development across the globe. Increase in inter-city connectedness enabling the flow of capital, people and technology is consistently feeding into the wider economic growth story. The price of air transport for end-consumers also continues to fall – compared to 20 years ago, air travel costs (after adjusting for inflation) have more than halved across the world. The story is not very different in the region, as Mr. Adel Al Ali, CEO of Air Arabia, noted at the Summit. With the increased demand for Low Cost Carriers (LCC) in the region, air transport is no more the preserve of the rich. Travelling from Sharjah in the United Arab Emirates to the capital Abu Dhabi by taxi, for example, can easily cost twice as much as travelling by air from the UAE to Kuwait.  

Sustainability and limiting carbon emissions will be a theme that cuts across industries in the months to come, and global aviation is at the helm of the policy changes and ‘green’ growth story of global aviation: Gliding at high altitudes.
initiatives. In October 2016, the global airline community supported the establishment of a Carbon Offset and Reduction Scheme for International Aviation (Corsia) to manage emissions growth of the aviation industry. This push towards sustainability is set to influence new aircraft orders and technological investments to increase fuel efficiency of the current fleet. Corsia will run parallel to the United Nations Climate Change Conference held in Paris in December 2015, which launched a mandate to improve fuel efficiency and reach carbon neutral growth by 2020 and -50% by 2050.

RPKs or growth in air passenger volumes in Middle East & Africa outpaced global benchmarks towards late-2016

### Revenue passenger kilometers (RPKs)

<table>
<thead>
<tr>
<th>Region (registration basis)</th>
<th>% change on a yr ago</th>
<th>2015</th>
<th>Jul-16</th>
<th>Aug-16</th>
<th>Sep-16</th>
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<tr>
<td>Middle East</td>
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<td>16.4</td>
<td>9.9</td>
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<td>6.8</td>
<td>0.4</td>
<td>7.5</td>
<td></td>
</tr>
<tr>
<td>World</td>
<td>6.5</td>
<td>6.4</td>
<td>4.3</td>
<td>7.0</td>
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<th>Routes (segment basis)</th>
<th>% change on a yr ago</th>
<th>2015</th>
<th>Jul-16</th>
<th>Aug-16</th>
<th>Sep-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East - Asia</td>
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<td>8.9</td>
<td>3.8</td>
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<tr>
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<td>10.8</td>
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<tr>
<td>Africa - Europe</td>
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<td>2.8</td>
<td>-1.9</td>
<td>2.8</td>
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</tr>
<tr>
<td>Middle East - Nth America</td>
<td>26.7</td>
<td>30.2</td>
<td>20.5</td>
<td>24.5</td>
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<tr>
<td>Africa - Middle East</td>
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<td>Africa - Asia</td>
<td>-1.2</td>
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</tbody>
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Source: IATA Statistics

Airline industry profitability in 2016 stood at $35.6 billion – the highest absolute profit generated by the industry, along with the highest net profit margin of 5.1%.

In 2017, the global airline industry will brace for a slightly downward outlook with a net profit of $29.8 billion, coming on the back of $736 billion in total revenues and a 4.1% net profit margin. Rising oil prices, supported by the historic decision by OPEC countries to cut crude output, could fuel increase in costs for global airline operations next year.

Despite the challenges, 2017 would mark eight years of consecutive aggregate airline profitability, demonstrating the industry’s resilience to potential shocks emerging from economical and geo-political uncertainties.11

Recently, tourism sector witnessed two milestones: 1.2 billion travelers worldwide and $1.2 trillion in travel spends across the world.

- Mr. Nabil Tabbara, General Manager – Levant, Visa

11 http://www.iata.org/pressroom/pr/Pages/2016-12-08-01.aspx
Strong growth in Arab aviation has been instrumental in the wider economic development, positively impacting tourism and infrastructural enhancement in emerging economies across Middle East and Africa markets. Countries such as the UAE and Qatar, for instance, have reaped the benefits of consistently expanding international passenger traffic by stepping up airport infrastructure and building a strong state-owned flag carrier.

Compared to 2016, however, economic headwinds in the upcoming months are expected to pose a challenge to aviation in the region.

In 2017, Middle Eastern carriers are forecast to generate a net profit of $0.3 billion - below the $900 million profit expected by the end of 2016 - with a net margin of 0.5% and yielding an average profit per passenger of $1.56. The low average yields are offset by the lower unit costs, partly driven by the strong capacity expansion forecast at 10.1%, ahead of the anticipated demand growth of 9%.12

Long-term predictions by IATA illustrate the potential of Middle East’s aviation sector to create a sustained influence on the global travel economy. Astute investments by Arab economies in the aviation sector place Middle East countries on a course of exceptional contribution to global aviation, further bolstering its presence in the international market. If the current estimates are realised, Arab aviation could invariably assume a higher degree of clout over major policy decisions that affect international skies.

According to the estimates, the Middle East will post a 5% growth and will see an extra 258 million passengers a year on routes to, from and within the region by 2035, second only to Africa’s contribution. The total market size of the region is expected to be 414 million passengers in the next two decades, with the UAE (6.3%), Qatar (4.7%) and Saudi Arabia (4.1%) particularly enjoying strong growth. Significant growth is also expected in passenger traffic between the Arab world and other global regions including European Union, Sub-Saharan Africa, Asia, North America, Latin America and within the Arab world itself. 13

12 http://www.iata.org/pressroom/pr/Pages/2016-12-08-01.aspx
A number of challenges, many discussed during the Arab Aviation Summit 2016, stand between regional economies and the ambitious growth trajectory. Growing air traffic management delays, for instance, is a major obstacle that could prevent more aircraft from efficiently occupying the skies. At the heart of this challenge is the Arab world’s slow-paced journey through the maze of open skies policy.

The Summit also noted the success of the host country Jordan in opening up their skies after it signed an agreement with the European Union in 2010. This has allowed low-cost airlines to fly between Jordan and anywhere in Europe, incentivising airlines to use Amman as a connection hub.

A protectionist approach to the industry further stalls growth and development. Experts at the Summit urged industry leaders to view the region as a single market of 350 million potential travellers, rather than segregated economies stymied by heavy regulations. To capture a fraction of this market would translate into winning a sizeable portion of the under-served segments.

Greater cohesion between government bodies and industry players will also be required to supplement growth with the relevant infrastructure. Runways, air traffic control, passenger terminals, security and baggage systems and a whole range of other essentials in the industry are already testing the aviation ecosystem in the region. However, the expansion projects announced recently are expected to gradually lift the gloom off infrastructural deficiencies.

Airport investments of $32.7 billion in the UAE alone and airport development projects in other Middle East markets will be among the top factors that will considerably push regional investments. Among the leading projects in the region is the Al Maktoum International Airport, which has already completed a 66,000 sq. metres terminal with 64-aircraft bays and a 4.5 km runway. The total cost of the project is pegged at $8 billion, edging slightly ahead of the Dubai International Airport expansion mandate of $7.8 billion undertaken in 2016 to boost capacity from 60 million to 90 million passengers.

King Abdulaziz International Airport in Jeddah, Saudi Arabia, commenced its three-stage development with a budget of over $1.5 billion and the objective of catering to over 30 million passengers. The first phase includes a 400,000 sq. metres terminal complex tower, control tower, access roads and other utilities. Phase two and three will take the airport through to 2035 when it will cater to 85 million people – a time when the country would be analysing its progress towards achieving the goals of the Saudi Vision 2030 reform plan.
Other investments in the region include $6.1 billion earmarked by the Sultanate of Oman over five years for a string of aviation projects. Realisation of the projects will see major terminal developments at Muscat and Salalah international airports – key hubs for international and inter-Gulf tourism, and the addition of four new regional airports. Bahrain, who played hosts to the Arab Aviation Summit in 2015, is currently undertaking a $1 billion expansion of Bahrain International Airport to increase its capacity to 13.5 million passengers annually.

Another key area where dedicated efforts for improvement will spell long-term success is training and development of human capital in the region. Obstacles lay in the form of high levels of unemployment in some countries of the Arab world and shortage of relevant, 21st Century skills especially amongst the youth. This is a pressing challenge, especially so in the light of data from IATA that concludes that Middle East’s aviation industry needs 50,000 skilled people to be trained and recruited to fuel its growth.15

In the current climate of regional conflicts, safety and security concerns cloud the aviation industry and remain a priority in all industry gatherings and boardroom meetings. The route across the Arabian Gulf is the main artery of intercontinental air traffic between Europe and Asia, with hundreds of planes transporting millions of passengers across the grid. Almost all flights travelling from Dubai, Abu Dhabi and Qatar to the EU usually take this route. Hence, strengthening the security credentials of both national carriers and territorial skies is imperative for strategic growth and development of the aviation industry.

Fluctuating oil prices have also been a cause of concern for the Middle East’s finances. While lower oil prices shave off significant jet fuel costs, this also puts a strain on national budgets and the foreign investment portfolio in countries that are in the nascent stages of economic diversification. This trend, however, is expected to stabilise and the oil market could become more predictable after the recent, collective decision by OPEC countries to cap output levels.

### New developments

**Jordan:** The 2nd phase of the new terminal project at Queen Alia International Airport (QAIA) was inaugurated this year, raising the annual capacity from 9 to 12 million passengers, and the gates from 9 to 17.16

**Bahrain:** Construction began on the $1.1 billion Bahrain International Airport expansion which aims to increase annual capacity to 14 million passengers. 17

**Kuwait:** The government signed a contract worth $4.4 billion to construct a new terminal at Kuwait International Airport (KIA). 18

**Oman:** Construction of the new Muscat International Airport entered its completion stages by the end of 2016.19

**Qatar:** Expansion of the Hamad International Airport will commence by the end of 2016. Once compete by 2020, the increase in capacity will reach close to 53 million passengers annually.20

**Kingdom of Saudi Arabia:** The new Terminal 5 at Riyadh’s King Khaled International Airport (KKIA) started operations in 2016 with 36 check-in desks to service customers of Saudi Arabian Airlines (Saudia).21

**United Arab Emirates:** Plans to expand the Passenger Terminal Building at Al Maktoum International Airport in Dubai were unveiled in 2016. Following the extension, the airport will handle up to 26.5 million passengers annually by 2025.22

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15AAS White Paper 2015
20https://dohanews.co/report-qatars-hamad-airport-expansion-begin-year-end/
21http://www.arabnews.com/node/973046/saudi-arabia
Beyond spurring economic growth and providing employment, a robust aviation sector functions as a pivot to make cities more attractive and boost tourist visits. The invaluable emotional benefits of uniting families, supporting voyages that unearth history and culture in foreign territories and embarking on an adventure carve a special memory in people’s mind-space and serve as a tool for promoting destinations. Capitalising on the region’s central location and favourable time-zone, Arab aviation opened up more than just the skies - it has connected people and businesses to markets and brought together friends and families.

Her Excellency Lina Annab, Minister of Tourism and Antiquities, Jordan, made a case for better partnership between aviation and tourism to optimise efforts across sectors and serve memorable moments. Today, tourism constitutes transport’s primary and most dominant user, and is increasingly dependent.

“Nowadays, tourists want more than a trip; they want to gain new experiences.”

- Michael Nazzal,
Chairman of the Jordan Federation of Tourism Associations
on strong and reliable air transport for smooth functioning. A flagship carrier and the airports (extending to its staff) are the first experience and formal representation of a destination, and investing in these areas become crucial in a country’s journey towards excellence in tourism.

Aviation’s successful relationship with tourism authorities can help foster new tourist assets. Travel and tourism sector is scheduled to grow, but this can be augmented by the support of government and, as argued, better integration between aviation and tourism. Today’s travellers are constantly looking for more. The Middle East has great potential based on its close proximity, natural beauty, historic sites, and man-made wonders to become one of the world’s fastest growing regions for tourism.

His Excellency Marwan bin Jassim Al Sarkal, CEO of Sharjah Investment and Development Authority (Shurooq), echoed similar sentiments while fronting Sharjah’s appeal as a tourism and investment hub. Speaking at a panel that explored better private-public partnership in the industry, he noted that the prime objective of government bodies is to achieve social, cultural, environmental and economic development for its destinations, and carve a distinct identity that appeals to the masses – in the case of Sharjah, its Arab and Islamic ethos. Public organisations need to increasingly work with private stakeholders across different sectors to develop tailor-made investment and development opportunities that are aligned with the strategic objectives of the city.

The venue of this edition’s Arab Aviation Summit overlooked the picturesque expanse of the Dead Sea – a stretch of water bed that attracts tourists from across the globe. The choice of Jordan as the venue was symbolic on two levels – just as the Middle East sits at the cross-roads of multi-cultural trade routes of both historic and modern significance, Jordan harbours the imprints of an eclectic mix of civilisations: Nabatean, Roman, Byzantine, Biblical and Islamic amongst others. The Dead Sea also provides an unmistakable reflection on the desired trajectory for aviation finances – staying afloat across economic cycles and political uncertainties.

The foundations of an aviation industry in the Hashemite Kingdom of Jordan came about through the establishment of the Amman Civil Airport, founded in 1950 by the British as a joint military civilian airport. In the wake of growing air traffic needs, the country built the Queen Alia International Airport (QAIA) in 1983 – what is now

There are 7 essentials to developing tourism of a place: attitudes, marketing, infrastructure, superstructure, regulations, affordability and safety.

- H.E. Aqel Biltaji, Mayor of Amman
the busiest and largest airport in the country - after getting its flag carrier in the form of Royal Jordanian Airlines in 1963.

Travel and tourism play a significant role in Jordan’s overall development, with experts drawing up plans to expand its footprint in the economy and incentivise the industry through tax waivers and other policy reforms. Jordanian airports are harnessing Low Cost Carriers to leverage its business, and this is reflected in Air Arabia’s (the first LCC in the region) recent move to adopt Jordan as one of its hubs. Plans to operate two new LCCs from King Hussein International Airport (Aqaba Airport) also feed into the larger strategic vision for the country’s aviation endeavours. The Kingdom is also tapping into its young, tech-savvy populace to groom the next generation of workers and trend-setters in the aviation industry.

The future, both in terms of human capital and finances, look bright for Jordan’s aviation. According to a latest report by International Air Transport Association, annual passenger traffic through Jordan is expected to double to more than 15 million by 2034, thereby increasing the aviation sector’s contribution to GDP from 6% to 12%. The country’s appeal as a window to history and rich Arab culture has been instrumental in boosting aviation activity. Traditionally, tourism accounted for 14% of GDP of Jordan’s economy, but the sector has witnessed a negative trend due to regional instability. The government’s tourism board, however, is charging ahead with $52.1 million set aside for marketing activities, incentivising visits by cutting visa fees from $56.3 to $14 and reducing entry fees to select sites for Arab visitors.23

The Arab Aviation Summit 2016 witnessed the Airbus Little Engineer ‘A380 Assembly’ workshop – an award-winning initiative catering to students of 13-15 years of age. With the aim of introducing students to the A380 Assembly operations, the workshop features the use of robotics in aviation and explores areas such as identifying aircraft parts, assembly process and transportation procedures. The Airbus Little Engineer Workshop is an accompanying workshop in every edition, and this year, over 50 students from educational institutions across Jordan participated in the initiative. By channelling students’ potential through the use of modern technology and innovative thinking, the workshop encourages the youth to consider a career in the aerospace industry. The workshop stands as a testament to the commitment of the Arab world’s aviation industry to nurturing young minds and enhancing public understanding of science, technology, engineering and mathematics through interactive and tailored programmes.
The concluding session at the Arab Aviation Summit brought together a new breed of content creators who engage with, and influence, an extensive audience over digital and social media. Travelling in the digital age is not just about living the experience, but also instantly sharing the precious moments with a network that is distanced by geography but intimately connected by the power of high-speed internet. The panel of young bloggers and social media celebrities touched upon the tools, insights and story narratives that can successfully market a destination to the online consumers. While the destination is the focal topic in any given social media post, a blogger’s unique experience and his or her interaction with the place also strongly resonate with the audience. The blogger is the window to the destination, but many a time, also the subject that drives the conversation. The panel also explored the challenges of such ‘influencer marketing’ efforts. Determining the cost of these promotional efforts, for once, follows no industry standard and can be seldom benchmarked against a set of parameters.

With upwards of 106 million smartphone users in Middle East and Africa today, and the number is expected to be as high as 174 million by 2019, the region’s tourism must prepare for a new era of instant communication and connected communities. This is further augmented by the high levels of usage of social media in the region. Saudi Arabia, for instance, apart from being the largest economy in the region, has the highest penetration of Twitter; and the country boasts the highest per-capita consumption of video-platform YouTube. To top this off, more than one-thirds of the Kingdom’s population is active on at least one social media channel today. The statistics, experiences and discussions emerging out of the Summit point towards a reality that was unimaginable a few years ago: ‘linking cultures and driving economies’ in the age of digital media will increasingly take place at the click of a button.

The 2016 edition of the Arab Aviation Summit provided centre-stage to a range of topics governing the aviation and tourism industry in the Middle East. As we enter 2017, the region’s aviation industry will be guided by its strong and sustainable growth, significant contributions to regional economic development and employment and its role in the diversification efforts of economies embracing the post-oil realities. Government officials and industry thought leaders will have to consistently engage with each other to address the pressing needs of skill development, infrastructure and safety that will set the fortunes of Middle East’s aviation cruising at high altitudes.
A quick snapshot of conclusions from the successful Summit:

- Multiplier effect in aviation: Spending $100 generates $310 in the economy; offering 100 aviation jobs opens up 610 other employment avenues.

- Middle East’s travel and tourism will account for more than 3.2 million jobs directly by 2025.

- The global market recorded over 3.8 billion air travellers in 2016. The numbers are expected to touch 7.2 billion travellers in 2035.

- The total sector is worth $2.4 trillion in terms of total GDP (or 3.5% of the global GDP).

- Close to 0.9% of world’s GDP is expected to be spent on air transport in 2017, totalling $769 billion.

- The global aircraft fleet is forecast to increase by over 1,000 aircraft by end of 2017.

- An average of 73 aircraft will depart every minute in 2017.

- Industry profitability in 2016 stood at $35.6 billion – the highest absolute profit generated by the airline industry.

- The global aviation net profit in 2017 is expected to be $29.8 billion - out of which Middle Eastern carriers are forecast to generate a net profit of $0.3 billion.

- UAE (6.3%), Qatar (4.7%) and Saudi Arabia (4.1%) will enjoy the highest passenger growth rates in the region in the next two decades.

- Air traffic management delays, shortage of skills, open sky policies, infrastructural deficiencies, regional conflicts and fluctuating oil prices are the challenges for Middle East’s aviation.

- Greater collaboration between aviation and tourism boards, along with public-private cohesion is imperative to unlock the potential of Middle East’s travel and tourism sector.

- Proliferation of social media in the smartphone-era has made influencer marketing an important tool for tourism and promoting destinations.