

# Arabian heights

➤ LAUNCHED IN 2004 AS THE MIDDLE EAST'S ONLY LOW-COST CARRIER, AIR ARABIA HAS EXPANDED TO COVER NORTH AFRICA, THE INDIAN SUBCONTINENT, CENTRAL ASIA AND EUROPE. FOUNDING CEO **ADEL ALI** TELLS PHIN FOSTER HOW GROWING LIBERALISATION CAN ONLY BENEFIT THE ARAB WORLD'S FIRST PUBLICLY OWNED AIRLINE.

## KEY FACTS

- The Middle East has a good demographic for low-cost air travel, despite the perception that everyone in the region is rich.
- The region is seeing a liberalisation of its skies.

**Phin Foster: Your first half results for 2009 show a 21% increase in net profits on the same period last year. What accounts for your success at such a difficult time for the aviation industry?**

**Adel Ali:** We're very happy with what we've achieved and our forecasts show that we'll be finishing the year in profit. 2009 is not necessarily going to be a boom year, but people have traded down from conventional and premium airlines to low cost carriers (LCCs) and there has been a lot of focus on driving cost out of the business. That combination has seen us do better than most.

Go back to 9/11 and by 13 September all the analysts were saying that aviation would take years to recover and likely never be the same again. In January 2002 it began growing quickly across the globe and times had never been better. History tells us that, every time aviation sees a drop in business, it is for a relatively short period and it will pick up even more quickly.

Besides, three or four years of boom can be a bad thing: it encourages a culture of spending and not worrying about costs. It is good to refocus.

'I have not seen any major projects shelved because of the current climate.'

**PF: Is the success of Air Arabia indicative of a cultural change in the way people view air travel in the Middle East and the wider Arab world?**

**AA:** There are people who do not believe there should be an LCC in the Gulf because the population is too small. But the population we do have travels. Some also believe that people do not want to use LCCs; they want the class of a prestige carrier. This makes the assumption that everyone is very rich, which is ridiculous. Those on middle income in Europe and America are far better off than their equivalent in the Middle East. Not long before Air Arabia launched in 2004, airlines in the Middle East were charging a lot of money only to get the choice of the day to travel. Now people choose the hour, and carriers are leading marketing campaigns with their prices; knowing that price-point is a major factor in encouraging travel.

**PF: Has the financial crisis had affected how potential partners operate?**

**AA:** It would be naïve to base policy decisions on events from November of last year to August 2009; this is a very short span. I have not seen any major projects shelved because of the current climate. There have been tactical changes, but that is only natural.

**PF: You have recently announced that Air Arabia will be setting up a third hub of operations. How close is that to becoming a reality?**

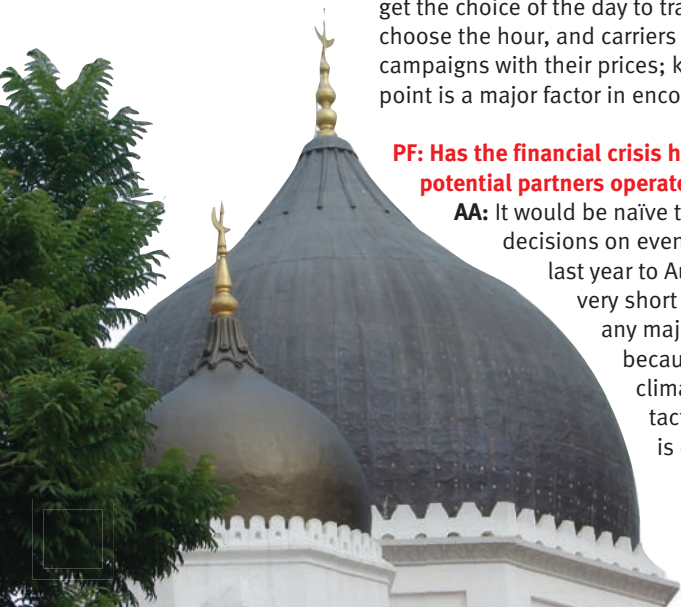
**AA:** It has always been on the agenda and as soon as we're ready with the formalities and legal requirements an announcement will be made. Developments are very much on track. We started in Sharjah back in 2004 and operations in Casablanca began in April of this year. If you look at the geography, we're already in the east and north of the Arab world. What we need is something in the middle that will help us maximise our network coverage.

**PF: Are you in a position to take a bullish approach towards expanding that network?**

**AA:** Air Arabia's history over the last five years proves that we've never been in the business of ordering more airlines or opening more routes merely for the sake of it. In fact, we are far more aggressive when it comes to closing routes that do not contribute to our bottom line. We're relatively conservative and our position as the highest users of A320s for flying hours a day in the world demonstrates that we make sure we only bring in aircraft when we need them and then only put them on the routes that make complete sense.

**PF: So knowing when to close routes is as important as the ability to open new ones?**

**AA:** One's focus must always be on badly performing routes: either do something to improve the situation or shut it down. There's no point flogging a dead horse.



But when the market is dipping, one must avoid the temptation to close down everything because you will need to start all over again when things improve. Balance is key.

**PF: How great is the potential for expansion in the region?**

**AA:** To put things in perspective, more than 20% of Europe's travelling public use LCCs. The figure is similar in the US. There are no absolute statistics, but my estimation is that no more than 4% travel by LCC in the Arab world.

On top of that, in the US and Europe there are a number of methods of transportation. In our part of the world air travel is the only option: borders are difficult to cross, trains don't exist and the scenery isn't particularly exciting.

All this equates to massive potential. Around us in the Gulf there's a population of 80 million living in Iran and a vast number in Pakistan. Iraq is developing and that's a future market for us. In the rest of the Middle East you've got Sudan, Egypt, Lebanon, Jordan: all offer possibilities. The revolution in air travel we saw in Europe 15 years ago is happening here in the Arab world today.

'There is a recognition in the Arab world that opening the skies can only benefit the public.'

**PF: What allowed that was the liberalisation of Europe's skies. Is that happening in your region?**

**AA:** It is not a black and white scenario. If we'd followed the traditional LCC business model criteria, Air Arabia would not have been launched five years ago. Since then, however, the skies have been opening; look at India, Kuwait, Jordan, and Lebanon: things are changing.

Even those countries moving more slowly are doubling their frequency of traffic year-on-year. There is a recognition from people in civic aviation in the Arab world that opening the skies can only benefit the public and be financially beneficial for the airports.

**PF: Is there the potential for foreign LCCs to try and get a slice of the action?**

**AA:** The market is open to everyone, but this is not a single market like the US,

Europe or Australia. Each country has its own rules, regulations and difficulties. It would be very difficult for one of the big Western carriers to import their model wholesale and start operating. However, it's not beyond the realms of possibility that someone might encourage them to do so.

**PF: With secondary airports such an integral part of the LCC business model, does such an approach bring challenges for Air Arabia?**

**AA:** Five years ago we could operate only in the capitals of our destination countries. As the network has expanded, things have changed. We operate in Egypt but we don't go to Cairo. In fact, we serve three destinations in the country and each one is a secondary airport. In Syria, we serve Damascus, but we also go to two other airports that were virtually unused previously. Every other airline has since followed us in. Of the 13 airports we use in India, six of them were domestic airports that did not take international flights before we came along.

What all this illustrates is that the airports are out there, you just need to put across a good business case that can make the deal work for passengers, the airports and yourselves. So long that case is made properly, people tend to listen.

**PF: Has such success seen people approach you rather than the other way around?**

**AA:** Quite a few different investors are coming to us looking to set up business opportunities and that's something we'll always consider. In terms of being approached by airports and governments, most still operate national carriers. The carriers remain a deciding factor in certain aviation philosophies and make it unlikely that we will receive too many unsolicited offers.

However, what we are finding is that if we make the approach to airports and put our case across, they are becoming far more open and agreeable than perhaps they once were.

**PF: If this trend continues, where do you see Air Arabia in five years time?**

**AA:** The business model will remain the same, I am certain of that. The size and the network will be the big changes. I would like to think that a passenger looking to travel from any part of the Arab world to another will be able to do so onboard an Air Arabia plane. Creating that network across the entire Arab World has to be the objective.

In terms of liberalising the routes, it would be unfair of me to say that things have not changed. What is also true is that there remains a lot more to be done. Open skies is something that will inevitably happen, whether that's in two years or five. I feel extremely optimistic about the future. ○



**ADEL ALI**

➤ Adel Ali took 26 years of aviation, tourism and marketing experience to Air Arabia when it launched in 2004. He previously served as vice-president, commercial and customer service, for Gulf Air.