



## DIRECTORS GENERAL OF CIVIL AVIATION-MIDDLE EAST REGION

### Seventh Meeting (DGCA-MID/7) (Riyadh, Saudi Arabia, 19 – 20 May 2024)

#### Agenda Item 7: Economic Development of Air Transport

#### FROM OUR AIRPORTS TO THE WORLD – THE IMPORTANCE OF DEVELOPING AIR CONNECTIVITY

*(Presented by Airports Council International (ACI))*

#### SUMMARY

Air connectivity, besides being measured by the conventional indicators that focus on direct and indirect connectivity such as frequency of flights, seat capacity and the number of destinations, should offer a consumer centric approach that considers affordability, consumer choices and quality of connection. This paper offers a more comprehensive consideration of measuring and defining air connectivity, as well as the importance of air connectivity and the barriers to restoration and future development. More liberal and market-friendly policies are advocated.

### 1. INTRODUCTION

1.1 The COVID-19 global pandemic represented a crisis of unprecedented proportions for many industries worldwide. Civil aviation was one of the hardest-hit global industries that led to significant cuts in air services, with many routes suspended for an indefinite amount of time, and the remaining routes significantly downsized in terms of frequencies and/or capacities.

1.2 As the aviation industry around the world continues to recover from the adverse impacts of the COVID-19 pandemic at an uneven pace, the connectivity aspect of the industry remains unclear. The conventional understanding and way of measuring and defining air connectivity deserve to be reviewed.

1.3 The industry should also evaluate the importance and opportunities, as well as the risks and challenges in the short and medium-to-long term that would influence the recovery and future development of air connectivity. The importance and opportunities should include the revival of economic activities, catalysation of travel and tourism, facilitation of investments, exchange of knowledge and better allocation of human and capital resources. The risks and challenges should encompass both endogenous factors, originating within the air transport ecosystem (traffic rights), as well as exogenous factors, including macroeconomics and geopolitics.

### 2. RETHINK HOW AIR CONNECTIVITY SHOULD BE DEFINED AND MEASURED

2.1 Besides measuring the conventional indicators focus on direct and indirect air connectivity such

as frequency of flights, seat capacity and the number of destinations, ACI Asia-Pacific & Middle East considers air connectivity should offer a comprehensive and consumer centric approach, which shall include, at a given market, the ability for its passengers to access the global air transport network through quality connections.

2.2 As such, the ACI Asia-Pacific & Middle East Connectivity Index also considers the importance of a range of factors that emphasise the affordability, options of carrier categories, options of alliances, connection time and the economic importance of the destinations to the reference market. These factors are not conventionally included in other existing measurements of air connectivity.

2.3 The rationale of which is to address the deficiencies of the traditional way of thinking about air connectivity and to offer new perspectives that take into account the affordability, the parameters that contribute to passenger experience and shed lights on the significance of air connectivity in driving economic and social development.

### **3. ECONOMIC BENEFITS AND SOCIAL IMPORTANCE OF AIR CONNECTIVITY**

3.1 The aviation sector generates economic benefits and contributes to economic growth through activities in the aviation industry and a wide spectrum of other industries such as tourism, hospitality, retail, and food and beverages. In 2019, in the Middle East, the aviation industry generated about 9.5% of Gross Domestic Product (GDP), which is equivalent to about USD 260 billion in total contribution. The industry also supported around 4.6 million employments. It is estimated that around 10% in seat capacity growth is associated to over 6.4% increase in GDP in the region.

3.2 Air connectivity catalyses economic activities and facilitate international trade. Corporations commonly globalise their productions and services leveraging on the competitive advantages of different economies. Improvement in air connectivity enable developing and low-income countries to be connected to more advanced economies and take part in the global value chains. The air freight sector of the Middle East grew at a Compound Annual Growth Rate (CAGR) of 11% between 2000 and 2019, reaching 32 billion tonnes in 2019, accounting for 7% of global shares in terms of freight tonne kilometer. Air connectivity enabled many markets to grow their manufacturing and trading industries.

3.3 Improvement in air connectivity facilitates more frequent travel for business and investment activities, which helps countries to attract more Foreign Direct Investment (FDI), bring new capital and stimulate economic activities. The FDI net inflow value in the Middle East grew significantly at a rate of CAGR 12.3% between 2000 and 2019. The quality of air connectivity influences companies' decision in choosing where to invest.

3.4 According to the International Labour Organisation, there were about 169 million migrant workers around the world before the pandemic. Air connectivity facilitates labour and professionals to travel within and across regions, and makes it possible for them to find workplaces where their skills are needed, which in turn enhance specialisation. This does not only help to facilitate knowledge exchange and skill transfer, but also stimulates productivity.

3.5 Air connectivity facilitates cultural and religious exchange. Given certain religions have traditions of pilgrimage, air connectivity often makes it easier for pilgrims to visit holy sites of relevance. Air connectivity also help to drive the convergence of culture and breakdown geographical barriers to promote greater interdependence between nations.

3.6 Many families are now spread all over the world as people move for employment opportunities, education or simply for personal choice. This has resulted in far greater cross-border ties between individuals and countries. Improving air connectivity and strengthening connections of diaspora can ensure continuous support of social well-being.

#### 4. BARRIERS TO RESTORING AND DEVELOPING AIR CONNECTIVITY

4.1 It is clear that improvement in air connectivity can drive national and regional economic and social development and enhance our well-being. Nonetheless, there are a wide range of endogenous and exogenous factors that influence the air connectivity restoration in the post-COVID-era and could potentially act as roadblocks to air connectivity development going forward. The key factors identified are as follows:

a) **Regulatory constraints** – Uncertainty regarding potential travel restrictions and other limitation in traffic rights and permissions will continue to pose a challenge for air connectivity to recover in the near term. In a medium-to-long term, protectionist policies and conservative approaches to liberalising market and opening market access could limit traffic growth and impede competition, hindering air connectivity development. Striking the right balance between competition and regulation is essential to foster efficiency and development.

b) **Infrastructure constraints** - With the recovery and growing of traffic, both domestic and international, increased movements and frequencies lead to slot constraints at airports as one of the key challenges in connectivity development. In addition, air traffic management in some markets have been saturated. As such, raising the need for adopting technologies, solutions, slots allocation policies aiming at optimising the use of existing infrastructure and airspace.

c) **Supply side challenges** – After suffering from the COVID-19 pandemic, airports, airlines, ground handling agents and many aviation stakeholders continue to face financial challenges, which affect the utilisation of infrastructure, equipment, operational readiness and the overall efforts to restore and develop air connectivity. Additionally, workforce shortages in many sectors within the industry continues to be an obstacle to recovery.

d) **Macroeconomic outlook** – The looming economic slowdown in many major economies threaten to disrupt the pace of the recovery from the pandemic. High inflation and high interest rates coupled with sluggish economic recovery have led to low consumer confidence, which translates to lower demand for air travel after the initial pent-up demand right after markets opened up. Additionally, conflicts and geopolitical confrontations further weakened the global economy, disrupting trade and causing an economic slowdown. The associated rise in energy prices have also been affecting the costs of travel.

e) **High costs of travel** – Air fares have increased by around 30% in some segments in the Middle East compared with 2019 levels, breaking the almost flat trend seen for five years prior. The increased jet fuel prices and inflation have played their parts in driving the increase in air fares, which weigh negatively on demand, representing a downside risk for the industry recovery and development.

#### 5. ACTION BY THE MEETING

5.1 The meeting is invited to:

a) acknowledge the importance of restoring and developing air connectivity, and to urge States to undertake all applicable measures to restore and develop air connectivity, such as introduction of incentive programmes, partnerships with tourism authorities and other major stakeholders, active participation in route development events, increase infrastructure capacity and capabilities;

b) encourage States to consider further liberalisation of market access policies in terms of traffic rights on a bilateral and multilateral basis to facilitate the launch of new routes, to promote more affordable airfares, to encourage increased seat capacities and flight frequencies, as well as to consider policies to foster higher competition, and better value proposition of air transport for the aviation ecosystem; and

c) encourage States to streamline and simplify visa application process for inbound international travelers, where applicable.

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