



Ready for take-off

UAE Aviation survey – 2021

September 2021

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Foreword

The pandemic led to a brutal upheaval of the aviation industry. With global travel bans, millions of stakeholders were impacted as the skies emptied.¹ The tourism industry suffered its worst year on record in 2020, with international arrivals dropping 74% annually. Whilst the aviation industry is used to periodic, uncontrollable shocks and, to some extent, their business models provide for them, the viciousness of the impact of the Covid-19 pandemic on this industry was and continues to be unprecedented.

There was some respite for the industry due to increased demand for cargo, including the movements of personal protective equipment and vaccines and, in some of the larger countries such as the USA

and China, the resurgence of domestic air travel once restrictions were eased. However, the acute operational and financial pressures on the aviation industry continue.

We are at last seeing signs of economic recovery and consumer confidence,² buoyed by people around the world, including the UAE, becoming vaccinated against Covid-19. Whilst the emergence out of the pandemic and people's propensity to travel will be tempered by a number of factors, including the nascence of virus variants, we believe now is an ideal time to take the pulse of the aviation sector.

Our first UAE aviation report delves into the impact of Covid-19 on passengers' sentiment. We

also examine which factors are influencing their motivation to undertake air travel in the next six months.

Over the years, air travel has made the world a smaller place. The sector now serves a multitude of travelers with different motivations. In this report, we focus on the principal categories: visiting friends and relatives (VFR), leisure, business and medical tourism. This report focuses solely on consumer travel habits.

We hope you find this report insightful. Please contact me if you would like to further explore the topics covered.



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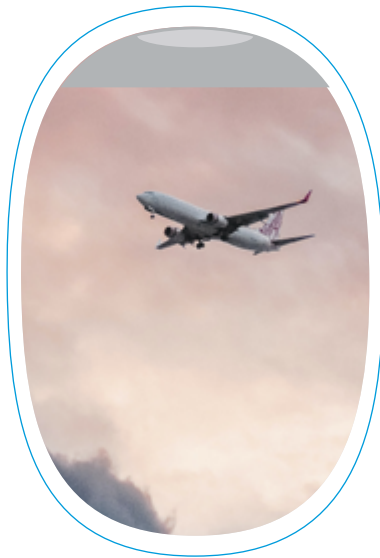
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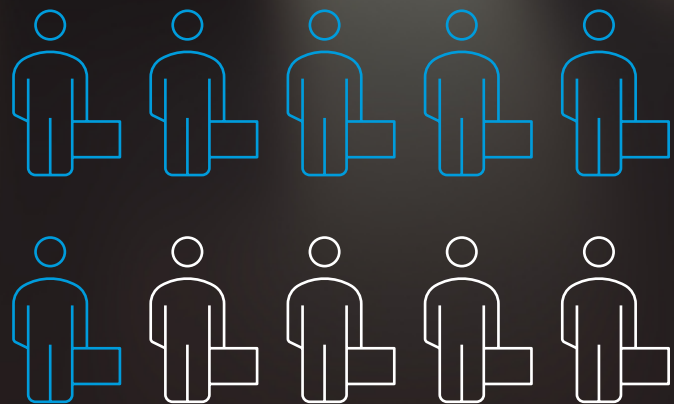
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Executive summary

Six out of ten respondents had flown outside of the UAE in the past 12 months—the chief reason being to visit their loved ones.

57%



What type of air travel did you undertake in the past 12 months?

73%



Travel to home country/ family and friends (VFR)

39%



Leisure/vacation

13%



Business

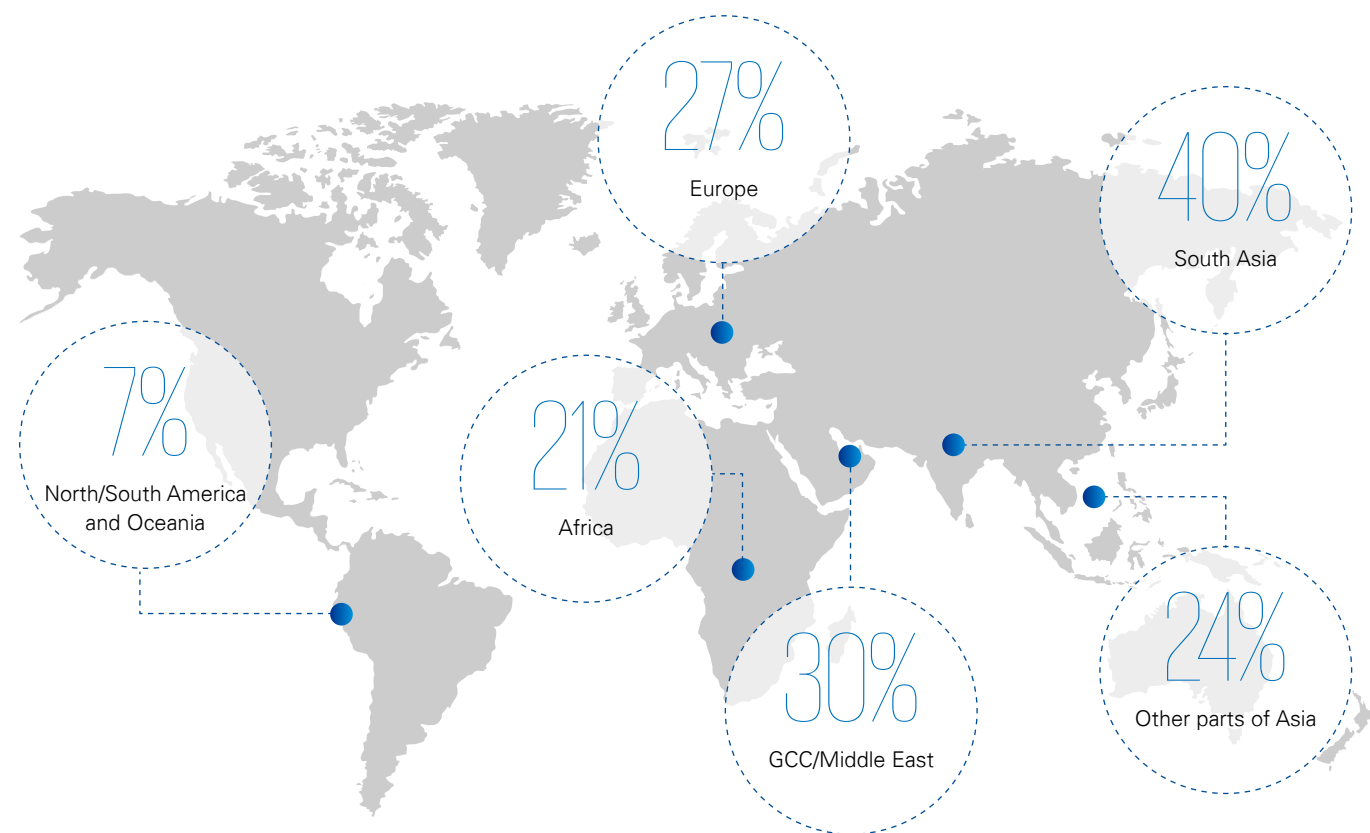
5%



Medical



Which regions did you fly to in the past 12 months?



71%

believe that, despite the generally adopted platforms for conducting online business meetings, corporate travel will still be necessary for meetings in the future.

71%

also predict that there will be a switch in category to economy class due to a tightening of company budgets.

75%

of would-be travelers are fearful of contracting Covid-19 through air travel, but almost the same proportion, 74%, nevertheless said they would travel within the next six months.

Factors that would influence potential travelers to fly more frequently include, in order of importance to respondents:

- Improved health and safety protocols at the airport
- Full vaccination for passengers and crew
- Social distancing
- Better end-to-end customer service.

Context

The past year has been tumultuous for the travel sector worldwide: bookings for future travel, made in January 2021, decreased by 70% compared with the previous year³.

Nevertheless, in May 2021, Moody's upgraded its outlook for the global airlines industry to 'positive' from 'negative'.⁴ In October 2020, Boeing stated it expected its global fleet to reach 48,400 by 2039, representing a mere 4% downward adjustment from its 20-year forecast released before the pandemic.

Its principal rival, Airbus Group, predicts a similar long-term expansion, on course for a total global fleet of 44,860 by 2038.⁵ Meanwhile, Emirates Airline has stated that during 2020, the airline successfully restructured various aircraft leases and loans, testifying to aviation lessors' and financing partners' confidence in Emirates' business model, and mid-to-longer term prospects.⁶ Indeed, in 2020, Emirates was the largest international airline, carrying over 15.8 million passengers.⁷

The Middle East: poised for recovery

Revenue passenger kilometers (RPK) in 2020 plummeted by 72% year-on-year in the Middle East, compared with 66% globally.⁸ Short-haul leisure travel is expected to be the first to improve⁹ due to huge demand from the middle-income segment.¹⁰ This may be tempered by the fact that, except for Saudi Arabia, most aviation markets in the Middle East have little access to a domestic market, which could somewhat hinder their recovery.

In March 2021, passenger traffic slightly increased in the region, although industry-wide revenue passenger-kilometers (RPKs) were 67.2% lower compared with pre-crisis levels (March 2019).¹¹ Middle Eastern markets are expected to return to 96% of pre-crisis levels in the second half of 2021, a 48% improvement over 2020.¹²

There are two categories of airline that are likely to thrive amidst these turbulent times. One is the full-service network airline offering long and short haul routes, which also cater to the domestic market. The other is nimble, low-cost carriers flying a range of regional routes.¹³

The question remains what airlines in the Middle East are going to do with all the aircraft they have: currently 1,300 in service.¹⁴ They also have an equal number of aircraft orders, many of them negotiated at pre-pandemic rates. Nearly 50% are owned aircraft and 50% are leased. Multiple airlines worldwide have defaulted on lease payments due to the impact of the pandemic on their businesses.¹⁵ And a significant amount of time has been spent in 2020 managing lease defaults, though

it appears lessors are taking a pragmatic view towards defaulting lessees. Generally, it has been accepted that there is little point repossessing aircraft that cannot be remarketed—a global dilemma.

As many airlines are restructuring their fleet, some of the larger aircraft are unlikely to return to the skies for a while. This explains, for example, why most of the Boeing 777s are still flying whereas many Airbus 380s may be regarded as potentially less efficient. Oman Air has announced it will reduce its fleet by nearly half.¹⁶ Etihad Airways is restructuring itself to becoming a mid-sized, full-service carrier,¹⁷ while some airlines have already sent their aircraft to long-term storage outside the Middle East.

Spotlight on the UAE

The UAE's air carriers may be restricted by continued travel restrictions, especially on some of the routes to emerging economies served from the country.¹⁸ The pandemic has also put a dent in potential flyers' spending capacity, a trend likely to continue for some time.

However, local leaders are hopeful for the future. Saif Al Suwaidi, Director General, UAE General Civil Aviation Authority (GCAA), said signs are pointing to significant air travel demand in the second half of 2021 and sustainable recovery in air operations.¹⁹ This may partly be due to the increased influx of UAE visitors due to Expo 2020 (running from October 2021 to March 2022), which was originally predicted to draw 25 million visitors pre-pandemic. However, the CEO of Dubai's Department of Tourism and Commerce Marketing,

Issam Kazim, cautioned in May 2021 that it was important to be "realistic" about the number of visitors attending the Expo 2020 later this year due to the impact of Covid-19.²⁰

Nevertheless, while the speed of recovery may be uneven, industry forecasts generally assume that leisure demand will eventually return to pre-Covid-19 levels, in late 2021 to 2022.²¹

The UAE government has been proactive in coming to the aid of its country's airlines, for instance injecting USD 3.1bn of equity into Emirates Airline, as of June 2021.²² Moreover, the country's airports appear to have fared better than their international counterparts. Last year, Dubai International Airport (DXB) was ranked third in the world for influx of international passengers.²³





Emerging stronger

Overall economic conditions are improving, which is likely to directly boost air travel demand. The Central Bank of the UAE (CBUAE) expects to see full economic recovery in 2022, with growth rising to 3.5%.²⁴

The UAE has opened quarantine-free travel corridors for the fully vaccinated. For everyone else (other than India), all visitors over the age of 12 must have medical insurance and a negative PCR test completed within the past 72 hours by a nationally recognized body. On 17 May this year, Dubai also lifted

its limited-capacity rules for hotels, meaning they can be booked to 100%. Public gatherings, such as concerts and sporting events, can also take place at up to 70% capacity for vaccinated people.²⁵

As of August 2021, 74% of the UAE's population, and 16% of the world's, had been fully vaccinated. Slowly but surely, we believe the pace of market recovery will pick up as global health organizations continue to exert every effort to battle the virus.²⁶

Pulse check

In our survey of UAE residents, as many as six out of ten (57%) interviewees had flown outside the country in the past 12 months. Local airline customer service and hygiene standards seem to have been robust. Nine out of ten (89%) of these respondents expressed satisfaction with their travel experience, from booking their flight to arrival at their destination.

57%

of interviewees had flown outside the country in the past 12 months.



Kith and kin

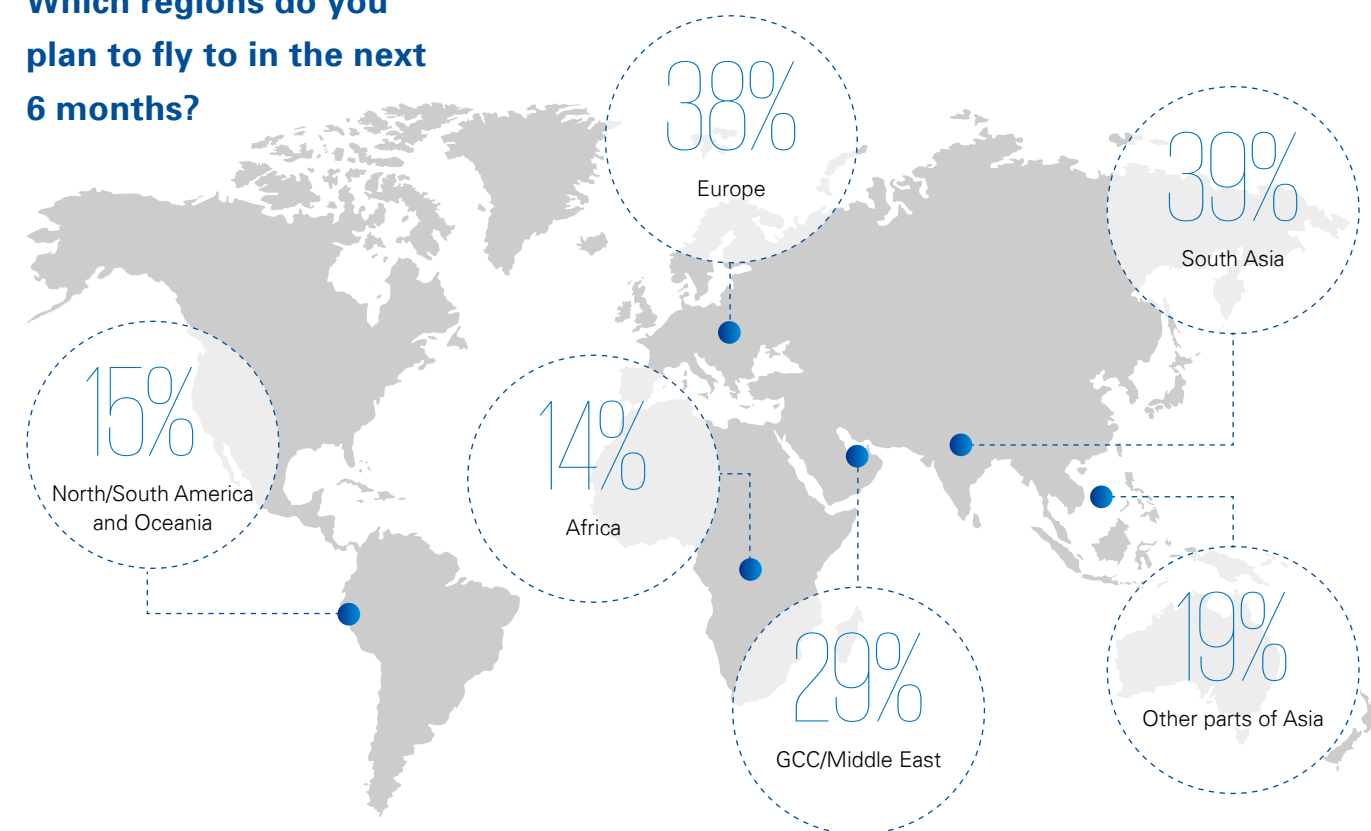
The main reason for travel was, overwhelmingly, to travel to their home country and/or to visit friends and relatives (VFR), followed by leisure travel. The UAE's predominantly expat population means most residents have relatives in other countries. (Across numerous regional destinations, VFR constitutes the largest or second-largest form of travel. Definitions vary: travelers may state VFR for their purpose of visit but that does not necessarily

mean they are staying with those friends/relatives. They may be accommodated by friends/relatives but have a different purpose of visit.

Reflecting the country's demographics, the most frequently visited destination over the last year was South Asia (40%), followed by the Gulf Cooperation Council (GCC) (30%) and Europe (27%). Family bonds appear to take precedence over foreign holidays.

Meanwhile, South Asia (39%) and Europe (38%) tied as the regions that respondents are keen to visit in the coming six months. It is probable that the lower figure for Europe as a destination of choice over the past year, compared with its prominence on travelers' wish-lists for the future, was due to stricter Covid-19 related restrictions in that region.

Which regions do you plan to fly to in the next 6 months?



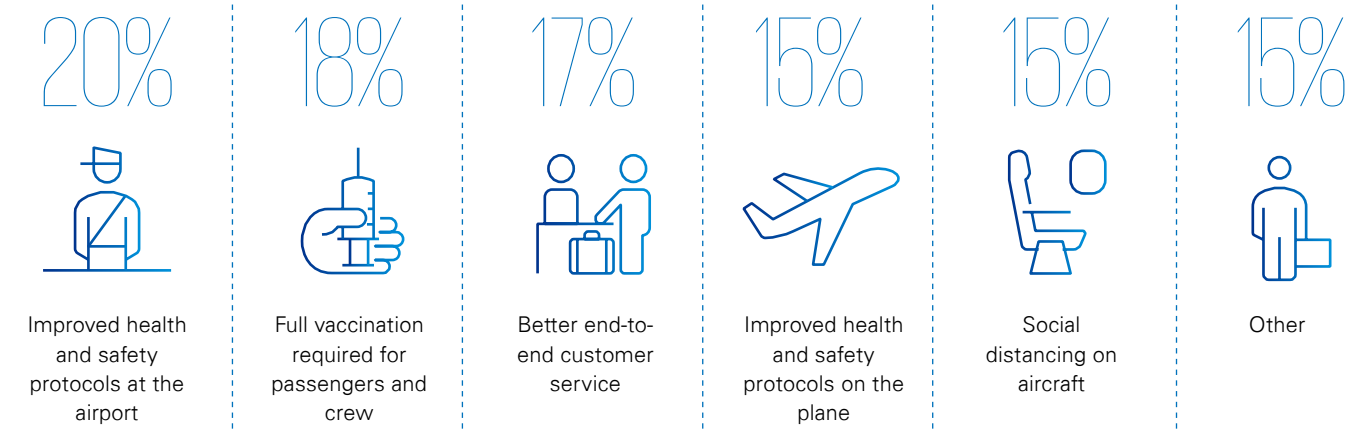
A holiday on the horizon

It seems that consumers are eager to enjoy a vacation after an arduous year and a half. Queried about how long they would wait if the travel destination declared the virus contained, an overwhelming three-quarters (74%) of respondents said they would travel within the next six months, with only 11% waiting for a year or longer.

This appears contingent, however, on airports and airplanes continuing to maintain stringent health standards. When asked what steps would prompt potential travelers to fly more frequently, they declared they were seeking improved health and safety protocols at the airports, full vaccination for passengers and crew, social distancing, as well as better end-to-end customer service.

Other less important factors included Covid-19 testing being easily accessible and more affordable, Covid-19 travel measures like mask requirements being removed, readily available treatment for Covid-19, and comprehensive health insurance being available at the destination.

What is the most important factor that would prompt you to fly more frequently?

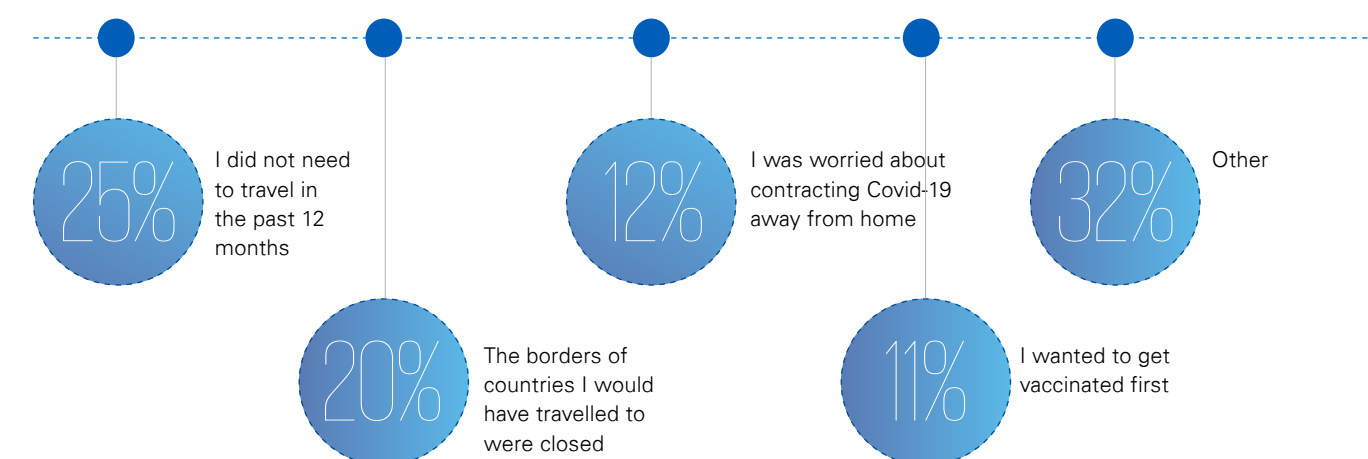


The main reason respondents did not want to travel in the past 12 months was simply that they did not need to, followed by the fact that the borders of the countries they wanted to travel to were

closed. The third and fourth most frequently offered explanations, respectively, were that they were worried about contracting Covid-19 away from home and wanted to get vaccinated first. This indicates

travelers are increasingly taking responsibility for their own health. Other factors included quarantine restrictions discouraging travelers, and concern about the welfare of their family and friends.

What was the most important factor influencing your decision not to travel?



This caution was exercised equally strongly when interviewees were asked how worried they were about contracting Covid-19 through air travel, with 75% of all respondents replying in the affirmative.

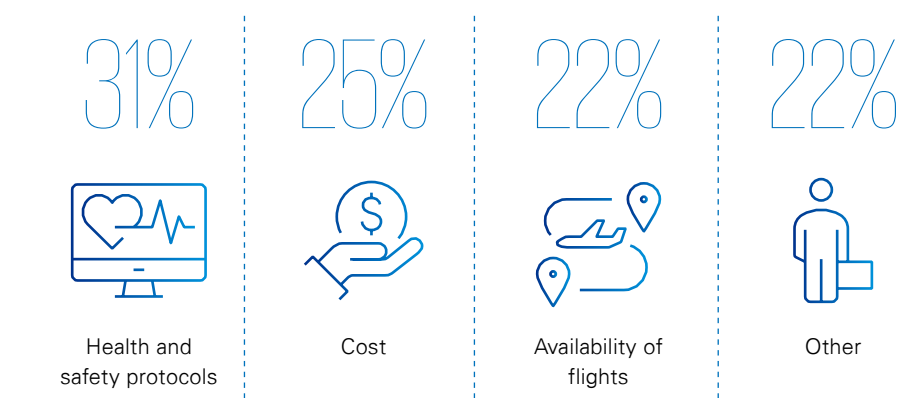
Customers have generally remained loyal to their choice of airline.

Over half (56%) of interviewees' airline choice has not changed since the outbreak of Covid-19. For those whose preferences had changed, the most common factors contributing to their decision were: health and safety protocols, cost and availability of flights. This

indicates Covid-19 remains an inescapable decision-making factor.

Other reasons included customer service, recommendations from others, having better inflight service, and frequent flyer programs.

Choose the factor that most influenced your change in airline preference.



Down to business

As the economy begins to right itself, the corporate world is also gradually returning to the 'old normal'. An overwhelming 71% of respondents believed that despite the generally adopted online platforms, corporate travel will be necessary for meetings in the future. An even higher percentage (81%) believe corporate travel will be justifiable for events like exhibitions and conferences.

That does not mean, however, that the pandemic has not wrought significant change. Consumers believe Covid-19 will leave an indelible mark on companies' approach to business travel. The majority of respondents (71%) foresee a switch in business class travel (to economy) due to changes in company budgets caused by the pandemic.

It also seems that restrictions and precautionary measures are here to stay for the long term. Eight out of ten (78%) predict that company policy will dictate which countries their employees can and cannot fly to. And three quarters (74%) believe employers will impose additional quarantine conditions upon return from international travel.

Given the generally adopted virtual method of conducting business meetings (i.e. Zoom, MS Teams), do you think corporate travel for meetings will be necessary or justifiable?

71% Agree

29% Disagree

Medical tourism

Only 5% of respondents who travelled by air over the past year did so for medical tourism; a figure which remains consistent for the proportion planning to travel in the next six months. This figure may seem fairly low, but our

survey was of UAE residents who generally do not need to travel outside the country to benefit from the country's high standards of healthcare.

Given the country has cemented itself as a front-runner in this

segment, inbound air travel for medical tourism, therefore, would likely be a much higher proportion.



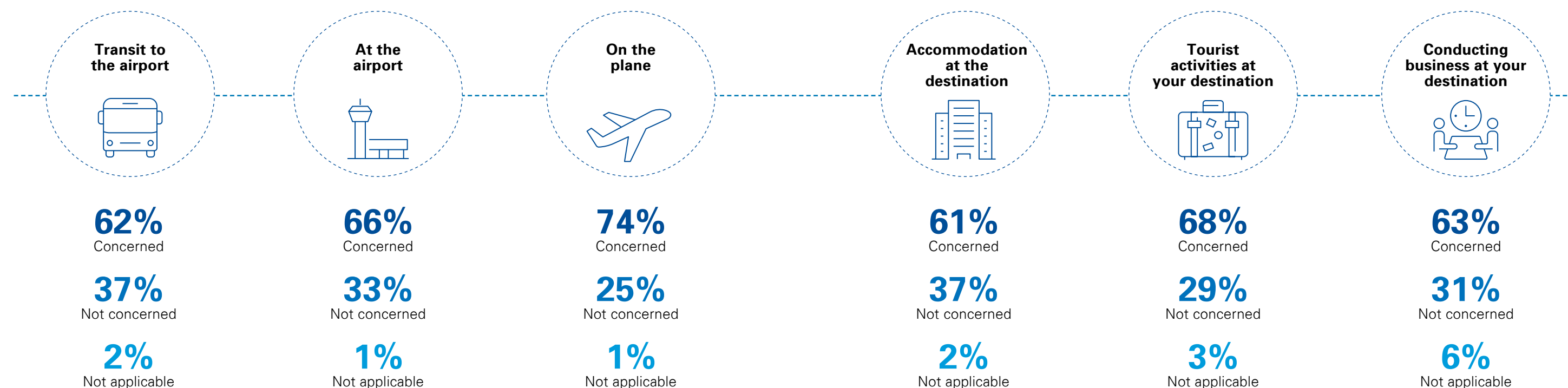
Key areas of concern

We asked our interviewees to indicate how worried they were about each stage of the travel experience—regardless of whether they had travelled in the past few months, or were planning to in the near future.

Would-be travelers appeared to be most fearful of the risks associated with the plane journey, with three-quarters (74%) expressing reservations. Seven in ten (68%) respondents acknowledged the need to exercise vigilance when

conducting tourist activities at their destination. The third most-cited area of concern was the airport, at 66%.

In relation to Covid-19, how worried are you about each of the following aspects of the travel experience?



Methodology

Our findings are based on a survey of 764 UAE residents, conducted in Q2 2021.

The survey focused on the main reasons for consumer travel.

Definitions

Visiting friends and relatives (VFR) is the oldest form of travel worldwide, while leisure travel includes travel for holidays, cultural events and recreation. Business travel is akin to the acronym MICE: meetings, incentives, conferences and exhibitions, with expenses typically covered by the traveler's company. Medical travel has gained traction over the past decade. Locations that give patients access

to quality and affordable healthcare, combined with a family vacation, have become increasingly popular, especially with high-income individuals.

While we acknowledge the positive contribution from the cargo and logistics division of the industry, this report only surveyed a sample of UAE-based residents on the impact that Covid-19 is having on their air travel habits.



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Our KPMG IMPACT initiative aims to help clients future-proof their businesses amid times of increasing focus towards issues such as climate change and social inequality. The goal is to help them achieve success across 17 major Sustainable Development Goals (SDGs) and become more resilient and socially conscious. For FY21, the firm has earmarked a global budget of USD 1.43 million for the initiative.

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Excellence: We never stop learning and improving.



Courage: We think and act boldly.



Together: We respect each other and draw strength from our differences.



For Better: We do what matters.

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