



## BUSINESS

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# Dubai Airshow: Fresh orders expected

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**The world's aircraft manufacturers, with giants Airbus and Boeing at the helm, are at the Dubai Airshow this week.**

With more than 1,000 exhibitors from 50 countries, it would be natural to assume that the biennial show is becoming increasingly international.

Indeed, in many ways this is so. These days, about one in five of its visitors have flown in from outside the Middle East region.

But in terms of the exhibitors' countries of origin, the airshow is increasingly becoming a local affair.

This year, more than a third (35%) of the exhibitors come from the United Arab Emirates (UAE). In 1989 they made up just 5%.

As such, the show "really reflects the UAE's development in aerospace over the last 40 years",

reasons Alison Weller, managing director of show organiser F&E Aerospace.

There are now a slew of airlines in the UAE - which was formed in December 1971- as well as in neighbouring countries and states.

Dubai's neighbour - and in many respects, rival - Abu Dhabi has started manufacturing complex plane parts made from composite materials, the latest in the UAE's efforts to establish itself as a technology and manufacturing base.

The emirate is even developing new and massive passenger and cargo airports as part of the embryonic 140sq km (54sq miles) Dubai World Central "aerotropolis", which will enable it to expand beyond its already vast Dubai International airport.

### 'Real growth story'

Aerospace companies, regardless of where they are based, serve global markets.

And it seems the industry's long-term outlook remains bright - in spite of the economic turbulence that has buffeted both the world economy and its airlines in recent months.

"Despite the current uncertainty, production rates are increasing further in the next three years for the most popular [aircraft] types," observes Eddy Pieniazek from the aviation consultancy Ascend.

Gulf carriers are doing their bit to fuel demand, with Emirates, Qatar and others from the region expected to place orders worth billions of dollars during the show.

This is partly because demand for flights is anticipated to continue to soar in the years ahead, as the number of people flying rises in line with economic growth in some of the world's most populous regions.

"This is a real growth story," says Airbus sales chief John Leahy, referring to the aircraft manufacturer's **latest forecast**, which predicted that air traffic will double over the next 20 years, with airlines buying \$3.5 trillion (£2.2 trillion) worth of planes to cope.

### Tight profit margins

Demand for new planes is also driven by the airlines' urge to reduce their fuel bills, so this has become a major driver behind an anticipated slew of fresh orders from airlines at the Dubai show, predicts Mr Pieniazek.

"Fleet renewal is driven by the need for more fuel-efficient aircraft," he explains.

At current levels, jet fuel accounts for about a third of most carriers' costs, so fuel bills are putting a painful squeeze on their profit margins.

This year, the airline industry expects to make profits of just \$4bn, the International Air Transport Association (IATA) predicts, marking a drop of some 78% from the \$18bn it clocked up in 2010.

"On anticipated revenues of \$598bn, this gives a net industry [profit] margin of only 0.7%," Les Weal, Ascend's valuations director, calculates.

IATA's estimate puts the margin slightly wider at 1.2%, but that is still "paltry", according to Tony Tyler, the industry body's director general and chief executive.

"Airlines are competing in a very tough environment and 2012 will be even more difficult," he says.

"The industry is brittle. Any shock has the potential to put us in the red."

## **Aviation finance**

The overall picture is thus mixed.

On the one hand, airlines are facing up to the here and now, struggling to make money in the short term because of high costs, combined with downward pressure on prices from consumers preoccupied with the ongoing economic crisis.

"Some airlines are bracing for a slowdown in business traffic, even in Asia," acknowledges Mr Leahy.

But "all we are talking about is a softening in the growth rate", he continues, pointing to how airlines with vision are simultaneously engaged in detailed discussions with financiers to raise more funds to buy more planes.

"There is a need for up to \$18tn to finance new deliveries in the next 10 years," according to Ascend's Mr Pieniazek.

That could help bolster the recovery for the airshow's host Dubai, which suffered an economic slump a couple of years ago that was so severe it had to ask for economic assistance from Abu Dhabi.

Dubai's ambition to become a globally important financial centre remains intact, and a deeper engagement in aviation finance could help speed up progress both for the sector as well as for Dubai as a whole.

UAE aerospace companies exhibiting at the show will also play a part, eager to both bolster and benefit from the anticipated aviation boom.

"The main objective of the [show] is to provide a platform for exhibitors to network with the aerospace industry and market here in the Middle East," says F&E Aerospace's Ms Weller.

*The Dubai Airshow runs from 13 to 17 November 2011.*

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