WORLD TRAVEL & TOURISM COUNCIL

AVIATION IN EGYPT

THE IMPACT ON TRAVEL & TOURISM, JOBS AND THE ECONOMY

1-2 QUEEN VICTORIA TERRACE.SOVEREIGN COURT.LONDON E1W 3HA. UNITED KINGDOM
TEL: +44 (0) 870 727 9882 or + 44 (0) 207 481 8007 • FAX: +44 (0) 870 728 9882 or + 44 (0) 207 488 1008 • enquiries@wttc.org • www.wttc.org

CONTENTS

INTRODUCTION

THE AIM OF THIS STUDY, UNDERTAKEN BY THE WORLD TRAVEL & TOURISM COUNCIL (WTTC) ON BEHALF OF THE EGYPTIAN TOURISM FEDERATION (ETF), IS TO UNDERSTAND THE IMPACT OF THE POSSIBLE ADOPTION BY THE EGYPTIAN GOVERNMENT OF AIR TRANSPORT LIBERALIZATION POLICIES ON EGYPT'S TRAVEL & TOURISM INDUSTRY AND THE NATIONAL ECONOMY.

It also attempts to assess the likely direct and indirect benefits of such policies, which are designed to open up the aviation and air services markets.

This analysis assumes an important and strategic role for the Travel & Tourism industry in Egypt, bearing in mind that:

- The goals set by the Egyptian Government for the growth of international tourist arrivals until 2011 and 2020 are objectively impossible to accomplish with the current civil aviation and air transport framework;
- As illustrated in Figure 1, almost all international visitors (approximately 80 per cent of the total arrivals count in 2004) use air transport to travel to Egypt's tourism regions;
- The vast majority of international visitors prefer to travel to Egypt on non-Egyptian airlines;
- As highlighted in figure 2, EgyptAir was responsible for only 19 per cent of total international passenger traffic and less than 61 per cent of domestic traffic in 2004;
- Although this is not the case for Cairo, the majority of international visitors use charter carriers to fly directly to their destinations in Egypt;
- Given the country's geography and the dispersed locations of its main tourist areas (those already in existence and under development), together with concerns about tourist security, it is clear that air transport is the preferred mode of transport for international visitors travelling within Egypt;
- Recent developments in aviation business models, such as the emergence of low-cost airlines and the subsequent responses of national flag carriers and charter airlines, have forced changes in the roles and policies of air transport regulatory bodies, which can be decisive in optimizing the development of national tourism;
- As a result of the intense competition between tourism destinations worldwide, easy access – and, therefore, efficient air transport – has become increasingly important to tourists deciding which destination to choose.

Figure 1
International tourist arrivals in Egypt by mode of transport, 1999-2004
('000)

Year	Air	Land	Sea	Total
1999	3,542	800	455	4,797
2000	4,190	733	583	5,506
2001	3,800	397	451	4,648
2002	4,280	475	437	5,192
2003	4,841	749	454	6,044
2004[a]	6,490	1,004	609	8,103

[a] Preliminary estimates

Source: *Tourism in Figures*, Central Department of Information and Decision Support System, Egyptian Ministry of Tourism

Figure 2

Passengers traffic throughput at Egypt's main airports[a], 2004 ('000)

Airlines	International passengers	% share	Domestic passengers	% share
Foreign	13,112,504	73.7	673,218	12.3
Scheduled	5,941,940	33.4	-	-
Charter	7,170,564	40.3	673,218	12.3
EgyptAir	3,399,823	19.1	3,341,387	60.8
Scheduled	3,091,966	17.4	2,811,780	51.2
Charter	307,857	1.7	529,607	9.6
Other Egyptian	1,277,981	7.2	1,478,007	26.9
Schedule	13,352	0.1	-	-
Charter	1,264,629	7.1	1,478,007	26.9
Total	17,790,308	100	5,492,612	100

[a] Cairo, Nozha (Alexandria), Aswan, Luxor, Hurghada, Sharm-el-Sheikh

Source: Egyptian Tourism Federation (ETF)

For the Egyptian private sector represented in ETF, it has become more and more evident that Egypt's long-term competitiveness as a tourism destination, and hence the sustainable growth of its Travel & Tourism industry, will not depend only on investment in, and expansion of, infrastructure, international marketing and tourism promotions, quality of human resources and training, or even favourable exchange rates. It will also depend on the existence of a viable, competitive airline operating environment, so that international visitors can travel to their desired tourism destinations and resorts with the ease and in the numbers required.

It is within this framework that WTTC, carrying out its mission "to raise awareness of the economic and social contribution of Travel & Tourism… and to work with governments on policies that unlock the industry's potential to create jobs and generate prosperity", has committed itself to responding to ETF's invitation to prepare this new report.

In line with the study's objectives, WTTC has estimated the quantitative impact and identified the expected benefits of the adoption of a new aviation and air services regulatory framework for Egypt's Travel & Tourism industry and national economy. In this context, we have taken into consideration the effects of the widespread liberalization of air transport in the Middle East and countries further afield.

WTTC'S 1999 STUDY AND REPORT

In 1999, the Egyptian Federation of Tourist Chambers (EFTC) asked WTTC to conduct a study on Egyptian aviation policies and their impact on Travel & Tourism and the national economy. This was distilled in a report entitled *The Liberalization of Egyptian Aviation Policies: The Benefits for Tourism and the National Economy*.

The report emphasized some of WTTC's Millennium Vision goals and recommendations, such as the need to:

- Make Travel & Tourism a strategic economic and employment priority;
- Move towards open and competitive markets by minimizing regulatory impediments to Travel & Tourism;
- Promote sustainable development by incorporating Agenda 21 principles into Travel & Tourism policies;
- Eliminate barriers to growth by looking at how to expand and modernize infrastructure, to apply taxes equitably and to invest in human resource development.

WTTC's report concluded that Egypt's Travel & Tourism industry would be "further stimulated by less regulated and more competitive airline operations, both in the international and domestic fields".

In addition, WTTC recognized the need for a phased approach towards full deregulation of international air services and, in accordance with this, formulated some recommendations as to the gradual implementation of these policies. As an example, it recommended:

- The liberalization of existing bilateral agreements and that some of the restrictive provisions of the existing bilaterals (namely those that limit capacity and designate a second Egyptian airline on the most heavily travelled routes) should be relaxed. Egypt should also support a program of regional aviation liberalization;
- The removal of restrictions on international charter operations (especially by eliminating the existing regulation which limits charter operations to Cairo International Airport);
- The privatization of EgyptAir;
- The ending of EgyptAir's monopoly on domestic routes, allowing private airlines to provide competitive services on major sectors; and
- The prevention of predatory and exclusionary behaviour.

In conclusion, WTTC reiterated that "the adoption of these policies to create more open and competitive airline operations will bring major benefits to the Travel & Tourism industry in Egypt, and will increase the vital contribution which the industry makes to the country's wealth and employment".

EVALUATION OF THE 1999 REPORT'S RECOMMENDATIONS

It is now more than five years since the results of the 1999 study were released, and it is quite clear from the current regulatory framework and operating environment for Travel & Tourism and air transport that the Egyptian Government and local authorities were very responsive to most of the conclusions and recommendations in the report. The Egyptian authorities have also been very keen to ensure that the country reacts positively to the new Travel & Tourism challenges.

In fact, Travel & Tourism has become an industry of strategic importance and a major priority for government, as witnessed by:

- The increased investment in tourism infrastructure;
- The reinforcement of international marketing and promotional activities;
- The development of new resorts;
- Improvements in safety and security; and
- Investment in the training of Travel & Tourism personnel.

It is also evident that favourable exchange rates have been largely responsible for Egypt's exceptional price-competitiveness in the main European tourist markets.

At the same time, monetary and fiscal policy decisions have encouraged national and foreign private investment in tourism development, not only improving the quality of the national offer in accommodation and entertainment, but also attracting major international hotel and tourism brands to Egypt.

Although these policies have contributed to the growth of international visitors and tourism revenues over the period 2000 to 2004, Egypt's growth has been modest in comparison with that of several of its competitors, such as Turkey, Jordan, Bulgaria, and the Lebanon and similar to that of Croatia, the United Arab Emirates (UAE), Morocco and Saudi Arabia.

Nevertheless, when analyzing WTTC's recommendations for the creation of a more open and more competitive air transport market, it should be stressed that the Egyptian Government has taken only minor initiatives in this area. This has prevented the country's Travel & Tourism sector from achieving its full growth potential and has discouraged the development of private Egyptian Travel & Tourism groups. In addition, it has impeded the creation of strong private airlines, as well as the development of a more competitive Egyptian airline system.

Finally, the Egyptian authorities have not heeded WTTC's recommendation to open up direct charter services to Cairo International Airport. As a consequence, this has prevented the industry and the national economy from taking full advantage of the potential for growth of tourism flows and receipts, thereby limiting the increase in Travel & Tourism employment throughout the country.

The Egyptian air services regulatory environment is characterized by:

- Restrictions regarding the operation of charter services to Cairo International Airport;
- Numerous limitations and constraints as to the operations of privately owned Egyptian airlines, especially on the major domestic and international

trunk routes usually operated by EgyptAir and other international flag carriers;

- Capacity, frequency and route restrictions, built into existing aviation bilaterals, which are even applicable to countries considered to be strategic markets for tourism;
- The failure to designate a second Egyptian airline to operate on major international routes covered by bilateral agreements.

Measures such as the ending of EgyptAir's monopoly on domestic routes, the opening up of these routes to privately owned Egyptian carriers, and the lifting of restrictions on international charter services to the main regional and resort airports, have had a strong positive impact on the performance of Egypt's Travel & Tourism industry and the national economy.

Despite these positive effects, however, the Egyptian civil aviation authorities have continued to impose some restrictions and limitations on private airline operations. As for WTTC's recommendation to support the Middle East regional air transport liberalization process, only a few effective measures have been taken, and these were very recent. Nevertheless, the Egyptian authorities have acknowledged the potential returns of such regional liberalization, notably the development of economic relations, and increased foreign investment and tourism from Middle East and other Arab countries.

In conclusion, the Egyptian Government has clearly recognized the strategic importance of the Travel & Tourism industry to the country's economy, and a number of policy measures have been implemented with the aim of enhancing the sector's performance. In contrast, as far as air transport is concerned, there are still a number of barriers and restrictions limiting operations, which, in turn, are having a considerable impact on the performance of the Travel & Tourism sector.

Figure 3

Growth in international tourist arrivals for Egypt and other Middle East and North Mediterranean destinations, 2000-04
(%)

Destination	2001/00	2002/01	2003/02	2004/03	2004/00
Egypt	**-14.8**	**12.6**	**17.1**	**42.0**	**58.8**
Bahrain	15.3	13.6	-6.7	na	na
Jordan	3.6	9.8	1.4	3.7	87.4
Lebanon	12.8	14.3	6.1	26.0	72.2
Libya	-2.9	-20.1	5.2	na	na
Saudi Arabia	2.3	11.5	-2.4	17.3	30.6
Syria[a]	-7.0	117.8	-2.9	43.9	183.3
UAE	5.8	31.7	7.8	na	na
Algeria	4.1	9.6	18.0	5.8	42.5
Morocco	2.4	-0.9	10.7	15.5	29.7
Tunisia	6.5	-6.0	1.0	17.3	18.6
Bulgaria	14.4	7.8	17.9	14.4	66.2
Croatia	12.2	6.1	6.7	6.8	35.7
Cyprus	0.4	-10.3	-4.8	2.0	-12.5
Greece	7.3	0.9	-1.5	na	na
Israel	-50.5	-27.9	23.4	41.6	-37.7
Turkey	12.5	18.6	3.8	26.9	75.6

[a] Due to a change in series in 2002, data is not strictly comparable from year to year

Note: Data for 2004 is provisional

Source: World Tourism Organization (WTO)

LIBERALIZATION IN THE GLOBAL AVIATION INDUSTRY

FOR DECADES, THE AVIATION INDUSTRY HAS BEEN ONE OF THE MOST HEAVILY REGULATED ACTIVITIES AROUND THE WORLD.

Even though the general worldwide trend is for the gradual opening up and liberalization of all markets, for both goods and services, national governments are still using the 'sovereignty of states' and the 'guarantee of access to territories' as justifications for considering the strict control of aviation and air services a matter of primary and strategic importance.

The control of national skies and airport infrastructure has resulted in preferential treatment for flag carriers, whether totally or only partially state-owned. Consequently, flag carriers have been allowed to operate major international routes with less competition, although to be fair they have also been obliged to maintain non-profitable domestic routes.

This regime was first made possible through the implementation of bilateral air services agreements (ASAs) after the Chicago Convention of 1944. This established strict limits on airlines' activities and ensured that national governments and their civil aviation authorities had the power to negotiate the rules that, even today, regulate most of the air transport systems, both international and domestic.

Through the bilateral ASAs, the countries negotiated and agreed the rules that define all traffic rights, in particular destination points, frequencies, capacity, domestic services, airlines designated to operate on different routes and, very often, indicative or even mandated fares.

'OPEN SKIES' AGREEMENTS

The first 'open skies' bilateral agreement was signed in 1992 between the USA and the Netherlands. Since then, the protectionist barriers that were keeping the aviation market totally closed have been progressively eliminated, albeit slowly. The aviation market is becoming more open and liberalized every day.

Benefits for the consumer are usually associated with the results of free and open competition. In fact, this was the main argument used by the US Government when deciding to deregulate the US domestic market in an open skies regime for American carriers. The decision totally transformed commercial air transport operations and strategies in the USA and triggered a new approach to air transport regulation throughout the world.

Subsequently, the US Government has signed bilateral open skies agreements with a number of other countries, the latest being India. The European Union (EU), meanwhile, has progressively liberalized the aviation industry, resulting in the implementation of a Single European Aviation Market, in line with the constitution of a Single European Market for economic activities, as promoted by the Single European Act.

These two developments have reinforced the worldwide trend to liberalize the aviation industry.

The trend has emerged in a number of countries, or groups of countries with common interests – in Latin America, Asia Pacific and Africa. For strategic reasons, many of these countries have unilaterally declared themselves as open skies territories, and in doing so are inviting airlines to operate on the available routes without any restrictions whatsoever and under more favourable conditions.

However, although skies are opening up on an almost daily basis and civil air transport is more than ever conducted by privately owned companies, the global aviation industry is still too heavily regulated. To protect their flag carriers, several national governments continue to resist liberalization, as they do to protect national champions in other industries.

REGIONAL LIBERALIZATION

Air transport liberalization and the adoption of bilateral open skies agreements have provided travellers with a range of direct benefits, as well as indirectly benefiting national economies. Recognition of the extent of these benefits has encouraged many countries to pursue regional agreements. Motives include cultural, ethnic or language affinities, geographic proximity or contiguity, and a desire to strengthen regional economic, commercial and / or political integration.

The signing of regional agreements has been strongly supported by different US governments, in defence of their airlines' interests and traffic rights. The agreement between the USA and Canada, for example, led to significant developments in so-called 'regional agreements'.

In the EU area, almost all restrictions and barriers imposed on aviation and airline services have now been eliminated. EU airlines can operate freely between two 'points' in different EU countries, including servicing 'cabotage' routes. They are allowed to launch new routes or operations in any EU country, and are entitled to acquire control of airlines in any member state, providing that EU competition rules and regulations are adhered to.

Australia and New Zealand have agreed on a 'Trans Tasmanian Single Aviation Market' and the Latin American countries of Mercosur (Argentina, Brazil, Paraguay, Uruguay and Chile) are making efforts to develop a single civil aviation market, in the framework of their economic and political integration. This is also happening with the Andean Pact countries (Bolivia, Colombia, Ecuador, Peru and Venezuela) and with Central American States (Guatemala, Nicaragua, El Salvador and Honduras), all of which already have open skies agreements with the USA.

These countries all expect the different processes of liberalization to ensure easier, faster and cheaper access to the respective destinations, whether inside or outside the different groups, and to stimulate competition between their national airlines. In addition, they expect the progressive opening of their skies to bring significant commercial and economic benefits to their regions.

In Asia, the governments of a number of countries came to an agreement about the urgent need for further progress in the liberalization of the region's air transport. Using the Association of South East Asian Nations (ASEAN) as a platform, China, Hong Kong, Singapore and Thailand are defining a roadmap of political decisions and technical steps to be taken that would result in the lifting of all restrictions regarding capacity, frequency, etc in the operations of national airlines between capital cities by 2008. Furthermore, the roadmap also calls for a regional open skies framework to be in place by 2015. ASEAN governments acknowledge the benefits of opening up their markets and of air transport liberalization for their economies, even if this exposes their flag carriers to more aggressive domestic and international competition.

However, the most important development in the future – the likely conclusion of current negotiations between the USA and EU – will be the creation of a Common Aviation Area, which will almost certainly also include Canada, thereby covering approximately 50 per cent of international civil aviation traffic. This will give a powerful impetus to the consolidation of similar regional agreements already under negotiation or development in other parts of the world.

Although countries and regions are at different stages of negotiation and implementation, the widespread adoption of liberal regional air services agreements is certainly moving forward worldwide.

The liberalization of air transport between the Middle East and other Arab countries is part of this process.

AVIATION LIBERALIZATION IN THE MIDDLE EAST AND THE ARAB WORLD

After a number of years of controversial and unsuccessful discussions between the civil aviation authorities of the Arab countries, especially those in the Middle East region, the issue of aviation and air services liberalization gained momentum during the Annual General Meeting of the Arab Air Carriers Organization (AACO), held in Amman, Jordan in 2004.

Faced with the threats of a unilateral imposition of competition rules by the EU, pressure from the US Government for the elimination of anti-competitive and less transparent practices, and a strong desire of some Gulf states to end subsidies for their state-owned airlines, AACO members recommended that a number of initiatives should be taken to open up their markets and liberalize their air transport operations.

The main initiative proposed was for the establishment of a Common Arab Aviation Market, under the auspices of the Arab Civil Aviation Commission (ACAC).

The idea of a Common Arab Aviation Market was first conceived in 2000, when ACAC proposed a phased programme for the liberalization of air transport between Arab states, subsequently endorsed by the organization's General Assembly held on May 18.

This programme comprised four phases:

- During the first phase, from November 2000 to October 2002, Arab civil aviation authorities would take the necessary measures to abolish all restrictions on cargo and charter flights, making available suitable administrative and regulatory facilities without the imposition of additional aviation charges.
- During the second stage, from November 2002 to October 2004, Arab civil aviation authorities would liberalize scheduled airline services, allowing a 40:60 per cent capacity split between each pair of airlines operating a route, without restricting capacity.
- During the third stage, from November 2004 to October 2006, Arab civil aviation authorities would continue with full deregulation of third and fourth freedom traffic rights, with no restrictions between the Arab countries.
- During the fourth phase, from November 2006, civil aviation authorities would grant fifth freedom traffic rights between the Arab states. The implementation of this final stage would depend on the evaluation of the preceding stages, and would take place after the legal framework for liberalization were established.

The following would also have to be ensured:

- The guarantee of competitive rights and non-discriminatory status, with a mechanism to solve disputes;
- The adoption of supply-and-demand market rules in the definition of air transport charges between Arab states;
- Co-operation in marketing and code sharing for onward domestic connections in the respective countries; and
- Careful evaluation of the results of each phase before moving on to next one.

With regard to the legal execution of the programme, it was understood that the different phases should be accomplished through bilateral agreements, as a way of developing an appropriate air transport system between all the Arab states.

In addition, at its 14th Summit, the Arab League supported a resolve to apply air traffic rights between the Arab states, in line with a decision taken earlier by the Council of Ministers for Transport. Furthermore, the Arab League authorized the Council of Ministers for Transport to follow up on and monitor the programme's execution, submitting a detailed report on the progress of its implementation.

Another important step is the plan for a multilateral regional liberalization agreement. It is agreed that this should include a set of practical measures related to market opening, including an arbitration scheme to deal with disputes. In addition, a specific entity should be given responsibility for monitoring and preventing the adoption of less transparent and anti-competitive practices in civil aviation by the signatory countries.

In line with the trend towards liberalization, the national airlines of several Middle East and other Arab countries have been making efforts in parallel to adapt to the new demands of the global marketplace. These include clearing their balance sheets, promoting network co-ordination, and taking advantage of the potential synergies made possible by the development of regional hubs.

AACO recently announced that six Middle East airlines, including EgyptAir, are planning to launch a Multilateral Arab Civil Aviation Alliance in 2006, aiming for better schedule co-ordination and code sharing in their networks. Other AACO member carriers from North African countries are closely following the move, and will decide later if they will join this Arab Alliance. Most of these airlines, not yet involved in any global alliance, are pushing for regional liberalization in order to develop co-operatively their aviation operations to strategic markets, and compete more strongly with larger international players on major routes to and from Middle East and North African Arab countries. It is quite clear that, if it is to succeed, this project needs a more open regional air transport environment.

A regional agreement is also a prerequisite for the implementation and success of policies that are being pursued by several governments towards the privatization of their flag carriers.

THE IMPACT OF AIR TRANSPORT LIBERALIZATION

As we have seen, the air transport liberalization processes and the consequent opening up of civil air transport markets have had a significant impact on the aviation industry.

Major concerns expressed by national governments have usually been associated with the survival of their flag carriers in a globally competitive environment, coupled with the likelihood of job losses, the possible discontinuation of public interest routes and possible compromises in safety and security standards. Nevertheless, these concerns are today generally considered disproportionate, or even unfounded.

Although some airlines, especially those in the USA, did not survive the aggressive competition of new entrants known as low-cost or no-frills carriers, the majority of traditional airlines have taken the opportunity not only to restructure themselves, but also to improve their efficiency in the marketplace, to improve their customer service, and to contribute better to the countries' overall economic interests. In some cases, the number of jobs created by the start-up airlines, or so-called new entrants, has outweighed the number of jobs lost. New airlines have taken advantage of the market opening to fly to new destinations, or on existing routes which in the past had been operated by the traditional national carriers as monopolies.

The strong competition introduced by the operation of several airlines on main trunk or secondary routes has led to price reductions and to changes in the way consumers view air transport. Consumers now benefit from a wider range of choices in terms of destinations, frequencies, quality and type of service. The greater transparency of airfares and the widespread use of the internet has turned air transport into a really competitive sector, and has persuaded traditional airlines to adopt revolutionary strategies concerning customer loyalty and pricing, to the benefit of consumers and without compromising safety and security standards.

Finally, the main impact has probably been on air transport business models, especially in cases where emerging low-cost airlines have competed strongly with – and to the detriment of – charters and traditional flag carriers. Their operations have resulted in a marked growth in the number of available seats at lower rates on the vast majority of routes and, consequently, have led to a huge increase in the number of travellers. Passengers now have easy and immediate access to online ticket booking so the decision-making process is more spontaneous and independent.

CASE STUDIES

The International Civil Aviation Organization (ICAO) collects and disseminates comprehensive data on the experiences of different member states in the area of liberalization.

This section examines the particular air transport liberalization experiences of Spain, Greece, the Lebanon, Jordan, Dubai, Bahrain and India, including the effects on the market entry/exit of individual airlines, routes operated, fares applied, etc.

Spain fully deregulated its aviation and air services market in 1993. Before then, scheduled air services were restricted to the airlines of the Iberia Group as a state concession and eight national carriers were permitted to operate non-scheduled, or charter services. Ten years later, besides Iberia, seven other private airlines now provide scheduled services, and charters are operated by five carriers. While non-scheduled traffic accounted for 15 per cent of overall domestic traffic in 1992, it represented a share of barely 2 per cent ten years later.

Therefore, the impact of deregulation in Spain can be summed up as follows:

- In 2002, two or three airlines operated on 40 per cent of the routes where there was real competition, accounting for 82 per cent of the traffic.
- Airline freedom to set fares has brought great benefits. Before 1992, fares required government approval (and they were closely related to operating costs and route mileage) and the use of promotional fares was rare. After 1993, although there was a general rise in the basic fare levels, competition allowed passengers to travel at really attractive prices, as a result of the extensive use of promotional airfares by all airlines.
- The whole domestic route network underwent a major restructuring between 1992 and 2001. Operations ceased on 19 routes, but services started up on 42 new routes.
- The entry of new airlines into the scheduled airline market began around 1993-94, when Air Europa and Spanair expanded their operations from traditional intra-European charter routes to higher-density scheduled routes. After 1995, three new regional operators – Air Nostrum, Air Europe Express and Aebal – entered the market, resulting in a total of eight airlines in 2001. After a short period, Pan Air and Air Europa Express abandoned the scheduled market in 2002, but all the key airlines that had won market access continued their operations.
- The huge increase in the frequency of scheduled airline services was boosted by the simultaneous development of Madrid and Barcelona airports as regional hubs for the three major airlines and the entry of regional operators into the mainland Spain market. As an example, there was a spectacular increase – from 112 weekly frequencies in 1994 to 441 in 2001 – on the Madrid-Barcelona route. The switch from charter to scheduled airline operations of a major share of traffic on routes to the Canary and Balearic Islands also had a big impact.
- The overall domestic market – scheduled and non-scheduled services – grew by 48 per cent in terms of traffic from 1992 to 2001, with Madrid and Barcelona airports showing an increase in domestic traffic throughput of 74 per cent and 64 per cent, respectively.

Greece first started making changes to its protectionist regulatory framework in 1991, in anticipation of the Single European Aviation Market. Until then, Olympic Airways enjoyed a monopoly in terms of air transport operations. Although the new 1991 regulation allowed aircraft registered in Greece to operate non-scheduled services of all kinds – passenger, cargo and air taxi operations, international and/or domestic flights – as well as international scheduled cargo flights, the country's monopolistic air transport regime ended only with the implementation of the EU's Third Liberalization Package in 1994. The 1991 legislation also lowered legal barriers to entry and permitted new Greek operators to enter the market. Air transport liberalization in Greece promoted greater competition, as is evidenced by the main changes in key parameters, such as:

- During the early years of liberalization of the domestic market (until 1999), the main players were Olympic Airways, its subsidiary Olympic Aviation, Air Greece, Aegean Airlines and Cronus Airlines. These early years of liberalization were characterized by the rapid expansion of the industry and by the significant development of the domestic market, since bigger new entrants started to compete with Olympic. In 1999, Greece's air transport industry underwent major change – there were numerous mergers and acquisitions, licenses were cancelled and new carriers failed. By September 2002, only 16 airlines held a valid license. Nevertheless, only two of them were key players – Olympic Airways and Aegean-Cronus – reflecting the current trend towards consolidation.
- Before liberalization, airfare policy was subject to the approval of the Price Committee of the Ministry of National Economy, which used to take into consideration factors such as inflation rates and specific route characteristics, eg whether they provided a social benefit. With the coming into force of EU Regulation 2409/02, this practice for establishing airfares was modified, with low-cost airlines offering promotional fares, especially during the low season, and further discounts being available to students, senior citizens and others. Today, as there are two major airlines competing on 12 major routes in Greece, published fares are at around the same level as they used to be.
- Olympic Airways, Olympic Aviation and the new entrants have increased frequencies on domestic routes.
- With the inauguration of charter and scheduled services to/from new domestic and European destinations and the increase in frequencies on domestic routes, consumers enjoy a wider range of travel options.

Some Middle East countries, such as the Lebanon, Jordan, Dubai and Bahrain, have also adopted and benefited from air transport liberalization.

In line with its goal of increasing international tourist arrivals in the country, the **Lebanon** began to implement an open skies policy in 2000. This included granting fifth freedom traffic rights without reciprocity. As a result the Lebanon has made considerable progress in terms of liberalization:

- An autonomous Civil Aviation Authority was established as a regulator, replacing the Directorate General of Civil Aviation that reported to the Ministry of Public Works and Transport. The Lebanese national carrier, Middle East Airlines, has so far benefited from the open skies policy, registering its first profit since the mid-1970s in 2002;
- Beirut International Airport offers significant potential for air traffic growth, since its capacity of six million passengers a year is double the current passenger volume.

Another country that is looking to boost tourism development is **Jordan**, which has also adopted a policy of economic and trade liberalization. The government is trying to establish an open aviation regime and to implement a comprehensive regulatory framework for civil aviation. Although air traffic between the EU and Jordan is limited in absolute terms, it experienced uninterrupted growth between 1991 and 2001, when the overall Jordanian economy was hard hit by the September 11, 2001 (9/11) attacks. In 2003, two-thirds of all scheduled traffic between the EU and Jordan was operated by the flag carrier Royal Jordanian, the privatization of which was put on hold after 9/11, and which continues to profit from the considerable support of the Government of Jordan. Most interesting, however, is the desire of the government to develop Queen Alia Amman airport into an important hub on the Mediterranean side of the Middle East.

Dubai has been operating an open skies regime from the start, welcoming any foreign airline that wants to fly to the destination, even in competition with the national flag carrier, Emirates. In particular, Dubai has an open skies agreement with the USA and more than 100 airlines link Dubai with 145 international destinations. Emirates has thrived on competition, making a profit in all but one year since it was founded in 1985. Last year, despite the negative impact of terrorism and nearby war, the airline's net profit climbed 73 per cent and passenger numbers increased by 23 per cent.

Bahrain signed an open skies agreement with Singapore on April 18, 2005. With the aim of boosting tourism, trade and investments, this agreement removed all restrictions on passenger flights for their national airlines, enabling them to operate freely on any route between and beyond the two countries, without frequency limits.

The correlation between growth in the Travel & Tourism industry and a more liberalized aviation and air transport environment is also clearly demonstrated by the case of India.

With a population of more than one billion and a fast growing middle class, **India** is now one of the world's booming tourism economies. WTTC's 2005 Tourism Satellite Account (TSA) research ranked India third in terms of long-term growth (to 2015).

While the world has been aware of the huge potential for Travel & Tourism in India for many years, it is only relatively recently that this potential has begun to be unlocked. This is in large part due to the phased introduction of a more liberal air transport policy.

The Indian airline industry was nationalized in 1953 and remained so for nearly 40 years. Although the country's two national carriers, Air India and Indian Airlines, are still government owned, gradual aviation liberalization has led to Indian-owned private airlines operating scheduled and charter flights on domestic routes and, more recently, internationally.

After the domestic airline industry began to be liberalized in the early 1990s, six privately owned airlines started domestic scheduled operations. Domestic traffic immediately increased by more than 20 per cent a year in 1992, 1993 and 1994.

After the liberalization of charter operations, the number of incoming charter flights grew from 225 in 1992 to 982 in 1994, contributing to an annual increase of 5 per cent in international tourist arrivals.

India's first low-cost airline, Air Deccan, was launched in 2003 and carried over a million passengers in its first year of operation. In 2005 it expects to increase this number to four million. Six other no-frills airlines have started operations in the past two years, and other start-ups are due to be launched in the next months. Indian low-cost airlines have announced that they plan to buy 220 new planes in the next five years – more than the total number of planes currently being operated by all Indian carriers, including Air India and Indian Airlines.

Jet Airways and Air Sahara, the first two privately owned domestic airlines, are now able to operate internationally. Jet Airways now currently serves Colombo, Kuala Lumpur, London and Singapore and Air Sahara serves Colombo and Singapore.

The Indian Government is also gradually opening up its skies, creating new opportunities for foreign carriers, allowing them to operate as many flights to India as they want – but during peak season only for the time being.

Although it is clear that there is still a long way to go, the Indian Government is firmly committed to liberalizing the civil aviation industry. Signs of its intentions were clear when it recently renegotiated aviation bilateral agreements with the USA, UK and China, allowing for an exceptional increase in the number of flights and in designated airlines and destinations, which has stimulated a more aggressive and competitive air transport environment.

As a result of this courageous policy, air traffic to India is growing at 20 per cent annually, and international arrivals increased last year by 15 per cent, providing a significant boost to the Travel & Tourism industry and the country's economy as a whole.

Finally, thanks to air transport deregulation in India, state-owned Air India and Indian Airlines are becoming increasingly efficient in order to survive in the more competitive aviation marketplace.

TRAVEL & TOURISM AND AIR TRANSPORT LIBERALIZATION

IT IS WIDELY RECOGNIZED TODAY THAT ONE OF THE MAIN REASONS BEHIND THE DECISION BY GOVERNMENTS TO OPEN UP NATIONAL SKIES IS THE NEED TO CATER TO THE GROWING DEMAND FOR AIR TRANSPORT GENERATED BY THE WORLDWIDE INCREASE IN TRAVEL & TOURISM.

As the other side of the same coin, easier and cheaper air access to tourism destinations is undoubtedly responsible for the revolution in consumer behaviour with regard to Travel & Tourism.

New developments in aviation technology, airport infrastructure and IT have made it possible for millions of passengers from the main generating markets to travel more frequently to short-, medium- and long-haul tourism destinations around the globe's five continents.

There is no doubt that civil aviation and tourism are today integral and inseparable parts of the global Travel & Tourism industry of the 21st century.

Recognizing this, national governments and international and regional industry organizations are calling for improved co-ordination between air transport, airport infrastructure, tourism investment and tourism development policies.

The increasing contribution of the Travel & Tourism industry to national economies and regional development makes air transport liberalization, and total or partial open skies policies, major issues in countries' economic and political agenda. Both developed or developing countries, for which tourism is a main source of wealth and job creation, and which are looking for foreign investment to better exploit and manage their natural, scenic, historical or cultural resources for tourism purposes, are now in the front line pushing for air transport liberalization.

In this quest to realize the full potential of Travel & Tourism, WTTC has always fought against barriers to development and, in this regard, open air access is crucial.

WTTC'S VISION AND MAIN INITIATIVES IN AIR TRANSPORT LIBERALIZATION

Travel & Tourism is a major contributor to national, regional and global development, and its contribution to national economies is expected to increase even further in the 21st century.

This growth is dependent on an expanding air transport system, and at no time in the past years has there been so much debate about the future of airline and aviation operations and services, and the need for new approaches to the problems of air transport. Some measures have been taken, but much more needs to be done.

The general liberalization of the world trading environment creates an encouraging background for new aviation policies. Moreover, internal changes and new business models in the airline industry are having a similar effect. Global alliances, code-sharing agreements and other inter-airline arrangements are changing the face and structure of the industry and producing new pressures to discard restrictive bilaterals.

WTTC advocates four options for aviation liberalization:

- A global agreement – either sector specific, developed through the International Civil Aviation Organization (ICAO), or as part of a broader trade agreement like GATS (General Agreement on Trade in Services);
- A limited multilateral agreement – regional, inter-regional or between a group of like-minded states;
- A core of liberal bilateral agreements – a web of agreements, built up by a group of core states with common liberal bilaterals;

- A new attitude of governments with regard to traffic rights.

The first and best of these, a global agreement for multilateral liberalization, still seems very unlikely for many years.

Today, the best prospects for making progress towards a freer aviation regulatory framework lie in the following directions:

- The development of a core of standard liberal bilaterals (eg US bilateral open skies agreements);
- The pursuit of aviation liberalization within specific trading regions (eg the EU's Open Skies Single Market);
- The encouragement by governments for agreements between regions to create wider areas of free trade in air transport, in particular between inbound and outbound markets.

According to WTTC, these policies can be pursued in parallel because they are not mutually exclusive. The basic objectives of liberalization remain unchanged: it is only the route towards them that changes.

WTTC believes that the case for aviation liberalization now has wide support and continues to be very strong. What is really missing is the political will and courage to push in the right direction and implement the necessary changes.

To a large extent this is because aviation policies are controlled by people who think that the strategic importance of aviation requires strong regulatory controls, different from other industries.

Air transport liberalization has always been a high priority for WTTC because a market-oriented air transport system is vital to secure the full economic benefits of Travel & Tourism. Liberalizing air transport can contribute to facilitating world trade. The issues at stake go beyond the concerns of airlines and air transport regulators alone.

Everyone involved in the growth of Travel & Tourism and trade development has a vital interest in air transport liberalization.

To achieve its goal of aviation liberalization, WTTC is:

- Promoting the adoption of standard clauses for liberal bilateral agreements, and encouraging their use wherever possible;
- Encouraging the adoption of liberal multilateral aviation policies;
- Supporting moves towards regional multilateral liberal aviation agreements, which will create larger and freer markets between regions;
- Helping other economic, trade and tourism authorities understand that aviation liberalization is essential to maximize the economic benefits of international tourism;
- Giving wide circulation to the above-mentioned principles and policies to all those who can bring pressure to bear on governments to adopt the policies proposed.

WTTC believes that it is through these continuing pressures that the benefits of freer trade will be recognized, and air transport in the 21st century will come of age as an innovative, competitive, strong and mature industry. As this happens, the world will also enjoy the expanded economic and social benefits of a more rapidly growing Travel & Tourism industry.

RECENT TRENDS IN WORLD TOURISM AND CURRENT OUTLOOK

RECENT STATISTICS FROM THE WORLD TOURISM ORGANIZATION (WTO) INDICATE THAT TOURISM REPRESENTS APPROXIMATELY 7 PER CENT OF GLOBAL EXPORTS OF GOODS AND SERVICES, MAKING IT THE FOURTH LARGEST EXPORT SECTOR IN THE WORLD.

These figures confirm the impact of the industry on both developed and developing economies, contributing not only to rising GDP, as well as increased wealth and employment generation, but also to the encouragement of capital investment and an increase in foreign exchange earnings.

During the three years from 2001-03, global Travel & Tourism suffered four depressing scourges – economic downturns or recessions in some major tourism generating markets, widespread terrorist attacks (9/11, Djerba, Bali, Mombasa, etc), subsequent military conflicts in Afghanistan and Iraq, and the SARS epidemic. But 2004 recorded the best annual growth in tourism of the last 20 years, with international tourist arrivals up 10 per cent over 2003's level. At the same time there have been substantial changes in tourist patterns and behaviour. While these are due in part to growing concerns about security and to increased price sensitivity, the main driver has been the rapid rise of no-frills airline services, which has stimulated demand. These changes include:

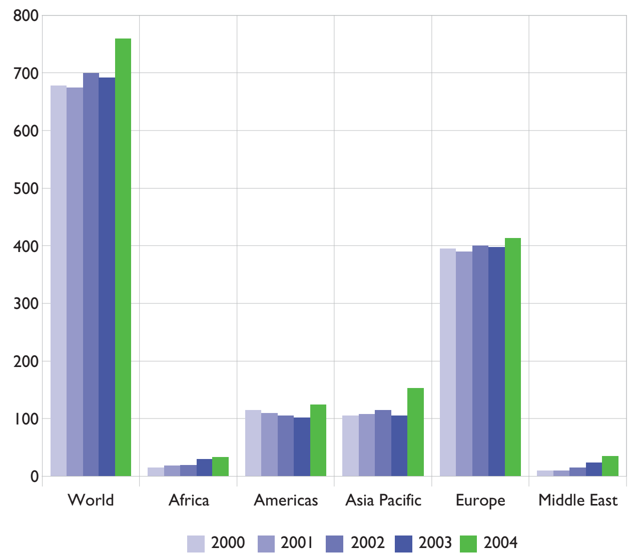
- Increased travel frequency, but for shorter trips, in less expensive destinations closer to home, often involving lower categories of travel and accommodation;
- Enthusiastic adoption of the new intra-regional routes offered by low-cost airlines (which have consolidated their position in Europe and are growing rapidly in Asia Pacific and the Middle East);
- An increasing trend to 'do it yourself' and last-minute booking, stimulated and facilitated by the internet;
- Taking advantage of the aggressive price competition between destinations, which has led to an increasing need for all industry players to innovate and diversify in terms of product development and marketing.

Fortunately, during 2004 and the early months of 2005, improved economic and geopolitical conditions have boosted consumer confidence. And preliminary estimates for global tourism performance in the first half of 2005 confirm the sustained recovery.

In addition to an economic upturn in major generating markets (especially the USA and Asia) and to renewed consumer confidence, 2004's rebound was also due to the recovery of long-haul demand, a return to growth in air traffic and more favourable exchange rates in certain key source markets.

Following a three-year stagnation in international tourist arrivals worldwide – the average annual increase was just 0.3 per cent over the period – arrivals reached 760 million in 2004, an absolute increase of 74 million over 2000's level, or a growth of 11 per cent.

Figure 4
International Tourism Arrivals by region (2000-2004) (in millions)



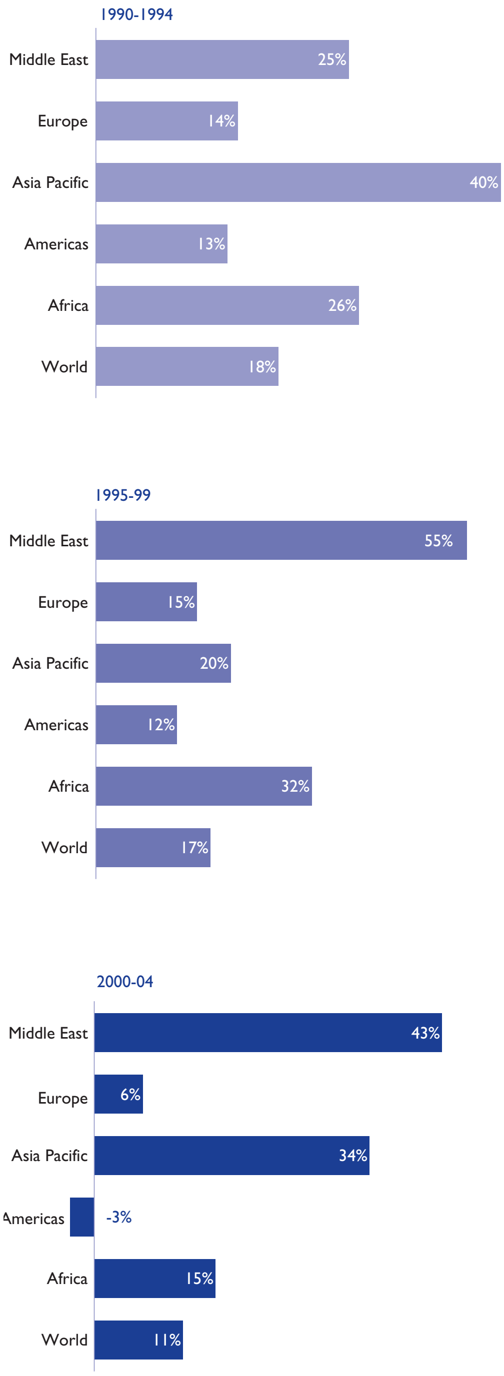
Source: (WTO)

2004 (millions)	World	Africa	Americas	Asia Pacific	Europe	Middle East
Arrivals	760	33	124	153	414	35

Source: (WTO)

Figure 5

Growth in international arrivals by region, 1990-94, 1995-99 and 2000-04



Source: (WTO)

A regional breakdown of international tourist arrivals worldwide[1] shows that Europe is responsible for the biggest share, although this has fallen by two percentage points since 2000, to 55 per cent in 2004.

Furthermore, given the emergence of new competitive destinations around the world, Europe has recorded lower than average annual growth rates over the last few years. In 2004, it achieved a moderate increase of 4 per cent as against the world average of 10 per cent. This was despite the gradual return of traffic from the USA and Japan, its primary long-haul markets, the hosting of major events such as Euro2004, the European Football Cup, in Portugal and the Summer Olympic Games in Athens, Greece and China's granting of Approved Destination Status (ADS) to most countries in Europe last year. Although this was partly due to the strength of the euro against the US dollar and currencies linked to the dollar, the trend is largely attributed to growing competition from new tourism destinations, as already indicated.

The Middle East outperformed all other regions during the period 2000-04, recording the highest growth rate of around 43 per cent. Notwithstanding the downturn observed in 2001 (-1 per cent over 2000), following the 9/11 attacks, this region produced positive performances in 2002 (+16 per cent), 2003 (+3 per cent) and 2004 (+20 per cent), in spite of the war in Iraq and the SARS outbreak.

Africa was the only region reporting positive annual growth rates every year between 2000 and 2004, albeit from a low base. Moreover, its 7 per cent annual growth in 2004 reflected a good year for North African destinations, which contributed significantly to the region's overall performance.

Asia Pacific's 29 per cent growth last year consolidated its second position in the world regional ranking, with a share of 20 per cent of international tourist arrivals worldwide. This very strong rebound from the effects of SARS was largely attributable to intra-regional tourism, especially the massive increase in China's inbound and outbound travel markets, but long-haul demand from Europe and North America also recovered.

The Americas was the only region to record negative growth during the period 2000-04. It suffered three consecutive years of decline, from 2000-03. However, benefiting from the upturn of inter-regional traffic demand from Europe to North America, 2004 showed a 10 per cent increase over 2003.

World tourism growth was also reflected in an increase in international tourism receipts, which rose by 10 per cent in 2004, following an 8.7 per cent rise in 2003. However, when interpreting these results, it should be taken into account that world receipts are usually expressed in US dollars and that the US dollar has been depreciating against the euro and other major currencies since 2002. If tourism receipts were expressed in local currencies at constant prices (taking into account inflation and exchange rate fluctuations), they would have declined by an estimated 2 per cent in

2003 over 2002. For the four-year period 2000-04, international tourism receipts increased more slowly than tourist arrivals – by an average of nearly 7 per cent a year.

In the Middle East region, three countries enjoy a very large share of inbound tourism, accounting between them for about two-thirds of total international tourist arrivals in the region. These are Saudi Arabia, the United Arab Emirates and Egypt.

International arrivals in Egypt reached 8.1 million in 2004, up 42 per cent over the previous year. This means that Egypt alone generates approximately 23 per cent of international arrivals in the Middle East and around 1 per cent of the global tourism market.

Figure 6 compares Egypt's performance with that of some of its competitors in the Middle East and East Mediterranean.

Figure 6

International tourist arrivals and tourism receipts for Egypt and other Middle East and North Mediterranean destinations, 2004

Destination	Arrivals (mn)	% change 2004/00	Receipts (èmn)	% change 2004/00
Egypt	**8,100**	**58.8**	**6,125**	**41.0**
Bahrain[b]	2,955	22.1	654	5.5
Jordan	2,013	87.4	826	-23.1
Lebanon	1,278	72.2	1,278	204.1
Libya[b]	142	-18.4	70	-33.3
Saudi Arabia[c]	8,600	30.6	6,542	91.4
Syria[a]	4,011	43.9	2,220	105.2
UAE	5,871[b]	50.3[b]	1,593	49.9
Algeria	1,234	42.5	142[b]	36.5[b]
Morocco	5,501	29.7	3,921	92.3
Tunisia	5,998	18.6	1,910	13.6
Bulgaria	4,630	66.2	2,168	101.9
Croatia	7,912	35.7	6,973	109.1
Cyprus	2,349	-12.5	2,096	8.2
Greece	13,969[b]	6.7b	12,872	39.6
Israel	1,506	-37.7	2,383	-68.8
Turkey	16,835	75.6	15,888	108.1

[a] Due to a change in series in 2002, data is not strictly comparable from year to year
[b] 2003 data and 2003/00 % change
[c] % change in receipts for 2004/02

Source: (WTO)

EGYPT'S TRAVEL & TOURISM PERFORMANCE

Over the three-year period 2000-03, international tourist arrivals in Egypt grew by 10 per cent – ten times more than the world average growth over the same period[2]. According to the WTTC report *2004 Travel & Tourism Economic Research – Egypt's Travel & Tourism Forging Ahead*, in terms of growth in demand for tourism in 2004, the country ranked 14th in the world and second in the region, after Tunisia, in terms of Total Demand.

As illustrated in figures 7 and 8 which follow, Egypt suffered a decline in arrivals in 2001, attributed to the 9/11 attacks and the counter-terrorism war in Afghanistan, which prevented the country's tourism sector realizing its full potential during the period 2000-03 and from returning to the growth rates achieved in 1999 and 2000, which were relatively higher than those of other Middle East destinations.

The first signs of recovery in 2002 and the higher positive growth rates realized in 2003 and 2004 reflect in part the positive impact of international marketing campaigns, following the impact of the SARS outbreak in Asia and of the depreciation of the US dollar against the euro.

The Egyptian tourism authorities have been making concerted efforts to promote Egypt as a safe destination, especially after the inordinate damage caused by recent local incidents, including the plane crash in

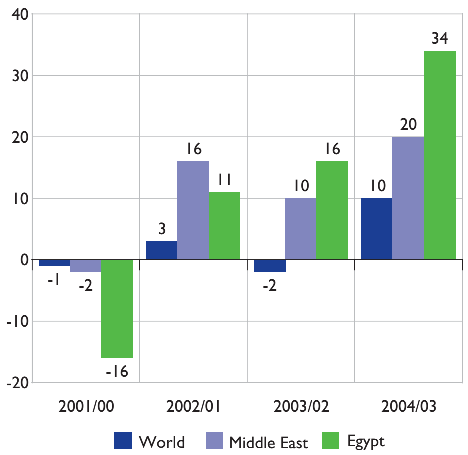
Sharm-el-Sheikh at the beginning of 2003 and the terrorist bombings in Taba and Nuweiba in October 2004.

This promotional investment has been focused on new products and services, and its impact has been boosted by a number of external factors such as the devaluation of the Egyptian pound, the easing of entry formalities into the country, the expansion and modernization of airport facilities, and the continuation of the Egyptian Government's Charter Flight Support Programme, instigated after the Luxor massacre of November 1997.

The growth in international tourism to Egypt is also reflected in an increase in average length of stay – up to 8.8 nights in 2003 and 10.1 nights in 2004, or an 84 per cent increase over 2000[3].

In line with the growth in international tourist arrivals and overnight volume in 2004, international tourism receipts rose by 15 per cent to US$5.3 billion in 2004. If tourism's indirect impact is taken into account, this figure could be as high as US$12.8 billion, confirming that the industry is a major contributor to the Egyptian economy and the country's number one foreign currency earner. It represents 11.5 per cent of GDP and 15 per cent of employment.

Figure 7
Comparative annual growth in international tourist arrivals worldwide, in the Middle East and Egypt, 2000-04
%



Source: (WTO)

As illustrated in figure 8, Europe is the major tourism generating market for Egypt, headed by Italy, which contributed about 13 per cent of international tourist arrivals in the country in 2003. Next in line were Germany, Russia, the UK and France, which generated shares of 12 per cent, 10 per cent, 6 per cent and 5 per cent respectively.

In February 2005, the Egyptian Minister of Tourism highlighted the strategic importance of visitors from Arab countries and announced a promotional tour to neighbouring Arab states, to focus attention on Egypt as a summer destination. In 2003, Libya and Saudi Arabia together accounted for 10 per cent of international arrivals in Egypt. The share of US tourists recorded significant growth from 2003 to 2004 (+35 per cent), signalling the US market's recovery. Other emerging tourism generating sources in Southeast Asia, Latin America and Eastern Europe also recorded strong annual growth in 2004, reflecting their potential for the future[4].

However, if Egypt's performance – in terms of international tourist arrivals in 2004 – is compared with that of Turkey, it can be seen clearly that major European generating markets such as the UK, Germany, Benelux and Scandinavian countries still hold enormous potential, both for Egypt's sun and beach and cultural destinations.

Figure 8
Top ten tourism source markets for Egypt and Turkey, 2003

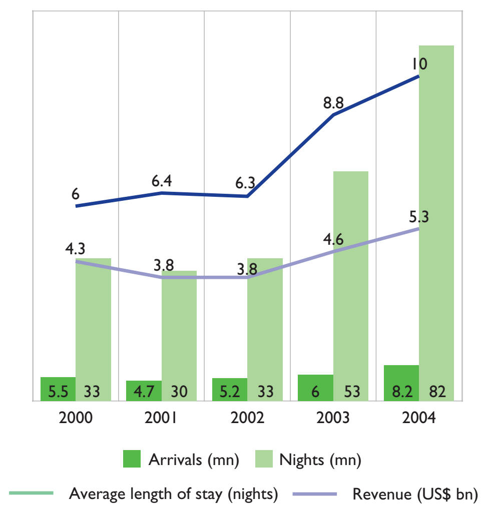
International tourist arrivals		
Market	**Egypt**	**Turkey**
Italy	795,903	236,827
Germany	693,445	3,327,834
Russia	586,077	1,258,964
UK	357,248	1,091,197
France	310,791	470,156
Israel	309,994	321,094
Libya	305,393	28,158
Benelux	229,462	1,250,172
Saudi Arabia	269,120	23,570
Scandinavia	149,185	507,056

Source: Egyptian Ministry of Tourism; and www.tourismturkey.org/statistics

Figure 9 provides a comprehensive picture of the tourism sector's performance in Egypt over the period 2000-04.

To meet the growth in demand, there has been substantial investment in tourism-related services and facilities since 2000. In particular, accommodation capacity in hotels and registered establishments increased by 45 per cent from 2000-03, to a total capacity of 136,150 rooms. In addition, Egypt has 102,464 rooms under construction.

Figure 9
Key indicators relating to Egypt's tourism performance, 2000-04



Source: Egyptian Ministry of Tourism, Egyptian Tourist Authority

A great part of the expansion and development of tourism plant and infrastructure (such as hotels, entertainment facilities, travel agencies, restaurants and cafeterias) has taken place in the major Egyptian resort regions, such as the Sinai, the Red Sea and Matrouh. In these destinations, supply and demand seem to be moving in parallel, as illustrated by the growth in demand in the three years to 2003 – Matrouh (+30 per cent), South Sinai (+21 per cent) and the Red Sea (+12 per cent). The South Sinai region includes the well-known beach resorts of Taba (+28 per cent), Sharm-el-Sheikh (+18 per cent) and Dahab (+17 per cent).

On the other hand, in other destinations, supply and demand appear to be moving in the opposite direction. The negative growth in terms of demand witnessed by the traditional Egyptian cultural destinations over the period 2000-03, like Cairo (-7 per cent), Luxor (-16 per cent) and Aswan (-13.5 per cent), contrast with the expansion registered in the newer sun and beach destinations[5].

Figure 10

International tourist arrivals in Egypt by port of entry, 2003

Port of entry	Arrivals
Cairo	1,655,751
Alexandria	49,852
Port Said	2,377
Suez	17,626
Luxor	398,207
Aswan	52,826
Matrouh	281,480
Red Sea	1,461,850
Sinai	1,825,825
Others	293

Source: Egyptian Ministry of Tourism

Tourists visiting Egypt for leisure purposes – holidays or just recreation – strongly outnumbered those travelling on business or for other professional reasons, accounting for an estimated 96 per cent of total international arrivals.

Further analysis of the information available on modes of transport suggests that air travel accounts for 80 per cent of all international tourist arrivals in the country in 2004 (see figure 1). A breakdown of the 2004 figures show that there were 197,020 international and domestic flights carrying a total of 23.3 million passengers (including passengers in transit). Cairo Airport has the biggest share (of approximately 46 per cent) of both passenger movement and flights, followed by Sharm-el-Sheikh (20 per cent and 17 per cent, respectively) and Hurghada (19 per cent and 16 per cent). The second most popular means of travel is by land (more common for Middle Eastern and European tourists), which was responsible for 12 per cent of all international tourist arrivals in Egypt in 2003. Finally, sea transport accounts for 8 per cent and is frequently used by tourists arriving from European, North American and Pacific countries aboard cruise ships.[6]

RECENT TRENDS AND SHORT-TERM PROSPECTS

Preliminary data for the first four months of 2005 suggests that Egypt has continued to record healthy growth, both in terms of number of international visitors and nights spent in the country. In the four-month period, Egypt attracted approximately 2.9 million international arrivals, which generated around 27 million nights. These figures compare with the relatively modest 1.5 million visitors and 9 million nights registered in the same period of 2003.

Further analysis of the information available demonstrates that, during the first months of 2005, Egypt continued to benefit from the improved economic conditions in Europe and Asia, the gradual recovery of long-haul markets, the increase in air traffic and favourable exchange rates – the same as in 2004. These factors have all contributed to the significant growth.

In line with the current trends, the Egyptian Government is targeting 15 million foreign arrivals by 2011. However, the unpredictability of terrorist attacks turns any kind of medium- and long-term forecasting into a difficult, not to mention unreliable, exercise.

The Egyptian Travel & Tourism authorities remain nonetheless optimistic for the future and are expecting the country to profit from its strong and well-established image as a mixed sun & sea and cultural tourism destination, from a forecast sustained economic recovery in main generating markets, and from its favourable image in terms of price competitiveness. These factors should help return the country to the growth path along which it was headed prior to October 2004's terrorist attacks in Taba.

Figure 11

International tourist arrivals and overnights in Egypt by month, January through April 2003 and 2005

('000)

	Arrivals		Nights	
Month	2003	2005	2003	2005
Jan	400.9	634.8	2,767.5	6,801.4
Feb	426.7	639.4	2,306.6	5,663.1
March	356.4	827.4	1,999.4	6,866.8
April	363.2	818.5	1,949.6	7,425.2
Total	**1,547.2**	**2,920.1**	**9,023.1**	**26,756.5**

Source: Egyptian Ministry of Tourism

ECONOMIC AND SOCIAL VALUE OF TRAVEL & TOURISM FOR EGYPT

AS ILLUSTRATED IN FIGURE 12, EGYPT'S TRAVEL & TOURISM SECTOR IS PERFORMING VERY WELL, RANKING THE COUNTRY AMONG THE TOP 50 IN WTTC'S OVERALL 2004 RANKING (ACCORDING TO THE MAIN INDICATORS).

Figure 12

The economic and social importance of Travel & Tourism for Egypt and selected regional competitors, 2005

Country	Total Demand (US$bn)		Growth in Demand[a] (%)		Share of T&T GDP (%)		Capital Investment (US$bn)		Total Employment (mn)	
	Value	Global Rank	Value	Global Rank	Value	Global Rank	Value	Global Rank	Value	Global Rank
Egypt	**12.8**	**45**	**13.3**	**14**	**15.3**	**45**	**2.7**	**41**	**3.1**	**11**
Lebanon	4.1	73	7.8	98	12.4	61	0.4	89	0.2	84
Morocco	8.8	51	9.7	54	15.9	43	1.4	49	1.4	25
Tunisia	5.9	59	14.8	6	19.5	35	1.1	59	0.6	47
Turkey	32	26	12.2	21	10	83	2.9	40	1.3	26
UAE	17.2	39	6.1	128	10	86	5.4	24	0.15	9

[a] Real growth over 2004

Source: Country League Tables, WTTC's Travel & Tourism Economic Research, 2005

In particular, in terms of real growth in demand, Egypt ranked 14th globally in 2005, thanks to a growth of 13 per cent over the previous year. Egypt's performance was the second best in the Middle East region, in fact – behind Tunisia, which came sixth in the global ranking with a growth of 15 per cent.

Egypt jumps to eleventh position in the ranking in terms of total employment, well ahead of all its competitors in the region.

Regarding its direct and indirect economic contribution to Egyptian wealth, the Travel & Tourism sector represented 15 per cent of GDP in 2005. Only Morocco and Tunisia registered higher shares, thereby ranking ahead of Egypt, in 43rd and 35th positions, respectively.

As regards capital expenditures, Egyptian Travel & Tourism providers in the private sector and government agencies invested US$2.7 billion in 2004, less than their competitors from the UAE (US$5.4 billion) and Turkey (US$2.9 billion).

WTTC's 2005 Travel & Tourism Economic Research Report – and notably the section on Country League Tables[7] – is also an important source of information for comparing Travel & Tourism's economic and social impact on the national economies of Egypt and other Middle East and North Mediterranean countries (figure 13). It also includes forecasts for the next ten years (see figure 14).

Figure 13

The economic and social importance of Travel & Tourism for Egypt and selected regional competitors, 2005

Region	Country	Total Demand (US$bn) Value	Global Rank	Growth in Demand[a] (%) Value	Global Rank	Share of T&T GDP (%) Value	Global Rank	Capital Investment (US$bn) Value	Global Rank	Total Employment (mn) Value	Global Rank
	Egypt	**16.0**	**43**	**8.6**	**52**	**15.4**	**48**	**2.6**	**43**	**3.3**	**12**
Europe	Croatia	11.1	48	4.9	124	19.6	34	1.0	65	0.3	77
	Cyprus	5.1	71	3.5	142	22.7	29	0.7	76	0.1	113
	Greece	38.9	25	11.6	16	16.2	44	5.7	26	0.8	42
	Turkey	45.9	21	7.8	68	11.4	75	5.1	31	1.7	25
Middle	Israel	15.1	45	6.7	90	7.1	138	2.7	42	0.2	80
East	Jordan	3.1	86	8.3	57	16.1	45	0.5	88	0.2	84
	Lebanon	4.3	74	5.7	113	12.8	63	0.4	90	0.2	86
	Lybia	4.6	73	6.3	99	14.1	55	1.2	62	0.2	93
	Saudi Arabia	27.4	35	0.7	166	9.1	108	3.3	39	0.3	71
	UAE	20.7	41	2.4	155	12.5	65	6.2	24	0.2	89
North	Algeria	7.8	59	6.5	93	6.4	147	1.5	54	0.5	55
Africa	Morocco	10.7	49	14.1	7	17.0	42	1.7	52	1.5	26
	Tunisia	6.0	68	12.9	11	17.7	39	1.2	63	1.2	51

[a] Real growth over 2004

Source: Country League Tables, WTTC's Travel & Tourism Economic Research, 2005

WTTC estimates suggest that Egypt's Travel & Tourism sector will face strong competition in 2005, as well as over the next ten years. This can be confirmed by the expected fall in Egypt's global ranking in terms of real growth in Total Demand. Egypt is forecast to fall from 14th position in 2004 to 52nd in 2005 (with a real growth rate of less than 9 per cent) and to climb back into 41st position in 2015 (as a result of an annual real growth rate of 6 per cent over the period 2006-15). This means that several other countries, not only from the Middle East and the Northern Mediterranean, but also from Africa and Asia Pacific, are expected to grow, in relative terms, at a higher rate than Egypt over the next ten years.

Figure 14

The economic and social importance of Travel & Tourism for Egypt and selected regional competitors, 2015

Region	Country	Total Demand (US$bn) Value	Global Rank	Growth in Demand[a] (%) Value	Global Rank	Share of T&T GDP (%) Value	Global Rank	Capital Investment (US$bn) Value	Global Rank	Total Employment (mn) Value	Global Rank
	Egypt	**30.3**	**44**	**6.0**	**41**	**15.8**	**53**	**5.1**	**39**	**4.1**	**12**
Europe	Croatia	25.0	46	7.8	5	29.6	24	1.7	70	0.4	69
	Cyprus	8.3	73	5.0	85	24.3	29	0.9	84	0.1	117
	Greece	61.2	27	4.1	123	17.4	47	9.0	28	0.9	43
	Turkey	83.4	22	3.9	129	11.8	81	8.3	29	1.8	28
Middle	Israel	27.1	45	4.1	124	7.5	134	4.6	42	0.3	80
East	Jordan	6.1	87	5.0	86	14.7	59	0.8	91	0.3	87
	Lebanon	7.4	76	2.5	169	12.4	77	0.7	95	0.2	91
	Lybia	8.0	74	4.3	114	12.7	75	2.1	62	0.2	100
	Saudi Arabia	42.6	36	2.8	163	8.8	116	6.1	35	0.4	71
	UAE	33.7	40	2.9	161	12.1	78	10.3	25	0.2	95
North	Algeria	14.2	62	5.1	84	6.6	148	3.1	52	0.6	55
Africa	Morocco	18.5	52	5.3	71	16.7	50	3.2	51	1.9	27
	Tunisia	10.2	70	5.8	45	19.0	42	1.8	66	0.6	53

[a] Real annual growth over 2005-15

Source: Country League Tables, WTTC's Travel & Tourism Economic Research, 2005

Nevertheless, WTTC estimates are generally positive for Egypt, suggesting that the country will succeed in its steady effort to maintain its overall Travel & Tourism global ranking. Demand for Egyptian Travel & Tourism goods and services is expected to total US$16.0 billion in 2005 and US$30.3 billion in 2015. This will allow Egypt to maintain its current position in the overall ranking.

According to figures 13 and 14, Egypt's Travel & Tourism Economy is expected to account for (directly and indirectly) 3.3 million jobs in 2005, representing 13 per cent of the country's total employment. By 2015, this should increase to 4.1 million jobs, or a share of 0.3 percentage points higher, permitting Egypt to retain its 12th position in the global ranking.

As already mentioned, Egypt's Travel & Tourism is forecast to experience a real growth in Total Demand of nearly 9 per cent in 2005. Among its regional competitors, only Greece, Morocco and Tunisia are expected to present higher growth rates in Travel & Tourism Demand – respectively, of 12 per cent, 14 per cent and 13 per cent. Over the next ten years, Egypt's Travel & Tourism will achieve an annual growth rate of 6 per cent.

Egypt's Travel & Tourism is also expected to contribute 15 per cent of national GDP in 2005, rising to 16 per cent in 2015, thus increasing the direct and indirect importance of this sector to the overall Egyptian economy.

It is also worth mentioning that Egyptian private and public entities are expected to reinforce significantly their capital investment in the Travel & Tourism sector. WTTC data shows that they will be investing US$2.6 billion in 2005 and US$5.1 billion in 2015. Although this will help maintain Egypt's position in the global Capital Investment ranking (in about 40th place), countries like Greece, Saudi Arabia, Turkey and the UAE are forecast to invest even more than Egypt.

Figure 15

Simulated Tourism Satellite Accounts for Egypt, 1999, 2005 and 2015

	1999		2005		2015	
	US$ mn	% growth	US$ mn	% growth	US$ mn	% growth
Personal T&T	3,345.9	4.8	3,792.1	9.2	8,155.6	7.4
Business Travel	939.1	-	1,375.9	11.5	2,504.3	5.6
Government Expenditures	678.9	5.9	639.1	7.3	1,104.5	5.0
Capital Investment	1,247.0	7.7	2,627.4	4.8	5,059.7	6.2
Visitor Exports	4,934.8	18.6	6,983.0	9.6	12,065.0	5.0
Other Exports	423.7	1.6	614.8	4.5	1,356.7	7.6
T&T Demand	11,569.5	-	16,032.4	8.6	30,245.7	6.0
T&T Industry GDP	5,188.1	6.0	7,064.3	9.1	12,240.9	5.1
T&T Economy GDP	7,798.1	9.0	13,061.8	8.0	23,282.8	5.4
T&T Industry Employment (,000 jobs)	795.0	5.8	1,776.5	6.3	2,152.1	1.9
T&T Economy Employment (,000 jobs)	1,194.9	8.7	3,267.9	5.3	4,070.9	2.2

[a] % annual (real) growth except for 2015 figure, which is annual % real growth from 2005-15

Source: WTTC Travel & Tourism Satellite Accounting Research – Estimates and Forecasts, 1999, 2005 and 2015

EGYPTIAN AVIATION POLICIES AND THE AIR TRANSPORT INDUSTRY

IN LINE WITH THE TREND IN OTHER COUNTRIES, THE EGYPTIAN CIVIL AVIATION AUTHORITY, UNDER THE UMBRELLA OF THE MINISTRY OF CIVIL AVIATION, HAS ALWAYS HAD A VERY CLOSE RELATIONSHIP WITH STATE-OWNED FLAG CARRIER EGYPTAIR.

Air transport legislation produced and implemented over decades tended to protect the national airline and prevent it from facing competition from international carriers on scheduled airline routes, from charter airlines to the resort destinations, and from other private Egyptian carriers in the domestic market.

International scheduled services on routes to/from Egypt were always constrained by frequency and capacity restrictions contained in bilateral agreements, and by government decisions designating EgyptAir as the sole operator of these services.

EgyptAir had, has and will continue to have, a major role as an airline operator on domestic and international routes, but it is quite clear today that taking a protectionist stance has prevented Egypt from tapping the full potential of its Travel & Tourism industry. It has also prevented the country from having a stronger and more competitive airline system, with the participation of private Egyptian airlines.

WTTC believes that in pursuing these policies, the Egyptian Government has indirectly limited the contribution of these industries (airline and Travel & Tourism) to the growth of the national economy.

Meanwhile, as Travel & Tourism investment, employment and wealth creation became increasingly important for the Egyptian economy – and very ambitious goals have been set to increase the number of annual arrivals – the Egyptian Government was obliged to ease these policies and liberalize aviation and air transport.

The results were immediate and the substantial annual increase in international arrivals during the 1990s can largely be attributed to the changes introduced in civil aviation policy on the regulation of international charter services.

RECENT DEVELOPMENTS IN LEGISLATION

Since 1996, several decisions on air transport regulation have had a strong impact on the Travel & Tourism sector in Egypt, the more important being:

- Order 52/1996, from the Egyptian Civil Aviation Authority, allowing charter services to be launched and operated from any foreign city to all Egyptian airports (except Cairo International) with no restrictions.

This decision led to a substantial annual growth in charter services and passenger traffic, especially to cultural and resort destinations like Luxor, Aswan, Sharm-el-Sheikh and Hurghada, and helped private Egyptian airlines to launch charter operations from several European cities to these destinations. Charter traffic to Cairo did not increase significantly due the exclusion of Cairo International Airport from the new regulation (with the exception, still in force today, of allowing foreign and Egyptian charter operators to carry traffic through Cairo as part of a triangular route, or from cities not served by EgyptAir). There is no doubt that this restriction was introduced to protect the national airline from competition on direct charter services to Cairo.

- Investment decree 357/2000 for the Ministry of Civil Aviation, allowing international airlines already operating scheduled flights to Egypt, under air transport bilaterals, to apply for extra flights to Luxor, Hurghada, Sharm-el-Sheikh and St Catherine - Sinai Airports, with no quota restrictions on frequency or capacity.

This decision had a limited impact on Travel & Tourism, as only a small number of international airlines showed interest and applied to operate these 'extra flights'.

- Investment decree 1167/2001 for the Ministry of Civil Aviation, allowing all Arab countries' airlines, including private Egyptian airlines, to operate without any restrictions non-regular, or charter, flights from their countries of origin to all Egyptian airports, with the exception of Cairo International Airport.

In this context, the Egyptian Government followed the decisions of the Arab Civil Aviation Commission (ACAC) 2000 meeting, which recommended that "third and fourth freedom rights" should be granted, with no restrictions, under the framework of the existing bilateral agreements signed between Arab countries.

Only a few Only a few Arab countries' airlines, including one low-cost carrier, are operating scheduled flights to Alexandria and Luxor airports, taking advantage of this decision.

CONSTRAINTS OF INTERNATIONAL POLICIES

The major constraints of Egyptian international aviation policies are related to:

- the existence of traffic capacity restrictions with countries now considered to be of strategic importance for Egyptian Travel & Tourism;
- the designation of EgyptAir as the sole Egyptian operator of international regular services;
- the exclusion of Cairo Airport in all liberalization policy decisions, preventing charter airlines from flying directly to Cairo, which is still the main tourism destination in Egypt;
- the difficulties imposed on international airlines applying for so called "sixth freedom traffic rights" to fly passengers from their main international markets to Cairo International Airport through their home hub airports;
- the problems and restrictions imposed on private Egyptian airlines wishing to operate international charter services from countries or cities in Europe regularly served by EgyptAir.

It is now widely recognized that, in Egypt, a country dependent on airline services for more than 80 per cent of foreign arrivals and for which, therefore, adequate air transport is critical, these types of constraints have to be removed urgently, so as ensure the full economic and social potential of this sector.

CONSTRAINTS OF DOMESTIC POLICIES

Despite claims by the Civil Aviation Authority to have "widely opened the domestic market" to all Egyptian operators, EgyptAir has, in fact, maintained a virtual monopoly on domestic air transport services in Egypt. The national airline operates scheduled services from Cairo to nine cities around the country, and transported 6.7 million passengers in 2004. The main domestic routes are Cairo-Luxor, Cairo-Hurghada, and Cairo-Sharm-el-Sheikh.

Domestic traffic increased substantially between 1998 and 2004, but the percentage of passengers transported by private Egyptian carriers over this period declined. Most of these airlines, launched to operate charter flights or air taxi services, have suspended their operations, or simply collapsed due to a lack of profitability.

The main reason for this abnormal situation was that the Civil Aviation Authority, being the responsible body for approving and licensing domestic scheduled flights by Egyptian private airlines, always put extremely stringent demands on these airlines. They made it obligatory for these companies to invest heavily in building or renting airport facilities, in making their own equipment available to serve passengers and to carry out aircraft maintenance in all the airports through which they wished to operate. Finally, they had to comply with significant restrictions on their daily schedules in cases where EgyptAir was flying the same route.

These non-transparent barriers were, and still are, responsible for the poor economic and financial performances of private Egyptian airlines, and for the high fares still paid by locals and foreigners for air travel on domestic routes.

THE ROLE OF EGYPTAIR AND PRIVATE EGYPTIAN AIRLINES

WTTC's 1999 report on Egyptian aviation clearly demonstrated the relatively weak role of the national flag carrier EgyptAir in the country's Travel & Tourism. In questioning the reasons behind civil aviation policies aimed to protect EgyptAir from international and domestic airline competitors on its main routes, and especially to Cairo, the report pointed out that:

- The total annual revenue generated by

EgyptAir is very small if compared with the annual global output of the Egyptian Travel & Tourism industry;

- EgyptAir's net foreign exchange earnings (after deducting revenue earned from resident and expatriate Egyptians, and deducting expenditures in foreign currencies) are insignificant compared with the total net foreign exchange earnings of Travel & Tourism;
- Similarly, total direct employment in the airline and the number of indirect jobs generated by its schedule operations cannot be compared with the total number of direct and indirect jobs associated with the Travel & Tourism Industry or Economy.

While it does not intend to belittle the role of EgyptAir as the national airline, the report concludes that its contribution to the national economy is limited and "the protection of its interests may be in conflict with the larger national benefits to be derived from the expansion of Travel & Tourism".

As shown in figure 2, EgyptAir was responsible in 2004 for 19 per cent of total international scheduled and non-scheduled passenger traffic through Cairo and the main Egyptian international airports, and for approximately 61 per cent of total domestic (scheduled and non-scheduled) passenger traffic.

Figures 16-19, which show the breakdown of passenger traffic and flights by international and Egyptian airlines at main airports, demonstrate the following additional facts:

- EgyptAir accounts for a significant share of international scheduled passenger traffic through Cairo (34 per cent) and Luxor (63 per cent) airports;
- International flag carriers transport a large share of total international scheduled traffic throughout Cairo and Nozha (Alexandria) airports;
- International charter airlines are responsible for almost 36 per cent of total international non-scheduled passenger traffic through Cairo and almost 90 per cent of total international non-scheduled traffic through Sharm-el-Sheikh, Luxor and Hurghada airports. The remaining passenger traffic was carried by either EgyptAir or private Egyptian airlines;
- EgyptAir operates most of the domestic scheduled flights between Cairo and other Egyptian airports, and almost 30 per cent of non-scheduled domestic services to and from Luxor and Aswan airports;
- Private Egyptian airlines are responsible for a small and declining share of international charter traffic to Cairo, Hurghada and Sharm-el-Sheikh, but still play an important role in the domestic non-scheduled traffic and in air taxi services in Cairo and almost all other Egyptian airports.

Government decisions, which prevent international charter airlines from serving Cairo Airport with direct flights, and non-transparent barriers limiting the activities of private Egyptian airlines in the domestic market, created the conditions for EgyptAir to maintain its position on international routes to Cairo and on domestic scheduled services. This meant that the airline was protected from aggressive competitors, both in terms of the domestic and international markets.

If Egyptian citizens (resident and expatriate) are excluded from the international scheduled traffic count, one can see clearly that EgyptAir plays a minor and non-decisive role in the air transport of foreign tourists and visitors to Egypt.

EgyptAir's current fleet of 37 aircraft (with a combined total of 7,972 seats) will be supplemented with four new Airbus A320s due to be added in 2006 and 2007.

Considering the limited expansion proposed for EgyptAir's fleet, if the Egyptian Government has a target of 15 million foreign arrivals by 2011, one can assume that most of the projected annual growth in number of tourists will be catered for by non-Egyptian international scheduled airlines, including low-cost carriers, and charter airlines.

In addition to the flag carrier EgyptAir, there are various private Egyptian airlines operating scheduled services, charter or air taxi services on international and domestic routes.

Figre 16's breakdown of 2004 passenger traffic clearly shows that Egyptian airlines, other than EgyptAir, concentrate their operations on international charter flights to Luxor, Hurghada and Sharm-el-Sheikh airports, and on non-scheduled domestic flights (charter and air taxi services) between Cairo and other main Egyptian airports. Even so, their contribution to total passenger traffic is limited when compared with traffic operated by international carriers or charter airlines, or indeed domestic scheduled passenger traffic carried by EgyptAir.

Figure 20 highlights the relatively weak development of Egyptian private airlines' fleet and seat capacity from 1999 to 2005 (May). It also shows that several companies no longer operate or have simply disappeared. WTTC believes the main reasons for this are related to the constraints and difficulties created by the civil aviation authorities for Egyptian private airlines, in order to protect EgyptAir from additional competition on international and domestic routes.

WTTC believes that existing Egyptian privately owned airlines have the technical, financial and

Figure 16

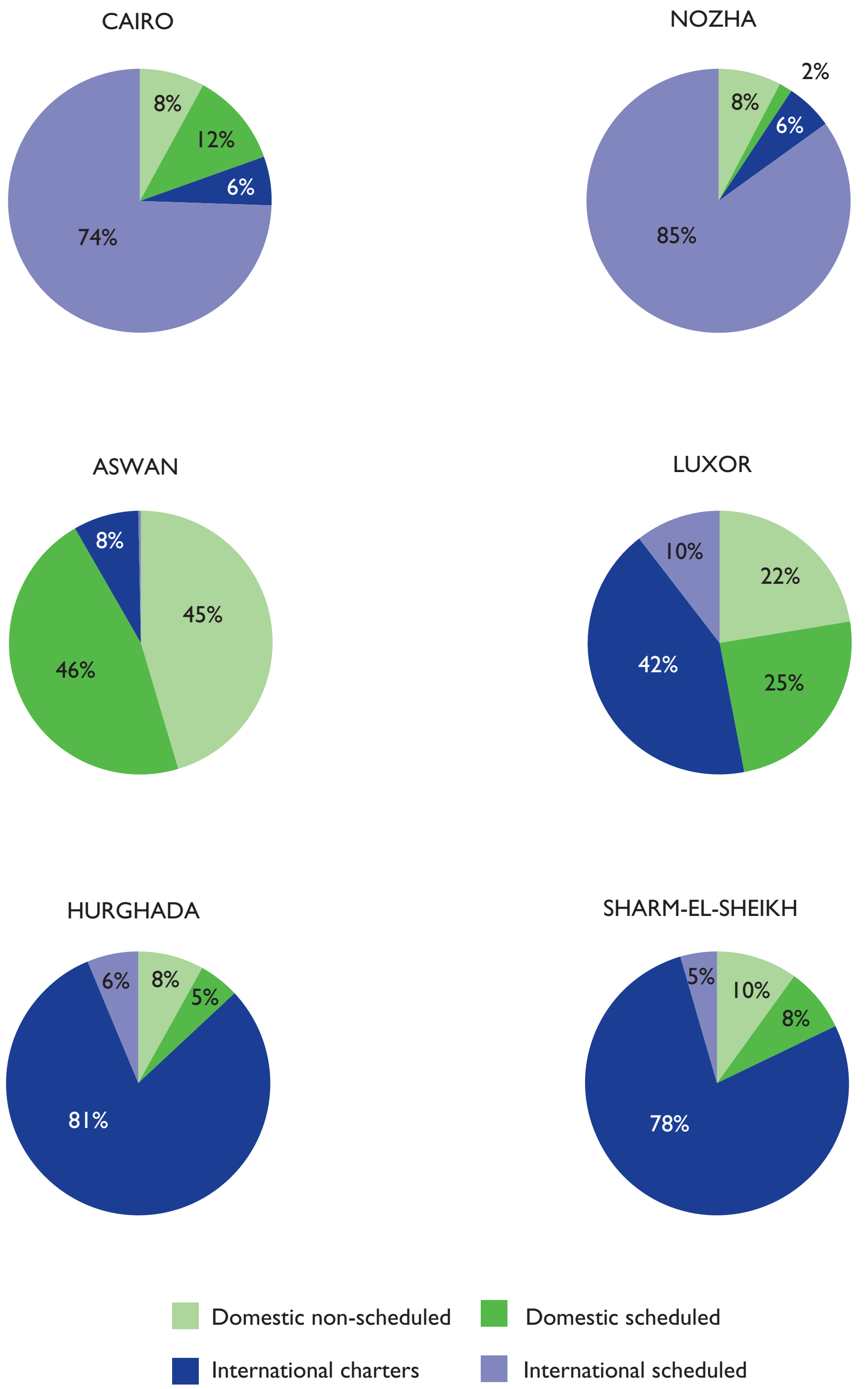
Passenger traffic throughput at selected Egyptian airports, 2004

Type of Traffic	Cairo	Nozha	Aswan	Luxor	Hurghada	Sharm-el Sheikh
Domestic non-scheduled	861,497	30,581	484,190	441,659	363,449	449,456
Domestic scheduled	1,245,390	6,439	493,374	483,960	224,567	358,050
International charters	643,848	23,060	85,450	836,304	3,633,223	3,521,165
International scheduled	8,014,932	337,652	3,259	206,052	280,450	204,913

Source: ETF

Figure 17

Passenger traffic in Main Egyptian Airports 2004



Source: ETF

Figure 18

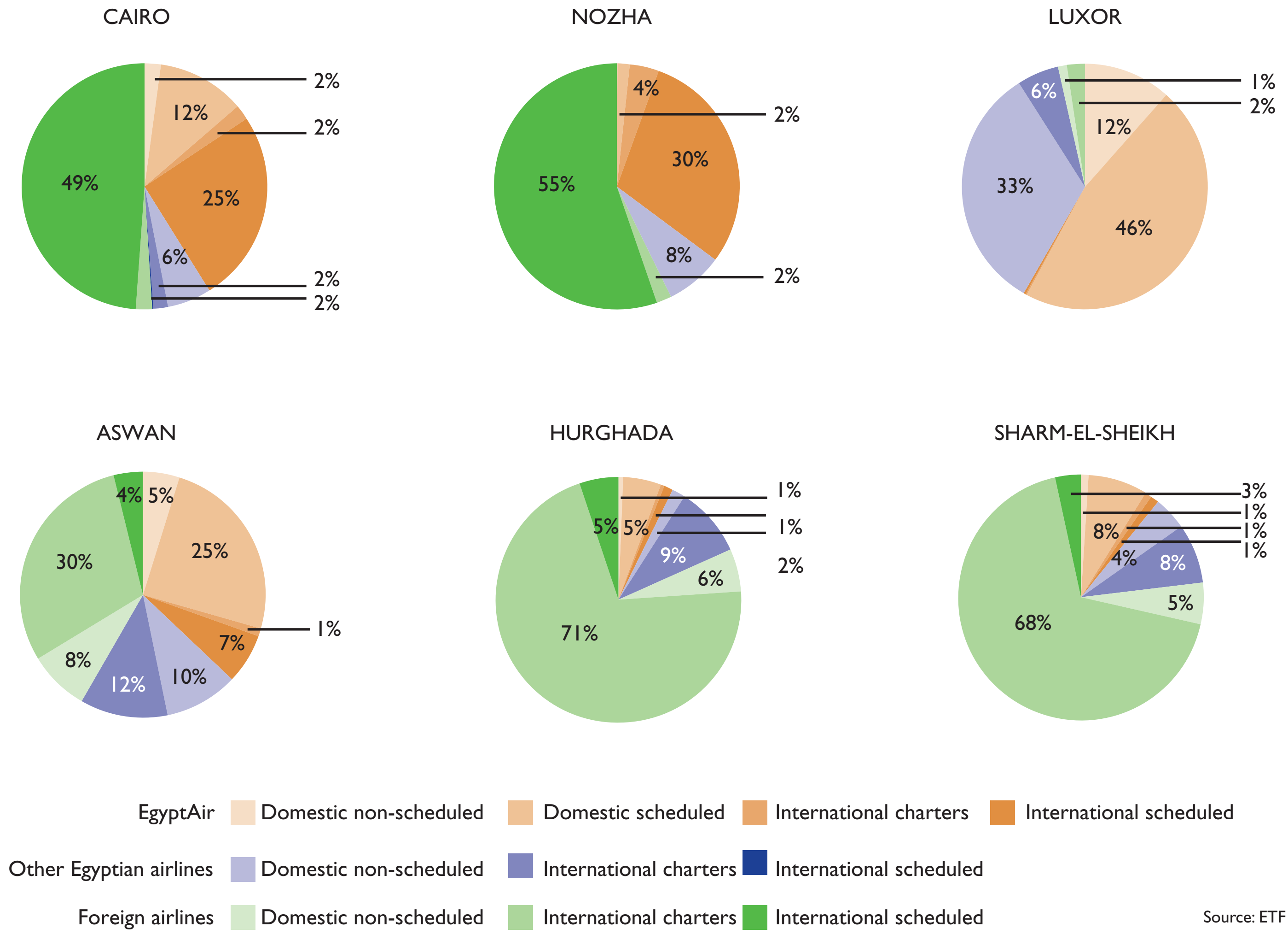
Breakdown of passenger traffic at Egypt's main airports by airline, 2004

Airlines/ Type of Traffic	Cairo	Nozha	Aswan	Luxor	Hurghada	Sharm-el Sheikh
EgyptAir						
Domestic non-scheduled	234,474	277	123,424	94,768	29,512	47,152
Domestic scheduled	1,245,390	6,439	493,374	483,960	224,567	358,050
International charters	207,948	15,155	1,852	21,788	22,024	39,090
International scheduled	2,739,352	117,862	3,259	129,658	51,765	50,070
Other Egyptian airlines						
Domestic non-scheduled	626,643	30,303	348,086	190,237	81,541	201,197
International charters	204,466	-	58,707	227,557	414,461	359,438
International scheduled	13,352	-	-	-	-	-
Foreign airlines						
Domestic non-scheduled	380	1	12,680	156,654	252,396	251,107
International charters	231,434	7,905	24,891	586,959	3,196,738	3,122,637
International scheduled	5,262,228	219,790	-	76,394	228,685	154,843

Source: ETF

Figure 19

Breakdown of Passenger traffic by Airlines in Main Egyptian Airports 2004



Source: ETF

Figure 20
Private Airlines in Egypt

Airline	1999 No. of aircraft	Type	Seating capacity	2005 (May) No. of aircraft	Type	Seating capacity
AMC	3	MD90	120	1	A310	254
		A300/4	270	2	MD83	163
		B737-200	127	1	AB4	300
		B737-400	150	1	B732	125
Lotus Air	4	A320	174	1	A320	180
				1	A319	145
Cairo Air	2	TU204	208	2	A321	185
Orca Air	1	Dash 8	505 SAAB (mid-May delivery)			
Cairo Aviation	-	-	-	1	TU-204	203
Air Memphis	-	-	-	2	A320	170
Luxor Air	-	-	-	1	MD83	163
Petroleum (Pas)	5	Dash 7	50	5	DASH 7	50
Shorouk	2	A320	174	-	-	-
Midwest	2	A310	208	1	A310	208
Scorpio	2	ATR 42	46	-	-	-
Raslan	1	SAAB	33	-	-	-

Source: *The Liberalization of Egyptian Aviation Policies*, 1999, WTTC; ETF

management resources and capability to expand their operations, either on international or domestic routes, if so-called non-transparent barriers are removed. In so doing, the Egyptian Government would create conditions for their role and participation in Egypt's Travel & Tourism, which could be substantially increased, with major benefits for Egypt's national economy.

AIRPORT INVESTMENT AND DEVELOPMENT PLANS

In 2001, the Egyptian Government decided to launch a very ambitious plan to develop, modernize and upgrade airport infrastructure and facilities throughout the country.

Plans and designs were prepared to improve and extend runway facilities, re-adapt and modernize terminal buildings, install technical equipment and upgrade passenger handling at the country's existing 16 international airports. The programme was partly financed by tax revenues and partly by large international loans (mainly from the World Bank).

Seven new airports were scheduled to be built on the basis of a Build, Operate and Transfer (BOT) system, ie the financing, construction and operation were guaranteed by private consortia.

The airport investment programme was closely related to the development (planned and underway) of new tourism and holiday resorts on the Red Sea, Mediterranean and Sinai coasts, and gave special priority to improving conditions in traditional destinations like Cairo, Luxor, Alexandria and Aswan. All these tourist areas needed new or improved airport facilities to respond to projected international traffic growth, especially in view of the demand which will be generated by new hotels and other entertainment facilities provided by the enormous public and private investment underway.

The main facts and figures of the Airport Investment and Development Programme are summarized in figure 21. Four years later, the first phase of the Cairo Airport investment programme has almost been completed and the Cairo Airport Authority is finalizing designs and engineering plans to increase capacity, in 2008, by up to 20 million passenger movements a year.

In any case, Cairo International Airport is still a long way off reaching its full capacity, as most of its daily traffic falls in two peak periods (from 06.00-12.00 and from 18.00-01.00), and there is no night curfew. This means there is usually a slack period every day of around 11 hours long that could be better managed to maximize flight operations. Existing facilities – runway, traffic control, and terminal buildings – could easily accommodate around 20 flights per hour, or 200 flights a day.

Significant interventions were, or are, being concluded in Luxor, Sharm-el-Sheikh, Hurghada and Aswan International airports. Sharm-el-Sheikh and

Hurghada have sustained an average 40 per cent annual increase in passenger throughput in recent years – one of the strongest levels of growth worldwide.

New airports have been built under BOT arrangements in Marsa Alem (finished in 2001) and Borj el Arab (expected to start operations in December 2005). It is also expected that BOT contracts will be signed with foreign and local investors for new airport facilities in Farafra, Bahariya and Ras Sidr.

Starting from 2005, Cairo International Airport will be operated under contract by Frankfurt Airport Company (FRAPORT) and Hurghada, Sharm-el-Sheikh, Aswan, Luxor and Nozha (Alexandria) airports by Aéroports de Paris (AdP) – a clear indication that the Egyptian authorities intend to maximize the benefits for the Travel & Tourism industry of the E£2.5 billion investment to be made in airport infrastructure over this decade.

For the specific purpose of this study, WTTC has taken it for granted that existing and planned airport facilities are not expected to create any new difficulties which would prevent the country from achieving the projected growth in international visitors between now and 2011. It further assumes that the development of the Travel & Tourism industry will be able to develop freely. Investments necessary to complete the Airport Development Plan will be also considered in evaluating the economic impact of liberalization policies on the Travel & Tourism industry and the national economy.

Figure 21
Egypt's airport development plan

Airport	Type of Intervention	Estimate of investment (mn)	Date of conclusion (est)	Capacity (Passenger movements)		Other Information
				2004	Conclusion	
Cairo	Upgrade terminal 1and 2; New terminal building (3); New runway (05); New airport traffic control building		2005 May 2005 Dec 2007	10.5	20.0	World Bank loan (USD 335 million for Cairo and Sharm-el-Sheikh airports)
Sharm-el-Sheikh	New building (commercial); New terminal building; Improving existing runway		May 2005 Jun 2006	1800 pass/hour 4.5	6.5	As mentioned
El Alamein (BOT)	New airport terminal and runway		July 2005	0.5 pass / hour		
Marsa Matroh	Improved terminal building and runway		April 2005	0.5 pass / hour		
Luxor	New terminal building	è445.0	Sep 2005	2.1	7.0	
Aswan	New terminal building			1.4	7.0	
Abu Simbel	Upgrade terminal building and other facilities			0.5 pass / hour		
Marsa Alam (BOT)	Upgrade terminal building and runway		2001	0.45	0.6	
Nozha (Alexandria)	Improve conditions of runway					
Hurghada	Upgrade program: New terminal building; New runway	US$170.0	Dec 2005 2009 2009	4.6	7.0	
Borg El-Arab	New terminal building	è100.0	Dec 2005		1.5 pass / hour	

Other BOT contracts to be signed with investors: Ras Sidr; Fárfara; Bahariya

Source: ETF

SCENARIO FOR AIR TRANSPORT LIBERALIZATION

THE PERFORMANCE OF THE TRAVEL & TOURISM INDUSTRY IN EGYPT SINCE 2003, IN TERMS OF ARRIVALS, OVERNIGHT VOLUME AND INTERNATIONAL TOURISM RECEIPTS, REFLECTS A RETURN TO SUSTAINED STRONG GROWTH.

This leads one to conclude that the country has a significant development potential that has yet to be tapped.

The latest available figures confirm that almost 80 per cent of total foreign visitors travel by air to Egypt.

EgyptAir, the national flag carrier, is responsible for carrying only a small share of these visitors, yet more than 60 per cent of domestic traffic. Despite a major improvement in efficiency, plans to lease new planes and to restructure route operations, it is not expected to be in a position to meet tourism air transport growth needs within the next five to ten years.

To achieve the projected growth to 2011 (Egyptian Ministry of Tourism) or 2015 (WTTC), new conditions have to be created in order to:

- Significantly increase the number of foreign visitors arriving on scheduled flights by international flag carriers or low-cost airlines;
- Significantly increase the number of non-scheduled flights by international and/or Egyptian charter carriers, operating from the main tourist markets to all Egyptian airports (including Cairo and the resort areas);
- Significantly increase frequencies and capacity on existing and new domestic routes, to link cultural and historic sites (Cairo, Luxor, Alexandria, Aswan, etc) with the main sun & beach resort areas, easing tourist circulation within the country and increasing average length of stay in different regions.

The existing restrictions contained in international bilateral agreements, Egyptian aviation and air services legislation, and the frequent discriminatory behaviour and procedures by civil aviation authorities, are today major limitations to international and Egyptian airlines' operations. If not changed, they will form one of the most serious constraints to the projected growth of international tourists in the years to come, and to the expected performance of the Egyptian Travel & Tourism industry.

The lack of transparent decisions and the technical barriers facing privately owned Egyptian airlines are the main factors impeding the existence of a stronger and competitive Egyptian airline system. In fact, contrary to the experience of countries like Turkey, India, Indonesia and Malaysia, the launch in Egypt of several private airlines to operate international or domestic routes has been followed by their successive decline or failure, mainly due to problems artificially created to undermine their profitability.

The existence of a stronger Egyptian airline system, led by EgyptAir, and with the contribution of a number of private airlines competing on scheduled and charter routes – especially to/from Europe and the Middle East – is seen as strategically very important to help maintain Egypt's position as a competitive tourism destination. It will also help to reduce the traditional dependence on international airlines and tour operators' charter companies, which dominate air transport to the country.

On domestic routes, the almost virtual monopoly enjoyed by EgyptAir to operate scheduled services, and the technical barriers imposed on private airlines, are creating significant constraints on tourists wishing to visit two or more regional destinations within the country. International tour operators and local travel agents estimate that package prices could be substantially reduced and the average stay extended, if routes linking Cairo to other historic, cultural or resort regions were operated by several competing airlines.

WTTC considers that, within the policy measures that will have to be taken to guarantee the attractiveness and competitiveness of Egypt as one of the world's main tourism destinations, clear priority should be given to decisions that will allow support the liberalization process, which was briefly initiated several years ago. All decisions should be oriented towards facilitating the overall performance of the Travel & Tourism industry, even if the short-term effect will probably be to cause damage to the results and profitability of EgyptAir's international or domestic operations.

AVIATION LIBERALIZATION ASSUMPTIONS

All quantitative projections and estimates included in this report regarding the impact of aviation liberalization on the Travel & Tourism industry and the national economy assume that the Egyptian Government will take the initiative to embark on an aviation and air services liberalization programme, taking the main decisions by December 2005. These include approaching other governments to renegotiate or unilaterally grant, on request, additional traffic rights within the framework of existing aviation bilaterals, and implementing several important changes to legislation that regulate aviation and air transport in Egypt. In the following 'aviation liberalization scenario', the assumption is made that decisions will be taken to:

- Within the aviation bilaterals, ease the restrictions and limitations on number of designated airlines, destinations, capacity and frequencies, allowing as many direct scheduled flights by international airlines to Cairo and other Egyptian airports as possible, even if reciprocity from countries of origin are not granted[8];
- Designate, whenever possible under the existing bilateral agreements, a second Egyptian airline, offering it traffic rights to operate international routes, especially those which EgyptAir, as the first designated carrier, has no interest or capacity in flying to;
- Encourage international airlines to carry passengers from a third country to Egypt via an international flag carrier's hub[9] ("sixth freedom" traffic rights);
- Allow unlimited access to Cairo International Airport to all (international and Egyptian) charter airlines wanting to fly non-scheduled international flights, subject to slot availability;
- Allow unlimited access to Cairo International and other Egyptian airports to low-cost carriers wanting to fly international scheduled services, subject to slot availability;
- End existing restrictions on Egyptian private airlines operating domestic routes and eliminate all discriminatory procedures and technical barriers to their normal operations.

This 'aviation liberalization scenario', to be adopted by December 2005, would be a major step towards realizing some of the conditions critical to tapping the full potential of Travel & Tourism in Egypt.

Additional assumptions have been made that:

- Investments to modernize, upgrade or expand the existing facilities in all Egyptian airports by 2008 will guarantee that capacity will no longer limit the projected annual increase in international arrivals or domestic airline traffic;
- Airport taxes and other related operational fees, in Cairo and other international airports, will be similar to those imposed on airlines in airports in main Mediterranean and Middle East tourism destinations.

ECONOMIC IMPACT OF AIR TRANSPORT LIBERALIZATION IN EGYPT

Introduction and summary

This report assesses the potential impact of air transport liberalization on Egypt's Travel & Tourism, and the wider implications for the country's economy. This assessment is based on the OEF/TSA[10] model for Egypt, which allows us to look at broad tourism indicators and at how these come together to make up the Travel & Tourism Economy, and the wider economic impact this has.

The main analysis is based on constructing an alternative scenario that assumes the full implementation of an air liberalization policy, to compare with a baseline scenario which assumes no progress with liberalization. In this alternative scenario, OEF has estimated tourist numbers by looking at the impact of air liberalization in other aviation markets, and by combining this with an assumption about the typical elasticity of demand for air travel. OEF has also made allowance for other associated increases in tourism activity, in particular likely increases in tourism investment to meet the accommodation demands of a growing number of tourists.

The alternative scenario shows that international tourist arrivals could be increased by 2.5 million by 2011 if air transport were liberalized than would otherwise be the case. This would mean an additional 220,000 jobs (directly in the Travel & Tourism Industry and, indirectly, in related sectors) and US$1.6 billion additional GDP generated by the Travel & Tourism industry.

Analysis shows, however, that such liberalization is unlikely to be sufficient to meet an arrivals target of 15 million a year by 2011, as defined recently by the Egyptian Government. (The appendix shows what the arrivals scenario would look like if this target were to be met.)

The remainder of this sub-chapter is divided into four sections. The first presents a brief summary of the potential sources of economic benefits. The second gives an outline of our 'baseline forecast' for Travel & Tourism in Egypt in the absence of liberalization. The third describes the methodology for constructing a 'liberalization scenario' covering the period 2006-11. Finally, the main conclusions on the economic impact of the alternative scenario relative to the base forecast are presented.

POTENTIAL SOURCES OF ECONOMIC BENEFITS

In general, air liberalization agreements between two countries permit unrestricted air services by the airlines of both countries between and beyond each other's territories, eliminating restrictions on how often the carriers can fly, on the kind of aircraft they can operate and on the prices they can charge. They may also provide for full liberalization of scheduled and charter operations, as well as all-cargo services, over a one to five-year transition period.

According to standard economic theory, liberalization in international trade and investment in aviation services have the potential to benefit economic activity via improvements in efficiency and gains to consumers (EC Report, 2002). The contributions to these benefits are varied, but the most important include:

- Improved efficiency due to increased competition – less efficient airlines would adopt the practices of more efficient ones, or more efficient airlines would replace the less efficient ones.
- Taking advantage of economies of scale – airlines can achieve additional savings by changing their combined route network to connect more flights to hub airports. They can also attain higher capacity utilization, both of passenger and cargo services.
- Pricing synergies – liberalization would allow better co-ordination of pricing on routes that currently require passengers to fly on two or more airlines to reach their destination.
- Liberalization of trade in services can result in increased demand – first, through the direct effect of the lifting of restrictions to air transport flows, leading to an increase in flights and routes. Second, price reductions resulting from competitive forces and cost savings can result in lower fares which, in turn, would lead to increased passenger volumes.
- Better investment prospects – the implementation of an open skies policy would lead to a significant growth in investment as airlines establish new operations, open new markets and consolidate their existing operations.

In terms of their wider economic contribution, airline services are key to facilitating the development of a more diversified export base and increased tourism. The development of commercial aviation is instrumental in reducing the costs of trade and the movement of goods and people. New investment is attracted to locations with good air transport links to the rest of the world. The experience of Southeast Asia during the last four decades is one example of the benefits that the expansion of international trade can have in fostering economic growth, improving economic efficiency and making a significant contribution to poverty alleviation (Air Transport Action Group, 2003).

In contrast, air transport infrastructure shortages and limited competition in airline services can be a major obstacle to economic growth by making market access both difficult and expensive. Moreover, a limited number of regional hubs and the lack of a well-developed network of domestic airports can seriously hamper the opening of tourism resorts in remote areas or in places far from the main regional hubs or international airports.

In summary, efficient air transport will stimulate demand both in terms of destinations and number of flights, improve customer service, offer more competitive fares and encourage tourist traffic. Easy access to tourism destinations is considered to be a prerequisite for the development of tourism. This includes an extended domestic airline network, frequent flight schedules and linkages through hubs. It is the scope for encouraging additional tourism that is the focus of this report.

Baseline Travel & Tourism forecast

Figure 22 sets out the key features of Oxford Economic Forecasting's (OEF's) Tourism Satellite Account projections for Egypt, produced in association with WTTC. Although these projections do not cover visitor numbers as such, it is possible to infer the likely number of visitors from the projections for foreign visitor spending in Egypt. These are consistent with foreign visitor arrivals rising from 8.5 million this year (2005) to 11.0 million by 2011. It is worth remembering, however, that this forecast could be significantly affected by unexpected movements in the exchange rate.

As already indicated, inbound tourism into Egypt has risen substantially in recent years, boosted by more competitive exchange rates, particularly in comparison with source markets in the eurozone. If the euro were to depreciate against the US dollar, visitor numbers may also fall back. The projections are based on relative stability in the real effective exchange rate – in other words, ongoing modest falls in the Egyptian exchange rate, broadly in line with inflation.

On the basis of these visitor numbers, the projections show the GDP of the Travel & Tourism industry rising from US$9.6 billion in 2005, once the direct and indirect (ie supply chain) elements are both taken into account, to US$13.2 billion by 2011, with Travel & Tourism Industry jobs stable at slightly more than 9 per cent of total employment.

The 'liberalization scenario'

OEF's 'alternative scenario', of the impact of the liberalization of air transport policy, is based first and foremost on the effect of price incentives on demand, in order to derive international tourist arrivals. It is expected that the implementation of the proposed air transport liberalization policy in 2005/06 would result in lower costs and more competitive prices and, therefore, an increase in international tourism and business travel.

Air fares

As a benchmark for changes in average airfares following the introduction of an airline liberalization policy, OEF used the results reported in a US Department of Transport study looking at the liberalization in the transatlantic market over the period 1996-99 (US DoT 2000). This showed that, over that period, prices in open skies markets typically fell by around 12 per cent more than those in other markets. (The overall trend was towards declining prices over the period, even in the absence of the competition effects of open skies.)

It is therefore assumed that air transport liberalization in Egypt would similarly result in a decline of 12 per cent in average airfares over a four-year period (corresponding to 2006-09), relative to a non-liberalized scenario. The profile is as follows: 50 per cent of the whole impact in the first year; 30 per cent in the second; 15 per cent in the third; and 5 per cent in the final year (ie 2009). No further declines in fares relative to the baseline scenario are expected beyond that date.

Elasticity of demand

Information available from a wide range of studies estimating the price elasticity of demand for holiday and business travel provides a range from -1.1 to -2.7 (OECD 1997), and for Egypt's scenario OEF used the middle of this range, giving a value of -1.9.

Combining this estimate of the price elasticity of demand with our assumption about the impact of liberalization on airfares over the period 2006-09 gives an estimate of the likely impact on visitor arrivals. The baseline scenario suggests 11 million passengers by 2011 in the absence of liberalization; the alternative scenario suggests that international arrivals could reach 13.4 million by 2011.

Investment

The alternative scenario also includes an allowance for additional Travel & Tourism investment, primarily in additional hotel rooms to match the increase in tourist numbers. Detailed requirements will depend on the type of visitors, the time of year they travel to Egypt, etc, but the methodology looks at requirements in broad terms:

- From the series of arrivals OEF calculates night spend over the forecast period by assuming a constant average stay of eight nights (which is the average for the period 2001-04).
- The next step is to calculate the number of hotel rooms required from the series of nights spent, assuming a constant 75 per cent occupancy rate (equal to the average occupancy over the period 2002-03). The equation used is: rooms = nights spent / (occupancy rate*365).

Investment in the Travel & Tourism sector is then obtained as follows:

- 80 per cent of the rate of growth in hotel room capacity, reflecting the importance of investment in the hotel sector in total Travel & Tourism investment;
- An amount is added to reflect funds earmarked for projects to expand air services infrastructure – a total of about US$300 million spread over the period 2006-08,

Figure 22
Baseline Scenario Projections, 2000-11

	Arrivals (‘000)	Visitor Exports ($bn)	T&T Econ. GDP ($bn)	T&T Ind. GDP ($bn)	T&T Econ GDP (% of total)	T&T Ind. GDP (% of total)	T&T Econ. Employ (% of total)	T&T Ind. Employ (% of total)
2000	5,116	4.7	11.3	7.9	11.6	8.1	9.7	6.8
2001	4,357	4.1	10.3	7.1	11.3	7.8	9.5	6.6
2002	4,906	4.1	10.1	7.3	11.7	8.5	9.9	7.2
2003	5,746	4.7	9.6	6.9	13.5	9.7	11.3	8.2
2004	8,160	6.1	11.6	8.5	15.0	11.0	12.6	9.3
2005	8,500	7.0	13.1	9.6	15.4	11.4	13.0	9.6
2006	8,717	7.3	13.7	10.1	15.4	11.3	13.0	9.5
2007	8,985	7.5	14.4	10.5	15.3	11.1	12.9	9.4
2008	9,484	8.0	15.3	11.2	15.3	11.2	12.9	9.4
2009	9,931	8.4	16.2	11.8	15.3	11.1	12.9	9.3
2010	10,433	8.9	17.2	12.5	15.4	11.1	12.9	9.2
2011	10,952	9.5	18.3	13.2	15.4	11.1	12.9	9.1

Source: WTTC

taking into account approved plans (AmCham, 2005) to expand and modernize airport facilities over the period (eg the expansion in airports in Cairo, Sharm-el-Sheikh and Luxor).

Other assumptions

There are a few other technical assumptions required in order to use OEF's TSA model to study the impact of liberalization:

- The domestic component of residents' spending and business travel is assumed to grow as in the baseline scenario.
- An increase in tourism demand relative to base values translates into a proportionate rise in imports of Travel & Tourism services by Egyptian residents.
- It is assumed that the forthcoming infrastructure expansion, together with the comprehensive effort of airport modernization and development that has taken place in Egypt during recent years, is enough to provide the required capacity to accommodate the increase in arrivals to 2011.
- Public spending related to tourism is assumed to rise 5 per cent above base during the period 2006-08. This is to reflect ongoing government efforts to support the development of cultural and tourist services in the country.

Finally, the resulting series of arrivals and investment are input into the OEF/WTTC model for Egypt in order to estimate their effects on demand for Travel & Tourism and on the contribution of Travel & Tourism GDP and Travel & Tourism employment to the whole economy. It is assumed in this scenario that liberalization measures are introduced at the end of 2005, and therefore affect arrivals and investment from 2006 onwards. If, however, policy changes are to take place in late 2006, it is likely that most of the impact will start to be felt in 2007, which would push back the timing of the effects shown here. However, the scale of the effects is not expected to be changed very much by such a delay.

Quantification of economic benefits to the Egyptian economy

The tables look at the differences between the 'alternative (liberalized) scenario' and the 'baseline scenario' projections in terms of:

- GDP and employment in the Travel & Tourism industry and economy[11], both in terms of the percentage differences from the baseline projections and the absolute differences (US$ billion for GDP, thousands for employment).
- Real GDP annual rate of growth at constant 1990 prices.
- NetX$/GDP$ (net exports divided by GDP, in US dollar terms): balance of goods and services as a percentage of GDP.

The analysis implies that civil aviation liberalization could:

- Increase Travel & Tourism Industry GDP by 12 per cent in 2011 (compared with what our projections show in the absence of liberalization), adding US$1.6 billion to Travel & Tourism Industry GDP.
- Increase Travel & Tourism Industry employment by 220,000 by 2011 compared with the baseline scenario.
- Have a somewhat greater impact on the wider concept of the Travel & Tourism Economy, adding US$2.1 billion to GDP and 260,000 to jobs.
- Increase overall real GDP across the economy by 1.8 per cent by 2011.

In addition, a set of charts is included showing the evolution of the key variables for the liberalization scenario, compared with the baseline projections and also with what a scenario might look like if it were to achieve the arrivals target of 15 million visitors a year by 2011, as projected by the government.

Figure 23
Egypt Aviation Liberalization Scenario, 2004-11

	Liberalization Scenario		Baseline Scenario	
	Arrivals ('000)	Investment T&T % y-on-y	Arrivals ('000)	Investment T&T % y-on-y
2004			8,160	19.7
2005			8,500	9.1
2006	9,702	18.4	8,717	6.6
2007	10,611	9.0	8,985	6.7
2008	11,522	6.9	9,484	6.8
2009	12,177	4.5	9,931	6.9
2010	12,792	4.0	10,433	7.0
2011	13,428	4.0	10,952	7.1

Source: WTTC

Figure 24

Egypt Aviation Liberalization Scenario, 2006-11

(% differences with respect to baseline scenario)

	GDP Economy	GDP Industry	EMP Economy	EMP Industry	Real GDP
2006	8.4	6.4	5.1	4.6	1.3
2007	11.6	10.0	7.0	7.1	1.8
2008	13.0	11.8	7.9	8.2	2.0
2009	12.7	12.2	7.8	8.4	1.9
2010	12.1	12.1	7.5	8.4	1.9
2011	11.4	12.0	7.1	8.3	1.8

(absolute differences with respect to baseline scenario)

	$bn	$bn	'000	'000	NetX$/GDP$
2006	1.1	0.6	170	112	0.6
2007	1.7	1.0	238	176	1.0
2008	2.0	1.3	275	208	1.3
2009	2.1	1.4	276	218	1.3
2010	2.1	1.5	270	221	1.3
2011	2.1	1.6	263	223	1.4

Source: WTTC

Figure 25

Egypt's Travel & Tourism Economy: A Comparison of Scenarios

Source: WTTC/Oxford Economic Forecasting (OEF)

CONCLUSIONS AND POLICY RECOMMENDATIONS

OUTLOOK

Economic recovery in the USA, the EU, Japan and other Asian countries, a renewal of tourist confidence, and lower air transport fares and accommodation prices (related to increased competition in aviation services and tourism destinations) are responsible for the strong rebound in world Travel & Tourism.

Despite the irruption of geopolitical conflicts and the multiplication of periodic terrorist attacks, more people are travelling to medium- and long-haul destinations, and more investment is being put into new accommodation and entertainment facilities, both in mature and in newly emerging resorts and tourism destinations.

China, India and Russia are all experiencing huge growth in tourism demand, and new infrastructure and increased hotel supply are helping to boost the Travel & Tourism industry and local economies. Citizens are travelling not only within their world regions, but also to intercontinental destinations.

The aviation industry is under pressure, with no spare capacity to respond to increasing Travel & Tourism and general air transport needs, especially in peak seasons. Airlines are placing large orders for new aircraft to be delivered in the next few years, anticipating a significant growth in traffic demand.

As for Middle Eastern and North African countries, including Egypt, prospects for the next few years are bullish, despite political instability in the region (notably in Iraq and Israel / Palestine), and fears of new terrorist attacks.

Following a consistently favourable trend in 2003-04, preliminary results for the first quarter of 2005, together with WTTC and WTO forecasts for the full 12 months of 2005, point to sustained growth for Travel & Tourism in Egypt.

European markets will sustain their position as the most important tourism generating countries for Egypt, both in number of international arrivals and in volume of tourism receipts. Arab intra-regional tourism is growing fast, and new markets like Russia and other parts of eastern Europe, China, India, Australia, Malaysia and Singapore are showing enormous potential for the future.

The Egyptian Government seems to be committed to a long-term tourism strategy, aiming to create the necessary conditions not only to increase foreign tourist arrivals, but also to increase average length of stay in different tourist regions of the country and to increase foreign currency receipts. The government is aware of the importance of Travel & Tourism for the country's economy and is supporting public and private investment in new and upgraded airport and tourism infrastructure. Other policies related to the needs and priorities of Travel & Tourism are also being implemented, to:

- market and promote Egypt as a tourism destination;
- encourage foreign and local private investment;
- train and qualify Travel & Tourism personnel; and
- ensure the safety and security of tourists and tourism regions.

Other very sensitive policies – including monetary, fiscal and civil aviation and air transport policies – seem to be receiving renewed attention, as their impact on the Travel & Tourism Industry are increasingly seen to be decisive. By implementing these policies, the Egyptian Government is hoping to achieve a target of 15 million foreign tourist arrivals by 2011.

CONCLUSIONS

The most important conclusion of this report is that, even if the prospects for sustained worldwide growth in demand are confirmed, and domestic policies with positive effects on Travel & Tourism keep being successfully implemented, the existing civil aviation regulatory framework will prevent Egypt from realizing its full potential as a tourism destination. In this case, the targeted 15 million foreign tourist arrivals in 2011 could not be achieved.

Egyptian Travel & Tourism statistics demonstrate that most international tourists arrive by plane, so civil aviation and air transport policies and regulatory decisions will have a strong impact on the performance of the Travel & Tourism industry.

OEF's forecasts and other research also lead to the conclusion that the Egyptian Travel & Tourism industry and the national economy will benefit from a less regulated and more competitive airline operating environment. The 'aviation liberalization scenario' laid out in this study assumes the implementation of a full set of liberalization policy measures. It forecasts 13.5 million tourist arrivals in 2011 – 2.5 million more than in the 'baseline scenario', in which the existing civil aviation regulatory environment would not be changed.

OEF's research and analysis also suggests that, if the Egyptian Government decides to move towards a more open and competitive market in civil aviation and air services, following the example of countries like India, Turkey and the UAE, an additional increase of 225,000 jobs and US$1.6 billion in Travel & Tourism GDP could be achieved by 2011, compared with the 'baseline scenario' projections.

While not intending to disparage the role and importance of EgyptAir as the national carrier, available data shows how limited its contribution to international tourism is, not only from the main generating markets in Europe, but most importantly from countries now considered to be of strategic interest for Egyptian tourism. It is quite clear that the needs of air transport, related to the expected increase in number of tourist arrivals by 2011, cannot be satisfied by EgyptAir. Other international airlines (scheduled, charter and low-cost) and Egyptian private companies will continue to play an important and decisive role in serving millions of tourists who decide to travel from their countries of origin to different Egyptian tourism regions.

Protecting EgyptAir's interests and limiting the operations of international or Egyptian privately owned airlines will conflict with the larger economic and social benefits that should result from the expected growth of Travel & Tourism. The report also stresses the need to remove existing non-transparent barriers to the operation of Egyptian privately owned airlines, allowing them to contribute positively to air transport to and within the country. By doing so, the conditions will be created to develop a stronger and more competitive Egyptian Airline System, taking advantage of synergies between EgyptAir and private airlines, and reducing the country's dependence on international airlines.

Although it could be expected that EgyptAir would be forced to make significant changes to its structure and operations to face competition in a more open aviation regulatory environment, benchmark evidence shows that national carriers, under pressure from new entrants and other competitors, are capable of successfully reorganizing their structure and operations and of becoming stronger, more efficient and very competitive.

POLICY RECOMMENDATIONS

WTTC believes that the long-term objectives of Egypt's civil aviation policy should be the opening up of markets and the liberalization of air transport services.

To secure the full economic benefits possible from the development of Travel & Tourism, WTTC specifically recommends that the Egyptian Government take rapid steps to change the existing protectionist civil aviation regulatory environment.

WTTC recommends a set of **short-term initiatives and policy decisions** to be taken to:

- Respond positively and immediately to international flag carriers' requests to operate additional frequencies or increase capacity on direct scheduled services to Cairo International or other Egyptian airports, thereby easing current restrictions related to existing ASAs.
- Eliminate the existing restrictions on international charter operations to Cairo International Airport, at least outside the peak-hour periods (06.00-12.00 and 18.00-01.00). Assuming an average capacity of 20 flights per hour, this decision would allow a significant number of additional foreign tourists to have direct access to the Cairo region.
- Attract low-cost airlines to Cairo International and other Egyptian airports, providing that they guarantee year-round scheduled services, operating an agreed number of daily frequencies and capacity.
- End all restrictions and all discriminatory practices against privately owned Egyptian airlines wishing to operate domestic routes. Existing non-transparent barriers give room for EgyptAir to act as the sole operator of scheduled services on domestic routes. WTTC believes that open competition between EgyptAir and other Egyptian airlines on domestic routes will immediately result in lower airfares, attracting more foreign tourists to visit different regions of the country, and increasing average length of stay. Tour operators, travel agents and airlines will no longer be obliged to charge very high additional fares

to their normal package prices or airline seat-only fares if their clients wish to include domestic sectors in their overall trips.

- Encourage and allow international flag carriers to carry passengers from a third country via their home hub airport to Egypt on scheduled flights. These special, so called, “sixth freedom” rights should primarily be granted to airlines that demonstrate their capability to fly passengers and potential tourists to Cairo from countries considered to be of strategic interest to Egyptian tourism, and not yet served by direct scheduled flights.

As for **short- to medium-term initiatives and policy decisions**, WTTC recommends that:

- Restrictive provisions included in air services agreements (ASAs) signed with countries considered to be of strategic interest for Egyptian tourism should be renegotiated and released. The Egyptian Government should take the initiative in approaching their counterparts, suggesting the abolition of restrictions on capacity, frequencies and points to serve, allowing as many scheduled flights by international airlines to Cairo and other Egyptian airports as possible, even if reciprocity would not be immediately granted.
- Egyptian privately owned airlines should have access to traffic rights under bilateral ASAs, and designated as another Egyptian operator on international routes where other countries also have two or more airlines flying to different Egypt destinations. On international routes in which EgyptAir has shown no interest in operating – or no capacity to operate – other Egyptian airlines should be encouraged to apply for the available traffic rights.
- All restrictions and regulations that are today limiting international charter or low-cost operations to Cairo International Airport should be eliminated. After the Cairo International Airport upgrade and expansion plan is completed, there will be no excuse for maintaining existing restrictions, and the additional capacity will allow the airport to accommodate the expected increase in international and domestic passenger traffic.
- New legislation should be introduced to protect private Egyptian airlines on both international and domestic routes from scheduling rules and pricing strategies or other constraints designed to drive them out of business. Thus allowing fair competition on domestic routes. In fact, the Egyptian Government should take all the necessary steps to create the conditions for an efficient Egyptian airline system, involving EgyptAir and other private Egyptian airlines. A strong and competitive Egyptian airline system would more easily prevent Egypt’s Travel & Tourism Industry and Economy from irregular practices by international tour operators and charter carriers.

Although not directly related to the objective of this report, WTTC recommends that the Egyptian Civil Aviation Authority and the Egyptian Holding Company for Airports should work closely together to take the necessary steps regarding Cairo Airport’s infrastructure, equipment and management to:

- Allow EgyptAir to develop its own ‘hub-and-spoke’ strategy, taking full advantage of Cairo’s exceptional geographic position to link African and European countries to Middle and Far East regions;
- Implement a commercial and marketing strategy for the airport, by approaching international airlines to start scheduled or non-scheduled services, or to increase their frequencies and capacity to Cairo. Airport promotional activities are a very important, and sometimes decisive, component of countries’ tourism marketing policies or strategies, probably due to their capacity to make established or emerging tourism destinations more attractive and more competitive to international airline operations.

Finally, WTTC does not recommend that Egypt should unilaterally adopt an open skies aviation policy, as regional conditions still do not exist to take full advantage of this type of initiative. It should continue to support the establishment of a Common Arab Aviation Market that will pave the way to a multilateral regional aviation liberalization agreement, where a Middle East and North Africa open skies environment should finally be implemented and achieved.

FOOTNOTES

[1] WTO Barometer, June 2005, World Tourism Organization
[2] Ministry of Tourism, The Central Department of Information and Decision Support System
[3] Egyptian Tourist Authority, Information Centre, unpublished statistics
[4]Egyptian Ministry of Tourism
[5] Egyptian Ministry of Tourism
[6]Egyptian Ministry of Tourism
[7] For the past 15 years, WTTC has been developing forecasts for the economic contribution of Travel & Tourism to national economies, based on the Tourism Satellite Accounting methodology. Each year in collaboration with Oxford Economic Forecasting (OEF), WTTC undertakes in depth TSA research studies on selected countries. These Special Country Reports quantify all aspects of Travel & Tourism demand then translate this information into economic concepts of production, which can be compared with other industries and the economy as a whole to provide information that will assist in policy and business decision making. The reports also set out WTTC's recommendations on policies that we believe will help optimize the potential benefits of Travel & Tourism, ensuring longer-term sustainable development and spreading the benefits across all levels of the economy and country. WTTC currently forecasts for 174 countries across the world.
[8] Absolute priority should be given to international airlines flying from the markets considered strategic to Egypt's future tourism (EU countries, the Middle East, Russia and eastern Europe, Turkey, China, India, Japan, South Korea, Australia, etc)
[9] Sixth freedom traffic rights should be given to airlines wishing to carry passengers and potential tourists from countries considered as new strategic markets for Egyptian tourism, and not yet served by direct scheduled flights; (eg India, China, Japan, Malaysia, Indonesia, Singapore, Australia, New Zealand, Hong Kong, South Korea, etc)
Oxford Economic Forecasting – Tourism Satellite Account.
[10] The Travel & Tourism industry covers those sectors normally regarded as serving tourists. However, we also define a wider concept of the Travel & Tourism economy which includes not just supply to visitors but also goods/services produced more widely on behalf of the tourist, ie collective government spending, capital formation and non-visitor exports. In both cases, the concepts reported here include both direct and indirect GDP and employment, ie they include the impact of purchases made from supplier comp

REFERENCES AND DATA SOURCES

Airline Business (Reed), Monthly Magazine

Airlines International (IATA), Issue 02/03, Feb, March, 2005

Air Transport Action Group (ATAG), *The Contribution of Air Transport to Sustainable Development in Africa*, 2003

Al- Ahram – Weekly on Line, *Liberalizing the Arab Skies,* Nov. 2002

American Chamber of Commerce in Egypt (BSAC), *The Tourism Sector in Egypt*, 2002

American Chamber of Commerce in Egypt (BSAC), *Tourism Sector Developments in Egypt*, 2005

Association of European Airlines (AEA), *Airlines & Tourism – A Mutually Beneficial Relationship*, 2001

Association of European Airlines (AEA), *AEA Contribution to the Development of EU External Aviation Policy*, 2004

Association of European Airlines (AEA), *Developing the Agenda for the Community's External Aviation Policy - Communication for the Commission-AEA Position*, 2005

Aviation Week & Space Technology, Weekly Magazine

Business Monitor International, *Egypt Tourism Report*, Q1, 2005

Clancy, Michael, *Globalizing the Skies: Domestic and International Sources of Commercial Air Transport*

Egypt Air, Annual Resume, 2004

Egypt Air, Summer Timetable, 2005

Egypt Holding Company for Airports

Egypt Tourism Federation (ETF)

Egypt Ministry of Tourism, Central Department of Information and Decision Support System. *Tourism in Figures*, 2003

Egyptian Tourist Authority, (ETA). Information Center, Unpublished Statistics 2003

European Commission, The *Economic Impact of an EU-US Open Skies Aviation Area*, 2002

International Civil Aviation Organization (ICAO), *Aviation Regulation: New Millennium – New Direction address by Dr. Assad Kotaite*, 2000

International Civil Aviation Organization Journal, Number 2, 2005

International Civil Aviation Organization (ICAO), Minutes of the *Worldwide Air Transport Conference: Challenges and Opportunities of Liberalization*, March, 2003

International Air Transport Association (IATA), International Traffic Statistics, 2004

International Air Transport Association (IATA), International Cargo and Passenger Forecasts 2004 to 2008

OECD, *Carbon Changes on Aviation Fuels*, 1997

Orient Aviation (AAPA), Monthly Magazine

Oxford Economic Forecast (OEF), *Economic Impact of Air Liberalization in Egypt*, June/July 2005

US Department of Transport, 2000. *Transatlantic Deregulation: The Alliance Network Effect*.

World Travel & Tourism Council (WTTC), *The Way Forward-Multilateral Air Transport Liberalization*, 1993

World Travel & Tourism Council (WTTC), *Air Transport and Freer World Trade*, 1997

World Travel & Tourism Council (WTTC), *The Liberalization of Egyptian Aviation Policies: The Benefits for Tourism and the National Economy*, 1999

World Travel & Tourism Council (WTTC), *Blueprint for New Tourism*, 2003/04

World Travel & Tourism Council (WTTC), *Progress & Priorities*, 2004/05

World Travel & Tourism Council, *Travel & Tourism Satellite Accounting Research, Estimates and forecasts*, 1999, 2005 and 2015

World Travel & Tourism Council, *Egypt's Travel & Tourism Forging Ahead*, Travel & Tourism Economic Research, 2004

World Travel & Tourism Council (WTTC), *Egypt – Travel & Tourism Sowing the Seeds of Growth, Travel & Tourism Economic Research*, 2005

World Tourism Organization (WTO), *Compendium of Tourism Statistics 1999-2003* (2005 edition)

World Tourism Organization (WTO), *Tourism and Air Transport*, Seminar Proceedings, May 2000

World Tourism Organization(WTO), *Tourism Market Trends* 2003 and 2004 Editions

World Tourism Organization (WTO), *Tourism Market Trends* – 2004 Profile Egypt

World Tourism Organization, *Tourism Highlights*, 2004

World Tourism Organization (WTO), *The Future of Traditional Destinations – Seminar Proceedings*, May 2004

World Tourism Organization (WTO), *Overview of International and European Tourism in 2004 and Outlook for 2005*, May 2005

World Tourism Organization (WTO), *Closer Cooperation Would Bring Mutual Benefits to the Aviation and Tourism Sectors*, by Chris Lyle, ICAO Journal

World Tourism Organization (WTO), *World Tourism Barometer*, 2003, 2004, 2005

www.tourismturkey.org/statistics

APPENDIX

Appendix 1

Arrivals Target

The liberalization of air policy is not enough, in the OEF liberalization scenario, to achieve the target of 15 million international tourist arrivals a year in Egypt by 2011. For completeness, we have also used the model to look at what would be implied for Egypt's Travel & Tourism industry if this target *were* achieved:

Figure 26

Arrivals Target Scenario, 2006-11

(% differences with respect to base)

	GDPeco	GDPind	EMPeco	EMPind	Real GDP
2006	7.6	5.6	4.6	4.1	1.2
2007	11.9	10.3	7.3	7.3	1.8
2008	14.3	13.1	8.7	9.0	2.2
2009	16.3	15.8	10.0	10.7	2.5
2010	17.9	17.9	11.0	12.0	2.7
2011	19.0	19.7	11.8	13.1	2.9
(absolute differences with respect to base)					
	$bn	'000	NetX$/GDP$		
2006	1.0	0.6	154	101	0.6
2007	1.7	1.1	246	182	1.1
2008	2.2	1.5	303	229	1.4
2009	2.6	1.9	355	275	1.7
2010	3.1	2.2	399	315	2.0
2011	3.5	2.6	437	351	2.2

Source: WTTC

Appendix 2

15 million arrivals target scenario

Baseline Scenario (2005): Estimated 8.5 million International Tourists
Arrivals Target (2011): Estimated 15.0 million
Period (2006-2011): 6 years
Annual Average Growth (2006-2011): 6.5 million ÷ 6 years = 1.083 million/year
85% of total international visitors arrive by plane:
1.083 million x 0.85 : ≈ 920,550 arrivals by plane/year
Breakdown of international arrivals by main international airports (2004)

- Cairo International Airport ≈ 30% of Total
- Other main international airports ≈ 70% of Total

Assumptions (2006)

Cairo International Airport arrivals of international visitors ≈ 32.5% of total
Other main airports arrivals of international visitors ≈ 67.5% of total

- Cairo arrivals (2006): 920,550 x 0.325 = 299,179/year
- Other airports arrivals (2006): 920,550 x 0.675 = 621,321/year

Considering 52 weeks/year:

- Additional international arrivals/week in Cairo International Airport: 299,179 ÷ 52 weeks = 5,753 arrivals/week (additional)
- Additional international arrivals/week in other Int. Airports 621,321 ÷ 52weeks = 11,949 arrivals/week (additional)

Considering average number of incoming international passengers by flight = 150 passengers/flight in 2006:

- Cairo International Airport has to accommodate an additional 38 flights per week
- Other international airports have to accommodate an additional 80 flights per week.

CONCLUSION: Assuming an average growth of ≈1.083 million of foreign visitors in 2006, Cairo International Airport will have to receive an average 38 additional flights/week. Other International Airports will have to receive an average of 80 additional flights/week.

Assumptions (2011)

Arrivals "Target scenario" in 2011: 15 million International Tourists
Difference from "Baseline" scenario in 2006: 15 million - 8.5 million = 6.5 million
85% of international visitors arrive by plane: ≈ 5,525 million (additional)
Breakdown of international arrivals by plane:

- Cairo International Airport ≈ 40% of Total
- Other Main International Airports ≈ 60% of Total

In 2011 additional

- 5,525 million x 0.40 (40%) ≈ 2,210,000 will land in Cairo
- 5,525 million x 0.60 (60%) ≈ 3,315,000 will land in other Airports:

Considering 52 weeks/year:
Additional international visitors arriving per week in Cairo Airport
2,210,000 ÷ 52 weeks ≈ 42,500/week
Additional international visitors arriving/week in other international Airports: 3,315,00 ÷ 52 weeks ≈ 63,750/week
Considering average number of incoming international passengers by flight = 150 passengers/flight in 2011:

- Cairo International Airport has to accommodate: ≈ 283 additional flights/week
- Other international airports have to accommodate: ≈ 425 additional flights/week

Additional Domestic Flights (Traffic) in 2011

Egypt Air and other Egyptian private airlines will operate main "trunk" domestic routes
Cairo – Luxor
Cairo – Sharm-el-Sheikh
Cairo – Hurghada
Cairo – Borg El Arab/ Alexandria
Cairo – Aswan

Assuming that 20% of additional incoming tourists will visit Cairo and other resorts/cultural destinations,
Additional foreign visitors arriving by plane in 2011 ≈ 5,525 million

- 20% of total will travel to other destinations after the first destination (domestic flights)/year ≈ 1,105,000

Considering an average 100 Passengers/flight (others Egyptians)
Considering 52 weeks/year

- 1,105,000 ÷ 52 weeks ≈ 21,250 additional international visitors/week will take a domestic flight

21,250/week ÷ 100 passengers per flight/additional 212 domestic flights/week (one leg)
Considering two legs (return) ≈ 424 flights per week

Main Conclusions:

(1): In 2011, the "15 million target" of international arrivals will oblige:
Cairo International Airport to receive an average of **283 additional flights/week** (International Flights)
Other Main International Airports to receive an average of **425 additional flights/week** (International Flights);

(2): In 2011, an average of **424 additional domestic flights/week** in between **Cairo, Luxor, Sharm-El-Sheikh, Hurghada, Aswan** etc., have to be operated to allow 20% of the projected additional incoming international tourists to visit, at least, two different destinations in Egypt.

The World Travel & Tourism Council (WTTC) would like to express its gratitude to the following individuals – well-known personalities and experts – for their valuable contributions to this report:

H E Ahmed El Maghraby, Minister of Tourism

H E Minister of Civil Aviation Ahmed Shafik

Elhamy ElZayat, Chairman and CEO, Emeco Travel,
Chairman of the Egyptian Tourism Federation (ETF)

Ahmed El Khadem, Chairman, Egyptian Tourism Authority (ETA)

Ibrahim Manaa, Chairman, Egypt Holding Company for Airports

Mohamed Mounir, Vice President Commercial, EgyptAir

Elsayed Saber, President, AMC Airlines

Professor Ahmed Galak, Executive Director,
The Egyptian Center for Economic Studies

Professor Adla M Ragab, Associate Professor,
Faculty of Economy and Political Science, Cairo University

Zoheir Garranah, Assistant to the Minister of Tourism

Ismail A E Ismail, Country Manager, Carlson Wagonlit Travel

Nabil Abdellatif, Chairman, Starco Group Travel

Hossan S Gouda, President, Blue Sky Travel Group

Mounir Wissa, Managing Director, Escapade Travel

WTTC also acknowledges, with thanks, the input of ETF Executive Director, Hisham Zaazou; Aviation Consultant, Aly Mourad; and Executive Assistant Manager, Mrs Manal Hosny.

Thanks are also due to the entire research and economics team associated with this Egypt Report:

Oxford Economic Forecasting
Alan Wilson, Director of Consulting Services
Pablo Astorga, Senior Economist
The OEF Macroeconomic Forecasting and Technical Teams

Thinktur
Maria Teresa Cavaco, Economist
Luis Correia da Silva, Managing Director

World Travel & Tourism Council
Richard Miller, Executive Vice President
Olivia Ruggles-Brise, Policy and Communications Co-ordinator
Lisa Fox, Co-ordinator, Regional Initiatives and Publications

WORLD
TRAVEL &
TOURISM
COUNCIL