



AUSTRALIA-GULF LECTURE 2011

James Hogan

THE AUSTRALIA–GULF LECTURE

The Australia–Gulf lecture is a platform for Australian and Gulf political and business leaders to provide fresh thinking and insights on the rapidly evolving relationship between Australia and the Gulf region.

THE LOWY INSTITUTE FOR INTERNATIONAL POLICY

The Lowy Institute is an independent international policy think tank. Its objective is to generate new ideas and dialogue on international developments and Australia’s role in the world. Its mandate is broad. It ranges across all the dimensions of international policy debate in Australia – economic, political and strategic – and it is not limited to a particular geographic region.

THE SHIFTING GEOPOLITICS OF AVIATION

JAMES HOGAN, CHIEF EXECUTIVE OFFICER, ETIHAD AIRWAYS

Text of the inaugural Australia-Gulf Lecture, delivered to the Lowy Institute for International Policy, Sydney, Australia by James Hogan, Chief Executive Officer, Etihad Airways, on Thursday 11 August 2011.

We know the centre of geopolitical gravity is being drawn rapidly and inexorably eastward towards Asian economic power. A new Indian, Chinese and even Vietnamese middle class is the headline act, to be sure. But what it means for the rest of us is still to be experienced or understood.

How, for instance, will declining Western states deal with an international trade environment dominated by intra-Asian considerations? The implications of this, particularly for energy security, are far-reaching. Equally, we should consider: military strength and soft diplomatic power; maritime politics, the Indian Ocean, and the Chinese and Indian navies; Turkey and Russia between a nuclear Subcontinent and a much quieter NATO; African states like Ethiopia, Nigeria and Kenya – major exporters of oil and gas and food and

flowers, and host to significant Chinese interests; and Latin America and the newfound economic might of Brazil.

Why, you might ask, as an airline CEO, would I concern myself overly with energy security, multilateral treaties and foreign investment? Because today, more than ever before, I have to.

Civil aviation was only born between the wars. Commercial aircraft developments were made possible by the hunger for advances in military air capability. Nothing since that time has changed our industry's susceptibility to, and indivisibility from, the broad affairs of the world.

Today, an example of this is the burgeoning economic relationship between South Korea and the United Arab Emirates. In December 2009, a Korean consortium, which included Hyundai and Samsung, won a \$40 billion contract to build and jointly operate four nuclear power plants

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in the UAE. The Korean President, Lee Myung-bak, described the deal as “the largest mega-project in Korean history”.

Less than 12 months later, responding to strong passenger demand forecasts, Etihad launched a daily service between Abu Dhabi and Seoul.

So, with this interconnectedness in mind, how will geopolitical changes in the decade to 2020 affect the day-to-day flows of people and their capital? How will travel habits change? How, today, can I profile the typical passenger my airline must appeal to tomorrow? Where are they from, where will they vacation and in which markets will they do business?

Aviation will have a new nucleus: Asia. ASEAN will transition to a Single Aviation Market by 2015 – a free and efficient framework for landing rights and air traffic control. China has recently built 50 new airports. Another 50 will open before this decade is out. The growth of Chinese domestic flying is so immense and so rapid, it defies precedent. India, while slightly

behind, is growing even faster. But both are evolving and heavily protected aviation markets.

In the Gulf, Etihad, Emirates and Qatar Airways are leading the ascendance of a region diversifying from oil and gas reliance to global tourism and aviation leadership. To remain in the race against these new industry forces, legacy airlines are responding by pulling what levers they have left: streamlining processes, cutting controllable costs and investing in more efficient aircraft – although these fleet benefits will take years to flow through; and banding together through the major airline alliances.

European and North American carriers have successfully effected virtual mergers across the Atlantic. And in the past month they have announced huge orders for Airbus and Boeing’s latest generation of narrow body aircraft.

Star Alliance, SkyTeam and **oneworld** will have only one focus in the coming years: to better penetrate high-growth

economies. That will mean new member airlines from those parts of the world. And, indeed, this is already happening. African, Indian, Chinese and Latin carriers will soon be as important to these alliances as their founding members.

A disadvantage for the established carriers of Europe is their governments' limited vision for aviation. I seem to be making a habit of this but, again, I'll quote the chief of British Airways and Iberia, Willie Walsh, who said:

“In the Middle East, governments value the contribution that airlines make to their economies. In Europe, we are undervalued and overtaxed. I would love to operate in an environment where people fully appreciate the contribution that we make to national economies.”

These are extraordinary times in the Middle East and North Africa. It was Lenin – that's Vladimir, not John – who said: “there are decades when nothing happens, and weeks when decades happen”.

Well it feels like decades have passed since unrest broke out in Tunis

last December. In Syria it continues unabated. The focus remains heavily, and understandably, on the immediate impacts.

But ever the optimist, I dare to take a longer view: acknowledging the short-term shocks, but anticipating greater opportunity for the region's next generation. I am talking about a future of sustained and permanent improvement to quality of life for young Arabs: the alleviation of their poverty through access to education and then employment; the safeguarding of their liberty through vigorous governance; and the subsequent evolution of a strong middle-class society. And these last two – good governance and a middle class – are guarantors of each other. Guardians against what Karl Barth called the “*economic tyranny above and the slave spirit below.*”

In places like Egypt, Tunisia and Jordan, the introduction of better social safety nets and the commencement of public infrastructure works will be economic stimulants and drivers of

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employment. Their demographics are right for strong growth: young populations, productive labour forces and manageable health systems.

I see much in common here with upheaval in Asia in the 1980s and 1990s. From the fall of President Marcos in 1986 to the fall of Suharto during the Asian Financial Crisis, and beyond, Southeast Asia has undergone two decades of dynamic change. It has taken a long time. It has been uneven. In places it has even been bloody. And now we speak of Asia as the new centre of the world. Its citizens' wealth and quality of life growing and improving rapidly. So just as Asia's rise is shaping our world today, so too can its history help us measure our own.

But long before we ever had reason to compare Marcos with Mubarak, Gulf states had cast their eyes eastward to the Malay peninsula. Why? The Arabian Gulf is a consequential player in this new Asian paradigm. It now finds itself at a geographic crossroads, between the

Old World and the New. Its oil is literally fuelling the urbanisation of regional China and the South Asian Subcontinent.

We are within three hours' flying time of two billion people: from young populations with an appetite for education and imported goods; with vast infrastructure needs; the beginnings of financial services and technology hubs; and, in some cases, very deep pockets.

Nevertheless, I can assure you that Abu Dhabi will never sit idly on its hands, or its petro-wealth. Abu Dhabi has been purposeful in its plans to evade the Resource Curse. It has a clearly defined framework for economic diversification away from hydrocarbons and into metals, tourism, renewable energy, financial services and transport and logistics. This is its vision for 2030.

Singapore has been something of a model for these aspirations. In less than 50 years, the city-state forged itself a setting at the international table: building an innovative economy driven both by

foreign direct investment and government-sponsored industrialisation; and leveraging geography and structural competitiveness.

Singapore now is the world's fourth largest financial centre, the world's fifth largest port, and one of the world's most important air transport hubs. To get to this point, Singapore Inc planned ahead, foresaw economic risk and hedged against it by developing resilience and diversity of revenue and risk.

Like for Singapore, aviation is the absolute lifeblood of the UAE's future economic prospects. Because of this, the Emirates and their airlines are deadly serious about success in this sector. We are following a well-worn path. And we have not been too proud to learn from those who have walked it before us.

Finally, I see Australia and Abu Dhabi as important partners, both well-placed and well-prepared for what is ahead, particularly in China. Australia, like Abu Dhabi, is blessed with natural resources that are essential for the growth and modernisation of emerging markets.

Australia exports around \$52 billion of iron ore to China each year, and 80 per cent of Asia's oil comes from the Gulf.

And because of its rise as a transport hub, the UAE is a valuable partner in the globalisation of the Australian economy.

We are a distributor of Australia's Irish, Greek and Lebanese diaspora between their adopted and original countries. With Virgin, we connect Australians to Continental Europe in one-stop. We bring skilled labour to the mines here and we carry it the other way, to Africa, where Australian companies are developing mining investments worth \$25 billion. We serve and stimulate direct UAE-Australia traffic.

Australia and the UAE share a similar proximity to China and, I hope, a similar understanding of China. In a noteworthy address in May at the Guangdong University of Foreign Studies, Kevin Rudd spoke of what he called "China 2.0".

Of 93 secondary Chinese cities that, by 2020, will have larger populations than Greater Sydney. Of six Chinese provinces

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with economies larger than Russia or Spain or Canada.

Minister Rudd sees China as we see it in Abu Dhabi. The smartest banks, miners and construction companies do too. Even in the airline industry, some of us long ago pitched our fortunes in with Asian traffic.

Others lagged. Or were confused. Qantas now wants to be an Asian full-service carrier. Yet it was only two years ago that Qantas quit flying to Beijing – the apex of Chinese power and culture.

Less than ten kilometres from Mascot, NSW Inc appears to appreciate the implications of the China juggernaut for the future of this tourism market. Last month, in China, Barry O'Farrell announced incentive deals with both China Southern – which will become the first Chinese sponsor of the Sydney Festival – and Hainan Airlines, which will market NSW as a destination to premium business travellers from Hangzhou and Shenzhen.

Etihad is focused on China as a whole, even beyond the bounds of its eastern seaboard. Just last month I announced that in December we would commence flying to the Sichuan capital of Chengdu, in southwestern China. There are 11 million people in Chengdu and 81 million people in Sichuan province. Sustained wages growth is unlocking the discretionary income for these citizens to travel for the first time. Etihad will be the first airline to offer direct flights between Sichuan and the Middle East.

Our future network hub strategy is built around the huge opportunities we see in provincial China, regional India and in other under-served growth areas. Because the airlines – indeed businesses – that will survive and prosper in the face of seismic global change are those which reinvent themselves with this change in mind.

In his New Deal broadcast eighty years ago Franklin Roosevelt spoke of the

“forgotten man at the bottom of the economic pyramid.”

Today, global affairs are turning again.

We should remain conscious of what change in the Arab world can mean for this forgotten man – not in the streets of Cairo today but in its schools and offices in the years to come. Time is simply needed for political change to gestate, for middle classes to grow and for institution-building to take place.

Asia is an appropriate reference point for all the elements of profound change around us. For the situation in the Middle East. For economies of the West. For the ambitious plans in the Gulf. And for airlines.

For both Australia and the Gulf, extending our own prosperity will be achieved through continued, meaningful engagement with China, India and other emergent powers – not just in matters of commerce, but even the more complex considerations of culture. We will walk the

talk of Asian interconnectedness. And, with optimism, we will embrace our shared challenges.

Thank you.

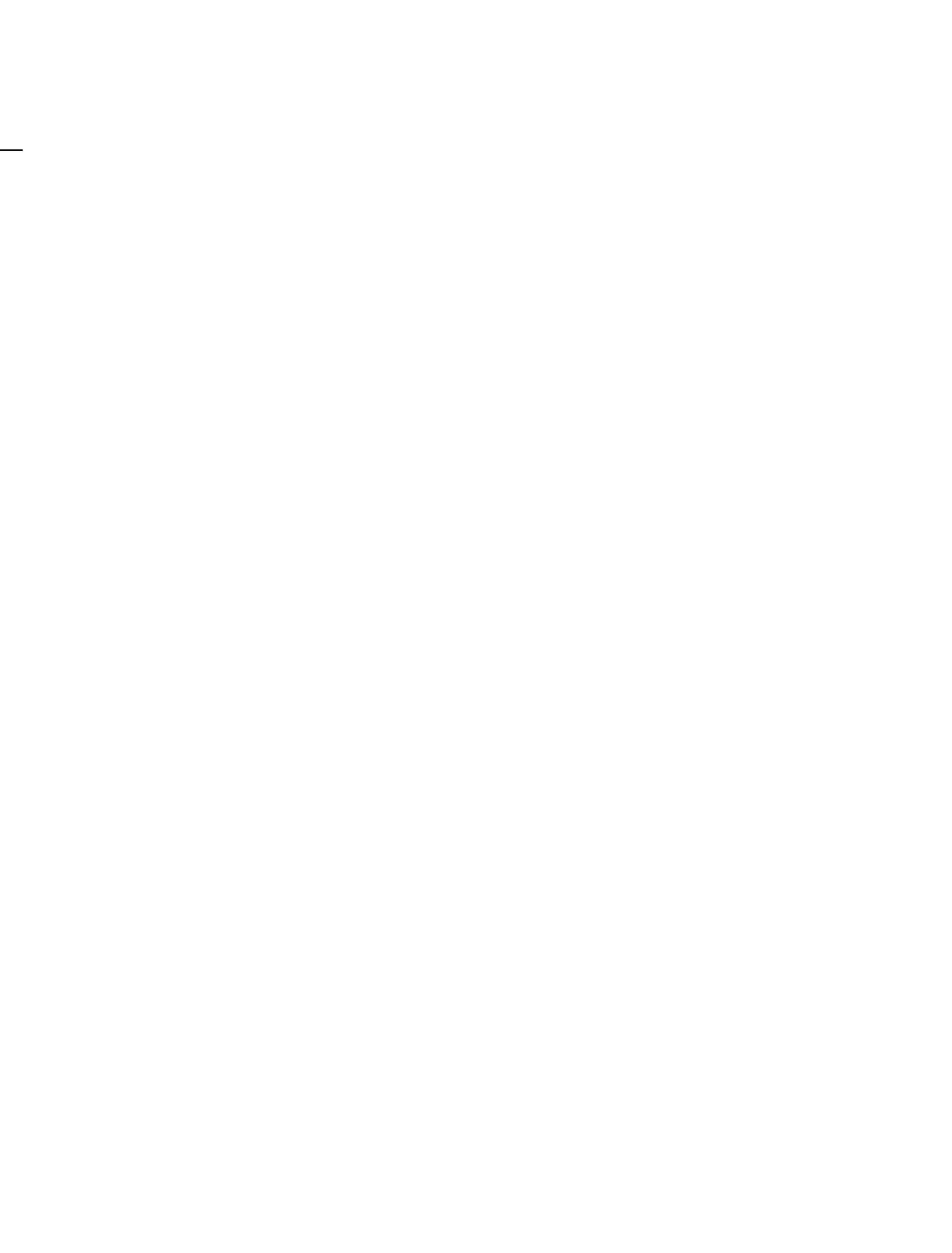
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James Hogan was appointed CEO of Etihad Airways on 10 September 2006, bringing more than 30 years of travel industry expertise to the Abu Dhabi-based airline. James started his career in 1975 at Ansett Airlines, and subsequently held senior positions with bmi, Hertz, Forte Hotels and Gulf Air where he served as chief executive.

He has overseen rapid growth of the UAE's national airline over the past four years, adding 33 new destinations and 35 new aircraft, and increasing the number of passengers carried each year from 2.7 million to 7.2 million. CEO Magazine named him Aviation CEO of the Year in 2008 and Visionary of the Year in 2010.

James is a fellow of the Royal Aeronautical Society and a former non-executive director, and member of the Board's audit committee, of Gallaher Plc. In 2010, he served as the chairman of the Aviation Travel and Tourism Governors at the World Economic Forum. In June 2011

he was appointed to the International Air Transport Association (IATA) Board of Governors.



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