

EMIRATES AIR

MAKING DUBAI AN AVIATION HUB

THE HOLE IN THE ARABIAN DESERT next to Dubai's sprawling airport is a potent symbol of the ambitions of Emirates Air and of the Bedouin realm it flies for.

The hole is one of the world's biggest construction sites, a hive of activity into which the Al-Maktoum family that runs Dubai—and its fast-growing airline—is sinking \$5 billion of the emirate's vanishing oil wealth. Its bet: to turn Dubai into a global aviation hub. Over the next ten years the family hopes to increase air traffic from 17 million passengers a year to 51 million.

The stakes are high. Emirates has ordered 90 planes, worth \$26 billion, from Airbus and Boeing, to be delivered to Dubai over the next eight years. That's more than five times what the privately owned company is worth, estimates Emirates' longtime CEO, Maurice Flanagan. "It's not a prob-

lem for us," says Flanagan, a 75-year-old RAF veteran and former British Airways executive who has headed Emirates since its inception in 1985. "Looking at our growth estimates, I'm not even sure our current order book will be enough."

Emirates is flying in the face of conventional wisdom. The airline industry is in turbulence, beset in recent years by war, terrorism, SARS, and the rise of budget carriers. If that's not enough, Emirates' base is the heart of the Middle East. While Dubai is relatively safe and prosperous, Iraq and Afghanistan are barely an hour's flight from Flanagan's office. And Dubai shares a border with Saudi Arabia, possibly the region's next tinderbox.

But Flanagan, one of four foreigners steering Emirates, has made a career by being counterintuitive. In the year ended March 31, Emirates posted a \$429 million profit, up 74% from the previous year, on revenues of \$3.8 billion. Emirates is now the airline industry's fifth-highest profit earner and is ranked 20th by *Air Transport World* in revenue per passenger, the industry's standard earnings measure. It helps Emirates' bottom line that Dubai imports some of the world's cheapest labor. (About 75% of Dubai's population is made up of expatriates from low-wage Asian nations such as India and the Philippines.)

For Flanagan, attack is the best form of defense. He has become the world's biggest buyer of planes designed for long-haul journeys. The first of 45 Airbus A380-400s—the jumbo passenger planes with seating for

up to 600—will be delivered by October 2006. That's spooking executives at Singapore Airlines, Emirates' prime competitor for top-end long-haul travelers. SIA has grown accustomed to flying the world's most modern fleet. Now it has Emirates trying to steal a beat, and five budget carriers nipping at its heels. "They seem to have emerged from nowhere," says Singapore restaurateur Guy Neale, who commutes between properties in Sri Lanka, Bali, and Australia. "But they are very well priced, and the service is superb."

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Still, attracting American and European fliers will be a challenge. "Emirates has a very good reputation among travelers. Its location is its biggest drawback," says airline analyst Ray Nield of brokerage Blaylock Partners in New York City. "Maybe they are gearing up for haj travelers, but I can't see many Americans wanting to fly there."

Emirates is also facing competition in its own backyard. Qatar is spending \$5 billion to crank up its flag carrier, Air Qatar, into a global force. And regional budget startup Air Arabia has plans to undercut Emirates. Flanagan is unfazed. He says Emirates owes its success to Dubai's unconditional open-skies policy—"Anyone can fly in and out of here; no need for reciprocal rights—and its close links to Dubai's ruling family. But he insists the airline "doesn't get dirham" in state support: "We got \$10 million to start up back in 1985 and were told never to come back for more. And we haven't. Qantas and Singapore Airline can't say that." — Eric Ellis

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At Dubai's airport Emirates rules the runways.

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