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JORDAN TOURISM DEVELOPMENT PROJECT II (JTD II)

ASEZA KHIA INCENTIVE PROPOSAL COMMENTARY
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JORDAN TOURISM DEVELOPMENT PROJECT II (JTD II)

3400 ASEZA KHIA INCENTIVE PROPOSAL COMMENTARY

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ACRONYMS

AQJ	King Hussein International Airport
AMM	Amman
ASEZA	Aqaba Special Economic Zone Authority
KHIA	King Hussein International Airport
LCC	Low Cost Carrier
QAIA	Queen Alia International Airport
TO	Tour Operator/s

INTRODUCTION

Since April 2007, ASEZA has offered and managed an incentive program for charter airlines operating to King Hussein International Airport in Aqaba. The Incentive program is designed to compensate tour operators (and their charter airline partners, be they vertically integrated or otherwise[1]) for the marketing and promotional costs to open new tourist markets and to support existing ones.

The current program is limited to charter airlines. Meanwhile, scheduled airlines are excluded and support is limited to less than ten flights in a twelve-month period. Furthermore, to benefit from the incentive program the visitors must stay a minimum of three nights in Aqaba hotels and each flight should at least carry a 100 passengers. Thus, an airline meeting the requirements would retrospectively receive €5,000 for each flight operated in a twelve-month period with a maximum of ten flights making the maximum incentive €50,000, on production of satisfactory evidence of successful fulfillment of all aspects of the program.

The evidence required to qualify for payment of the incentive includes a detailed marketing plan and copies of all marketing and promotion material used to execute the plan. Meanwhile, the main risk area for operators' and their airline partners is the cost of operating the aircraft and not in marketing and promotion costs. Marketing, brochure production and promotion costs can be controlled and minimized and Internet marketing enables tour operators to greatly reduce their distribution costs while aircraft operating costs, on the other hand, are not fully controllable. The single highest operating cost for airlines was traditionally labor but currently it is fuel. Although fuel prices have substantially gone down from their peak of $147 per barrel in July of 2008, prices are still at unprecedented rates not seen up until last year. Navigation costs and landing/handling charges are also generally increasing. That said, the published cost of operating at KHIA is lower than at many airports in the region; meanwhile, but we are not aware of the level of incentive support being provided at competitive airports.

TOUR OPERATOR/CHARTER AIRLINES VIEWS

Due diligence interviews were held with local tour operators regarding the current incentive program and their collective views are summarized as follows:

- TO expressed gratitude to ASEZA for their support
- Although current incentive are good they are still not sufficient compared to support at competitive airports
- Current incentive program is unfair to year-round operators – (inequitable since an airline operating only ten flights, each with one hundred passengers [total 1,000] will receive €50,000 whereas an airline that operates 52 flights, each with 90 passengers [total 4,680] will receive no incentive payment)
- The TO noted that at least one series from Spain in 2008 has reverted to AMM this year, even though KHIA was cheaper – "it's just easier to structure Jordan tours from Amman".
- At least one local TO has regular winter business from Scandinavia and, soon, Russia (signed on August 4th) – could do year-round if incentive covered all flights
- Several TOs said they have pulled series because they can get better deals elsewhere, and have stopped featuring Aqaba/Jordan as part of their program

[1] A vertically integrated airline is one that is an integral part of a Tour Operator organization and is usually wholly owned. Tour Operators also contract with other, non-owned, airlines to also provide charter services on their behalf.

- "Current incentive program is insufficient to motivate the TOs to come to Aqaba, and t stay"

Some local TOs represent the major European tour operators while others, such as Tania Tours, produce packages and use their own distribution channels in the source markets and arrange charter flights directly. Some of the main TOs manage incoming business only. Views expressed are considered representative of European tour operators, which they represent.

Although specific figures on other incentive programs in competitive airports have not been provided, the current ASEZA Incentive Program, while appreciated by TOs, has not motivated them to achieve anticipated growth. The consensus is the success of 2008 was not a direct result of the incentive program, rather the result of a particularly good year (until slowing up towards the end of the year).

At least one series from Spain that operated at KHIA last year is being moved to QAIA this yea although KHIA is still cheaper than QAII airport. Other TOs said that series had been 'pulled' this year because the TOs could get better deals at competing destination airports. It should be noted that one of the local TOs expressed that they could bring their business here year-round if the incentive was sufficient.

ASSESSMENT OF CURRENT SITUATION VS LAST YEAR

Table below shows total chartered passengers at KHIA between 2002 and 2008. (Domestic passengers are those traveling on Royal Jordanian flights between Amman and Aqaba).

Table 1: Summary of Passenger Traffic at KHIA, 2002 - 2008

Historical Domestic Passenger Traffic

Year	Passenger	change
2002	32,620	
2003	35,016	7.3%
2004	38,149	8.9%
2005	37,279	-2.3%
2006	52,446	40.7%
2007	45,357	-13.5%
2008	63,489	40.0%

Historical International Passenger Charter Traffic

Year	Passenger	change
2002	11,488	
2003	50,692	341.3%
2004	89,173	75.9%
2005	107,882	21.0%
2006	129,390	19.9%
2007	95,203	-26.4%
2008	129,288	35.8%

Source: KHIA data

It is certainly true that 2008 witnessed a growth in the number of charter passenger traffic at KHIA, but it is interesting to note that there were exactly the same volumes in 2006, being the year before the Incentive was introduced. In contrast, passenger numbers in 2007, being the year in which the Incentive was introduced, were greatly lower than in either 2006 or 2008 (and lower even than 2005).

The following tables show the number of charter flights by month in 2008 and for January to March 2009

Table 2: Passenger aircraft Movements at KHIA 2008 vs 2007 and Jan – Mar 2009

Historical Passenger Aircraft Movements 2008

Month	Domestic Scheduled Passenger Aircraft Movements	International Charter Aircraft Movements	Total	chtr vs last year
Jan	116	198	314	28
Feb	114	159	273	48
Mar	120	225	345	121
Apr	120	251	371	133
May	124	162	286	47

Jun	118	130	248	62
Jul	124	121	245	37
Aug	124	174	298	32
Sep	104	116	220	-48
Oct	124	237	361	85
Nov	120	248	368	37
Dec	124	160	284	-109
Total 2008	**1,432**	**2,181**	**3,613**	**473**

Historical Passenger Aircraft Movements 2009

Month	Domestic Scheduled Passenger Aircraft Movements	International Charter Aircraft Movements	Total	chtr vs last year
Jan	120	167	287	-31
Feb	112	128	240	-31
Mar	120	185	305	-40
Total 2009	**352**	**480**	**832**	**-102**

Although charter flights in 2008 increased by 473 (15%) over 2007, there has been a distinct downturn since December, with four consecutive months with flight numbers lower than in 2007 and 2008. This is most likely a result of the general economic downturn which is causing some people to postpone or cancel their vacations and is a reflection of what has been happening in most markets worldwide.

During 2008 a total of 19,174 passengers arrived on charter flights by several airlines from new source markets that had not operated at Aqaba in 2007.

Table 3: Summary of Major Charter Airlines at KHIA, 2007 and 2008

	2,007			2,008		
	Arr.	Dep.	Total	Arr	Dep.	Total
JORDAN AVIATION	1,676	1,672	3,348	354	0	354
ALEXANDRIA AIRLINE	5,016	5,085	10,101			
PETROLEUM AIR SERVICES	15,880	13,414	29,294	19,501	17,722	37,223
AIR MEMPHIS	142	0	142	5,995	4,954	10,949
EUROFLY	4,976	4,064	9,040	6,836	5,962	12,798
NEOS AIR	57	0	57	2,608	2,388	4,996
LUFTHANSA A/L	357	398	755			
GIR JET	3,827	3,460	7,287			
AUSTRIAN A/L	1,448	1,446	2,894	612	562	1,174
GB AIRWAYS	3,250	3,225	6,475	2,296	2,654	4,950
FIRST CHOICE	179	180	359			
ADRIA A/L	352	484	836	827	559	1,386
JET AIR FLY	625	542	1,167	3,401	2,828	6,229
AIR MEDITRIAN	343	294	637	3,972	3,746	7,718
BULGHARIAN A/L	148	249	397	118	298	416
MALEV AIRLINE	0	178	178	461	827	1,288
DAGHESTAN A/L	3,685	5,532	9,217			
SYBERIAN AIRLINE	1,820	1,337	3,157			
UNITED RUSSIAN FEDERATION	0	502	502	496	1,793	2,289
SOUTH A/L				1,091	1,513	2,604
VLADIVOSTOK AIR	227	192	419			
TRANS AERO	1,067	689	1,756	4,662	4,680	9,342
ITEK AIR	1,665	1,529	3,194	513	117	630
KRASNOJARSKY A/L	268	259	527			
ATLANT SOYUZ	661	465	1,126	124	164	288
RUSSIAN TRANSPORT COM	167	0	167	322	375	697
AMESTERDAM AIRLINE				189	272	461
CZECH AIRLINE				347	347	694
EURO AIR POST				239	260	499
FLYING DOLPHIN AIRLINE				1,274	648	1,922
KYRGYZTAN AIRLINE				1,097	648	1,745
MONARCH AIRLINE				1,604	1,533	3,137
SCANDINAVIAN AIRLINE				2,771	2,795	5,566
THOMAS COOK AIRLINE				1,303	1,243	2,546
Total	**47,836**	**45,289**	**93,143**	**63,013**	**58,888**	**121,901**

The new flights originated in Scandinavia (Stockholm, Oslo and Norway) by SAS; in London by Monarch; in Bishkek by Kyrgystan Airlines; in UAE by Flying Dolphin; and several other smaller contributions from various airlines (plus 'South Airline').

In contrast, there was no service from Egypt by Alexandria Airways; no service from Germany by Lufthansa; no service from London by GB Airways (which has been absorbed by easyjet); from UK by First Choice; from Russia by Daghestan Airlines, Siberian, Vladivostok and Krasnoyarsky. In 2007 these airlines totaled 32,313 passenger arrivals.

The net result for 2008 was a loss of 12,599 passengers.

Table 4: Summary of Major Charter Airlines at KHIA, Jan – 13th May 2009

Carrier	TOTAL Flights	Pax	*Transit*	Average	Aircraft
Air Mephis	18	1750	0	97	DC9/A320/MD83
Eurofly Italy	42	4339	1176	103	A320/G4
Jetairfly Belgium	12	538	804	45	B737
Monarch UK	32	3816	0	119	A320
Austrian Vienna	12	1251	0	104	A320/321/B737
Petroleum Air Services	236	9193	0	39	DH7/8
Royal Jordanian	22	1711	568	78	A320/321/310/E175
SAS	64	9568	0	150	B737
Thomas Cook Belgium	45	5220	950	116	A320
TOTAL	483	37386	3498	77	

Up to May 13th this year, there were a total of 37,386 passengers arriving and departing from major markets on the commercial airlines above. A simple extrapolation (37,386 / 133 *365) [2] would indicate a possible year-end total of 102,601 passengers. This assumes an average number of arrivals each day until the end of the year, which is historically unlikely. The summer months are generally lower than the winter months making the total probably lower than the extrapolation. The decrease over 2008 would be 16% if the total were to reach 102,000 and such a decline is entirely borne out by the due diligence interviews, during which there was unanimous agreement that visitor and aircraft numbers are down from last year. Again, this probably reflects the general downturn in tourism numbers worldwide this year.

It is interesting, too, to review the source markets for passengers this year.

Table 5: Recap of Major Source Markets at KHIA, Jan – 13th May 2009

	2008	2009 *
Egypt	48,172	10,943
Italy	17,794	4,339
Austria	1,174	1,251
UK	8,087	3,816
Slovenia	1,386	
Belgium	8,775	5,758
France	7,718	
Bulgaria	416	
Hungary	1,288	
Russia	12,616	
Kyrgystan	2,375	
Netherlands	461	
Czech Republic	694	
UAE	1,922	
Scandinavia	5,566	9,568
Total	118,444	35,675

Note: 2009 Jan to May 13th

This table shows that KHIA's main market so far in 2009 is again the Egyptian market. Petroleum Air Services continues to bring tourists from the Egyptian resort of Sharm el-Sheik for, mostly, one-day trips to Petra. Air Memphis brings tourists from Cairo. Unfortunately, these are not the most economically beneficial tourists for Aqaba or the region.

It is interesting that the SAS charter flights from Stockholm, Olso and Copenhagen had already exceeded by far the total number of passengers for the whole of 2008 and were almost equal to all Egyptian arrivals (this probably reflects the increased marketing activity by Tania Tours in the Scandinavian markets). Jetairfly and Thomas Cook, too, had already brought two thirds of the total number of passengers of last year from Belgium. Austrian, too, although comparatively small had exceeded last year and Monarch had brought nearly half of the total of UK passengers last year. If Eurofly continues to bring tourists at the current rate, Italy would end the year one third lower than 2008.

[2] Total number of passengers so far divided by number of days between January 1st and May 13th (133), multiplied by 365 days.

Unfortunately, there were so far no flights or tourists from Russia, which was the third largest source market last year, or from any of the CIS countries or from the former eastern bloc countries. Nor had there been any arrivals thus far from France, UAE, and Netherlands.

Tania Tours, which has been responsible for the excellent number of passengers arriving from Scandinavia since last year, has recently signed agreements to bring regular charters from Siberia starting this winter. Given the right incentives, Tania Tours has advised that they could extend their charter series to year-round operations. This must be greatly encouraged.

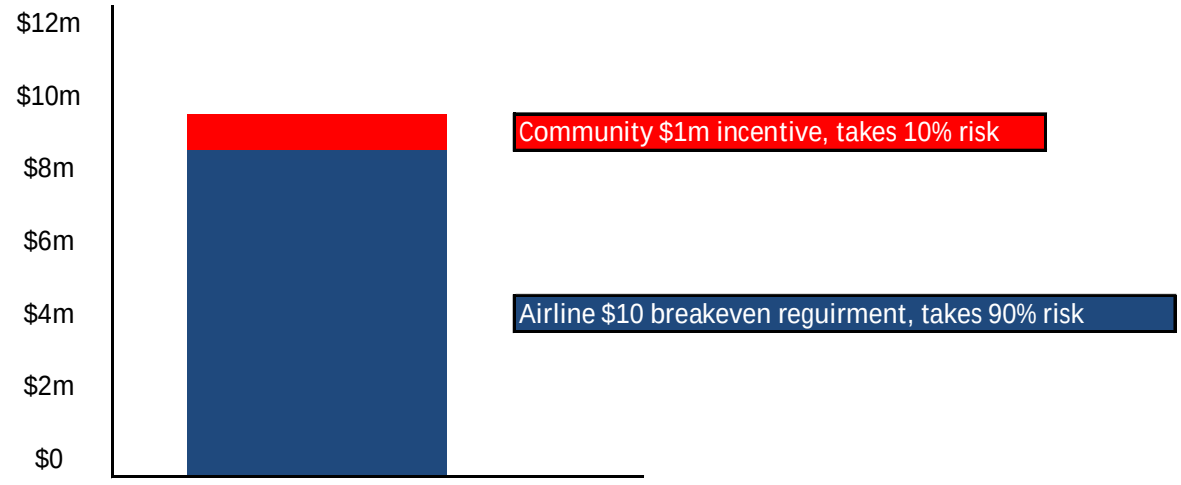
The statistical evidence provided suggests that the current incentive program was not effective in maintaining existing business and attracting new business during 2008. It could possibly be argued that the incentive program had no impact what so ever. It is true that there is no way of knowing if those tour operators benefiting form the incentive program would not have operated in the absence of the incentives, but the statistics at least cast doubt on its absolute effectiveness. There have been structural changes in the market and it may be that this was a natural change of preferences by each of the TOs operating with these charter airlines.

RATIONALE FOR CHANGE

The notion of providing incentives[3] to airlines for operating at airports is neither new nor is it unusual. In both the USA and Europe, for example, airports frequently provide different types of incentives and indeed legislation exists in certain instances to cater for this.

Risk sharing programs are accepted and increasingly common and have evolved beyond simple fee discounts. They are becoming increasingly creative and are not subjected to the same regulatory restrictions as Europe. Most airport managers now see incentives as a sound business investment and an essential part of doing business in the highly competitive environment. They are increasingly willing to forego aeronautical fees and to leverage existing marketing, in order to increase overall revenues. The following simple chart demonstrates a typical risk-sharing arrangement between an airline and the community it proposes to serve and puts the risk into perspective. The benefit to the community is the air service it would not otherwise enjoy and the benefit to the airline is that the risk is shared with the community.

Table 6: Example of Typical Airport/Community Incentive and Risk-Sharing



[3] Incentives may include set sums such as, for example, as airport fee concessions, marketing support, start-up cost reimbursement or direct subsidy, or they may be some form of risk-sharing such as, operating-cost reimbursement or revenue guarantee.

Airports should undertake detailed analysis of the expected financial results of the air service. They should consider sensitivity to fuel costs & other factors and the potential financial risks to determine whether incentives are appropriate. If so, what type? What value should be offered? How long should incentives be made available?
Typically, incentives are only be used to help a new service grow to maturity. The new service must be self-sustaining in medium term, probably within one to two years. Incentives should not be used to 'buy' air services as carriers will drop routes when the incentive expires and this is likely to cause more harm than good. Then, consider impact on existing services - how will incumbent airlines react? Maybe they will choose to avoid existing routes completely, but it will depend on circumstances, which are different in every case. Airports must consider that new services do not all have equal value. They must be assured that the new service provides incremental benefit for the airport – in KHIA's case, that will almost certainly be the case.

USA

In the US, funding sources for airport incentives often include Government (Federal or Regional), tourism organizations, airport authorities, hotels, attractions and large corporations (some accountable to the public, some accountable to shareholders). In general, the Federal Government supports incentives through the US Department of Transportation:

- Small Community Air Service Development Grant Program
- Direct Government funding of airports incentive programs
- In some cases, making incentive programs available to existing air services

In the US, there is considerable stakeholder pressure on airports. Air service development is seen as a high profile activity and airport managers feel intense pressure to secure new service to benefit the community it serves (and which in many cases owns the airport), such pressure comes from several sources, including politicians, the general public and local businesses. This is especially true in smaller communities, where fares are typically higher and incremental services are more important.

The primary motivator is often the airline as they become more aggressive and more risk-averse. It is certainly true that any new route is likely to be a multi-million dollar commitment. Airline boards are very nervous, especially in the current economic climate and are looking for the least risk and the maximum return. Furthermore, airlines evaluate offers from several airports/communities to choose the best scenario for them.

There are government restrictions and guidelines pertaining to the provision of incentives. The Federal Aviation Administration (FAA) places restrictions on the use of airport revenue; for example, cooperative marketing and airport fee discounts are permitted but subsidies and revenue guarantees are not. That said, the FAA couldn't currently prohibit municipal government spending on incentives.

The International Air Transport Association (IATA) guidelines simply stipulate that incentives should be equitable and transparent and that incentives should be granted against volume discounts. However, IATA has no authority to legislate in this regard. But there are other legitimate factors that airports and communities should consider. For example, public accountability (avoid business disputes), incumbent carrier reaction (risk of losing current or future services) and sound business practices (is the proposed incentive a good investment). Finally, the market should determine restrictions, good opportunities should be pursued and bad investments abandoned.

Incentives are continuing to gain ground in North America but a future slowdown could not be ruled out if there was a considerable backlash from incumbent airlines and / or there was regulation that constrained the practice. Airports and communities would then need to examine new ways to reduce the risk for carriers.

EUROPEAN UNION

As in North America, the use of airline incentives in Europe has expanded considerably in the past decade. As airlines have become more aggressive in demanding incentives, and airports have recognized the competitive nature of air service development, incentives for new routes have become increasingly generous. However, there are important differences between airline incentive trends in Europe and those in North America. In general, these differences arise from regulatory restrictions and from airline business models.

Regulatory Restrictions

The EU in 2005 introduced guidelines designed to encourage the development of regional airports and of (passenger) mobility in Europe. The Commission introduced clear rules on investment in airports both at infrastructure level and with respect to start-up aid. These rules authorized "start-up aid for new routes opened at secondary airports, which at times are underused, albeit subject to strict conditions of transparency and with time limits". Following its dispute with Ryanair of the "aid" it received at Charleroi Airport in Belgium, the Commission was insistent that the facilities should also guard against all forms of discrimination to the exclusive benefit of any one company. The proposed guidelines likewise sought to clarify methods for the financing of airport infrastructure.

The Commission published a draft set of guidelines on the financing of airport infrastructure and State aid for the start-up of new routes departing from regional airports. Vice-President Jacques Barrot, the Commissioner with responsibility for transport, declared: "*Steps need to be taken to promote the regional airports and the development of new air services in Europe. At the same time, everything must be done to ensure equality of treatment between companies and between airports. It is with this in mind that [he] propose[d] to clarify the rules*".

The decision on Charleroi Airport authorized start-up aid for Ryanair, while at the same time imposing precise conditions governing such authorizations. On this occasion the Commission had sent out a signal indicating that it favored regional development and the emergence of new companies. Increased competition within the European Union, notably through the emergence of low-cost companies, was prompting many airports to take active steps to encourage certain companies to open up new air services. As a result of this trend, air transport could be provided on a far wider scale and at much reduced prices, thereby contributing to regional economic development and the reduction of congestion at the hub airports.

The Commission intended to encourage this trend. At the same time, however, it had to ensure equality of treatment between airport operators and companies. Its draft routing guidelines allowed greater transparency, while at the same time avoiding any discrimination in the agreements jointly entitling regional airports and the airlines to start-up aid. The draft guidelines restricted such aid to between 30% and 50% of the additional costs over a period not exceeding 5 years. This framework would facilitate the conclusion, with enhanced legal certainty, of numerous agreements throughout the European Union.

Since the guidelines were released late 2005, reaction from the airport community has been generally negative, with complaints that the guidelines put publicly owned airports at a disadvantage relative to those that are privately owned. However, privately owned airports are affected as well, as they are now restricted in the amount and type of incentive support their owners can offer. It has been noted that the guidelines are not law, and that the primary focus of both public and private airports should be on ensuring that their incentive programs comply with Article 81 of the EC Treaty, which prohibits anti-competitive agreements in general. However, most airports are working within the guidelines.

Business Models

As described above, in North America incentive programs make use of a mix of types, including airport start-up cost reimbursement, marketing support, aeronautical fee discounts, and revenue guarantees, with ticket trusts and other types used to a lesser extent. Revenue guarantees are often the incentive of choice among airlines.

In limited cases, all of these incentive types have been used in Europe. However, in part due to the restrictions discussed above, and in part due to the overwhelming presence of the low cost business model in Europe, incentives are heavily weighted towards airport fee discounts and co-operative marketing support.

Marketing support is a ubiquitous incentive, permissible under the EC state aid guidelines, and easy to implement. Similarly, airport fee discounts are a straightforward incentive, which, while not an acceptable use of state funding, can be offered by both public and private airports so long as they comply with competition law (by being non-discriminatory).

Beyond the legal restrictions, a likely factor in the prominence of airport fee discounts and marketing support in Europe is the business model employed by the continent's LCCs. Led by Ryanair and replicated to some extent by dozens of others, Europe's LCCs depend on cost minimization to a much greater extent than North America's comparatively high cost LCCs. The European model seeks to reduce airfares to incredibly low levels, thereby stimulating exceptional traffic growth, and profiting by generating ancillary revenues from these passengers (food and drink, baggage costs, hotel and ground transportation commissions, etc.).

The general formula is the same in North America, but the implementation is extreme in Europe. European LCCs have never provided free soft drinks, connecting flights, reclining seats or other 'frills' common among North American LCCs. The result is that $50 fares, inclusive of fees and taxes, are commonplace.

In this environment, the concept of a revenue guarantee is meaningless, as carriers expect to fly full planes at low yields. In fact, Ryanair CEO Michael O'Leary has spoken of a day when the airline could offer free airfares, making money only from ancillary sources. Thus, guaranteeing a 90% load factor at a $0 average fare is hardly an effective incentive.

For European LCCs, the most enticing incentive is therefore one which reduces their cost structure, as airport fee discounts do. Similarly, a marketing incentive, over which the airline exercises control, allows a necessary expense to be avoided or reduced. As LCCs are responsible for much of the recent growth in Europe, their preferred incentives have taken over, leaving revenue guarantees and ticket trusts as far less common components.

CONCLUSION

It is clear that the practice of offering incentives to airlines for new service at airports is firmly entrenched in both the US and Europe which, in aggregate account for some 70% of the world's air transport activity[4]. ASEZA has been pro-active in establishing the concept of incentives at KHIA. It is now important to consider the need to adjust the incentive methodology and magnitude in order to ensure it is fully competitive and compelling to support the rapid and huge growth that is required at KHIA to meet the visitor number targets established in the Aqaba Marketing Strategy.

[4] The rapid growth in both China and India will rapidly diminish that percentage but the US and Europe are the two most mature air transport markets and with wealthy populations or around 400 million each are still the leaders in world air transport activity.

INCENTIVE PROPOSAL

It is clear that worldwide demand is currently depressed across all markets including the Middle East/Gulf region which has not been exposed to the full financial onslaught. It is very clear that Aqaba needs to act urgently to arrest the fall-off in traffic and to build new markets to deliver customers for its expanded capacity.

Based on published costs, the cost of operating at KqaHIA is the lowest in its immediate group and two nearest competitors, Eilat and Sharm El-Sheikh.

Table 7: Summary of Landing & Terminal Navigation Charges at KHIA and Eilat & Sharm el-Sheikh

	Boeing B737 Airbus A320		
	KHIA	Eilat	Sharm el -Sheikh
Landing	$275	$538	161.70
Terminal Nav.	$22	$39	$165
Total all Charges	$297	$577	$327

	Day	Night
RJ Ground Handling	$1,655	$2,069

Even at the published prices, KHIA is cheaper for an airline to operate a B737 or A320 aircraft (typical for both charter and LCC airlines in Europe) than either Eilat or Sharm el-Sheikh. In fact, airlines at KHIA already enjoy the incentive of a 50% discount so the cost of operating one of these aircraft there is in the region of $150. It is not known what incentives or discounts are offered at Eilat or Sharm el-Sheikh but it is presumed that, especially in the current commercial and competitive environment, they must be substantial. Similarly, the ground handling agent at KHIA, Royal Jordanian, is already offering 50% off its published rates for point-to-point tourist flights.

The Aqaba Marketing Strategy calls for a dramatically increase in passenger numbers between 2010 and 2015. KHIA would target both Tour Operators and their charter flights, as well as Low Cost Carrier (LCC) airlines. The major target market will be the whole of Europe, including the UK, continental Europe, Russia and the CIS countries. Undoubtedly other target markets will be identified, in Asia for example, but initially the focus will be on 'greater' Europe.

The following table demonstrates the growth needed in passenger numbers to reach the challenging targets set in the Aqaba Marketing Strategy.

Table 8: Example of Possible Growth of Charter and LCC Airlines at KHIA, 2010 - 2015

		2010	2011	2012	2013	2014	2015
	current	65,000	65,000	65,000	65,000	65,000	65,000
	extra pax	66,667	133,333	200,000	266,667	333,333	400,000
	total pax	131,667	198,333	265,000	331,667	398,333	465,000
	p/w	2,532	3,814	5,096	6,378	7,660	8,942
	150 pax	17	25	34	43	51	60
	current flts	8	8	8	8	8	8
	LCC1	4	4	5	6	6	6
	LCC2		4	4	5	6	6
	LCC3			4	4	5	6
	LCC4			4	4	4	6
	LCC5				4	4	4
	LCC6					3	3
	LCC7						3
	LCC total	4	8	17	23	28	34
	balance	5	9	9	12	15	18
UK	chtr	1	2	2	2	3	3
Italy	chtr	1	2	2	2	2	3
Scan	chtr	1	1	1	2	2	3
Germany	chtr	1	1	1	2	2	3
Spain	chtr	1	1	1	1	2	2
Belgium	chtr		1	1	1	2	2
Neth	chtr		1	1	1	1	1
Austria	chtr				1	1	1
	chtr total	5	9	9	12	15	18
	balance	0	0	0	0	0	0

Of the 90,000+ total arriving passengers at KHIA in 2008, we have estimated approximately 65,000 of those to be true tourists arriving on regular charter flights. This is excluding those that arrive on charters that are infrequent or casual in nature. The target set for 2015 is that there should be an additional 400,000 arriving passengers at KHIA. In this model, that number is split evenly across each of the six years, 2010 – 2015. Thus, each year will need an additional 66,666 passengers more than the previous year (plus the 65,000 each year that are already arriving). We have estimated that the average number of passengers per flight will be 150; this is based on the assumption that most European charter operators and LCCs will use Boeing 737 and Airbus A320 type aircraft at an average passenger load factor of about 85%.

There are currently about eight flights per week bringing the 65,000 passengers. In order to accommodate the additional 400,000 by 2015, there will need to be an average of 60 flights per week in that year. That is a little more than eight per day, compared to the 2008 figures of eight per week. It is a substantial increase and thus a substantial task to achieve this growth. The number of LCCs and charter airlines and flights are merely a mathematical exercise to demonstrate how the passenger numbers might be achieved; it is not meant to be representative of exactly what will be the composition of flights. As well, if the average number of passengers per flight were more than 150, the total flights needed would be fewer; and, of course, if the average number of passengers per flight were lower than 150, it would require more flights.

It is felt that immediate action is necessary to encourage additional charter and LCC business as quickly as possible. Accordingly, the airport will establish a new Marketing Department which will be responsible for

developing and maintaining relationships with Europe's major Tour Operators (and their charter airlines) and with Europe's major LCCs. Presentations will be made to those operators with the objective being to continually build KHIA's customer base over time in order to reach the passenger targets that have been set.

It is proposed that an initial 'sales blitz' be undertaken by external resources in order to 'kick-start' the process. It is proposed that ASEZA and KHIA's short-term and immediate tactics include financial inducements to incentivize all foreign airlines and any/all LCC airlines that are approached. For the remainder of 2009 and possibly into 2010 also, the following is proposed:

- Change and re-focus the current Incentive program for existing airline customers
- Incentive for airlines to be seasonal, not annual
    - This will encourage more flights from airlines and encourage summer service
    - Thus, an airline would qualify for the incentive for up to ten flights operated in the summer months as well as in the winter months.
    - Apply to all passenger airlines
- ASEZA to pay all Airport and handling charges for all passenger carriers
- ASEZA to pay all Airport and RJ handling charges for all flights operated by new airlines
- No minimum nights stay in Aqaba rather minimum passenger numbers
- Consider additional incentives on case-by-case basis
- Co-operative marketing with participating airlines (financial and creative partnership)
- Support for TO familiarization, purchase trips and media visits by Aqaba trade
- Competitive prices for fuel uplift – to the degree possible
- Airlines are free to negotiate landing fees and handling fees with the airport

In reality, there is probably very little that can be achieved to induce additional service this summer as all TO programs and flying patterns have probably been set for several months ahead, but by making this offer it will be received and considered by the tour operators and charter airlines and they will at least know that ASEZA and KHIA are responding to the situation with attractive offers. If implemented quickly, it could have an impact on winter business.

For 2010 and 2011, a more scientific Incentive Program is proposed. This has been designed to be more attractive to series operators and to be more equitable to those that operate full-season programs. An Incentive Program has been structured and customized for the charter airlines and a separate an Incentive Program for scheduled airlines (almost certainly LCCs). Meanwhile, it is vital to be reasonable and to acknowledge that the Incentive 'war chest' is not bottomless.

It is proposed that the charter airline Incentive Program and the scheduled (LCC) airline Incentive Program be different because of the difference in nature of the two airlines and the different motivations of the passengers they bring. The following chart describes the different passenger characteristics. Typically, charter passengers are on a package holiday with fixed duration, whereas passengers on LCCs tend to be more independent and include business-type passengers as well, whose length of stay may not be fixed. Thus, LCC passengers are more interested in regular and frequent access to the destination while charter passengers are less so.

Table 9: Description of Passenger Characteristics and their Most Suitable Airline Type

Passenger Type	Business, MICE, Residential, FIT passengers	Pure Leisure, destination-Aqaba plus Golden Triangle/Jordan
Passenger Need	Frequency of flights	Regular, but not necessarily frequent
Airline Type	Low Cost Carriers (LCCs)	Tour Operator/ Charter Airlines

CHARTER INCENTIVE PROGRAM

Table 10: Proposed Charter Airline (Tour Operator) Incentive from 2010

Seasonal Charter Airline Incentive per Passenger, 2010 -2015								
2010 Onwards Charter Flight Incentive								
October to January			February to May			June to September		
Pax		per pax	Pax		per pax	Pax		per pax
1,500	2,499	€ 5	1,250	2,249	€ 10	1,000	1,999	€ 15
2,500	3,499	€ 10	2,250	3,249	€ 15	2,000	2,999	€ 20
3,500	4,499	€ 15	3,250	4,249	€ 20	3,000	3,999	€ 25
4500+		to be discussed	4,250+		to be discussed	4,000+		to be discussed

- The Incentive program is aimed at foreign charter and LCC airlines operating to KHIA and a list of acceptable source countries will be established. Should Jordanian airlines also operate charters or/and scheduled services at KHIA, they could also qualify for the Incentive Program.

- The Incentive Program is seasonal and the incentives are higher in the off-peak periods than in the main winter season.

- There are no minimum flights but airlines must bring a minimum of 1,500 passengers in the four winter months, a minimum of 1,250 in the off-peak months and a minimum of 1,000 in the (currently) low summer months.

- Minimum three nights stay in Aqaba.

- It is proposed that both point-to-point and triangular operations are included. That is flights directly from a European airport to KHIA will qualify, as will flights that operate from a European airport to KHIA and then on to Sharm el-Sheikh, for example (of course, only if passengers on those flights disembark at KHIA and remain in Aqaba the requisite number of nights). The objective is to encourage as much flying here as possible and, again, airlines will not want to route through here with a minimum number of passengers as the additional costs for a triangular service are considerable.

- It is proposed to examine the marketing effort of the incentive recipient as part of the claim process but to keep it as simple as possible.

- The Incentive contract may be between ASEZA and either the TO or the airline.

- After the qualifying number of passengers is reached and the Incentive becomes operative, it is proposed that the TO/Airline may choose to claim the value monthly or at the end of the

season. This gives them flexibility to manage their business in the way they want. The specific logistics of the program would need to be established and could be negotiated with the TO/Airline. It is important that ASEZA be flexible in its discussions with TOs and airlines' in this regard as each may have entirely different views as to what suits them best.

- The Incentive is 'scaled' so that as more passengers are brought to Aqaba, the value of the Incentive increases. This way, those airlines that fully support the destination by committing to the full season, or full year, will earn considerably more than others that operate fewer flights and the total would be more than the current maximum.

Table 11: Estimate of Maximum Cost Based on Flight Numbers in Table 8

2010 Oct-Jan	Feb-May	Jun-Sep	Total Incentive
€ 10,995	€ 20,243	€ 31,990	€ 63,228
€ 10,995	€ 20,243	€ 31,990	€ 63,228
€ 10,995	€ 20,243	€ 31,990	€ 63,228
€ 10,995	€ 20,243	€ 31,990	€ 63,228
€ 10,995	€ 20,243	€ 31,990	€ 63,228
€ 54,975	€ 101,213	€ 159,950	€ 316,138

2015 Oct-Jan	Feb-May	Jun-Sep	Total Incentive
€ 94,478	€ 130,970	€ 169,963	€ 395,410
€ 94,478	€ 130,970	€ 169,963	€ 395,410
€ 94,478	€ 130,970	€ 169,963	€ 395,410
€ 94,478	€ 130,970	€ 169,963	€ 395,410
€ 55,485	€ 78,980	€ 104,975	€ 239,440
€ 55,485	€ 78,980	€ 104,975	€ 239,440
€ 16,493	€ 26,990	€ 39,988	€ 83,470
€ 16,493	€ 26,990	€ 39,988	€ 83,470
€ 521,865	€ 735,820	€ 969,775	€ 2,227,460

If the number of charter flights was exactly as shown above in both years and all flights had an average of 150 passengers, the total cost of the charter incentive would be €316,000 in 2010 and €2, 230,000 in 2015.

The calculations and the color indications are explained in the last section of this report.

SCHEDULED SERVICE AIRLINE INCENTIVE PROGRAM

The proposed Incentive Program for scheduled airlines (almost certainly LCCs) differs from that above proposed for the charter airlines. The rationale for this is that LCCs are almost certainly going to operate more than once-weekly. It just doesn't suit their business model, or their aircraft routing plots to operate fewer frequencies. They really like to operate daily services to all destinations but Aqaba is unlikely to be able to justify a daily service from even the most populous source markets, at least in the short/medium term. We could envisage LCCs operating two to four flights per week.

If the Incentive program was the same as for charter airlines, the costs would rapidly escalate to untenable levels. Thus the program proposed for LCCs is again structured to be lucrative and compelling for the airline but without 'breaking the bank' for ASEZA.

Table 12: Proposed Scheduled Airline (LCC) Incentive from 2010

LCC Incentive Value per Flight, Summer/Winter Seasons 2010 - 2015							
2010 Onwards Scheduled Flight Incentive							
Winter, November-March				Summer, April- October			
From	To	Value	Cost	From	To	Value	Cost
	22	€ 3,000	€ 66,000		30	€ 3,500	€ 105,000
23	44	€ 500	€ 22,000	31	60	€ 750	€ 45,000
45	66	€ 550	€ 36,300	61	90	€ 800	€ 72,000
67	88	€ 600	€ 52,800	91	120	€ 850	€ 102,000
89	110	€ 650	€ 71,500	121	150	€ 900	€ 135,000
111	132	€ 700	€ 92,400	151	180	€ 950	€ 171,000
133	155	€ 750	€ 116,250	181	210	€ 1,000	€ 210,000

As described above, the LCC incentive is based on frequency of flights rather than the numbers of passengers they will bring. LCCs will expect to operate at passenger load factors of 80%+ so the passenger numbers will be substantial. The section above describing the rationale for change explains that the LCCs will be looking for ASEZA/KHIA to support the cost of their operation and may well not be interested in the 'pro-forma' incentive in table 12. Rather, they may wish to negotiate independent agreements with ASEZA/KHIA to ensure they do not make an operating loss in the first one/two years of operation. But for completeness, the table below shows the likely cost of the scheduled/LCC incentive program if the table above was applied.

Table 11: Estimate of Maximum Cost Based on Flight Numbers in Table 8

Edstimated Maximum Cost of LCC Incentive, Summer/Winter 2010 - 2015							
2010				2015			
winter Flts	22 Cost	summer Flts	30 Cost	winter Flts	22 Cost	summer Flts	30 Cost
88	€ 118,800	120	€ 207,000	132	€ 158,400	180	€ 276,000
0		0		132	€ 158,400	180	€ 276,000
0		0		132	€ 158,400	180	€ 276,000
0		0		132	€ 158,400	180	€ 276,000
0		0		88	€ 118,800	120	€ 207,000
0		0		66	€ 102,300	90	€ 177,000
0		0		66	€ 102,300	90	€ 177,000
	€ 118,800		€ 207,000		€ 957,000		€ 1,665,000
			€ 325,800				€ 2,622,000

Again, the color indications are explained in the last section of the report.

Scheduled airlines, including LCCs are likely to operate year-round so the incentive is higher for the summer months (April to October) than the winter months (November to March). Thus, if the one LCC forecast for 2010 carried an average of 150 passengers on each of their four-times weekly services, the total cost of the incentive would be €325,800 in 2010 and for the seven LCCs operating in 2015, the total cost would be €2,62m.

But it must be remembered that these and the charter totals are estimates based on the number of each type of airline shown in table 8. A different mix of charter and LCC airlines will result in different totals accordingly.

DESCRIPTION OF INCENTIVE PROPOSAL METHODOLOGY

The model is a simple Excel spreadsheet and is based on the LCC and charter airline forecasts in Table 8 above. The model comprises two worksheets, "pax flt nbr" (i.e. Passenger numbers and flight numbers) and "incentive" (which describes the per-passenger or per-flight incentive and an estimate of the maximum cost, based on the assumptions therein. In the model,

- Cells colored in red are the 'drivers', that is if a figure in these cells is changed, it drives changes in the incentive - these cells are drivers
- Cells colored in sand must be calculated manually (it may be possible in a later version to automate some or all of these, also - these cells must be calculated manually
- Cells colored in green are calculated automatically and change as numbers in driver cells are changed – these cells are calculated automatically from the drivers

WORKSHEET "PAX FLT NBR"

The first of the worksheets contains Table 8 (which is an estimate of how the new flights might develop over time) and the number of weekly passengers attributable to each of the LCC and charter flights and is described on page 10 above. The average number of passengers per flight is estimated to be 150 on both LCC and charter flights. If the number in this cell (B7) is changed, it impacts the number of passengers per week in the second table. As well, the number of flights per week is a driver which if changed also impacts the number of passengers per week in the second table.

LCC airlines

Thus if the figure in cell B7 is changed (say, to 175), the LCC passengers per week in cells L9 to Q16 will all change as they are driven by the number in B7 times the number of LCC flights per week in C9 to H15. Similarly, if any of the number of LCC flights per week in cells C9 to H15 is changed, they will impact the respective cell/s on the second table in cells L9 to Q16.

Changing either the average number of passengers per flight or the number of flights per week will not change numbers in the tables on the "incentive" worksheet (explained below).

Charter airlines

The same is true with the charter airlines, if the average number of passengers per flight in cell B7 is changed, the passengers per week on charter flights in cells L19 to Q26 will all change as they are driven by the number in B7 times the number of charter flights per week in cells C19 to H26. Similarly, if any of the number of charter flights per week in cells C19 to H26 is changed, they will impact the respective cell/s on the second table in cells L19 to Q26.

If the number of charter flights per week is changed, the costs on the second worksheet, "incentive" will change as these are driven by passenger numbers.

WORKSHEET "INCENTIVE"

The second worksheet contains two tables for each of the LCC airlines and the charter airlines. The first describes the value of the incentive and the second the estimated maximum cost in 2010 and 2015 based on the figures in Table 8.

LCC airlines

As described above, the numbers on the first worksheet, "pax flt nbr" do not drive either the value or cost tables for the LCC airlines. The drivers for the LCC incentive are the values in cells D6 to D12 (winter season) and I6 to I12 (summer season)[5].

It is assumed that LCCs will not operate less than year-round but at different frequencies per week. Minimum numbers of flights were set at one per week. Thus an LCC airline must operate not fewer than 22 flights in the winter season and not fewer than 30 flights in the summer season to qualify for the LCC incentive. Assuming that an LCC does operate this minimum number of flights, they would receive €3,000 per flight incentive. Thereafter, LCCs are paid €3,000 plus a supplement for every additional flight per week operated. It must be noted that the supplement proposed is not in addition to €3,000 on the additional flights. If the €3,000 was paid on every flight, the total cost would be 'astronomic' in the later years (over €5.5m in 2015). Nonetheless, ASEZA must be prepared for the LCC to insist on a risk-sharing solution, rather than the flat incentive as described herein.

[5] The airline industry considers the winter season to be from November to March and the summer season to be from April to October and airlines publish their schedules accordingly.

The figures in cells B6 to C12 and G6 to H12 describe the number of flights operated in each of the winter and summer seasons by each of the LCCs. 22 flights (C6) equals once weekly in the winter season and 30 flights (H6) equals once weekly in the summer season; 44 flights (C7) therefore equals twice weekly in the winter season and 60 flights (H7) equals twice daily in the summer season, and so on thereafter.

The cost in E6 is derived from the value per flight in D6 (€3,000 in the winter season) times the minimum number of once-weekly flights, being 22 in C6. The cost in J6 is derived from the value per flight in I6 (€3,500 in the summer season) times the minimum number of once-weekly flights, being 30 in H6.

The number of flights in B18 to B24, D18 to D24, G18 to G24 and I18 to I24 are derived from the number of weekly flights in cells C9 to H15 on the first worksheet, "pax flt nbr" times the number of weeks in the respective seasons in cells C16, E16, H16 and J16.

The estimated total costs in cells C18 to 24, E18 to 24, H18 to 24 and J18 to 24 are derived by adding the basic incentive for operating the minimum number of flights per season (22 winter, 30 summer) in cells E6 and J6 to the appropriate supplemental incentive payment. The supplemental incentive payment is based on the weekly number of flights and is likely to be a multiple of weekly flights and should thus be easily calculable; but in the event that some months are more or less than others, the model must consider a range. For the purposes of modeling we have assumed that it will always be the maximum achievable by operating the same number each week in a season. Thus the calculation for winter and summer 2010 are based on four weekly flights times 22 weeks in the winter and 30 weeks in the summer. The total cost in winter 2010 would, therefore be $66,000, plus 88 times €600, being €118,800. The total cost in summer 2010 would be €105,000, plus 120 times €850, being €207,000. The comparable figures for 2015 are derived from the weekly frequencies of the seven presumed LCCs, adding the basic minimum incentive plus the supplemental incentives.

Charter airlines

We have divided the year for charter airlines into three seasons:

- Peak season, October to January with a minimum of 1,500 passengers
- Off-peak season, February to May with a minimum of 1,250 passengers
- Summer season, June to September with a minimum of 1,000 passengers

The driver for the value of the charter airline incentive is a per-passenger figure which varies by season and by the incremental number of passengers. It varies from €5 to €25 and is found in cells N6 to N8, S6 to S8 and X6 to X8. Thus if the Euro value in these cells is changed the cost for that season will change. The incentive is not paid on the minimum qualifying passengers, only on those above the minimum.

The cost in 2010 for the presumed new UK charter airline in row 19 of the first spreadsheet "pax flt nbr" comprises the sums in cells L18, M18 and N18, being a total of €63,228. The 2015 total comprises the sums of cells Q18, R18 and S18, being a total of €395,410.

The individual cells are derived by the number of passengers per week from the first spreadsheet "pax flt nbr" times 17.33 (52 weeks divided by three) times the appropriate Euro figure per passenger. Thus the cost for the charter airline on row 19 in October – January 2010, is cell L19 from "pax flt nbr" (150), times (17.33 – 1,500 winter minimum passenger number), times cell N7 €10, being a total of €10,995. The total for June to September 2015 is cell Q19 from "pax flt nbr" (450), times (17.33 – 1,000 summer minimum passenger number), times cell X8 €25, being a total of €169,963.