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Airline subsidies in the Gulf | Feeling the heat

BY M.R.

ALLEGATIONS of unfair competition are nothing new for the Gulf's carriers. The region's big three airlines—Emirates, Etihad Airways and Qatar Airways—have long been accused of receiving government subsidies by their rivals in Europe and America. But supporting evidence has been in short supply. That apparently changed yesterday, when a group of airlines disclosed details of "obvious and massive" Gulf-carrier subsidies totalling $42bn since 2004. The findings have been submitted to the American government in a 55-page dossier urging a re-think of Washington's open-skies treaty with Qatar and the United Arab Emirates (UAE). It contends that the Gulf carriers—which compete with American rivals on international routes—should only enjoy unfettered access to America's airports if they operate on a level playing field.

It is a familiar argument that already holds sway with policymakers in Europe. The Gulf's rebuttal is equally familiar. Tim Clark, the boss of Emirates, maintains that the carrier he helped set up in 1985 only ever received $10m in seed capital. Its meteoric rise on the global stage, he insists, is down to a mixture of the Gulf's geographical good fortune at the nexus of East and West, and the Dubai government's pro-aviation policies. The American airlines which made the accusations, he says, are simply trying to hide behind protectionism.

This well-versed stance is now coming under renewed scrutiny by American officials, who will meet with Mr Clark in Washington in a fortnight. He must be concerned that some of the mud will stick. According to the *Financial Times*, the allegations against Emirates include Dubai's assumption of a $2.4bn fuel-hedging loss, $2.3bn of savings from artificially low airport charges and $1.9bn of savings from Emirates' non-unionised workforce. Mr Clark will of course deny that cheap labour and ground-handling constitute a government subsidy; to the contrary, he will say, they reflect the commercial savviness of his government. But the accusations levied against the other Gulf carriers are harder to dismiss. Qatar Airways, it is alleged, has received $7.7bn in interest-free loans from the Qatari government and $6.8bn in reduced debt-interest charges thanks to sovereign guarantees. Etihad is said to have received $6.3bn in capital injections, $4.6bn in interest-free loans with no repayment obligation, and $4.2bn in "additional committed subsidies" from Abu Dhabi.

Do equity transferrals, interest-free loans and debt guarantees constitute subsidies? Not according to Akbar Al Baker, the boss of Qatar Airways, who insists that the Qatari government is free to provide financial support to its airline just like any other shareholder.

But his argument is misleading. First, the sheer scale of equity apparently being provided to the Gulf carriers dwarfs what any privately owned airline could hope to secure for start-up capital. Second, debt guarantees are two different animals in the public and private sector. In the latter, they are provided when a shareholder believes there is little to no chance that the debt will be defaulted on; in the former, they are provided irrespective of the likelihood of repayment, effectively kicking the borrowings into the long grass. On both counts, the Gulf carriers enjoy clear financial advantages over their American and European rivals, affording them a safety net which permits them to operate unprofitable services in order to gain market share.

Transparency is another issue. Proponents of the Gulf model often note that airlines in America benefited from the Chapter 11 bankruptcy protection system after the 9/11 terrorist attacks. This, they claim, amounted to a back-door subsidy, propping up the domestic sector while its debts and costs were trimmed. But that is an unfair comparison. Chapter 11 restructurings do not involve equity injections by the taxpayer. They are restructurings conducted under the watchful eye of an independent judiciary. By contrast, decisions about the organisation of Gulf-carrier balance sheets are taken behind closed doors, by dynastic rulers who have no accountability to their citizens. Unless Qatar and the UAE can demonstrate that their flag-carriers abide by competitive norms in the private sector, the American government is entitled to impose bilateral restrictions—just as most governments in Europe and the Middle East have done.

There is one final point that Gulliver finds pertinent. Gulf carriers are more proactive than most at currying favour with trade journalists. Their generosity to the media goes beyond complimentary flights for press conferences—perks that *The Economist's* journalists are prohibited from accepting—and extends well into corporate hospitality. Once a journalist has enjoyed an evening in an executive box at the Emirates Stadium, for example, it becomes awkward to write anything negative about Dubai's flag-carrier. Such conflicts of interest may well have influenced coverage of the Gulf subsidy row.