Reconsidering the U.S.-UAE Aviation Relationship

by Rob Britton

In 2013, I conducted research on the aviation relationship between the U.S. and the UAE on behalf of the US-UAE Business Council. During the course of the study, I came to suspect that the massive growth in this relationship - 1,500 percent since 2004 in terms of U.S. economic impact - could not have been the result of normal market forces. The numbers were just too big to reflect natural market growth. In recent weeks, I have returned to this issue and my suspicions have now been confirmed. **It's clear that the UAE's two mega-carriers, Emirates and Etihad, are competing for and winning market share because their government is giving them billions of dollars in subsidies that distort the aviation marketplace.**

According to a recent report released by the Partnership for Open and Fair Skies, which is based on two years of extensive, global research and forensic accounting, in the past decade the wealthy UAE government has pumped $22.6 billion into Emirates and Etihad. Likewise, neighboring Qatar has injected an additional $16.3 billion of subsidies into its own mega-carrier, Qatar Airways. At the same time, Emirates and Etihad have secured an additional $2.1 billion in unfair benefits as a result of their government's repressive labor practices, including denial of workers' rights to organize, and lack of fundamental due process for their airline staff.

In describing the trade in aviation-related goods and services between the U.S. and UAE, my 2013 paper outlined seven positive economic impacts on the U.S. economy, including exports of U.S. aviation manufactures, such as jetliners and engines; Emirates' and Etihad's expenditures in the U.S. for employees and other things needed to operate from here; and the direct, indirect, and induced impact of spending (including tax revenues) by the overseas visitors who arrive on their flights. The numbers in all the categories were large, but they were based on incomplete and inaccurate information from Emirates, Etihad, and their intermediaries. We now know they were also built on an unsustainable and artificial foundation of massive UAE governmental support.

You can get a more detailed look at the details of this support in the Partnership's white paper, but here is a summary of the enormous subsidies:

Etihad Airways has received:

- $6.0 billion in government "loans" with no repayment obligation, and interest savings
- $6.3 billion in government capital injections
- $4.2 billion in additional committed subsidies
- $751 million in government grants
- $501 million in airport fee exemptions

And Emirates has benefitted from:

- $2.6 billion from government assumption of fuel hedging losses, and carrying cost
- $2.2 billion from subsidized airport infrastructure

If I were to write the 2013 study today, factoring in the huge subsidies to Emirates and Etihad, the picture would look dramatically different. For one thing, we would need to reduce many numbers to reflect the damaging impact of the subsidies on U.S. airlines, their employees, and the communities they serve. This is because **the growth of Gulf carriers has come not from increasing the size of the market, but from diverting passengers that U.S. airlines and their European partners once served.** Combining Delta Air Lines and Emirates data, for example, indicates that for each widebody round-trip flight lost or foregone because of distorted Gulf competition results in a net loss of more than 800 U.S. jobs.

Government support to airlines have existed since the dawn of commercial aviation a century ago, but **the massive scale of UAE and Qatari support is stunning and unprecedented**. This is not so much government ownership as it is complete hand-in-glove state control of the two carriers. In Dubai, for example, the web of interlocking businesses, suppliers, and government agencies around Emirates is airtight. Furthermore, at both airlines creative accounting is the norm – neither airline publishes financial statements that conform to international standards of completeness and transparency.

Although the prevailing business philosophy in the U.S. disdains direct government support, we all recognize that sovereign nations are free to help their enterprises in various ways. But that freedom to subsidize explicitly ceases if a foreign airline wants free and unlimited access to the massive U.S. airline market, the biggest in the world. The U.S. government's international air transportation policy is clear: "Ensure that competition is fair and the playing field is level by eliminating marketplace distortions, such as government subsidies . . ." This objective was one of the foundations of every one of the 111 Open Skies agreements that the United States has concluded since 1992.

Responding to recently expressed concerns about the subsidies to Emirates and Etihad, the president of the U.S.-UAE Business Council opined that American Airlines, Delta, and United should "stop complaining and start competing." As someone who served two of those carriers (or their predecessors) steadfastly for more than 25 years, during a period of intense domestic and international competition, I object to his implication that U.S. airlines can't compete. After all, it was here in the United States that the hugely successful drive toward global airline deregulation began, a drive that has democratized a mode of transport once available only to the wealthy, and conferred countless other benefits to consumers in this country and around the world.

My former co-workers in the U.S. airline industry are resilient and vigorous, but they cannot compete on a playing field tilted by enormous government subsidies and unfair labor standards.

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