



PILARSKI SAYS...

Making sense of the third Gulf War

US carriers are up in arms against their Middle Eastern rivals, writes Adam Pilarski, senior vice-president at Avitas.

The US seems to be involved in the third Gulf War. The first liberated Kuwait, the second (for which nobody can still provide a reasonable justification) unsettled a very delicate balance in the Middle East and caused a tsunami of various bloody wars throughout the region for which the whole world continues to pay a tremendous price. The present one is much less bloody and involves US legacy carriers whining about unfair competition from the big three Gulf airlines – Emirates, Etihad and Qatar (or G3).

Americans for Fair Skies commented on plans by Emirates to fly to Orlando, saying: “Makes sense... because like Mickey Mouse, this airline is not real.”

Mr Anderson of Delta insinuated a connection of the 9/11 terrorists with G3 and Mr Al-Baker of Qatar said his modern fleet is much better for the environment than the Delta “crap airplanes that are 35 years old”. In addition to incendiary statements by both sides, there is a lot of misinformation floating around.

Unlike Mickey Mouse, the big G3 carriers are very much real and their share of world traffic has been growing exponentially in the past decade. During that time their annual growth has been almost 20%. More importantly, their share of world traffic grew in that decade from about 2% to more than 6.5%. Based on traffic, G3 would be the largest airline in the US. Their service also wins awards. The US legacy carriers claim that the reason for such success is unprecedentedly huge subsidies granted to G3 by their governments.

Interestingly, these concerns were first voiced by Indian and European airlines, which first started losing market share to G3 carriers. Many airlines have been getting government subsidies for a long time, including Alitalia, all Chinese carriers and Air India, which has a government promise to fund its huge deficit (more than \$1 billion in 2014) until at least 2022. But, as long as those recipients were not overly successful, nobody complained about an “uneven playing field”.

To define what is “unfair” is not easy. Is the fact that US carriers have a lock on the largest domestic market fair? The current line used by European/US legacies is that G3 receive huge subsidies. Again, what is a “subsidy”? Different countries have different social systems. In some countries the state provides universal medical coverage or free education, including tertiary and retirement benefits. In the US, we do not provide those but provide a feeling of security bolstered by our huge military expenditure.

There are also different levels of taxation in among countries affecting real wages. Hence,

salaries are significantly distorted by government policies both on the tax and benefits side. Can this be called a subsidy? Also, a number of airlines are still government owned, such as those in China. Obviously they receive state support/subsidy in case they lose money.

Except for the US, most airlines in the world were initially government owned under the assumption that they bring large benefits to their countries in terms of economic externalities, such as tourism revenues – hence, justifying state subsidies. Many of those airlines were privatized only when the inefficiencies became overwhelming and states did not want to continue with subsidies forever.

A side note here on the Chapter 11 controversy brought out by G3 and some European commentators. These arguments do not make any more sense than the ridiculous statements linking G3 to terrorism. Chapter 11 is not unique to aviation; it is part of the social system in the US since the beginning of time when the right of a second chance was offered in the US Constitution. It may seem unfair to outsiders but to call it government subsidy is ridiculous. There are no government funds involved. Some shareholders and private businesses which trusted a firm lose to give others a chance to survive. There are winners and losers but the state is not financially involved.

Interestingly, the current conflict between G3 and US legacy carriers affects various parties in different ways, making a coherent US government policy difficult to formulate. The US policy of trying to stop G3 would be a significant step back from open skies. We already are facing such unfair treatment of the Viking invasion where the US government is preventing Norwegian to compete. In the case of G3, the situation is more complicated because various conflicting interests are involved. We have an interesting coalition of Boeing and the top cargo carrier FedEx, on the one hand, opposed by traditional passenger legacies, on the other.

A similar situation exists in Europe where IAG takes a different approach from Lufthansa to G3 threats, each pursuing their interests and intending to protect European jobs. Each party justifiably understands that a government decision will cost them jobs and money. Who will prevail is not certain but obviously the reputation of the US and Europe as beacons of free enterprise is suffering.

A final thought. United, which a few years ago tried to eliminate free food on international flights, has just announced it will serve free booze in economy. Competition from G3 obviously helps consumers. ▲