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Scramble for the Sky

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Another front has opened up in the unfolding Gulf crisis—this time in the air. In response to Qatar’s air force policy of intercepting UAE civilian airliners—in Bahrain’s air-space—the Quartet (Saudi Arabia, Bahrain, Egypt and the UAE), decided to take Qatar to the International Court of Justice (ICJ). The involvement of international judicial organisation signals the escalating competition among Gulf air carriers to gain access to passengers and markets. Such competition, involving the world’s largest and most powerful air companies, presents a serious geopolitical dilemma and yet important economic opportunities in Gulf, US and EU market places.

US-GULF AIR FRENEMIES?

The struggle for the skies commenced in 2017 with competition over the US market. Delta Airlines, American Airlines and United Airlines—the three largest US carriers—formed a coalition against Fly Emirates, Etihad Airways and Qatar Airways since the three Gulf airlines continued their expansion into North American markets and began providing one-stop connections to American travellers via the airlines’ hubs in Dubai, Abu Dhabi and Doha. The US carriers have been lobbying to block access to US air-space, currently available to the Gulf carriers under the Open Skies policy. They claim that their Middle East rivals have received billions in government subsidies that have unfairly spurred their growth. Qatar, Etihad and Fly Emirates, have all denied such accusations and have so far convinced the Trump administration not to undertake action which could damage their US business. This is reinforced by the Gulf airlines’ contribution to US job creation, which is in line with the America First platform of Trump.

Qatar, Etihad and Fly Emirates operate around 200 flights per week to 12 US cities. Due to the small travelling population of the Gulf countries they can only sustain their expansion connecting traffic from the US, Europe, South America and many other regions via their national hubs (Abu Dhabi, Dubai and Doha). Emirates alone links the

US, via Dubai, to 17 cities in the Middle East; 21 in Africa; 36 in South, Southeast and East Asia; and 7 in Australia and New Zealand. These Gulf mega-airlines benefit from their strategic-geographic advantage of having central global location. About 60% of the world's population lives within six flying hours of the Gulf.

THE GULF CRISIS

The strong economic position of the Gulf carriers over the world's skies is currently threatened by the Qatar-UAE rivalry. Even before the Gulf crisis (June 2017), the governments of Abu Dhabi, Dubai and Qatar were in competition, not just with their airlines, but with essentially identical economic development strategies aimed at diversifying their economies. Additionally, when it comes to the three competing for the same markets in the US and Europe, Emirates, Etihad and Qatar always matched each other's increases in capacity—chasing the same slow-growing pools of passengers. The prolonged dispute with Qatar is, however, pushing the two UAE carriers, Etihad Airways and Fly Emirates, into closer cooperation to provide a stronger challenge to their Qatari competitor and face future competition with Delta, American and United. In June 2018, Etihad unveiled a new programme to loan pilots to the Dubai-based Emirates. Such a move, involving two competing air carriers, would have been unthinkable just one year ago, before the start of the crisis with Doha. Qatar Airways continues to suffer economically from the continuation of the Gulf diplomatic crisis. In April 2018, Qatar Airways' CEO, Akbar Al-Baker, confirmed a substantial loss suffered during the company's last financial year. Al-Baker connected the economic damage to the regional dispute that has banned the airline from Saudi Arabia, Bahrain, Egypt and the UAE and their airspace—forcing Qatar Airways to burn more fuel on alternative routes. Qatar has been fighting back by trying to acquire competitiveness in the EU market at the expenses of its UAE rivals. Al-Baker's decision to acquire 49% of Italy's insolvent carrier Air Meridiana, renamed Air Italy after the acquisition by Qatar Airways, and the inauguration of a new Milan-New York flight, which directly competes with Etihad's project to use Italy and Etihad controlled Alitalia's hubs as bases to expand its North America and European operations. Despite this, in the long term, Qatar Airways could be damaged not only at the expense of Etihad and Emirates, but also by Saudi Arabia and Bahrain's national carriers—Saudia and Gulf Air.

GULF AIR

Bahrain's Gulf Air, in particular, appears to have a strategy to grow and attempt to reclaim its position as the top Gulf carrier. Bahrain's flag carrier was, for decades, the most

prestigious airline in the Middle East. In the 1950s, Bahrain's strategic importance motivated British Overseas Airways Corporation, at the time Britain's flag carrier, to become a major shareholder in Gulf Aviation, Manama's local airline. By the 1970s Bahrain had the most developed airline infrastructure in the region. Qatar, the UAE and Oman rushed to buy stakes in the Bahraini company, which formed a multinational carrier: Gulf Air. However, in the first decade of this century, Qatar, the UAE and Oman pulled out of Gulf Air and pumped vast sums of money into their own national airlines leaving the small Kingdom of Bahrain alone in covering the costs of a large company which was facing growing competition. Despite this, the medium-to-long term future of Bahrain's civil aviation looks brighter than in its recent past. Gulf Air has committed to take delivery of 39 new aircraft by 2023. This year will see the launch of eight new destinations in the Middle East, north Africa, India and the Caucasus. Next year will bring a renewed push into Western Europe, where the airline used to have a deep footprint. Gulf Air also plans to tap into the connecting flows that proved so lucrative for its neighbours, specifically by connecting Africa to China.

We at the Euro-Gulf Information Centre (EGIC), will continue to monitor the changing markets scenarios related to the competition among the world's largest air carriers and to examine their impact on commercial relations involving the Arab Gulf region, Europe and North America and over the future of the ongoing intra-Gulf diplomatic rift.