Analysis of the Dispute Between American and Gulf Carriers in Aviation

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Abstract

During the last decade, a significant disagreement has grown over unfair government financial subsidies in the aviation industry for Persian Gulf region carriers: $40 Billion US Dollars since 2000. The most prominent international airlines of North America, United, American, and Delta, have made claims on a white paper document directed toward the American government against the primary Persian Gulf region air carriers: Emirates, Qatar, and Etihad. Assertions made by both sides will be carefully scrutinized in this thesis with a fair analysis of both sides of the dispute over government aid in the aviation industry. This study also includes a cultural standpoint of American versus Middle Eastern business practices and the impacts of the Coronavirus pandemic on this topic. The last section concludes by making comments regarding current and future impacts of the dispute on U.S. and Gulf air carriers regarding government support.

Keywords: Disagreement, subsidies, Persian Gulf, carriers, white paper document, fair analysis, cultural standpoint, pandemic

Analysis of the Dispute Between American and Gulf Carriers in Aviation

Decades ago, humans would not have even imagined air transport being possible. The primary means of transport between different countries occurred over bodies of water in boats. However, due to the intellectual capabilities of the human brain created by God, the world of aviation was birthed and continues to flourish. The industry has a come a long way since the days of the Wright Brothers. Nevertheless, when an industry begins to grow and evolve, various obstacles tend to surface. Therefore, I aim to analyze one of these hurdles faced by the aviation industry; an ethical issue that arose as the industry began to grow globally, especially in the Middle East, and claims to give some airlines an upper hand in terms of competitiveness. The primary focus of this paper will be to evaluate disputes regarding government support in the aviation industry and analyze the future of the industry regarding this topic.

The Ethical Issue at Hand

Adhering to ethical standards remains an important aspect of any modern industry. Thus, as communicated by Rice (2015), claims have been made by American-based airline carriers against Persian Gulf carriers regarding a breach of moral standards in the aviation industry. In specific, major American carriers claim that certain Gulf carriers benefit from a global aviation policy known as the Open Skies Agreement and leverage state support to gain an unfair competitive advantage.

Hence, the opening section includes a summary of the claims made by these American carriers. Furthermore, a study will be conducted into Open Skies Agreements, the body that founded these policies, and how different airlines across the globe are applying these agreements in order to evaluate the validity of these claims. Similarly, a thorough analysis will also be carried out into the operation of the Gulf carriers and their growth to analyze their impact on

American carriers. In doing so, the rebuttal's made by the Gulf carriers, particularly Emirates Airlines, will also be thoroughly evaluated to comprehend both sides of the argument. Lastly, a discussion of cultures between different nations pertaining to governmental support in the aviation industry will be included.

Ultimately, I intend to analyze whether fair competition exists between Gulf carriers and the rest of the world; if not, what is the solution going forward to ensure an even playing field in the global aviation industry? Moreover, the primary aim pertains to providing feasible solutions to ease the tensions that may still exist between airlines based in America and airlines based in the Middle East. The aviation industry is a huge industry that continues to trend upwards, even after the setback presented by the pandemic. Hence, plenty of market exists to go around for airlines all over the world. Constant disputes between two of largest aviation markets in the world is not good for the industry, particularly for consumers; therefore, steps should be taken to eradicate the issues that persist between these nations.

The White Paper Allegations

To begin with, this section provides a rundown of the accusations made by the American carriers. These aforementioned claims were made by three of the primary airline carriers in the United States of America known informally as the *Big 3*: American Airlines, Delta Airlines, and United Airlines. In addition, these claims were directed at three particular carriers situated in the Gulf region and were classified by the American carriers as the ME3 or the *Middle East Three*. The ME3 consists of the following carriers: Emirates Airlines, Etihad Airways, and Qatar Airways (Rice, 2015).

Moreover, all the rumors and speculations boiled over with the release of a 55-page white paper document that explained all the allegations in great detail (Rice, 2015). The primary accusation made against the Gulf carriers were regarding governmental support in the form of subsidies. The basic definition of a subsidy is as follows: “A subsidy is a benefit given to an individual, business, or institution, usually by the government. It is usually in the form of a cash payment or a tax reduction” (Scott, 2021, para. 1). The American carriers claimed investigations led to the discovery of unethical financial support toward the Gulf carriers from their respective governments that gave them a supposed competitive edge over its global counterparts: “According to their American competitors, the Gulf’s “Big Three” have received a combined $40 billion in subsidies since 2000, including alleged benefits from reduced fuel prices that the airlines derived from their close proximity to the Middle East’s considerable oil resources” (Wilson, 2015, para. 1). In receiving such financial aid, the American carriers stated the Gulf carriers not only broke moral standards, but also broke rules agreed upon through the establishment of an open skies agreement between the United Arab Emirates and the United States.

The American carriers also accused the Gulf carriers of developing economically in an unfair manner through state support. In the white paper document, researchers highlighted the fact that the three Gulf carriers and their corresponding aviation sectors remained state-owned. Likewise, the American carriers also scrutinized the close ties each airline had with its respective national rulers and governments. An example is as follows:

> The White Paper emphasizes the “strong relationships” between Emirates and the rest of Dubai’s aviation sector. Members of the Al Maktoum family rule the Emirate of Dubai. Sheikh Ahmed Bin Saeed Al Maktoum, the chairman of Emirates, also serves as the chairman of every other enterprise in Dubai’s aviation industry. (Cline, 2016, p. 544)

The American carriers claims that the aforementioned led to the acquisition of "interest-free government loans, cash injections at a time when the recipient airline was not "equityworthy," economic grants, exemptions from airport fees, shareholder advances, government loan guarantees, government assumption of financially burdensome fuel hedging contracts, and land grants" for the Gulf carriers (Cline, 2016, p. 544); all of these, according to the American carriers, helped the Gulf carriers to dominate global markets. Similarly, the American carriers also pointed out that out that the Gulf carriers, most importantly Emirates Airlines, benefited from certain geographic benefits such as cheaper labor costs, lower landing fees at local airports, and so on. Thus, competing in an open market, made possible by the open skies agreement, would put the American carriers at a disadvantage due to these aforementioned benefits.

American, Delta, and United's fix for this issue was also included in the 55-page white paper document (Cline, 2016). They proposed certain restrictions on the open skies policy in order to help local American carriers overcome the domination imposed by the Gulf carriers. However, not all of the American carriers agreed with the recommendations as many carriers preferred the open skies rule in place currently. Smaller U.S based carriers such as FedEx, JetBlue, Atlas Air, and Hawaiian Airlines insisted on carrying forward with the open skies agreement as is and opted to reject the proposals made by the Big 3. These airlines also assembled a committee known as the "U.S. Airlines for Open Skies (USAOS) to encourage the Obama Administration to reject the proposals urged by the Big 3" (Cline, 2016, p. 543). Additionally, many European carriers also firmly denied the proposals set forth by the American Big 3 and stated that restrictions over open skies are not the answer to leveling out the competitive playing field. As a whole, through the white paper, the American carriers hoped to shed light on the fact that the Gulf carriers posed a serious threat to domestic carriers in the

United States of America. Furthermore, the document emphasized that the Gulf carriers accomplished this in an unethical and unfair manner.

ICAO, ADA, and the Open Skies Agreement

Now that we have dealt with the claims made by the American carriers concerning unethical practices by the Gulf carriers, we will delve into the specifics of the regulations governing international air travel. In the early 1900s, during a period of recovery for many nations from the first and second world wars, aviation began to establish its place in the world. Aircrafts built primarily for the purposes of the second world war paved the way for the advancement of commercial air travel. The development of passenger aircraft flourished due to technology discovered as a result of the second world war (Rhoades, 2019).

However, as commercial aviation began to expand in the 1900s, many nations quarreled on who had authority over the variety of airspaces in the world; hence, nations began to realize the necessity of a governing body in the aviation industry in order to set a regulatory standard. Therefore, various countries agreed to participate in conventions focused on creating a sense of regulation in the industry. The first convention of this sort comprised of 19 European countries. The term aviation received a formal meaning at this conference (Mackenzie, 2010). Nonetheless, the issue regarding who had authority over certain airspaces remained unsolved at this convention. Disparity concerning an open skies concept existed, similar to that which existed over bodies of water, and the idea where each nation controls the airspace above it (Mackenzie, 2010). Many informal conferences similar to this were held in the early 1900s with little success.

With that being said, the most significant conference took place in Chicago in 1944. The impact of this convention reverberates across international aviation to this day. The Chicago Convention in 1944 finally established a formal governing organization that ultimately transformed into the International Civil Aviation Organization (ICAO) we know nowadays (Mackenzie, 2018). With its headquarters in Montreal, Canada, one of the initial and major roles of the ICAO consisted of bringing about some regulation in the world of global aviation in terms of airspaces. The ICAO sought to truly globalize commercial aviation and aimed to give consumers a true sense of choice when it came to air travel. The ICAO hoped to reduce restrictions that persisted concerning air travel between countries and essentially *open the skies*. Thus, this led to the creation of the concept known as "freedom of the air." As explained by an aviation expert Cline (2016), this model was fundamentally the "framework for the exchange of rights upon which today's air transport negotiations are based. Freedoms of the air govern the right of one country's airlines to fly and land in the airspace of another country" (p. 531). The ultimate goal for the ICAO not only included globalizing commercial aviation in a safe and organized fashion, but also to ensure that every nation had a fair chance of competing in the industry.

As the concept of *open skies* become more popular, nations began reducing restrictions imposed on international air travel towards the latter parts of the 1900s. The United States of America also involved themselves in this trend and set the standard for the rest of the industry by introducing the Airline Deregulation Act (ADA) in 1978 (Rhoades, 2019). As a result of this, aviation became the first transportation industry to be deregulated. The primary aim for deregulating commercial aviation comprised of increasing competitiveness amongst the industry by limiting state intervention and hence, providing airlines more freedom to operate internationally. The ADA ensured that state regulations did not impede decisions regarding prices of tickets, entry into uncharted markets, travel routes, and so on. Steps such as the aforementioned act led to commercial aviation becoming truly international over the past two decades; hence, the competitiveness of the industry grew exponentially.

Since then, multiple open skies agreements have been made by many countries, including the United States of America, in order to push the *open skies* initiative further forward; in total, over 100 open skies treaties exist including authorization and implementation (Yeo and Russel, 2015). An example of this includes the agreements made in 2007 and 2010 between America and the European Union regarding open skies and restriction-less international travel (Button et al., 2014). However, the issue at hand remain the accusations made by American, Delta, and United. As mentioned before, they claim that certain Gulf carriers abuse the freedoms imposed by these aforementioned open skies agreements in order to dominate international air travel. These American carriers assert that state support for Gulf carriers makes it impossible to compete with them. Moreover, as previously mentioned, the Big 3 American carriers recommended certain restrictions be imposed as they feel that current open skies agreements leave American carriers vulnerable to the supremacy of these Gulf carriers.

The Growth of the ME3

Analyzation of the claims made by the American carriers and the open skies agreements are complete, we will move on to the overall development and growth of the three Gulf carriers at hand. This section provides a summary of the journey to success for these airlines in order to better understand their current positions in the aviation industry. To begin with, Emirates Airlines came into existence first out of the three with official operations commencing during the early part of 1985 (Dresner et al., 2015). Qatar Airways soon followed by creating the organization in the latter part of 1993. Finally, a decade later, Etihad Airways formally entered the industry in the middle of 2003 (Dresner et al., 2015). Each of these airlines had humble beginnings when entering an industry dominated by American and European carriers. For instance, when Qatar Airways began operations in early 1994, they operated limited routes and their fleet only consisted of two Airbus A310s acquired on a leasing contract. At that time, Qatar Airways only employed a measly total of 75 employees (O'Connell, 2011). Likewise, Emirates Airlines began its services by operating an aircraft given to the airline by Pakistan International Airlines; subsequently, the first destination Emirates served happened to be Karachi, Pakistan (Ulrichsen, 2015).

Each of these airlines started in huge part due to their respective governments discovering opportunities to grow their economies and overall popularity through aviation. Specifically, one of the primary goals of Dubai's government in establishing Emirates Airlines involved driving the local tourism industry through its entry into the aviation industry. Therefore, the government of Dubai seized this opportunity and provided financial support for the commencement of Emirates Airlines which included "US$10 million in seed funding from the ruling family together with a US$88 million gift of two Boeing 727s from the royal fleet and an Airbus and a Boeing leased from Pakistan International Airways" (Ulrichsen, 2015, p. 7). Additionally, the US$88 million primarily focused on providing infrastructure for Emirates; hence, this included a training facility called the Emirates Aviation College. Furthermore, Emirates claims full repayment of these amounts, and much more, in full through annual dividend payments to the government of Dubai.

In like manner, Qatar's government noticed the positive impact on Dubai caused by its entry into the aviation industry; hence, the government of Qatar formed Qatar Airways in order to replicate the success witnessed in Dubai. Moreover, Qatar Airways focuses on serving passengers travelling more for business purposes as opposed to primarily tourism with Emirates.

Qatar Airways also targets transit passengers. On the other hand, one of Etihad's primary strategies involves creating ties with relatively unsuccessful airlines. Etihad Airways accomplishes this through "equity alliances" in order to enhance its geographical prominence through the addition of global routes (Ulrichsen, 2015).

One of the most vital aspects to take away from this analysis is that each of these airlines remain wholly owned by their governments. The Dubai government owns Emirates; the government of Abu Dhabi owns Etihad; and Qatar Airways is owned by Qatar's government. Each separate nation realizes the contribution the airlines provide for their economy and hence, offer tremendous support. For instance, estimates indicate that "Emirates [airlines] turnover is almost 20% of Dubai's GDP, and [hence] the airline is regarded as the embodiment of Dubai's rapid rise to international prominence" (O'Connell, 2011, para. 4). This figure has since dropped, but aviation continues to be a significant component of Dubai's GDP. Although marginally lesser numerically, the same could be said for the GDPs of Abu Dhabi and Qatar as well. An example of governmental support for aviation can be observed through plans for airport expansions in the past for each nation. Dubai's past expansion plans round up to almost US$15 billion; Doha's plans equal over US$11 billion; and Abu Dhabi's plans totaling to nearly US$7 billion (O'Connell, 2011).

Constant growth stays the key common factor between each of these airlines over the past two decades. Studies reveal an observation of an extensive period of growth for these Gulf carriers around the financial crisis of 2008: "combined passenger numbers nearly doubled between 2008 and 2013" (Dresner at al., 2015, para. 2). In addition, the Gulf region's increase in passenger numbers quadrupled the figures of the rest of the world during that period (O'Connell, 2011). Hence, the question is, what is the secret to success for the Gulf carriers? The major source for global success for all three airlines stems from their geographic location. The fact that geometrically the Persian Gulf sits at the center of the world provides the advantage of becoming a transportation hub for multitudes of global travelers all year round. Each of these Persian Gulf airlines implement a "hub and spoke" distribution of travel routes worldwide. Hence, the hub in each of these cases refers to the local cities of each airline: Abu Dhabi, Dubai, and Doha.

In reference to geographic centricity, aviation experts claim the following: "It is estimated that around 4.5 billion people reside within an 8-hour flight of the Middle East, providing the potential for a large part of the world's population to connect through a single stop" (O'Connell, 2011, para. 2). As a result of this, these Gulf carriers connect various passengers from many cities all over the globe by flying their aircrafts to each of these locations. In order to do this, each of these carriers apply the privileges of the "Freedom of the Air" policy previously mentioned; in specific, they exercise their "sixth freedom traffic rights" (O'Connell & Bueno, 2018, para. 12).

Lastly, in respect to growth, each of these airlines use marketing and advertisements quite extensively. A great way to grow any type of brand is through public exposure; hence, the fact that these airlines utilize public adverts in a variety of forms to grow their brand extremely benefits each of these carriers. For example, Emirates Airlines allocates nearly 5% of its yearly revenues toward marketing purposes (O'Connell, 2011). Moreover, each of these Gulf carriers spend millions of Dollars on advertising through sporting teams and events to further enhance their popularity. This continues to be advantageous as sightings of *Fly Emirates, Qatar Airways, and Etihad Airways* remains prevalent in the globally recognized sport of Soccer (Ulrichsen, 2015). All in all, these three Gulf carriers, in a relatively short amount of time, cemented themselves amongst the top airlines in the industry and continue to serve customers on a truly global scale.

Impact of Growth on American Carriers

The Gulf carriers do not plan on slowing down anytime soon. An illustration of this is seen as Emirates, while being amongst the top for global passenger traffic, doubled its size as an airline over the last few years. Tim Clark, the president of Emirates Airlines, targeted this goal and achieved it through the acquisition of Dubai World Central Airport, an additional airport for Emirates Airlines to operate out of (Schlangenstein & Lundgren, 2015). Hence, now that the examination of the tremendous growth of these Gulf carriers is over, we will assess the impact of this surge on carriers based in the United States of America.

First off, the earliest official routes between the United States of America and the Gulf began in 2004. Emirates Airlines operated this route and it consisted of an uninterrupted flight between Dubai International Airport in Dubai and John F. Kennedy International Airport in New York (Dresner et al., 2015). Not long after Emirates began this route, Qatar Airways and Etihad began connecting the Middle East with America as well. Although these initial routes posed minimal threat to the position of American carriers in the market of international air travel, the substantial growth of these Gulf carriers make the risk extremely evident. As mentioned before, the method of utilizing hubs in Dubai, Doha, and Abu Dhabi provides global passengers a great opportunity for travel to the United States of America via these specific hubs.

Furthermore, an empirical study into the effect of Gulf carriers entering the American market occurred in 2015 with respect to different regions in America. This study revealed a significant increase in passenger numbers to almost each region in America every time a Gulf carrier began flights to the United States of America:

> For three of the four U.S. regions, we find either an increase in the level of passengers or an increase in the growth rate in passengers (or both) on routes to the Middle East following the entry of the Gulf carriers. (Dresner et al., 2015, para. 11)

Although this increase in passengers benefited the economy of the United States, especially from a tourism perspective, the American-based airlines struggled to compete for consumers with these newly established Gulf carriers. In addition, the effect of these Gulf carriers not only impacted passenger numbers from the respective countries these carriers operated out of, but passenger numbers saw an increase from neighboring Middle Eastern and South Asian countries as well.

The following percentage increases highlight the overall increase in travel to North America: between 2010 and 2015, while the Gulf carriers firmly established themselves with routes to America, flights between North America and the Middle East rose by around 56% and total seats saw a staggering increase of over 77% (De Vergnes, 2017). A further effect on American carriers includes a significant reduction in flights all over the globe, especially those destinations served more easily by airlines situated in the Persian Gulf. This reduction in rates of flights and variety of destinations began partly due to the economic downturn in 2008 and continues to this day as the Gulf carriers consistently exercise their supremacy. An example of the aforementioned impact of the Gulf carriers is evident as “there were 8 non-stop flights [between North America and the Middle East] in 2010, only four were left in 2015 and only 3 are left in 2017” (De Vergnes, 2017, p. 55). With that being said, this reduction in flights could also be attributed to political tension between the Middle East and North America. The American carriers also claim that the operation of the Gulf carriers severely impacted their ability to fly passengers between America and India.

One of the main reasons American carriers struggled to compete stemmed from exceptionally competitive prices offered by these Gulf carriers to passengers all over the globe. Hence, this leads to another point of impact in regard to Gulf carriers entering the American market: reduction of ticket fares. In order for American carriers to even be remotely competitive against the Gulf carriers, offering cheaper tickets for their flights remained paramount.

Obviously, consumers benefited the most from this level of competition and reduction in ticket prices. Nonetheless, this is not ideal for American carriers as cheaper tickets affected overall profits and negatively influenced producer surplus. Additionally, statistical analysis into this topic show that “a 1% growth in total Gulf carrier traffic to or from the U.S. is associated with a less than 0.1% drop in U.S. carriers’ international passenger traffic and a less than 0.1% decrease in air fares” (Dresner et al., 2015, para. 36).

As a whole, the quick rise to power for the Gulf carriers in the aviation industry is very apparent. These carriers not only continue to grow but pose a serious threat to commercial carriers all over the United States of America. Moreover, studies indicate that the last decade encompassed a “a major turning point in the competitive environment of the US-ME market” (De Vergnes, 2017, p. 55). Thus, the American carriers took notice of this impact by the Gulf carriers and decided to investigate the significant growth of these carriers. The results of these investigations culminated to the release of the white paper document which essentially displayed the way the American carriers fought back against their new competitors.

The Other Side of the Picture

The next step in the process contains analyzation of the other side of argument concerning state support. We have gone over the claims set forth by the American carriers; hence, the following section seeks to evaluate the defenses made by the Gulf carriers. As mentioned before, the main goal for the American carriers in writing their white paper document consisted of convincing the government of the United States to limit the freedoms associated with the open skies agreement between the Persian Gulf and the United States (Cline, 2016). Therefore, the Gulf carriers took notice of this, and each airline wrote their own white paper document in the form of a rebuttal made against the claims by the American carriers. These airlines submitted this document to the government of the United States. Hence, we will now take a brief look at some of these refutation points.

To begin with, each airline ensures to start off their rebuttal by emphasizing that any government assistance provided during each airline’s growth phase has entirely been repaid one way or another. For example, the financial support Emirates Airlines received during their commencement of operations in 1985 has been completely paid back multiple times through yearly dividends (Emirates, 2015). Similarly, Qatar Airways mentioned that the loans it received from the government of Qatar during its initial development period has since been converted into equity and this contributed to the enhanced value of Qatar Airways (De Vergnes, 2017); thus, it would not currently qualify as a subsidy per say. Etihad makes a comparable refutation regarding finances it received from the government of Abu Dhabi. Etihad mentioned the following in its rebuttal:

> The report contends that these investments do not represent subsidies as the equity of the company grew through the investments: more airplanes were acquired, more destinations were served, and the group developed other businesses such as travel management or distribution capabilities. (De Vergnes, 2017, pp. 117-118)

In addition, an aspect highlighted in each rebuttal consisted of the vague description of the term “subsidy” in the open skies agreement and how the American carriers took advantage of this when making claims of unfair subsidy usage by the Gulf carriers. Moreover, the American carriers made certain exceptions for themselves concerning financial support from the government by using their own standards for the term *subsidy*. As an aviation expert suggests, “the [American carriers] vigorously contend that financial benefits such as bankruptcy restructuring, antitrust immunity, and post-disaster relief are somehow different from [financial support] received by the Gulf Nations’ carriers” (De Vergnes, 2017, p. 67).

Furthermore, Emirates Airlines highlights the fact that many airlines in the past received financial support from their respective governments, including American carriers. Even though deregulation of the aviation industry occurred in 1978, governments from many nations involved themselves in providing different types of support for their respective airlines (Emirates, 2015). This is due to the fact that governments nowadays realize the importance of an airline to a nation and its economy. Examples from the past of state support include the following: Alitalia received over US$800 million from the Italian government during its struggles; Cyprus Airways received assistance in the form of a bailout of nearly US$24 million from its government; Swissair obtained US$1.5 billion worth of state aid in the early 2000s; and most importantly, financial studies suggest that the big three American carriers received well over US$70 billion in subsidies from the American government. The studies indicated these subsidies varied from aid for things like bankruptcy debt reliefs, fuel subsidies, bailouts due to 9/11, and so on (Cline, 2016).

Additionally, the primary argument made by the American carriers pertain to these subsidies giving the Gulf carriers an unfair edge over their competitors. Hence, even if somehow the American carriers differentiated their personal state support to that offered to the Gulf carriers, they still fall short, due to lack of evidence, of illustrating how these subsidies negatively affect the market that exists between these carriers. Just because an organization receives financial aid does not guarantee success. Plenty of examples exist in the airline industry where governments provide financial support for their airlines to no avail. A great example of this within the Gulf region is Kuwait Airways. This airline received constant support from its government leading to average results over the last couple years (Cline, 2016).

In addition, Kuwait Air is a perfect case to utilize in this discussion as it enjoys many of the geographical benefits claimed to be abused by the Gulf carriers; nonetheless, Kuwait Airways produced nowhere near the level of the Gulf carriers over the last few decades (Cline, 2016). Hence, in the rebuttal provided by the Gulf carriers, they question why the American carriers solely attack the Gulf carriers for receiving subsidies, and not all the other airlines receiving state support. Thus, the refuting question posed: are the American carriers simply afraid of the competitive threat posed by the Gulf carriers?

Another common point in the counterargument provided by the Gulf carriers focused on the claims against airports in the Gulf regions (De Vergnes, 2017). The American carriers asserted that the open skies agreement did not allow for fair and equal competition as the Gulf carriers reaped the benefits of cheaper operating fees at their local airports. In the rebuttal, both Emirates Airlines and Qatar Airways alluded to the fact they pay the same rates as every other airline that operates out of both Dubai and Doha, including full landing fees (De Vergnes, 2017). In fact, Emirates Airlines encourages competition as it keeps them on their toes. Various airlines enjoy flying through Dubai International Airport due to the overall low costs the facility offers. There are over 150 different airlines utilizing Dubai's local airport (Emirates, 2015). The same also applies to the airports in both Doha and Abu Dhabi. Hence, the lower costs can be attributed to a geographical benefit that is unique to the Gulf region and not an unfair advantage. As mentioned before, just because a local airline experiences such benefits does not mean it will be successful. Two airlines having access to such benefits include Saudia and Kuwait Airways; however, both these airlines remain not nearly as fruitful as any of the three primary Gulf carriers.

The American carriers also mentioned the fact that the Gulf carriers construct their airports through government funds. However, once again the Gulf carriers emphasized the fact that these claims failed to provide any reasoning on how this results in unfair advantages. Similar to the geographical benefits previously mentioned, government-built airports do not necessarily ensure success. A report conducted by the ICAO in 2007 communicated that seven out of ten airports were state owned or state funded (Cline, 2016). For instance, the government of Sri Lanka funded the construction of Sri Lankan Airlines' local airport; nonetheless, the airline constantly puts up quite disappointing numbers over the last few decades.

Hence, the Gulf carriers express confusion as to why these allegations by the American big three repeatedly target them. As an aviation expert Wilson (2015) describes, "while the American airlines accuse the Gulf's triumvirate of benefiting unfairly from their geographic location, other less successful GCC airlines such as Saudia and Gulf Air have inexplicably been exempted from the American lobbying offensive" (para. 5).

One of the other main accusations brought up against Emirates Airlines involved receiving further support from the government of Dubai in the form of fuel hedging. The American carriers claimed that Dubai's government provided subsidies and took on the risk of purchasing fuel during the economic crisis of 2008. In the white paper document, American carriers argued that the accomplishment of this occurred through a government agency known as the Investment Corporation of Dubai, commonly referred to as the ICD (Cline, 2016). In its rebuttal, Emirates Airlines heavily refuted this claim and provided an explanation for the accusations made by the American carriers. To begin with, Emirates Airlines agreed to forming hedging contracts in the latter 2000s in order to avoid the risks associated with fluctuating oil prices at the time. Nonetheless, Emirates Airlines emphasized American carriers failed to calculate the figures accurately in terms of the results of these contracts.

Furthermore, Emirates revealed they had in fact repaid any losses that the ICD amassed from the contracts in the form of dividend amounts: “These dividends were paid by Emirates either by making payments on behalf of ICD or directly to ICD. Neither the Dubai Government nor ICD absorbed any hedging losses” (Emirates, 2015, p. 8). In its rebuttal, Emirates also indicated that the ICD retained all profits rising from the contract. In fact, Emirates reported gains of over US$100 million of which Emirates did not take a cent due to the limitations of the hedging contract they were part of (Emirates, 2015). Hence, Emirates Airlines asserts these contracts did not offer any sort of competitive advantage for the airline as claimed by the American carriers.

Qatar airways made a similar response regarding its purchase of Jet fuel (Ulrichsen, 2015). In their white paper response, the airline underlined the fact that it purchases fuel at *prevailing market prices* from a local supplier known as the Qatar Jet Fuel Company, or Q-Jet. The airline revealed financial figures to assert it receives no particular benefits, other than the inevitable geographical benefits, in the purchase of fuel for its aircraft (Ulrichsen, 2015). Lastly, each of the Gulf carriers conveyed figures revealed American carriers received subsidies from their respective governments to aid in the purchasing of fuel. These subsidies evidently amount to a total of around US$5.6 billion over the last couple of decades (Cline, 2016). Hence, the Gulf carriers refuted the claims made against them regarding fuel subsidies by stating American carriers entered this discussion with unclean hands themselves.

The next aspect of the white paper that was rebutted against was related to labor costs in the Gulf regions and how this played a part in offering market advantages to the Gulf carriers (Cline, 2016). The response to this was fairly straightforward and the each of the Gulf carriers shared similar views on this topic. The simple answer to this is that certain factors of production can unavoidably offer advantages to certain nations. As an aviation expert communicates, “the United States competes within the economic reality that Canada has cheaper labor costs and provides more comprehensive social services to its citizens” (Cline, 2016, p. 555). Therefore, this is just a geographical benefit associated with operating in the Gulf. With that being said, there are certain inevitable disadvantages as well that are linked with operating in the Gulf. This is evident as many airlines in the region have struggled to succeed in the cutthroat aviation sector of the Middle East; examples include the struggles of the previously mentioned Kuwait Airways, the collapses of Wataniya, Bahrain Air, RAK Airways, and the recent declines of dominant airlines in Gulf Airways and Saudia Airlines (Cline, 2016).

In the white paper document, the American carriers were also arguing that Gulf based carriers lacked employee unions. The American carriers felt that the absence of these unions meant that staff working for the Gulf carriers had no say in what they were paid; hence, this led to lower labor costs. Nonetheless, the Gulf carriers countered this point with the same response pertaining to the favorable labor conditions offered in the Middle East. Trade unions are not common practice in most Gulf countries, prohibitable by law in some. Nonetheless, this has been changing recently. Thus, this factor is something out of the control of the Gulf carriers. Moreover, the United States of America has open skies agreements with many other countries that lack trade unions.

The final part of the rebuttals provided by the Gulf carriers sought to explain why they were not unjustly impacting the American carrier's ability to compete. First off, Emirates Airlines in its refutation highlighted the fact that the profits of these American carriers are higher than they have ever been. When the refutations were composed in 2015, the International Air Transport Association estimated that "U.S. carrier earnings will likely account for $15.7 billion in 2015, more than twice that of Europe or Asia" (Emirates, 2015, p. 171). Hence, by revealing these figures, Emirates aimed to disprove the aforementioned allegations regarding competitiveness.

The next aspect tackled the claims made by American carriers on how the current state of the Open Skies Agreement is more beneficial to the Gulf carriers than themselves in global markets like India. The Gulf carriers refuting argument was that both parties were essentially competing for the same consumer. An aviation analyst mentioned the following about a passenger travelling from the United States to India: "[He/she] may book a flight on Air India with a connection in Delhi, on American or British Airways with a connection in London, on Emirates with a connection in Dubai, or a number of other options… Where the connection takes place is irrelevant" (Cline, 2016, pp. 550-551). Irrespective of other factors, the ultimate choice comes down to personal preference of the passenger. Therefore, it is unreasonable to claim unfair competition in this case.

Additionally, the American carriers may argue that the Open Skies Agreement should be restricted due to the geographic advantages possessed by the Gulf carriers. However, when America's Department of Transportation (DOT) entered into these agreements, they were ready for the possibility of unequal benefits as they knew certain geographic advantages would inevitably play a part. Hence, the DOT decided that "comparative inequality of benefits should not prevent the United States from entering into any Open Skies agreement" as long it aligned with the public interest of the country (Cline, 2016, p. 551). Hence, the requests of the American carriers to restrict the Open Skies Agreement would go against the stipulations of setting up the agreement in the first place.

Moreover, each of the Gulf carriers stressed the amount of contribution they provided for America's economy as a result of the Open Skies Agreement. The main aspect of this discussion stems from the fact that all three of the Gulf carriers heavily invest in aircraft made by the American company Boeing. For instance, the fleet of Etihad Airways is comprised of a total of over 60 Boeing aircrafts, with many more on order. Furthermore, figures indicate that the purchases of American-made aircraft from just a single Gulf carrier have supported over 200,000 American jobs in just the past decade (Cline, 2016). Similarly, current agreements have allowed Gulf carriers to transport many American citizens back and forth over the last few years. The U.S. travel association revealed that the Gulf carriers transported over 1 million global passengers into the United States of America in 2014 alone, and this sustained nearly 50,000 jobs in America and contributed over US$4.1 billion to the local GDP (Dresner et al., 2015).

Summary of the Refutations

All in all, the primary focus of the rebuttals was to prevent restrictions on the Open Skies Agreement that was in place at the time. The Gulf carriers emphasized that assistance it received from their respective governments were not subsidies by nature. Former Etihad Airways CEO, James Hogan, mentioned the following in a public conference refuting the claims of the American carriers: "Our shareholder has provided equity and investment, they've invested and seen success" (Yeo and Russel, 2015, para. 1). He argues that what Etihad Airways is doing is not unethical and is part of regular business activities, even in the aviation industry. Furthermore, the Gulf carriers highlight the fact that terminating the Open Skies Agreement would cause a serious infringement regarding the terms it was formed upon.

Lastly, the Gulf carriers blame the Big 3 of wanting to get rid of competition for the wrong reasons. The goal of Open Skies Agreements is to create a fair chance for both parties involved. The agreement does not necessarily guarantee that each party will experience the same amount of success as a result of the agreement. The aforementioned is also conveyed by an aviation expert that states the following: “the Partnership’s arguments are invalid because they seek equality of outcome rather than equality of opportunity. Equality of opportunity is one of the key tenets of Open Skies agreements” (Cline 2016, p. 553). Therefore, it would be unfair to the Gulf carriers that signed the agreement if they were restricted in any way due to the reasons claimed by the American carriers.

Impact of the Pandemic

Now that both sides of the picture have been analyzed, the next step is to evaluate whether government support has a place in the industry or not. Moreover, the next couple of sections will assess the future of the aviation industry regarding government support. As discussed previously, government intervention in terms of supporting local airlines has occurred many times even after the industry was deregulated. Airlines based in the Middle East, America, Europe, and so on have all received some sort of financial support from their respective governments in the past. However, this does not justify financial support from governments as it can offer certain unfair advantages to airlines and can also break rules set forth by Open Skies Agreements. With that being said, situations arise where state support becomes vital for the survival of an airline. Instances of this have been witnessed all throughout the history of the aviation industry including the World Wars, the economic crisis of 2008, and many more.

Similarly, the COVID-19 pandemic has severely impacted the aviation industry once again. Airlines all over the globe have experienced severe drops in performance and major rises in overall losses.

Regardless of the strong position the Gulf carriers were in prior to the pandemic, they too suffered immensely from the effects of the Corona Virus. For example, Valerie Tan (2020) of Emirates reported that the airline's revenue was down almost 75% when compared to 2019. Likewise, the airline saw losses exceeding US$3 billion during the first half of 2020 due to pandemic. In fact, it had been 30 years since the Emirates Aviation group had experienced a loss for the first 6 months of an annual period. Also, the airline carried 95% less passenger than it did in 2019. Comparably, the other Gulf carriers were also hit quite hard. Qatar Airways (2020) reported losses of nearly US$2 billion and Etihad Airways (2020) experienced an almost 60% decrease in passengers carried during the pandemic. Impacts from the virus were similar for carriers all over the globe, including American carriers.

Hence, from these figures, it is obvious that airlines required support from their governments in combatting the impact of the pandemic. Also, lack of government support during these dire times meant that the possibility of insolvency was on the horizon for certain airlines. The aforementioned was communicated to the public after a study into the amount of assistance required by airlines was conducted by the International Air Transport Association in 2020. The IATA revealed that the "global airline industry needs government aid and bailout measures totaling between $150 billion and $200 billion if it's to survive the coronavirus crisis" (Jasper & Philip, 2020, para. 1).

In addition, the trade association known as *Airlines for America* disclosed that American carriers alone would require nearly US$60 billion in financial aid to outlast the pandemic. The types of state support required ranged from “fully fledged bailouts through loans, loan guarantees, bond-market support and tax breaks” (Jasper & Philip, 2020, para. 7). Therefore, governments all over the globe began supporting their airlines in order to help them get through the difficult circumstances brought forth by the pandemic. One of the Gulf carriers, Emirates Airlines, began receiving support from their primary shareholder at the heart of the pandemic in 2020. This support came in the form of an equity investment of $2 billion US (Tan, 2020). Many other airlines soon followed this trend after they realized the true effects of the pandemic.

This section highlights an important aspect of the aviation industry, there is always a place for governments in the aviation industry. The industry has taken many steps to become independent and has steered away from unnecessary government restrictions. Nonetheless, completely eliminating any governmental involvement in the aviation industry is not the best solution for the issue at hand. The aforementioned is evident as governments have effectively come to the rescue of their local airlines during the pandemic.

Government Support in the Industry and Culture

In the United States of America, independence in most industries is encouraged; thus, this ultimately gave way to the aviation deregulation act mentioned earlier (Rhoades, 2019). American carriers wanted to ensure that government interventions causing restrictions would be eliminated from commercial aviation, and they achieved it. Therefore, this is an important aspect of American business culture. With that being said, it is not easy to request complete independence of state intervention in nations where government engagement is part of the country’s culture. Especially in the Gulf region, countries are encouraged to extend government support for essential organizations. This includes most transport organizations, hence aviation as well. As mentioned before, the aviation industry is a significant contributor to the economy of many Gulf nations; for instance, Etihad Airways supported over 20,000 jobs in 2020 alone (Etihad Aviation Group, 2020). Therefore, the governments of these respective nations maintain close ties to their airlines.

An example includes the way Emirates Airlines and most commercial organizations run in Dubai. Although running of businesses in an entrepreneurial manner is encouraged, "close relationship(s) [exist] between the government and many of Dubai's strategic commercial entities" (Emirates, 2015, p. 76). Each airline's government is the primary controlling shareholder for these airlines; this displays the close link between these airlines and their governments (Ulrichsen, 2015). Hence, it would make sense to allow a certain level of government involvement in the aviation industry in cases such as these, particularly from a cultural standpoint. This remains acceptable as long as no proven direct and unjust benefits arise from this involvement.

Differences in cultures, such as the level of state support, exist across many global industries, giving way to many issues, especially ethical ones. However, the best way for an industry to truly grow involves addressing these cultural diversities, embracing them, and setting clear rules for the future to avoid disputes (Moran et al., 2007). The most vital aspect entails setting rules in order to avoid unfair benefits for a particular country or region in a global industry as claimed by American carriers in the aviation industry.

Changes are Occurring

The next section explores how different regions opted to handle state involvement in the industry. To begin with, although the involvement of the Gulf region governments with their respective airlines faced scrutiny for quite some time now, the European carriers agreed to not let this be too much of a burden. In fact, the following statement communicates that government involvement when it comes to aviation agreements between the European Union and other nations continues to not be much of an issue as long as unfair advantages do not arise for both parties: “European Union (EU) law and the statements of the European Commission make it clear there is no preference for public versus private ownership” (Emirates, 2015, p. 77). European carriers comprehend that some airlines remain inevitably linked to their governments for various reasons. Nonetheless, this should not be a factor causing termination of an Open Skies Agreement as long as both parties strive to be on a level playing field from a competitive standpoint.

On the other side of the picture, the views of the American carriers toward this topic of discussion have already been discussed. These disagreements concerning government involvement and unfair advantages between the American carriers and Gulf carriers involves over half a decade of disputes. However, the relationship between the two regions began trending upwards over the last few years as both parties started making agreements to settle their longstanding quarrels. Two vital examples of this include the agreements made between the United States government and the United Arab Emirates government and the agreements between the Trump Administration and the government of Qatar in 2018 (Zhang, 2018).

Although these agreements contain a lot of controversy involving their impact, both of these agreements show promise in halting the nasty disputes between the aviation sectors of these nations. An important aspect of these agreements include acknowledgement from both parties that “government support in whatever form may adversely impact competition” (Zhang, 2018, para. 11). However, they concluded by stating assistance from governments remain “neither uncommon nor necessarily problematic in the global aviation sector” (Zhang, 2018, para. 11). In addition, both parties settled issues regarding local airport fees and also agreed to an increased level of financial transparency in order to avoid any unfair advantages provided by an airline's respective government.

After the public announcement of these agreements, many people questioned the true impact of these on the disputes between the carriers. However, regardless of how these agreements play out in the foreseeable future, it ensures a step in the right direction. Furthermore, as a result of these agreements, both parties reinforced their stance on fighting terrorism in the industry. A vital aspect of the agreement between the governments of the U.S.A and the U.A.E involved "work towards securing regional stability and fighting terrorism" (Zhang, 2018, para. 24). This is great for the aviation industry as a whole because it sets a wonderful example for future partnerships between aviation nations all over the globe.

Restrictions on Open Skies is a Bad Idea

Following the submission of the white paper document suggesting restrictions on the Open Skies Agreements to the government of the United States, the ultimate decision making regarding what happens with the state of current agreements rested on the Department of Transportation (DOT) in America. The primary legal option the DOT could have pursued in 2015 was as follows:

> [with or without a hearing,] but subject to the affirmative approval of the president, [the DOT could] suspend summarily the permits of foreign air carriers of a foreign country, or amend, modify, or limit the operations of the foreign air carriers under the permits. (Davidson, 2015, para. 9)

Doing so would jeopardize the Open Skies Agreements that existed. With that being said, upon careful consideration, the DOT decided not to take this path. Despite this decision by the DOT, the big three American carriers still demanded restrictions on Open Skies Agreements; however, this standpoint from the American carriers started changing recently.

Despite the recommendations by the American carriers, the Department of Transportation realized the importance of upholding the Open Skies Agreements involving the United States and hence, they did. The ultimate purpose of setting up bilateral Open Skies Agreements consists of allowing unrestricted commercial air transport between the two participating countries, as mentioned in an earlier section. Moreover, the primary coalition benefitting from these agreements remain the consumers. The agreements lead to cheaper ticket prices, more options in terms of routes, fewer travel restrictions, increased rate of flights, and so on (Partnership for Open & Fair Skies, 2020). Hence, establishing Open Skies Agreements provide consumers with a variety of choices due to competition between the nation's carriers being encouraged. In addition to this, both countries involved in these agreements observe economic benefits for their respective nations. As previously mentioned, flights between North America and the Gulf regions result in tremendous improvements in local GDP and more employment opportunities for both parties involved.

Therefore, imposing restrictions on these Open Skies Agreements could be disastrous as it would result in limitations on air transport between these nations (Partnership for Open & Fair Skies, 2020). These restrictions ultimately reduce the aforementioned freedom of choice consumers receive. Since competition would be diminished due to constraints on international air travel, a monopolized commercial aviation market begins to grow. Additionally, the negative impact of these restrictions intensifies rapidly when factoring in the economic aspect for both parties involved. Loss of employment may become a huge issue for many in the industry as a result of this.

Aviation experts in Europe share the same viewpoint as well (Cline, 2016). These individuals believe although the competitive threat posed by the Gulf carriers continues to be significant, the solution should not be restricting current Open Skies Agreements. Tourism and Airport boards in Europe state the following: "[restricting Open Skies Agreements] artificially constrains air connectivity, limits consumer choice, and ultimately reduces wider economic benefits. Instead of reverting back to more restrictive measures, the best way to respond to the challenge is to promote open competition" (Cline, 2016, p. 557). These agreements took decades to formulate and provided benefits to all parties involved, especially consumers, and furthered the aviation industry. Hence, evidentially taking a step backwards in imposing restrictions on these agreements seems not to be the right answer going forward.

Recommendations for the Future

Since imposing restrictions on Open Skies Agreements is not advisable, what is the right path to take down the line? To begin with, in order to avoid future disputes regarding government involvement and financial support, airlines entering into agreements must strive to decide terms beforehand regarding state support. As discussed earlier, in some nations government participation inevitably persists regardless of how deregulated the industry may seem. Especially when some governments are in fact the controlling shareholders of their local airlines. Certain governments opt to closely intertwine themselves with the operation of their local airlines due to the significance of these airlines to their nation's economies. Therefore, in the future, when nations seek to form Open Skies Agreements, the level of government support permissible ought to be clearly mentioned in these agreements. A certain level of sacrifice regarding the aforementioned might be necessary in order to ultimately reap the benefits associated with these agreements.

With that being said, both parties must ensure to identify overreliances on government support as they begin to rise. Permissible government assistance includes certain instances such as during the startup phase for an airline as the industry tends to be very cutthroat during this stage, especially in the Middle East. Also, government assistance during periods of tremendous struggle like during the 9/11 tragedy makes sense; similarly, situations where the government exists as a controlling shareholder of the airline (Ulrichsen, 2015). Additionally, government support should be either in the form of bailouts during difficult circumstances or investments requiring eventual repayment through annual dividends or similar. Governments should not be allowed to simply pour in money to their local airlines to give them an upper hand. All these conditions, as alluded to earlier, must be communicated prior to forming an agreement to avoid disputes.

Furthermore, during the formulation of these agreements, both nations involved must demand complete transparency in terms of finances; otherwise, issues tend to develop. When airlines begin to succeed, naturally individuals tent to question the various financial supports these organizations receive. Thus, in order to eliminate any sort of speculation regarding finances, a significant level of financial transparency remains essential. Aviation expert, Rhoades (2019), explains that due to the detrimental effects of imposing restrictions to the industry and the countries involved, airlines ought to “demand more transparency about the aviation industry in each country. That would include a serious assessment of the amount and type of subsidies that are available to the aviation industry” (p. 49).

In fact, North America and the Persian Gulf already began incorporating the aforementioned to existing Open Skies Agreements between the nations. This encompassed an essential part of the agreements made to resolve disputes between the regions in 2018. Moreover, the increased level of financial transparency meant that "[b]oth delegations agreed to release audited annual financial statements using international accounting standards" (Zhang, 2018, para. 21). Hence, agreeing to financial openness considerably aided in easing the lengthy tension in existence between the American carriers and the Gulf carriers.

Lastly, to avoid competitive dominance, American carriers and Gulf carriers should aim to work together and utilize their benefits to help each other. Collaboration slowly started to occur as further agreements stemming from the ones made in 2018 led to these nations finally putting their differences behind them and working together to build a better aviation industry. A great example of this involves Qatar Airways and American Airlines forging partnerships to serve passengers flying between these nations. In addition, Qatar Airways also created alliances with North American carriers Alaska and Jet Blue to serve 12 destinations across the United States (Reed, 2021).

Furthermore, the current CEO of American Airlines, Doug Parker, conveyed the following about recently established collaborations with their Gulf counterpart: "The issues that led to the suspension of our partnership two years ago have been addressed. We look forward to the renewed cooperation between our airlines and hope to build an even stronger relationship with Qatar Airways over time" (Reed, 2021, para. 18). Hence, it seems that an age-old war finally draws to an end as enemies now become partners. The aviation industry has reason to celebrate as disputes are the last thing the industry needs after being severely impacted by the Corona Virus pandemic. Most importantly, consumers benefit the most from these partnerships as this helps bring down the costs of utilizing air transport in the future.

Conclusion

Disputes between organizations occur in most industries for a variety of reasons. Hence, as we see in this case, two of the most prominent aviation regions in the world, North America and the Persian Gulf, engaged themselves in an intense conflict over unfair government support. The battle intensified in 2015 when three of America's primary carriers, United, American, and Delta, decided to release a white paper document highlighting claims of improper state support in the form of subsidies on the part of the Persian Gulf's top airlines, Emirates, Qatar, and Etihad. Moreover, this document also included requests to the Department of Transportation in America to impose restrictions on these Gulf carriers pertaining to commercial air transport between these nations. The primary argument on the part of the American carriers asserted that these Gulf carriers failed to operate by the rules of existing contracts concerning commercial flights between the regions collectively known as an Open Skies Agreement. The American carriers felt the support the Gulf carriers received from their governments provided these airlines an unfair competitive edge over themselves and the rest of the commercial aviation world.

The Gulf carriers were not happy of the accusations made against them and thus, they decided to refute the claims made by the American carriers in their own white paper documents. Strong points were made on both sides of the argument regarding government assistance. With that being said, certain instances arise when state support becomes essential and hence, should be permissible. A great example of this includes the pandemic as many airlines struggled during the virus prior to receiving financial assistance from their respective governments. Moreover, during the initial phases of an airline, government aid might be required for survival in certain markets. In addition, most aviation bodies disagreed on the requests made by the American carriers regarding imposing restrictions. This request would carry many negative implications for the aviation industry, especially for consumers who enjoy cheaper and more frequent flights due to air transport agreements between these nations.

Therefore, the solution going forward entails discussing these state support terms prior to forming agreements to avoid unnecessary conflicts. The acceptable extent of government involvement should be agreed upon beforehand. Likewise, financial transparency is highly recommended when forming agreements to halt any sort of speculations. Some of the aforementioned is already being implemented as these nations are finally settling their differences with further agreements stemming from those made in 2018. Both the American and Gulf carriers agreed to maintain a significant level of financial transparency to eliminate uncertainty concerning financial support in the future.

Lastly, due to the effects of the pandemic, these airlines should forge partnerships between North America and the Gulf in order to utilize each of their strengths to provide better options to consumers. Once again, this also began taking place earlier this year as Qatar Airways and United Airlines started working with each other recently. Ultimately, it’s great to see these giants in the industry finally put their disputes behind them to create a sustainable aviation industry for the future. If these American and Persian Gulf carriers continue to establish the aforementioned positive agreements, the industry will be in a good place, especially from a competitive standpoint.

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