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THE MIDDLE SEAT

## Emirates, Etihad and Qatar Make Their Move on the U.S.

The Big Three Gulf Airlines Accelerate Their Push Into the World's Largest Aviation Market



By **SCOTT MCCARTNEY**

November 6, 2014

*Dubai*

To beaten-down U.S. fliers, it sounds like a fantasy: high-quality airline service at lower prices. Travelers are finding just that on several airlines based in the Persian Gulf, which have shaken up European and Asian air travel and now are taking on the U.S.

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### HIGH STAKES IN THE SKIES

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More coverage from Scott McCartney on the Persian Gulf's three major airlines:

- Airports Double as Luxury Destinations
- Airlines Groom Global Flight Crews—And Controversy
- Carriers Try to Make Coach Classier

In the past year, Emirates, Qatar Airways and Etihad Airways have boosted the number of U.S. flights by 47%, and now serve 11 cities. They are drawing complaints of unfair competition from their stateside rivals, and more growth is coming. Emirates can deliver more people each week from New York's Kennedy Airport to Dubai than American Airlines flies to London or Delta Air Lines flies to Atlanta from JFK.

This year, Doha-based Qatar began flying to Philadelphia, Miami and Dallas. And as of next month, when Etihad adds Dallas nonstops from its home in Abu Dhabi,

all three Gulf airlines will compete head-to-head in four U.S. cities.



An Emirates Boeing 777 landed at Boston's Logan Airport on March 10, its first day of daily service from Dubai.  
ASSOCIATED PRESS

They are spending big to build brand awareness in the U.S. Emirates sponsored this year's U.S. Open tennis championship and became the official airline of the San Francisco Symphony. A performance by Gloria Estefan headlined a Miami gala Qatar threw for its launch there.

They are winning over customers with service reminiscent of the early days of flying. That means hot towels in economy, plus amenities like onboard showers in first class and a bar in business class. Etihad has flight attendants trained as flying nannies who entertain children from first class, business and economy cabins with face-painting, games, crafts and contests during flights.

### Gulf Growth

Persian Gulf airlines have been among the fastest-growing in the world. Here's a look at their passenger traffic growth in 2014 compared with other major airlines.



Note: Passenger traffic measured in revenue passenger miles in August each year. A revenue passenger mile is one passenger flown one mile.

Source: Airline Business World Airline Rankings

The Wall Street Journal

“There will definitely be more” U.S. flights, Emirates Senior Vice President Hubert Frach said in his Dubai office. “Some travelers might not be happy and satisfied with the travel options they have today.”

U.S. airline executives are increasingly questioning whether the government should check the growth of the state-owned Persian Gulf carriers via treaty, as Germany and Canada have done, rather than allowing the current Open Skies allowance to fly anywhere.

“A number of those carriers are not airlines. They are governments,” Richard Anderson, chief executive of Delta Air Lines, complained at a travel convention this fall. The carriers note many airlines around the world have government ownership.

What’s happening with the well-financed Gulf carriers is nothing short of a revolution of global transportation. The three big Persian Gulf carriers have the lion’s share of jumbo-jet orders at Airbus and Boeing, putting most of the industry’s long-haul international growth in their hands.

Those



Etihad's cabin crew boarded its inaugural flight from Los Angeles to Abu Dhabi on June 1. *WIREIMAGE*

long-range jumbo jets, which can fly halfway around the world nonstop, are reshaping air travel. The Gulf airlines are now capable of offering a nonstop flight from more than 80% of the world’s population. Increasingly those new planes will fly to the U.S., the world’s largest aviation market and one that the Gulf airlines have yet to penetrate deeply. The three carriers have already siphoned off a good portion of the passengers into and out of the Indian subcontinent and Africa, as well as between Europe and Asia.

They are shifting traffic from traditional global hubs like Singapore and Frankfurt. And they are now flying passengers from the U.S. not only to their fast-growing home bases but also to India, Africa and the Far East.

They have built giant airports with innovative luxuries—Qatar’s new airport in Doha has a swimming pool above the concourse for laps during layovers—and room to expand. Emirates has turned Dubai into an airport so big it runs neck-and-neck with London Heathrow for the crown of biggest airport in international passengers. Announcements at the Dubai airport are made first in English, then Arabic.

Etihad got the Abu Dhabi government to pay for a U.S. Customs and Border Protection station in that emirate, pre-clearing U.S. passengers so they don’t have to wait in massive lines at U.S. airports. The budget-strapped CBP took Abu Dhabi up on the offer, angering U.S. airlines and labor unions.



Philadelphia Mayor Michael Nutter discussed the new Qatar Airways direct service from Doha to his city on April 3. QATAR AIRLINES/ASSOCIATED PRESS

The Gulf carriers are backed by cash-rich governments in Qatar and the United Arab Emirates. (Dubai and Abu Dhabi are emirates within the U.A.E.) These countries are using airlines for economic development and building a viable industry for when their oil and gas run out, the Gulf airlines say. They have taken advantage of cheap labor in many parts of the world and brought in workers to follow their own housing, training and work rules, demanding of them exacting service and long hours.

Dan Dodge, an El Paso, Texas, pastor who went to Nepal last month on a medical mission with a group of 19, flew Qatar because the fare of about \$1,400 was \$400 cheaper than that of any other airline. In coach, he enjoyed his vegetarian dinner (one of three choices) and the fancy entertainment system during the 14-hour flight from Dallas to Doha. “The good thing about the Gulf airlines is they put service back in that America’s airlines have forgotten,” he said. “It’s very good

competition.”

Rivals complain the government-owned Gulf airlines have huge financial advantages that create an uneven playing field. The airlines work closely with their regulatory agencies and even share ownership with their airports and ancillary businesses, from hotels to liquor distributors. Salaries and profits are tax-free. Airlines have long said that Gulf carriers benefit from government subsidies and cheap fuel—which the carriers vehemently deny.

Airlines also fume that Emirates took advantage of international Open Skies treaties by starting flights last year nonstop between New York and Milan, a significant incursion into trans-Atlantic flying in direct competition with American, Delta and Alitalia. These treaties have liberalized air service over the past two decades by removing government limits on airlines and routes they fly.



Airport personnel stand by to receive an Emirates Airbus A380 as it makes its inaugural arrival to Dallas-Fort Worth International Airport from Dubai on Oct. 1. *ASSOCIATED PRESS*

Jeff Smisek, chief executive of United Airlines, called for U.S. government limits on Gulf airlines. (The Obama administration has shown no signs of a policy change.) Mr. Smisek’s counterpart at American, Doug Parker, told an airline conference this fall that the Gulf carriers were his biggest business concern.

Emirates says its only subsidy was \$10 million to buy three airplanes at its 1985 launch. It adds that it has been profitable for 22 consecutive years and has paid \$2.8 billion in dividends to its owner, the Dubai government’s investment arm.

Qatar and Etihad also deny receiving government subsidies and say they are profitable. They add that any airline that flies to their home airports pays the same local rates and taxes. When the government invests money in the airline,

it's equity, not subsidy, they argue, no different from other shareholders injecting capital in a business.



A traditional water salute welcomed Qatar Airways' first flight to Philadelphia from Doha on April 2. *QATAR AIRWAYS/ASSOCIATED PRESS*

Akbar Al Baker, Qatar's chief executive, called an effort by United and Delta to push the U.S. government to negotiate a new, restrictive air service treaty with the U.A.E. and Qatar "a foolish way of tackling their inability to serve this region."

"If Emirates, Etihad and Qatar stopped serving America, there would be a huge shortage of capacity to" the Persian Gulf region, he added.

Analysts note that geography offers more protection for U.S. airlines than their European counterparts have. American and Delta have ceased all flights to India in recent years because of added competition. But the Gulf airlines will have a harder time competing for passengers going to the Far East and especially Europe from the U.S.

The three Gulf airlines had 22 daily flights to the U.S. in July, up from 15 a year earlier and just 12 in July 2011.

PlaneStats, the database run by consulting firm Oliver Wyman, counts more seats each week at JFK for Emirates than for Air France now.

"Fundamentally, this is an example of what is not good for other airlines is quite good for passengers," said consultant Craig Jenks, president of Airline/Aircraft Projects Inc.

## WSJ Radio

Scott McCartney and WSJ This Morning's Gordon Deal discuss how this could help American travelers



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Emirates says it is already taking U.S. passengers to destinations like Bangkok, going eastbound through Dubai rather than the traditional westbound Pacific Ocean route. With tailwinds instead of headwinds, an eastbound trip can sometimes be faster. And Emirates often has shorter

connecting times to reach Bangkok because it has six daily flights to the Thai city from Dubai.

But the rush of new capacity into the U.S. does pit the Gulf airlines against each other. And some markets may not have enough passengers to sustain so many flights. Consider Dallas-Fort Worth. Emirates started with a Boeing 777 and recently upgraded to an Airbus A380, adding another 100 seats a day. Qatar, which has an alliance partnership with American, began Dallas flights this year with a 777. Etihad announced it will start DFW flights next month three times a week, and daily flights next year.

Kevin Knight, a former United executive who is now Etihad's chief strategy and planning officer, said a partnership with Jet Airways in India actually helps fill flights like the one to Dallas. So does the area's high concentration of Fortune 500 companies and oil and gas businesses. Executives from all three airlines say they're filling planes in all U.S. cities at a rapid pace. Still, so much expansion may leave them in a three-way shootout.

"There is room for the fittest," Qatar's Mr. Al Baker said.

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### Corrections & Amplifications

Etihad's cabin crew boarded its inaugural flight from Los Angeles to Abu Dhabi on June 1. A previous version of a photo caption in this story incorrectly stated the flight was to Dubai. (Nov. 6, 2014)

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