

KEEP THE SKIES OPEN, SAYS ETIHAD AIRWAYS CHIEF

Etihad Airways' submission to the US Government:

- **Highlights the many benefits that the US Open Skies policy and competition deliver to consumers, to American workers, and to US trade and tourism**
- **Categorically refutes the claims made by the Big Three US carriers**
- **Proves that equity and loans from Etihad's shareholder are not subsidies under any applicable rules**
- **Shows that Big Three have not demonstrated any harm from Etihad, whereas Etihad has shown how they have benefited from its operations**

Etihad Airways, the national airline of the United Arab Emirates, has urged the US Government to 'keep the skies open', in a comprehensive formal response to the joint campaign by Delta Air Lines, United Airlines and American Airlines to block competition and roll back the benefits of Open Skies.

The Etihad Airways response, which has now been submitted to the US Department of State, the US Department of Transportation and the US Department of Commerce, emphasises the many benefits delivered by Open Skies to consumers, to American workers, to US carriers and to US trade and tourism.

It categorically refutes claims made by the Big Three carriers about Etihad Airways' finances, giving a clear and compelling explanation that the equity funding and shareholder loans provided by the Government of Abu Dhabi, by way of investing in a successful business model, fully comply with the US-UAE Air Services Agreement and all other applicable rules.

The submission also shows that the Big Three carriers have gained more than \$70 billion in benefits from US Government authorities, and through legal processes such as Chapter 11 bankruptcy reorganization, over the last 15 years.

In a letter supporting the airline's formal submission, James Hogan, Etihad Airways President and Chief Executive Officer, said: "Etihad Airways did not seek this fight; we focus on making money by providing world class, innovative, re-imagined and value-for-money product and services to our guests."

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Etihad Airways has submitted that the Big Three carriers' claims, allegations, and requests for relief are not supported by fact, logic, law, or treaty, and that:

(1) Etihad's conduct, and that of the UAE Government, is fully consistent with the US-UAE Air Services Agreement, applicable United States law and the governments' respective treaty obligations;

(2) Government ownership is not an issue under the US-UAE Air Services Agreement;

(3) Shareholder equity and loans are not subsidies;

(4) While Etihad competes vigorously for all passengers, it does not charge artificially low fares;

(5) Etihad causes no actionable harm to the Big Three carriers, and actually provides them with significant commercial benefits in terms of connecting passengers onto their networks (an estimated 300,000 in 2015);

(6) Etihad has been successful in markets in which the Big Three carriers affirmatively choose not to compete, and is in fact providing the Big Three carriers with an avenue (through codeshare and interline agreements) to offer their passengers routes that they choose not to fly themselves; and

(7) Etihad treats its worldwide employees, who come from over 140 countries, including the United States, fairly and with respect.

Mr Hogan said: "For these reasons, we respectfully submit that the Big Three carriers' campaign against Etihad Airways should end immediately and that there is no basis whatsoever for government-to-government consultations under the US-UAE Air Services Agreement."

Etihad Airways' submission includes detailed information about the airline, its financial strategy and its business performance.

The airline was established in November 2003, decades after its major international competitors, by the Government of Abu Dhabi, the capital of the UAE.

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Today, Etihad Airways is a globally-recognized, full-service international airline, which carries almost 15 million passengers per year and flies to, or is planning to serve, more than 110 destinations. The airline currently operates almost 120 aircraft and more than 260 flights per day from its hub at Abu Dhabi International Airport.

Etihad Airways has had to invest heavily to compete effectively against its more established competitors. Recognizing the enormous cost of entry to the airline industry, the Abu Dhabi Government invested in Etihad Airways by providing capital and shareholder loans.

Since 2003, the Government has invested \$14.3 billion in Etihad Airways; of this amount, \$9.1 billion was provided in equity funding and a further \$5.2 billion was provided in shareholder loans.

These commitments were made on the basis that the airline would operate commercially, deliver a long-term return on investment, repay shareholder loans and achieve sustainable profitability.

Etihad Airways receives no Government subsidies or sovereign guarantees and, contrary to the claims of some competitors, it does not receive free or discounted fuel or airport services in Abu Dhabi, its home and global hub.

Since 2003, Etihad Airways has raised in excess of \$11 billion in long-term funding through the global financial markets, including \$3.7 billion debt funding raised in 2014. Approximately \$5 billion of the airline's borrowings have been repaid since 2003, including \$800 million in 2014.

The airline has established strong relationships with more than 80 global financing partners and aircraft lessors, 26 of which are based or headquartered in the US.

Etihad Airways is highly focused on its commercial mandate. Although it is only 11 years old, the airline has posted consecutive net profits since 2011. Etihad Airways complies with International Financial Reporting Standards (IFRS) and is audited by KPMG.

Commenting on the submission, James Hogan said: "Our story is one of an airline that has chosen to challenge the global status quo, bringing new competition to markets that have for too long been dominated by the major legacy airlines.

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“In many markets, airlines react to our new competition by improving their own offer to consumers. It is ironic that in the home of free competition, a market in which we account for only a tiny fraction of one per cent of international departures, we have instead been attacked.”

Etihad Airways’ submission includes the example of routes to the Indian sub-continent to explain the inaccuracies of the Big Three’s arguments. The submission states:

“Their only specific claim is that from 2008 to 2014, they have allegedly collectively lost five percentage points of their market share to the Indian subcontinent. However, what they neglected to mention is that during the same period their passenger numbers actually grew by 18 per cent. So while their collective market share actually went down by a relatively insignificant 4.4 percentage points (not 5 percentage points), their actual passenger volumes grew by over 18 per cent, or over 250,000 passengers, including both economy and premium classes. This passenger growth clearly demonstrates the power and effects of Open Skies and liberalized traffic rights.

“The Big Three carriers affirmatively and voluntarily choose not to directly serve Etihad’s key Middle East and Indian Subcontinent markets in a meaningful way. Instead they are routing US passengers through congested European hubs and on to their European alliance partners to serve certain destinations. Indeed, the Big Three carriers’ campaign is little more than a regulatory attempt to further cement their oligopoly, particularly on transatlantic markets.”

Mr Hogan added that facts, not myths, should define the debate, saying: “These airlines criticize us for being Government-owned – but government stakes in airlines are completely normal around the world. The majority of airlines in the global alliances, which the Big Three dominate, are owned or controlled by governments or government-owned entities. Just this month, the French Government increased its shareholding in Air France.

“The Big Three criticize us for receiving Government investment. We have never made any secret of the fact that we have received equity funding and shareholder loans, which again is not unusual for airlines, or indeed for many businesses. These investments received from our shareholder are not like the more than \$70 billion the Big Three have received from US Government sources or court-approved processes since 2000 alone, a fact shown in a study by The Risk Advisory Group.

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“The Big Three say our services threaten competition. Yet a report by independent analysts the Edgeworth Group shows that our services actually stimulate traffic flows, which have increased overall passenger numbers on those routes for airlines including the Big Three and their alliance partners.

“The Big Three say we threaten American jobs. Yet their campaign seeks to limit the operations of Etihad Airways, which according to Oxford Economics will support 23,400 American jobs this year, and almost double that number by 2020.

“And finally, the Big Three have spent millions of dollars trying to influence politicians on the supposed threats from the Gulf carriers, yet their report mentions consumer choice only once – even then in a cursory manner.”

In his covering letter to Etihad Airways’ submission, Mr Hogan said that the US carriers had been able to benefit from numerous Chapter 11 reorganization processes, which gave them a major advantage over their international competitors.

“Yes, we understand that bankruptcy is a court process, but unlike these US carriers, Etihad does not have an avenue by which we can periodically clean up our balance sheet by disclaiming debts and other legal obligations. We have to carry these obligations and debts on our books,” he said.

Mr Hogan’s letter also said that the United Arab Emirates had embraced the US concept of Open Skies.

“One country that shared the vision of the United States is our home, the United Arab Emirates, which also embraced the idea of open and less regulated traffic flows despite being a small and, at the time, relatively unknown country working toward financial stability and success. This is why we find it so ironic that in 2015 Etihad Airways finds both itself and its home country under attack. We have helped fully realize the best in international aviation policy: safe travel provided by the highest quality airlines at fair prices that allow millions of passengers to travel conveniently and easily to and from the United States to markets in the Middle East, the ISC and beyond, enjoying the many benefits the aviation industry offers.”

In addition to a detailed rebuttal of the Big Three US carriers’ report, Etihad Airways’ submission to the US Government also includes three reports commissioned from independent and respected global expert consultancies.

EXAMINATION OF BENEFITS ACCRUING TO US CARRIERS

- On 15 May, 2015 Etihad Airways released a report authored by UK-based The Risk Advisory Group that documented in detail benefits valued at more than \$70 billion which Delta, United and American have received from the US Government and judicial processes and mechanisms available only in the United States.
- These benefits included massive debt write-offs in multiple bankruptcy proceedings, government assumption of airline employee pension plans and bespoke tax benefits.
- Etihad Airways does not question the US Government's right to make these benefits available to US carriers, and nor does it criticize the US carriers for taking advantage of these substantial and valuable benefits.
- Instead, Etihad Airways commissioned this report to highlight the environment in which it has to compete and the hazards of unilaterally labelling different funding strategies as subsidies, and otherwise mischaracterizing the way a competitor conducts its business.

REVIEW OF US CARRIERS' ASSERTIONS

- On 22 May, 2015, Etihad Airways released a report drafted by Washington, D.C.-based Edgeworth Economics. Etihad Airways' instructions to Edgeworth were simple: review the economic claims made by Delta, United and American and provide an independent critique of their assertions.
- Edgeworth conducted a detailed review and concluded, among other things, that air routes between the United States and the Indian Subcontinent (ISC), on which over 65 per cent of Etihad Airways' US passengers fly, are highly competitive.
- They found that Etihad Airways' US competitors largely choose not to serve these routes directly. They instead fly passengers to Europe and connect them onto non-US partner airlines, a practice that often requires passengers to make additional stops.
- Edgeworth also determined that Etihad's published fares on these routes were consistent with those of competitors, even though the revenue per kilometer generated on these ISC routes was considerably less than the immunized US and European carriers receive on their protected North Atlantic routes.
- Most significantly, Edgeworth found that even though there is more capacity on these ISC routes in 2014 than there was in 2009 (the result of increased competition), there continues to be considerable demand for that capacity.

- Between 2009 and 2014, US airlines and their immunized joint venture partners actually carried over 250,000 more passengers between the US and the ISC – that is a gain of over 18 per cent.
- In 2014, Etihad Airways delivered 182,000 connecting passengers to US airlines including American, United, Delta and Jet Blue. This is forecast to grow to approximately 300,000 in 2015, an increase of 65 per cent, following the introduction last year of new routes to Los Angeles, San Francisco and Dallas Fort Worth.
- Etihad Airways is proud to contribute to the success of Open Skies, while maintaining a load factor at approximately 80 per cent on average.

ECONOMIC CONTRIBUTION STUDY

- Issued on 27 May 2015, and drafted by Oxford Economics, this detailed Etihad Airways' contribution to the US economy.
- Oxford valued at \$2.9 billion the contribution Etihad Airways will make to the US economy in 2015 through capital expenditure, passenger and cargo services, direct and indirect employment and contribution to tourism.
- This research also calculated that Etihad Airways would employ, or contribute to the employment of over 23,000 Americans in 2015.
- Additionally, Oxford projected that the value of our contribution would grow to \$6.2 billion by 2020, supporting more than 46,000 American jobs.
- While Delta, United and American expend considerable money on advertising and other tactics that claim Etihad Airways threatens American jobs, Oxford conclusively demonstrates, on the contrary, we have a very positive impact on the US economy and workforce.

Mr Hogan said the Etihad Airways had clearly demonstrated that it was contributing not only to competition in the skies, but also to the US economy.

“We believe in competition and consumer choice,” he said. “It is now time to get back to the business of providing high quality air services and enhancing consumer choice, just as Open Skies intended. Let’s keep the skies open.”

For more information about Etihad Airways' campaign to keep the skies open, please visit:
www.KeepTheSkiesOpen.com

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About Etihad Airways

Etihad Airways began operations in 2003, and in 2014 carried 14.8 million passengers. From its Abu Dhabi base, Etihad Airways flies to 110 existing or announced passenger and cargo destinations in the Middle East, Africa, Europe, Asia, Australia and the Americas. The airline has a fleet of 116 Airbus and Boeing aircraft, and more than 200 aircraft on firm order, including 69 Boeing 787s, 25 Boeing 777-X, 62 Airbus A350s and eight Airbus A380s.

Etihad Airways holds equity investments in airberlin, Air Serbia, Air Seychelles, Aer Lingus, Alitalia, Jet Airways, Virgin Australia, and Swiss-based Etihad Regional, operated by Darwin Airline. Etihad Airways, along with airberlin, Air Serbia, Air Seychelles, Alitalia, Etihad Regional, Jet Airways and NIKI, also participate in Etihad Airways Partners, a new brand that brings together like-minded airlines to offer customers more choice through improved networks and schedules and enhanced frequent flyer benefits. For more information, please visit: www.etihad.com