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Open Skies over the GCC?

By Oliver Tebbit

An announcement at the end of December 2011 by the Saudi Arabian General Civil Aviation Authority (GACA) that it will be inviting tenders from foreign airline operators and investors to operate domestic and international flights from Saudi airports indicates that long-anticipated initiatives required to overhaul the Saudi Arabian aviation market may be gaining momentum.

Prince Fahd bin Abdullah Al-Saud, the newly-appointed president of GACA, announced that tenders will be invited by the end of the lunar month of Safar (January 23rd). Interested airline operators and investors will be able to propose domestic and international routes they would be interested in operating for consideration by GACA. At this stage, the precise direction which this liberalisation will take, and the extent to which it will be actively encouraged is still unclear and may still be affected both by the nature of any tenders which are proposed by interested parties, as well as concerns which may be raised internally by interests likely to be affected by this liberalisation, notably the existing carriers, Saudi Arabian Airlines and Nas Air, the Saudi low-cost carrier.

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Saudi Arabia's ambitious development objectives require support from a strong commercial aviation sector. The country has more than two dozen major domestic airports and has invested heavily in airport infrastructure in recent years. A further US$12.5 billion is budgeted for airport infrastructure by 2020 of which US$5 billion is to be directed towards smaller domestic airports. The geographic size of Saudi Arabia, combined with its large population (estimated at 27 million people), makes it the only GCC country with a potentially significant domestic aviation market. However, when compared with the growth of the aviation sector in the Middle East, this potential for growth has not been realised with growth over the last five years averaging little over 2 percent per annum.

Aviation industry leaders in the Middle East will be hoping that a liberalisation of the regulatory landscape affecting commercial aviation in the Gulf Cooperation Council (GCC) might allow regional traffic to grow in a way similar to that experienced in the European Union (EU) following the implementation of an 'open skies' policy within the EU. IATA studies indicate that the lifting of regulatory restrictions in the EU have allowed fares to be reduced by up to a third while doubling passenger growth rates. Much of this growth has been seen among the low-cost carrier segment of the market. The Damascus Convention of 2004 was signed by 14 MENA (Middle East & North Africa) countries with the stated intention of liberalising air traffic regulations. However, to date, little progress has resulted from this agreement and it is notable that Saudi Arabia was not a party to the Convention.

The failure of Sama Airlines last year (having incurred losses of US$266 million since its 2007 launch), combined with a cap on domestic air fares which has been in place in Saudi Arabia since 1994, will make any new entrants to the Saudi market wary. The cap on domestic air fares is likely to be considered a particular stumbling block as most airlines, especially low-cost carriers, rely upon charging premium fares for tickets booked close to the date of travel. However, the size of the domestic market, combined with the rights of access to the Saudi market which appear to opening up, will mean that these developments will be keenly watched by airline operators, especially those based in the GCC and wider Middle East, some of whom will be eager to explore potential growth opportunities. It remains to be seen whether these signs of liberalisation in Saudi Arabia might lead towards an open skies arrangement within the GCC, but these developments should hopefully encourage more coordinated growth of the aviation market in the GCC.

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